

**ANALYSIS OF THE CAUSES
OF FINANCIAL AND NON-
FINANCIAL WEAKNESSES
IDENTIFIED IN THE
AUDITOR GENERAL'S
REPORTS OF
DECENTRALIZED
ENTITIES FOR THE
FINANCIAL YEAR ENDING
30 JUNE 2014**



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EXECUTIVE SUMMARY

Transparency International Rwanda (TI-Rw) analyses expenditure- and non-expenditure related weaknesses of decentralized entities as highlighted in the Auditor General's Report since 2012. The present analysis, a third of its kind, has focused on the reports for the financial year ending June, 2014 for all districts and the City of Kigali. This report is intended to broad audience including both interested public and public finance and local government stakeholders.

The total monetary value related to the identified weaknesses in districts reached 112,650,524,574 RWF in the financial year 2013/14. This is a slight improvement to the year 2012/13. Still, this decrease marks only a marginal improvement equivalent to 1% of all identified weaknesses. When compared to the total expenditures of districts (321,989,397,983 RWF in 2013/14) the total amount of identified weaknesses equals 32% of all district expenditures. Hence, despite some progress, one third of public funds channeled through local governments may still have not been disbursed properly.

As in the previous year, Non-Budgetary Agencies (NBAs) were by far the single major cause of all expenditure-related weaknesses in the districts which were representing 98.4% of the total expenditure related weaknesses. Among the main causes of these weaknesses, the lack of qualified staff in NBAs especially these in charge of accounting planning and procurement, absence of the *Subsidiary Entities Accounting System (SEAS) at Sector level, in schools and hospitals and insufficient capacities of districts to supervise and support the numerous NBAs.*

Unless the capacities for financial management at the level of NBAs are strengthened, the amount of identified weaknesses in financial expenditures is unlikely to decrease. Especially schools and hospitals conduct financial reporting through their own staff such as head teachers and doctors who do not have a financial management background or a minimum training in public financial management (PFM). In addition, the heavy workload of district internal auditors further hampers their potential to correct weaknesses in accounting, procurement and financial reporting at the district level.

Excluding NBAs, other expenditure-related weaknesses such as unsupported, wasteful, overstated and fraudulent expenditures, are responsible only for a small share of weaknesses.

For example, wasteful expenditures make up ‘only’ 851,030,016 RWF, which is an equivalent of 0.76% of all identified weaknesses for the fiscal year 2013/14.

The causes behind the expenditure-related weaknesses not related to NBAs are linked mainly to systematic issues such as the lack of qualified staff in the districts, unexpected situations such as natural disasters, late fiscal transfers to districts from central government, etc. To a lesser extent, individual incompetency, fraud and mismanagement further contribute to some expenditure weaknesses. In the category of non-expenditure related weaknesses, there has been a remarkable drop of 42% in the non-compliance with laws and procedures, poor book keeping and posting errors. This amount equals to around 10% of all identified weaknesses and 3% of total district expenditures.

The factors behind these types of mistakes are linked rather to individual factors such as the lack of bookkeeping skills or posting errors in district financial records. A significant underlying factor, especially in regard to the non-compliance with laws and procedures is the ‘lack of reading culture’ among the district staff. Despite the fact that MINECOFIN issued guiding PFM laws and simplified guidelines for the districts, there is no evidence that staff members sufficiently use these materials as a reference for their work. While acknowledging that internal auditors, executive secretaries, directors of finance, etc. are overwhelmed with their responsibilities that often go far beyond their functions, a strict application of the available guidelines would almost certainly prevent a significant proportion of non-expenditure related and expenditure related weaknesses.

When observing the implementation of the Auditor General’s recommendations, the districts appear to implement on average 68% of all recommendations issued to them while significant variations in the rate of implementation across districts remain. However, considering the modest rate of a 1% decrease in the overall level of weaknesses, it seems that the implementation of recommendations only modestly contributes to the elimination of financial weaknesses in districts, in particular in regard to the expenditure-related weaknesses.

As in previous years, this report highlights a number of recommendations. Concerning the most pressing problems at the level of NBAs, significant improvements in unaccounted transactions remain unlikely, unless qualified accountants are recruited for NBA supervision. The roll-out and use of the SEAS software in 416 sectors is a good start. However, schools and hospitals should also be given appropriate accounting software as soon as possible. Still,



even after linking NBAs to the district accounting software, substantial investments into accounting assistance and supervision of NBAs will be necessary.

District management, especially the internal auditors, should strengthen the existing district control system by designing a checklist to be used for each payment and ensure a thorough application. Where human and financial resources are not immediately available, at least a gradual increase of the control systems should be a priority. Given the fact that most wasteful expenditures were due to fines and penalties as a result of court cases lost by districts, hiring of a contract manager, a consultant or a lawyer to avoid court penalties may prove worth the investment. In the medium term, trainings and coaching on contract management may reduce the volume of court costs incurred on districts.

Posting errors can be substantially reduced if internal checking of accounting records and the training on bookkeeping is provided to the relevant staff. Districts should ensure that accounting records are properly entered in IFMIS, checked and reviewed, including the validation of supporting documents to avoid document fraud and forgery.

Most importantly, to ensure that the implementation of the recommendations from the Auditor General lead to the decrease in identified weaknesses, district management should link the reduction of monetary value of weaknesses with Imihigo (performance contracts). Especially in districts where weaknesses amount to 50% and more of total district expenditures, the reduction of expenditure- and non-expenditure related weaknesses is highly pertinent and shall be a priority for concerned elected officials.

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The Government of Rwanda has progressively realized impressive achievements in the fight against corruption in the last fifteen years. Its political will in fighting corruption is particularly noticeable in Public Finance Management (PFM). Several public institutions – including the Office of the Auditor General (AG) – have been established to play a leading role in reinforcing transparency in the management of public funds. The government’s determination to combat corruption manifests itself in the fact that suspects are apprehended and held accountable for their actions.

It is in the context explained above that Transparency International Rwanda (TI-RW), in line with its mission of “*promoting good governance and fighting against corruption through enhancing integrity values in the Rwandan society*”, analyses the annual Auditor General’s Reports to better understand the challenges. Based upon this analysis, actionable recommendations for improvement are provided so that appropriate action can be taken by those in authority to remedy the situation.

With the unswerving support from GIZ’s Good Governance and Decentralization Program, TI-RW has again been able to analyze the causes of financial and non-financial weakness identified in the Auditor General’s reports of decentralized entities for the financial year ending 30 June 2014.

The Non-Budget Agencies’ (NBAs’) accounting remains the biggest cause of the expenditure related weaknesses identified, while the non-expenditure related weaknesses are due to a number of causes which can be reasonably addressed if the staff involved in procurement and finance of districts fully complied with the existing laws and procedures.

I would like to take this opportunity on behalf of TI-RW to express my sincere appreciation to all those institutions and individuals who made this analysis possible. Among them are the German Development Cooperation (GIZ) who provided the necessary funding, the Ministry of Local Government (MINALOC) and the Ministry of Finance and Economic Planning (MINECOFIN) and districts’ staff who helped us to access the required data. Furthermore, I want to express my thanks to the research team under the coordination of Mr. Albert Rwego Kavatiri, TI-RW’s programme manager who produced the report. Last but not least, I want to thank TI-RW’s Executive Director, Apollinaire MUPIGANYI, who provided the necessary support and guidance to the research and the quality assurance of the final report.

Marie Immaculée Ingabire

Chairperson, TI-RW



LIST OF ABBREVIATIONS AND ACRONYMS

AG	Auditor General
CBM	Chief Budget Manager
EDPRS2	Economic Development and Poverty Reduction Strategy2
EWSA	Energy, Water and Sanitation Authority
FDSC	Fiscal Decentralization Steering Committee
FGD	Focus Group Discussions
GoR	Government of Rwanda
IFMIS	Integrated Financial Management Information System
KII	Key Informant Interviews
LG	Local Government
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MoU	Memorandum of Understanding
MPs	Member of Parliament
MTEF	Medium Term Expenditure Framework
NBAs	Non-Budget Agencies
OAG	Office of the Auditor General
PFM	Public Financial Management
PFM SSP	Public Financial Management Sector Strategic Plan
RALGA	Rwanda Association of Local Government Authorities
RGB	Rwanda Governance Board
RPPA	Rwanda Public Procurement Authority
RRA	Rwanda Revenue Authority
SEAS	Subsidiary Entities Accounting System

1. BACKGROUND

The Government of Rwanda (GoR) recognizes the importance of good Public Financial Management (PFM) as a precondition for achieving the objectives of the Economic Development and Poverty Reduction Strategy² (EDPRS²) and Vision 2020.

The first PFM Reform Strategy for 2008-2012 was implemented successfully and the Government developed a new PFM Sector Strategic Plan for the period 2013-2018. Its mission is “*ensuring efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery*”. The Government committed to achieve this mission by the end of 2018.

Despite all the efforts and investments made by the GoR in order to improve the PFM at central and local levels, it has been noticed by the Office of the Auditor General (OAG) and others that PFM at the level of districts and the City of Kigali still remains a challenge. Just recently, this was confirmed again when the Auditor General presented the audit reports for the financial year ending 30th June 2014 before the Members of Parliament on May 12th, 2015¹.

As stipulated by the Constitution, the periodic assessment of the complete report on the state of budget financial statements for the previous year has identified the following main challenges at the national level: i) Unreliable financial statements, ii) failures in internal control systems, iii) concern over sustainability of services provided by the Energy, Water and Sanitation Authority (EWSA), iv) failed projects and persistent weaknesses in contract management, v) lack of proper planning and coordination in implementation of government programmes, vi) potential loss of public funds in loans, construction projects, sale of properties and purchase of shares at RSSB, vii) gaps in revenue collection systems at Rwanda Revenue Authority (RRA), viii) an increasing number of cases of fraudulent activities in public entities, ix) irregular expenditures identified during the year and x) weak financial

¹Report of the Auditor General of state finances for the year ending 30 June 2014, page 89



management and lack of reliable accounting records in district hospitals to name the most relevant issues.²

More relevant to this assignment, PFM weaknesses and challenges at local government (LG) level have been also highlighted and confirmed by the report on stocktaking of current PFM systems and practices in LG which was published by MINALOC in June 2015³. In general, institutional capacity in the LG system has improved tremendously in the last decade, especially at district level. Districts are progressively assuming more and more responsibility in PFM and service delivery through ever increasing revenues.

Financial resources channeled through the decentralized entities have increased to 33% of all domestic revenues in 2012. For comparison, in 2002 those entities received only 1.4% of all revenues (see Table 1).

Table 1: Financial Transfers to Districts in Millions of Rwandan

Financial Year	CDF	Block grants	Earmarked funds	Total	Domestic Resources	% of Domestic Revenue
2002	1,300	100	0	1,400	101,700	1.4
2003	4,000	1,500	0	5,500	117,900	4.7
2004	5,500	3,300	0	8,800	133,700	6.6
2005	3,500	3,300	0	6,800	169,600	4.0
2006	4,000	5,000	38,900	47,900	190,300	25.2
2007	6,000	8,400	57,100	71,500	242,000	29.5
2008	8,800	11,300	64,700	84,800	297,800	28.5
2009/10	48,000	16,500	78,200	142,700	385,100	37.1

²Ibid, page 15-20

³Report on stocktaking of current public financial management systems and practices in local governments

2010/11	48,200	20,400	87,600	156,200	471,200	33.1
2011/12	11,400	25,000	142,800	179,200	538,400	33.3

Source: MINECOFIN 2012, Directorate of Budget

Transparency International Rwanda (TI-RW) conducts the analysis of the OAG district reports since the financial year 2011/2012. With the support of the German Development Cooperation through GIZ, TI-RW published the third edition of the research findings for the financial year ending June 30th, 2014.

TI-RW is a local Civil Society Organisation with a mandate to fight against corruption and for greater transparency. Under its pillar *promotion of transparency and rule of law*, TI-RW works on PFM related issues, especially at the level of local governments where the bulk of service delivery is provided to the citizens of Rwanda. It is in this context that TI-RW conducts the study on the financial and non-financial weaknesses in decentralized entities based on the reports from the OAG since 2012.

Similar to the two previous analyses, this assignment will also contribute to the monitoring of the implementation of the audit recommendations from the previous financial year for local government districts. Also, it will generate new findings, recommendations as well as new policy actions and strategies for all key stakeholders involved. This year, a special emphasis is put on the causes behind analyzed financial and non-financial weaknesses and the underlining factors behind these weaknesses. In addition, the transmission of the audit recommendations of OAG and findings of TI-RW to the wider public in Rwanda is at the core of TI-RW's mandate as civil society.

In recent years, civil society organizations in many countries have developed expertise in the analysis and influence of the public budgeting process. According to the OECD, more than 60 developing countries record various degrees of involvement of civil society organisations or independent think tanks in the public budgeting process (OECD, 2010). However, civil society engagement in public budgeting has generally focused rather on examining the executive budget presented to the legislature and monitoring the subsequent implementation of the budget.



There has been rather little focus on the auditing of expenditures or identification of expenditure and non-expenditure related financial weaknesses after a budget has been implemented.

This work is thus an example of an interaction between civil society organizations and governmental institutions in charge of improving the PFM environment at local level, including auditing and budget oversight. The report marks a joint venture between a local civil society organization represented by TI-RW and a governmental Supreme Audit Institution represented by the Office of the Auditor General.

1.1. Specific objectives of the assignment

The purpose of the assignment is to analyse the causes of the financial and non-financial weaknesses identified in the Auditor General's Districts reports for the financial year ending 30th June 2014. The results of the study shall be later used for:

- 1) Categorisation of financial and non-financial weaknesses identified in the AG reports and the leading causes behind the identified weaknesses;
- 2) Monitoring of recommendations from the previous year;
- 3) Evidenced-based findings that will guide the Fiscal Decentralization Steering Committee (FDSC) and other key stakeholders in the planning of important activities, which can support Local Government to improve PFM overtime;
- 4) Qualitative assessment of leading causes and factors for PFM expenditure weaknesses within the district finances.

1.2. Expected outputs

The expected outputs of the assignment are:

- A clear methodology to categorize the expenditures of the districts which led to complaints by the AG reports comparable to the previous audit report;
- A detailed and critical analysis of the AG reports which will highlight and analyse the main reasons behind complaints concerning expenditures (based on the frequency). This aims at finding out why districts with the same resources in their disposal are performing differently;

- A proposal for an updated structure for improved monitoring and evaluation of the implementation of the audit recommendations from the OAG including the assignment of responsibilities of the different key stakeholders;
- Recommendations for quick wins and long-term solutions to improve PFM performance of districts and the City of Kigali in the field of expenditures;
- A detailed contextual analysis/explanation for potential performance gaps and practical policy actions and strategies to be undertaken;
- An analysis of the main reasons for non-compliance with PFM-standards and under performance at district level as well as the identification of underlying causes for non-implementation of AG audit recommendations from the previous financial year 2012-2013.



2. REVIEW OF RELATED LITERATURE AND STUDIES ON PFM

Under this section, relevant policy documents, laws and existing research related to the use of public funds with special focus on local governments in Rwanda have been analyzed.

2.1 Overview of Public Financial Management (PFM) in General

PFM is an essential tool to achieve overall fiscal discipline that ensures the effective use of taxpayer's money and avoid fiscal waste. PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results (Andrew Lawson, 2015).

PFM in the narrowest – and perhaps most traditional – sense is concerned with how governments manage the budget in its established phases: formulation, approval, and execution. It deals with the set of processes and procedures that cover all aspects of expenditure management in the government (International Monetary Fund, (2013).

2.2. Objectives of Public Financial Management

According to Schick, A. (1998) the following are the objectives of PFM:

1. The maintenance of aggregate fiscal discipline is the first objective of a PFM system: it should ensure that aggregate levels of tax collection and public spending are consistent with targets for the fiscal deficit and do not generate unsustainable levels of public borrowing;
2. The PFM system should ensure that public resources are allocated to agreed strategic priorities, in other words that allocative efficiency is achieved;
3. The PFM system should ensure that operational efficiency is achieved in the sense of achieving maximum value for money in the delivery of services;
4. The PFM system should follow due process and make this transparent with information publicly accessible and by applying democratic checks and balances to ensure accountability.

In its publication *Simplified Public Financial Guidelines for Chief Budget Managers* (2011), MINECOFIN refers to Vision 2020, in which the role of PFM in the Rwandan long-term strategic planning is defined as “...[ensuring] efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. This therefore requires strengthening budget execution and as well as strengthening external audit in the medium term [...]”⁴.

2.3. The Public Financial Management Architecture in Rwanda in Brief

Governments are required to collect public funds optimally and allocate and use those funds responsively, efficiently and effectively. That means that the government is always accountable for the public funds that the Parliament authorized it to collect, spend or manage in order to achieve the Government’s objectives.

Although both international and local agencies stress the importance of having robust PFM laws and regulations that conform to international standards, weak implementation is a common problem. Globally, the support to PFM national frameworks has received significant donor attention with large reform programmes supported by the World Bank, the IMF and other bilateral agencies.

Yet, despite decades of domestic and external efforts to strengthen and upgrade PFM systems in developing countries, the results have frequently been disappointing (Simson, R., Sharma, N. and Aziz, I. 2011). This is also partially the case in Rwanda. Key problems that have been identified are the suboptimal implementation of the approved budget as well as the follow-up of audit recommendations and the assurance of significant improvement of the efficient use of public funds in the next fiscal years.

According to the organic law n° 12/2013/OL of 12/09/2013 on state finances and property, public funds are defined as all State funds received or to be received by the Minister, a public officer or any other authorized person including revenues collected by designated Government departments, donations, loans for the Government, and

⁴ MINECOFIN (2011), *Simplified Public Financial guidelines for Chief Budget Managers*



any other money that the Minister may direct to be paid into the accounts of the consolidated fund.

Furthermore, in accordance with articles 79 and 80 of the Constitution of the Republic of Rwanda, amended June 04, 2003, the State finance bill should be drafted and submitted to the Parliament for its examination and adaptation. After being adopted, it becomes a state finance law which guides the Government's budget agencies in their spending for a given financial year.

In that regard, the Constitution of Rwanda as a supreme law of the Country makes the Parliament the source of all authority to raise revenues, authorizing expenditures, and define the roles of the budget implementing agencies and the OAG as well as the basic requirements for estimates, demands for grants, and the regulation of public funds. All revenues, proceeds of loans, and loan repayments to the government go into a consolidated fund. All other funds received by the government go into the public account. The internal financial control is under the supervision of MINECOFIN⁵. External control is under the constitutionally independent AG, who audits all public sector accounts and submits annual and special reports to the President for transmission to the Parliament⁶.

Equally, in accordance with the organic law n° 12/2013/OL of 12/09/2013 on State finances and property, the Chamber of Deputies and the Councils of the decentralized entities are the only organs with powers to adopt and revise the annual budget. The annual budget is submitted by the Government (represented by the Minister in charge of Finance) or the Executive Committee of the Decentralized entities (represented by the Chief Budget Manager).

Decentralized entities are collecting local revenues based on the law n° 59/2011 of 31/12/2011 which establishes the sources of revenue and property of decentralized entities and governs their management and based on the Presidential order n°25/01 of 09/07/2012 establishing the list of fees and other charges levied by decentralized entities and determining their thresholds.

⁵The organic law n° 12/2013/OL of 12/09/2013 on state finances and property

⁶Republic of Rwanda, (2010), *amendment n° 04 of 17/06/2010 of the constitution of the republic of Rwanda of 04 june 2003 as amended to date*

All revenue projections of decentralized entities have to be included in their annual budget. However, the AG report for the financial year ending June 2014 indicates inadequate budgeting for taxes and fees to be collected by local governments as one of the challenges that PFM faces at local government level. In that regard, each district has a register of taxpayers/taxable items. These registers are not updated each year to reflect the true underlying taxpayer base. Consequently, there is no linkage between the amount to be collected as per taxpayer and the tax collection targets proposed by each district⁷.

In regards to the expenditures of local governments, the article 6 of the organic law n° 12/2013/OL of 12/09/2013 on State finances and property regulates the expenditures of Central Government or decentralized entities and other budget entities. These are composed of:

1. Current expenditure, including employee compensation costs, payments of goods and services, transfers and payments relating to servicing of debt;
2. Expenditures relating to development projects;
3. Government lending subventions and shares in parastatals for attaining specified purposes.

In decentralized entities, the Council is authorized to establish a budgetary line to meet urgent and unexpected expenditures. The amount of expenditures meant for emergency budget reserves shall not exceed three per cent (3%) of the entity's own revenues. However, all public finances have to be used in public entities in accordance with the law governing public procurement⁸.

Despite the efforts made by the government for putting in place a comprehensive PFM integrated framework, the AG report for the financial year ending June 2014 indicated that there were still serious PFM issues at LG level, including unrecorded financial transactions made by Non-Budget Agencies (subsidiary entities). This represents a continued problem of misuse and misappropriation of public funds being perpetuated through subsidiary entities, especially in health insurance (“mutuelle de

⁷Report of the AG on state finances for the year ending 30 June 2014

⁸ Law n° 12/2007 of 29/03/2007 on Public Procurement and Law n°05/2013 of 13/02/2013 modifying and completing the Law n°12/2007 of 27/03/2007 on Public Procurement



santé”) and district hospitals. The problem is due to weak controls and lack of proper follow-up of the activities of subsidiary entities by the Districts.

The report also indicated that districts failed to consolidate transactions and balances of subsidiary entities in their financial statements. This implies that District financial statements and state consolidated financial statements are incomplete.

Additionally, the stocktaking of current public financial management systems and practices in local governments published by MINALOC also showed serious PFM shortcomings such as:

- Limited technical capacities for planning ,budgeting and internal control;
- Lack of technical know-how in the implementation of new guidelines for managing public funds at subsidiary entity level⁹;
- Weak internal control systems and capacities to audit districts including subsidiary entities;
- Insufficient and unreliable financial information on the status of the implementation of planned developmental projects and programmes;
- Inability of some districts to fully implement audit recommendations.

It has also been realized that the chief budget managers at district level have not updated PFM guidelines¹⁰ to facilitate the implementation of their responsibilities. Therefore their PFM performance is poor in some aspects. The current PFM guidelines are containing out-dated information since the organic budget law has been revised in 2013 in which the PFM Sector Strategic Plan is not included¹¹.

⁹ MINECOFIN,(2013). *Interim Financial Management Guidelines for the Sector*, Kigali, Rwanda

¹⁰MINECOFIN, (2011). *Simplified Public Financial Guidelines for Chief Budget Managers*

¹¹ MINECOFIN,(2013). *Financial Management (PFM) Sector Strategic Plan (2013-2018)*

3. METHODOLOGY

In order to ensure comprehensive findings and develop practical recommendations, a combination of different methods and data collection tools were used to obtain both secondary and primary data.

For the purpose of this analysis, the following technical key terms were used in the AG report for the categorization of different types of expenditure and non-expenditure related weaknesses. These terms are included in this report in order to facilitate the interested stakeholders from national and local governments who are not familiar with PFM and audit fields:

- **Unsupported expenditures:** absence of supporting document to justify the expenditure;
- **Wasteful expenditures:** expenditures which could have been avoided, including expenditure for unplanned and unnecessary activities such as fines, penalties etc.;
- **Overstated expenditures:** Erroneous recording of the expenditure, exceeding the amount due. This could be a transposition error of sums or any other record resulting in a registered amount exceeding the amount actually spent;
- **Fraudulent expenditure:** in the context of this analysis, ‘fraudulent expenditure’ involves the unlawful transfer of the ownership of district property to one's own personal use and benefit, including
 - **Payment of salaries or wages to ghost employees;**
- **Unrecorded transactions for Non-Budget Agencies (NBAs):** failure to record expenditures by NBAs in district books of accounts as required by government financial management policy;
- **Non-respect of laws and procedures:** non-compliance with existing laws and PFM procedures;
- **Poor bookkeeping:** accounting errors that refer to slow or no entry of financial data, inconsistent reconciliation of books with bank statements, incorrect tracking of expenses/expenditures, incorrectly categorized transactions/expenditures, incomplete or lack of inventor, inconsistent filing;
- **Posting errors:** accounting errors that refer to entries from books of original/prime entry to wrong accounts in the ledger and sometimes to wrong



sides of the accounts. Failure to make taxes payable entries to the books of accounts, yet taxes has been duly deducted.

3.1. Secondary data

The secondary data was collected through a desk review of the audit reports of the AG of State finances for the year ending 30 June 2014 for all 30 districts and City of Kigali. Expenditure and non-expenditure weaknesses from audit reports were compiled in an excel sheet for further detailed analysis. At this stage, the implementation status of the previous years' audit recommendations was also analyzed.

Table 2 below presents the different types of expenditure and non-expenditure related weaknesses that were analysed for each of the concerned 31 districts:

Table 2: Types of expenditure related weaknesses and non- expenditure related weaknesses

Expenditure related weaknesses	Non-expenditure related weaknesses
Unsupported expenditures	Non-respect of laws and procedures
Wasteful expenditures	Poor book keeping
Overstated expenditures	Posting errors
Fraudulent expenditures	
Payments to non-existent staff	
Unrecorded transactions for NBAs	

Source: AG reports

3.2. Primary data

In order to analyze the causes and underlying factors of expenditure and non-expenditure related weaknesses, primary data was collected by conducting focus group discussions, key informant interviews, and observations. Interview guides and check lists were developed to maximize the data collection (see annexes). The section below presents in detail the application of these methods.

3.2.1 Focus Group Discussions (FGD)

Focus group discussions remain a fair framework in understanding phenomena through an increased participation of PFM stakeholders. It has provided information with regards to the underlying causes and drivers of change for non-compliance with PFM standards and underperformance at district level.

In order to collect relevant information as planned, twenty (20) FGD were conducted: two in each of 10 selected districts (out of a total number of 30 districts in Rwanda). In the first group in each district, FGD participants were comprised of 8 districts staff member who are regularly involved in financial management and related activities (including the Executive Secretary, Director of Finance, Budget Officer, Director of Planning, Director of Good Governance, Accountant, Internal Auditor and Procurement). The second FGD in each district included district councillors, particularly members of the economic commission.

With regard to the selection of districts, a purposive sampling based on two key criteria was used:

1. Performance in terms of the status of implementation of audit recommendations (lowest performer) according to the previous years' audit report;
2. Geographical setting (urban/semi-urban or rural).

Based on the above mentioned criteria, two (2) districts were chosen in each Province and the City of Kigali, meaning ten (10) districts in total (see Table 4).

Table 3: Distribution of selected District per Province

SN	PROVINCE	DISTRICT	2012-2013 implementation status of the audit recommendations (lowest performer)	Geographical setting
1	Kigali City	Nyarugenge	56.7	Urban
2		Gasabo	56.3	Urban
3	EASTERN	Gatsibo	35.0	Rural
4		Rwamagana	63.2	Semi-Urban
5	WESTERN	Karongi	47.1	Rural



6		Rubavu	79.3	Semi-urban
7	NORTHERN	Musanze	60.9	Semi-urban
8		Burera	61.3	Rural
9	SOUTHERN	Huye	78.6	Semi-urban
10		Kamonyi	66.7	Rural

Source: AG reports compiled by the authors

3.2.2. Key Informant Interviews (KII)

The key informants (called also “privileged witnesses”) were selected according to their familiarity, expertise and experience with the PFM at local level. These included Mayors, Executive Secretary of sectors, managers of NBAs (subsidiary entities: e.g. hospitals, health centres, and schools), officials from the OAG, Rwanda Association of Local Government Authorities (RALGA), Rwanda Revenue Authority (RRA), Rwanda Governance Board (RGB), the Parliament, Office of the Ombudsman, Rwanda Public Procurement Authority (RPPA), MINALOC and MINECOFIN. The Interviews focused on key PFM aspects with special emphasis on all PFM weaknesses identified by the AG. The key informants helped to identify causes and drivers of change for PFM performance at local levels (see the Interview guide in the annex).

3.2.3. Observation

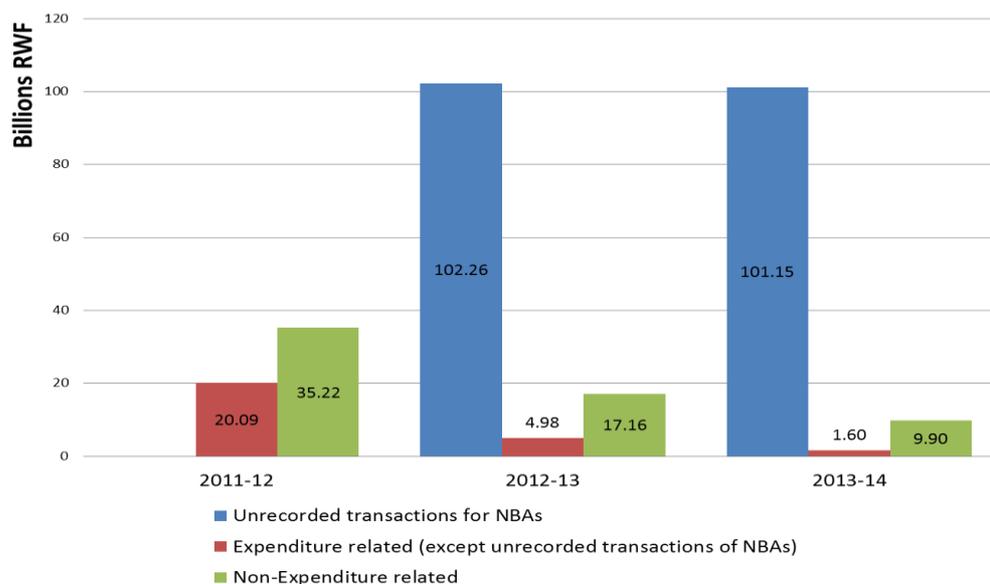
The observation technique is an important research tool which enables researchers to check what people report against the reality on ground. This assessment targeted senior officials especially the Director of finance, Director of planning and procurement officers. The observation was designed and used in the 10 selected districts in order to complement and triangulate data from FGDs and Interviews, and more importantly, make a deep and critical analysis of PFM related weaknesses. The observation focused on issues such as planning, budget execution, public procurement process and the management of external audit process. Based on these indicators, an observation checklist was developed (see in the annex).

4. ANALYSIS OF THE CAUSES OF FINANCIAL AND NON-FINANCIAL WEAKNESSES FOR THE FINANCIL YEAR 2013-2014

This chapter presents the analysis of the causes of expenditure and non-expenditure related weaknesses identified in the AG reports of the fiscal year 2013-2014 for all the 30 districts of Rwanda and the City of Kigali. Before embarking on different sub-categories of financial and non-financial weaknesses, it is important to show the general picture of the expenditure related weaknesses in relation to the total expenditures for all districts and the City of Kigali.

As a general trend, the overall volume of expenditure and non-expenditure related weaknesses decreased compared to the fiscal year 2012/13 (see Figure 1). However, the decrease is only marginal and amounts to 1% of all identified weaknesses. This is largely due to the near stagnation in the volume of unrecorded transactions for NBAs¹² (accounting for more than 98% of all weaknesses). The remaining expenditure related weaknesses have decreased substantially (by almost 68%) as well as the non-expenditure related weaknesses that slumped by 42%.¹³

Figure 1: Evolution of expenditure and non-expenditure related weaknesses, source AG reports



¹² Unrecorded transactions for NBAs have been included in the audit reports since the financial year 2012-13.

¹³ The figures are not adjusted to year-to-year inflation.



4.1 Expenditure related weaknesses

Table 4 shows that the expenditure related weaknesses represent 32% of total expenditures for all districts and the City of Kigali. A similar percentage (37%) was found in the previous Auditor General Report analysis though with a slight decrease (around 5%) for this year. This means that from last year, there has been a slight improvement in terms of the performance in Public Financial Management.

Table 4: Total Expenditure-related weaknesses/ overall expenditures

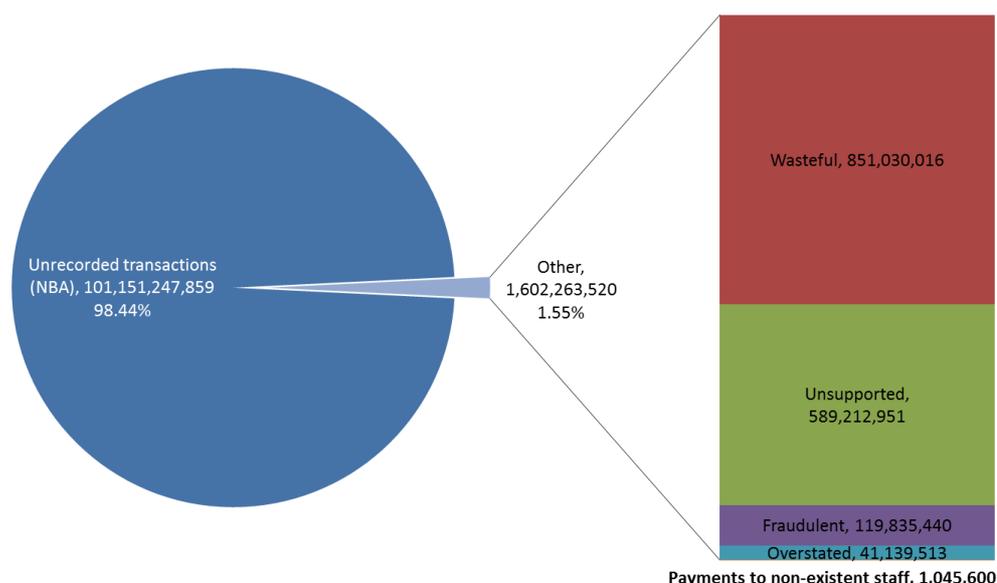
N ⁰	District Name	Total Expenditure related complaints (A)	FY 2013-2014 District Expenditure (B)	% (A/B)
1	BUGESERA DISTRICT	1,438,373,359	9,708,796,844	15%
2	BURERA DISTRICT	1,240,348,986	10,182,319,657	12%
3	CITY OF KIGALI	80,691,275	15,521,080,050	1%
4	GAKENKE DISTRICT	7,299,765,837	10,057,508,718	73%
5	GASABO DISTRICT	1,161,840,114	14,668,908,769	8%
6	GATSIBO DISTRICT	7,173,963,986	9,857,506,375	73%
7	GICUMBI DISTRICT	6,762,502,922	11,396,244,649	59%
8	GISAGARA DISTRICT	6,467,106,572	9,798,056,918	66%
9	HUYE DISTRICT	1,844,512,780	10,523,001,521	18%
10	KAMONYI DISTRICT	994,794,763	8,783,721,541	11%
11	KARONGI DISTRICT	1,315,691,353	11,430,063,986	12%
12	KAYONZA DISTRICT	10,137,918,803	8,913,601,013	114%
13	KICUKIRO DISTRICT	4,913,354,940	9,124,399,362	54%
14	KIREHE DISTRICT	1,294,632,530	8,102,346,853	16%
15	MUHANGA DISTRICT	2,225,054,570	10,546,936,301	21%
16	MUSANZE DISTRICT	1,297,241,306	9,719,971,632	13%
17	NGOMA DISTRICT	7,447,380,283	10,209,802,457	73%
18	NGORORERO DISTRICT	1,431,628,003	10,036,161,086	14%
19	NYABIHU DISTRICT	973,596,051	8,621,526,046	11%
20	NYAGATARE DISTRICT	803,794,865	10,615,481,471	8%
21	NYAMAGABE DISTRICT	1,913,496,413	10,984,352,482	17%
22	NYAMASHEKE DISTRICT	760,155,119	11,516,153,406	7%
23	NYANZA DISTRICT	1,491,317,316	9,693,640,392	15%
24	NYARUGENGE DISTRICT	7,818,552,957	11,754,379,485	67%
25	NYARUGURU DISTRICT	1,220,150,259	10,029,907,221	12%

26	RUBAVU DISTRICT	857,733,972	11,415,156,466	8%
27	RUHANGO DISTRICT	7,895,230,239	9,911,192,114	80%
28	RULINDO DISTRICT	3,840,687,019	9,611,889,911	40%
29	RUSIZI DISTRICT	1,056,259,992	11,924,550,517	9%
30	RUTSIRO DISTRICT	856,073,916	8,494,880,673	10%
31	RWAMAGANA DISTRICT	8,739,660,879	8,835,860,067	99%
	TOTAL	102,753,511,379	321,989,397,983	32%

Source: district audit reports 2013/14

The rather modest improvement is explained by the fact that for this year under review, and the previous financial year alike, the NBAs were by far the major cause of financial weaknesses in districts, representing 98.4% of the total expenditure related weaknesses. In the two preceding years, the NBAs represented 95.35% and 62% respectively. Some districts like Kayonza and Rwamagana registered expenditure related weaknesses that amount to more than 100% of their total revenues. According to the AG reports, a relatively large overstatement in the NBAs expenditures is the reason behind this.

Figure 2: Unrecorded transactions for NBAs and other expenditure related weaknesses



Source: Compiled by the Authors



The consolidated amount of expenditure related weaknesses is relatively negligible, if NBAs are excluded. Inadequately supported expenditures, wasteful expenditures, overstated expenditures, fraudulent expenditures and payments to non-existent staff amount to only 1,602,263,520 RWF, or 1.6% of all expenditure related weaknesses (see Figure 3). In a year-to-year comparison, unsupported, wasteful and fraudulent expenditures have increased compared to 2012/13 analysis. In contrast, overstated expenditures have fallen sharply.

Figure 3: Expenditure related weaknesses without NBAs

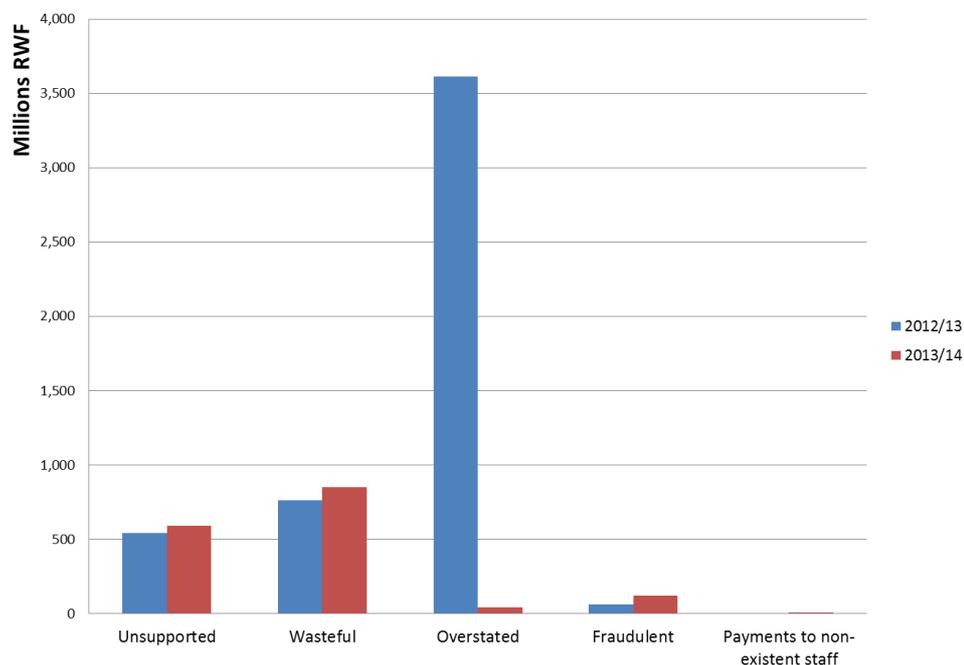


Table 5: Unrecorded transactions for non-budget agencies (NBAs)

N ^o	District Name	Amount in RWF
1	CITY OF KIGALI	0
2	RUBAVU DISTRICT	709,695,531
3	NYAGATARE DISTRICT	727,691,001
4	NYAMASHEKE DISTRICT	751,415,096
5	RUTSIRO DISTRICT	808,496,926
6	NYABIHU DISTRICT	962,928,126
7	KAMONYI DISTRICT	977,323,463
8	RUSIZI DISTRICT	1,001,194,728
9	GASABO DISTRICT	1,127,550,143

10	KARONGI DISTRICT	1,209,420,398
11	NYARUGURU DISTRICT	1,218,842,624
12	BURERA DISTRICT	1,234,046,096
13	MUSANZE DISTRICT	1,278,304,306
14	KIREHE DISTRICT	1,294,132,530
15	BUGESERA DISTRICT	1,397,233,846
16	NGORORERO DISTRICT	1,431,628,003
17	NYANZA DISTRICT	1,466,611,244
18	HUYE DISTRICT	1,836,801,380
19	NYAMAGABE DISTRICT	1,913,496,413
20	MUHANGA DISTRICT	2,225,054,570
21	RULINDO DISTRICT	3,840,687,019
22	KICUKIRO DISTRICT	4,850,403,685
23	GISAGARA DISTRICT	6,467,106,572
24	GATSIBO DISTRICT	6,716,218,471
25	GICUMBI DISTRICT	6,756,274,250
26	GAKENKE DISTRICT	7,299,765,837
27	NGOMA DISTRICT	7,323,800,283
28	NYARUGENGE DISTRICT	7,738,907,571
29	RUHANGO DISTRICT	7,895,230,239
30	RWAMAGANA DISTRICT	8,660,221,357
31	KAYONZA DISTRICT	10,030,766,151
	TOTAL	101,151,247,859

Data from Interviews and Focus Group Discussions conducted in 10 districts, indicated that NBAs' accounting remains the biggest challenge in PFM due to the fact that revenues generated by NBAs are not incorporated in the existing integrated financial management information system of the district (IFMIS). It was also highlighted that NBAs are known to have bad financial records as they do not have qualified accountants or professional skills in accountancy. Teachers, medical staff or customer care officials are in charge of accounting and financial controlling at that level and they have no qualification in accounting or other related fields and they have other complex duties to handle. This results in continuous PFM weaknesses. Unless the PFM responsibilities in NBAs are assigned to qualified staff, the problem is unlikely to disappear in near future.



While the Subsidiary Entity Accounting System (SEAS) was introduced in sectors to facilitate the financial transactions recording and reporting of financial expenditures, during the FGDs with District staff, it was revealed that this system was not yet initiated in other NBAs such as Pharmacies, Medical Health Insurance Scheme and schools. The lack of accountants and professional skills in accountancy as well as the absence of accounting system software are the sources of enormous financial weaknesses registered in these particular agencies.

Table 6: Causes of unrecorded transactions in NBAs

Causes of weaknesses	Underlying factors
Systemic	
NBAs do not have accountants or professional skills in accountancy (in sectors customer care is in charge of finance; in school secretary is in charge of finance; in district hospital the medical doctor is the budget manager).	The GoR cannot allocate sufficient funds for staff with at least basic PFM/ financial skills for NBAs Even if financial software is rolled out in NBAs, financial weaknesses may persist in the absence of competent personal
Absence of IFMIS in all NBAs and SEAS in schools and district hospitals hence NBAs' financial records are not incorporated into district financial management system	
NBAs use different reporting systems which is depending on different entities (government/ development partners) who provide funds	
Procurement procedures are lacking in NBAs	No procurement staff in NBAs
Most fraudulent cases are made in NBAs (Hospital and health centers, Sectors, Pharmacies due to insufficient staff to conduct regular audits in NBAs.	Due to weak oversight, lack of skilled staff at all levels and relatively low salaries, corruption- and fraud-related cases occur in NBAs
Poor internal check of accounting records and lack of capacity in bookkeeping leading to posting errors	Weak oversight systems form the districts and line ministries under which the respective

	NBAs fall
Individual	
Payment to non-existing staff due to the delay of reporting on turnover of staff in NBAs	Lack of ownership and Integrity
Most posting errors are made in NBAs	Lack of accountants in NBAs



Table 7: Unsupported expenditures

⁰	District Name	Amount in RWF
1.	KARONGI	6,516,235
2.	KICUKIRO	7,925,704
3.	MUSANZE	18,937,000
4.	NYANZA	24,706,072
5.	RUSIZI	35,515,264
6.	RUBAVU	102,557,563
7.	KAYONZA	107,152,652
8.	GATSIBO	285,902,461
	TOTAL	589,212,951

Not affected: Bugesera, Burera, the City of Kigali, GakenkeGasabo, Gicumbi, Gisagara, Huye, Kamonyi, Kirehe, Muhanga, Ngoma, Ngororero, Nyabihu, Nyagatare, Nyamagabe, Nyamasheke, Nyarugenge, Nyaruguru, Ruhango, Rulindo, Rutsiro, Rwamagana

While the previous Auditor General report showed that only two districts were concerned with unsupported expenditures related weakness, this year the number of districts that are affected by this weakness increased from two to eight namely Gatsibo, Kayonza, Rubavu, Rusizi, Nyanza, Musanze, Kicukiro and Karongi.

According to the manual of government, each cash entry in the books of account must be supported by proper accounting documents. However, the Auditor General report revealed that in the above mentioned districts some expenditure was not supported by any verifiable document. The reasons of incurring expenditure without any supporting documents were discussed during the FGDs conducted with district staffs as well as factors leading to this weakness. The missing supporting documents include purchase order, proforma invoice, invoices, training program, attendance list for training, travel clearance, goods received note, delivery notes, mission reports and utilisation report. The following factors leading to this weakness were mentioned during FGDs with district staffs:

Table 8: Causes of unsupported expenditures

Causes of weaknesses	
Individual	Underlying factors
Failure to comply with financial and accounting procedures (no tender report, purchase order, proforma invoice, invoices, training program, attendance list for training, travel clearance, goods received note, delivery notes, mission reports and utilisation report)	<ul style="list-style-type: none"> • Insufficient staff in financial department/ heavy workload; • Negligence of duty • Inadequate monitoring mechanism/ supervision of responsible staff
Absence of checklist for payment in district finance departments	

Table 9: Overstated expenditures

	District	Amount in
Affected	BUGESERA	41,139,513
Not affected	29 Districts and the City of Kigali	-

According to the table above, only Bugesera District registered expenditures with overstatement of payments of an amount of 41,139,513RWF. It is important to note that, in the previous year, six districts were affected by this weakness implying that there has been an improvement for this indicator as the number of districts which were concerned decreased from six to one.

The overstated expenditure in Bugesera district was due to unexplained difference between balance of salaries as per payrolls and balance reported in financial statements. According to District staff who participated in FGDs, this weakness is mainly explained by the fact that the Finance Unit in Districts is understaffed and some mistakes may occur due to workload. This problem was highlighted by districts accountants during FGDs with district staff urging that it is very likely to overstate



payments of district because it is difficult for one accountant to consolidate financial report of district and all Non-Budget Agencies.

Table 10: Wasteful Expenditures

N ^o	District Name	Amount in RWF
1.	KIREHE	500,000
2.	NYARUGURU	1,307,635
3.	GICUMBI	6,228,672
4.	BURERA	6,302,890
5.	HUYE	7,711,400
6.	NYAMASHEKE	8,740,023
7.	NYABIHU	10,667,925
8.	KICUKIRO	22,950,000
9.	GASABO	34,289,971
10.	RUTSIRO	40,700,620
11.	RUBAVU	45,480,878
12.	KARONGI	54,846,901
13.	NYAGATARE	76,103,864
14.	RWAMAGANA	79,439,522
15.	NYARUGENGE	79,645,386
16.	CITY OF KIGALI	80,691,275
17.	NGOMA	123,580,000
18.	GATSIBO	171,843,054
	TOTAL	851,030,016

Not affected:

Bugesera, Gakenke, Gisagara ,
Kamonyi, Kayanza, Muhanga,
Musanze, Ngororero,
Nyamagabe, Nyanza ,Ruhango,
Rulindo, Rusizi

The findings in the above table show that the weaknesses related to wasteful expenditures come second after NBAs in terms of the size of amount leading to weakness. It is also indicated that similar to the previous year, 13 districts out of 30 registered wasteful expenditures. Of the 13 districts which were clean in this indicator in the previous year, only 6 kept the momentum. These include Gakenke, Gisagara, Muhanga, Nyanza, Ruhango, Rulindo.

It has emerged from the findings that most wasteful expenditures were due to expenses related to the fines and penalties as a result of court cases which districts lost. As a matter of fact, Gatsibo district registered a wasteful expenditure amounted

to 169,702, 962 due to incurred expenditure in respect of execution of many court decisions in which the district lost.

The Auditor General report 2013-2014 revealed other reasons related to wasteful expenditure as follows:

- Expenditure in relation to penalties as a result of late payments on bank loans,
- Expenditure relating to the administrative fines, penalties and interest imposed by RRA,
- Expenditure relating to penalties imposed by RSSB,
- Expenditure related to extra contractual staff without authorization of MIFOTRA and hired without recruitment process,
- Expenditure of additional time given to consultant due to delayed completion of works,
- Expenditure relating to poor planning by the management,
- Penalties for failure to remit PAYE and Withholding tax of 3% ,
- Loss originating from disqualifying the lowest responsive bidder, etc.

The wasteful expenditure caused by the failure to award the contract to the lowest bidder has been observed in Ngoma District which incurred a wasteful expenditure of 123,580,000 RWF as result of not considering the value for money during the tendering process. This amount was considered as wastage because the money should have been saved and utilised for other useful activities. The lack of Integrity and ownership among staff involved in the public procurement in district is certainly the underlying cause of such wasteful expenditure.

The challenge of losing court decisions as a reason of wasteful expenditure was highlighted in all FGDs conducted in the selected districts. According to FGDs participants the district as a legal entity which employs sometimes unprofessional staff is very likely to handle court cases submitted by their suppliers when concerned staff fails to fulfil his/her obligation. The biggest challenge evoked by staff during the FGDs was the lack of adequate representation in courts and this has led to lose verdict.

However, as suggested by a representative from the Auditor General Office during the Key Informant Interview, other reasons of wasteful expenditure are linked to the lack



of dialogue between districts officials and contractors, unlawful dismissal of district staff, lack of ownership among districts officials, loopholes in contracts signed between district and contractors and limited financial resources of contractors.

Interviews held with Executive Secretaries of sectors in the selected districts showed that there are unplanned situations which require the use of public funds without complying with the existing procurement process. As revealed by one of the Executive Secretary interviewed, it can happen that a disaster like a heavy rain destroys a road. In order to remedy this emergency, a sudden assistance is required and may not follow the procurement process due to unforeseen circumstances at the planning stage and because of the urgency to circumvent the lengthy procurement process. Furthermore, during the FGDs with District staff in Rubavu, it was argued that due to incomplete organisational structure of districts it may happen that sometimes unplanned measures would be taken such as recruiting extra contractual staff in a bid to accomplish other numerous activities of the districts.

Wasteful expenditure due to extending of contracts beyond the agreed length of time was discussed during FGDs held in Karongi District. Participants in the FGD argued that extending contracts with suppliers would be more time- and cost-efficient than terminating the contracts. During the Key Informant Interview conducted with a representative from RPPA, it was revealed that contract extension are allowed by the law and that districts authorities should comply with existing laws by requesting the approval from MINALOC and RPPA before any attempt to run an extension.

Table 11: Causes of wasteful expenditures

Causes of weaknesses	Underlying factors
Individual	
Unlawful dismissal of district staff	<ul style="list-style-type: none"> • Loopholes in contracts signed between district and contractors • Limited financial resources of contractors • Lack of ownership and integrity among procurement staff. Technical capacity gap of procurement staff in bid evaluation • Weak financial capacity of contractors who fail to execute
Failure to consider value for money (tenders)	
Additional expenditure due to poor planning	
Extension of contracts beyond agreed length	

Deliberate overestimation of evaluation of bids	their contract due to a big number of contracts in different districts
Systemic	
Inadequate legal representation of districts in court proceedings	Late financial transfers from Government and Donors Incomplete organizational structure of districts
Unplanned/ ad hoc activities coming from central government	

Table 12: Fraudulent expenditure

N ^o	District Name	Amount in RWF
27	RUTSIRO	6,876,370
28	KAMONYI	17,471,300
29	RUSIZI	19,550,000
30	KICUKIRO	32,075,551
31	KARONGI	43,862,219
	TOTAL	119,835,440

Not affected: All other districts and the City of Kigali were not affected.

The data in the above table suggests that similar to the previous year, most of the districts (25 of 30) and the City of Kigali were found clean with regard to fraudulent related expenditure. However, the Auditor General’s report revealed that there were fraudulent expenditures in five districts namely: Karongi, Kicukiro, Rusizi, Kamonyi and Rutsiro. In Kicukiro, the amount allegedly withdrawn by the former accountant of Kagarama sector were still not supported by any documents and it had not yet recovered from the former accountant. In Karongi, the former accountant of Kibuye Hospital withdrew fraudulently some amount as payment of her salary from hospital account in addition to her normal salary. In this district again, the accountant of the district made fraudulent payments on the basis of forged signatures and falsified documents and altering names and bank accounts of beneficiaries on pay list. According to FGDs held in Karongi, the accountant forged the above mentioned operations through IFMIS, a system which was supposed to limit such wrong doings.



However, during the Key Informant Interview, it was argued that despite the robustness or efficiency of software, it cannot replace a human being. Some measures would be taken to minimize the risks including zero tolerance to fraudulent cases.

The same weaknesses were reported in Rusizi, Rutsiro and Kamonyi districts. The Executive Secretary of Nyakarenzo sector and other sector staff in Rusizi district ineligibly benefited from Ubudehe credit scheme through fictitious groups. In Rutsiro district the former accountant fraudulently transferred from the MUSASA Health center operational bank account to a forged supplier while he had not performed any works or provided services to the health centre. With regard to Kamonyi district, the payment orders issued for purchases of drugs were not addressed to rightful supplier CAMERA bank account; instead the payment was made to a wrong bank account which was personal bank account of Accountant of District Pharmacy.

From the above findings, it is clear that NBAs such as health centres, pharmacy, sector executive secretary and colleagues were most affected by fraudulent cases. Interviews held with executive secretary of sectors in the selected district indicated that there are insufficient staffs to conduct regular audits in NBAs. Internal auditors of the district are not able to audit all NBAs every year and can only make a sample of one sector or health center for which audit can be conducted.

Table 13: Payment to non-existent staff

	District	Amount in
Affected	KARONGI	1,045,600
Not affected	29 Districts and the City of Kigali	-

As per the Auditor General's report 2013-2014, only Karongi district has been reported to make payments to non-existent staff while in the previous year none of the 30 districts was charged a weakness of this kind. According to the report, the district paid the salary of 8 months to the resigned former executive secretary of Nyagatovu Cell in Mubura Sector. In the same vein a teacher was paid his monthly salary while he has resigned from his job.

The interview conducted with the sector executive secretary revealed that some payments are made to wrong contractors or staff. For example, in one district a

payment has been made to a staff member who had already retired. Yet, in another case, a staff member received a salary over a long period of time although he did not work due to a pending court process. Still, the district could not stop his salary before the final judgment of court. In some cases, mainly NBAs, information on staff is not updated. A sector executive secretary indicated that the director of the school did not report the resignation of the teacher on time. Salary was paid and wasteful expenditure occurred. It is, therefore, apparent that the reasons behind the payment to non-existing staff consisted of legal constraints and the delay to report on possible changes that may take place within an institution.

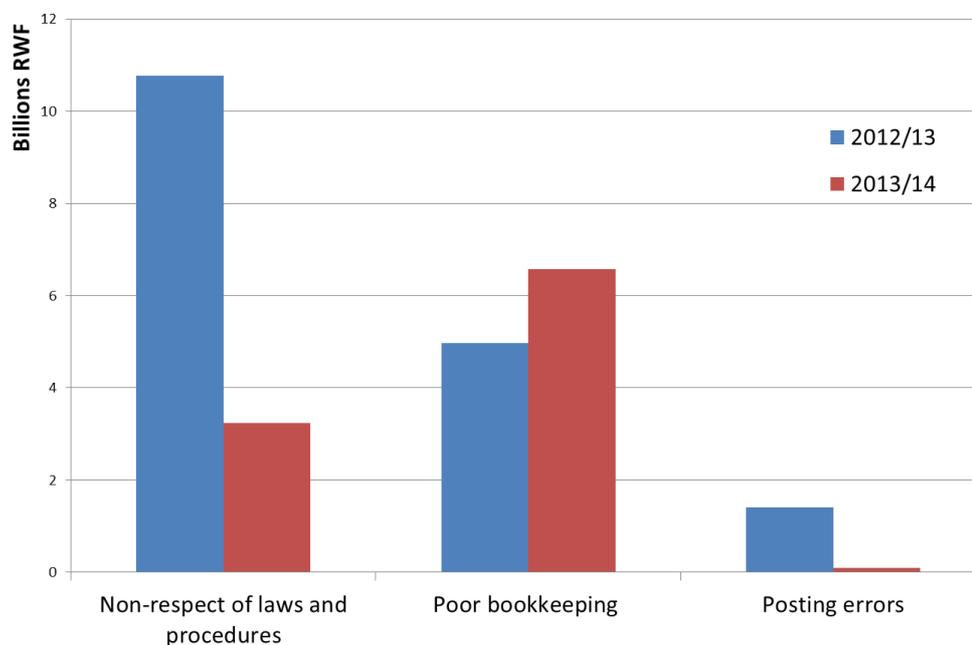


4.2. Non-expenditure Related weaknesses

Despite the increase in districts' total revenues from 289 billion to 314 billion RWF, there is a significant decrease in the overall volume of non-expenditure related weaknesses compared to the financial year 2012/13. However, non-expenditure related weaknesses amount to only about 10% of all identified weaknesses in districts in total (see Figure 1).

Weaknesses in relation to non-respect of laws and guidelines have decreased by 70%, while weaknesses related to posting errors have plummeted by 94%. Weaknesses related to poor bookkeeping have increased by 32% (see Figure 4).

Figure 4: Evolution of non-expenditure related weaknesses



Three districts were not affected by non-expenditure related weaknesses at all, namely: Kamonyi, Nyamagabe and Nyamasheke (see Table 14 for total amounts of non-expenditure related weaknesses per district)

Table 14: Non-expenditure related weaknesses per district

	District Name	Amount in RWF
1.	GICUMBI	13,423,181
2.	RUSIZI	25,712,323
3.	MUSANZE	39,026,395

4.	HUYE	50,860,370
5.	MUHANGA	53,295,236
6.	GISAGARA	60,307,525
7.	RUTSIRO	67,830,113
8.	KIREHE	76,058,215
9.	GASABO	91,357,968
10.	NYARUGURU	110,330,789
11.	RWAMAGANA	115,682,091
12.	BURERA	120,044,552
13.	RULINDO	129,553,589
14.	GAKENKE	145,869,830
15.	GATSIBO	148,056,232
16.	NYAGATARE	167,538,535
17.	NYABIHU	223,055,981
18.	NYANZA	285,358,592
19.	RUBAVU	300,515,430
20.	BUGESERA	407,953,338
21.	CITY OF KIGALI	423,622,347
22.	KARONGI	547,816,314
23.	NGOMA	584,933,024
24.	KAYONZA	624,567,769
25.	NGORORERO	870,600,735
26.	RUHANGO	1,083,169,968
27.	NYARUGENGE	1,450,902,401
28.	KICUKIRO	1,679,570,352
	TOTAL	9,897,013,195

4.2.1. Non-respect of laws and principles

Compared to the previous year, the number of districts affected by weaknesses related to the non-respect of laws and principles were reduced by seven (27 affected compared to 20 in the financial year 2013/14). Not affected were Gasabo, Huye, Kamonyi, Musanze, Nyagatare, Nyamagabe, Nyamasheke, Nyanzanyaruguru and Rwamagana (see table 15).



Table 15: Non respect of laws and procedures per district

	District Name	Amount in RWF
1.	RUSIZI	not valued
2.	GICUMBI	3,951,976
3.	NGORORERO	5,892,315
4.	GAKENKE	8,797,735
5.	MUHANGA	21,793,910
6.	BUGESERA	23,717,994
7.	NYARUGENGE	25,299,200
8.	RULINDO	33,285,688
9.	GISAGARA	37,231,387
10.	NGOMA	49,837,841
11.	NYABIHU	50,947,247
12.	RUTSIRO	62,894,113
13.	KIREHE	76,058,215
14.	GATSIBO	83,619,342
15.	CITY OF KIGALI	101,098,675
16.	BURERA	120,044,552
17.	KAYONZA	172,946,496
18.	KARONGI	198,974,287
19.	RUBAVU	254,561,101
20.	RUHANGO	570,302,507
21.	KICUKIRO	1,332,408,198

Kicukiro district was most affected, with about 1.3 billion RWF. Bugesera, Ngoma, Ruhango and the City of Kigali, which were not affected by non-expenditure related weaknesses in the financial year 2012/13, do appear on this year's list – Ruhango ranking even second worst with a total amount of 570 million RWF of non-expenditure related weaknesses.

The Auditor General Report 2013-2014 revealed a range of reasons for the non-respect of laws and principles in non-expenditure related complaints as follows:

- Unavailability of supporting documents for certain revenues collected such as public auctions, fines assessment document, VAT refund claim and notification;
- Failure to respect the agreement as provided for in the contract;
- Failure to respect tender procedures (legal period, adverts, etc.);
- Failure to deduct and remit social security contributions from the bonus paid to the district staff and from regularization for horizontal promotion salary paid and wrongly computed;
- Delay of transferring mutual health contributions to the district;
- Collections of revenues made at sector level in rural areas are deposited on the sector's bank accounts opened in SACCOs while they are required to be regularly transferred to the district revenue account;
- Failure to seize bid security and performance guarantee of contractor who failed to complete the works or for undelivered goods;
- Provisional acceptance of the works while some construction works are still outstanding;
- To use different expropriation rates while valuing identical products on the same day and on the same expropriation site;
- To understate the penalties charged to contractors who delayed the completion of works;
- Failure to collect any revenue relating to land lease, bicycle number plates and land used for agriculture and livestock activities;
- To issue payment orders without sufficient cash balances on the bank account leading to negative bank balance;
- Long outstanding reconciling items;



- Non-compliance with Law N0 28/2004 of 03/12/2004 on abandoned properties (the district deposited all collections of rental income to the current account of district instead of 1/3 according to the law);
- Lack of disclosure note of contingent liabilities related to court cases;
- Inconsistency between advertisement and the bidding document.

During the interview, a participant from MINALOC stated that the reasons for non-respect of laws and procedures and non-compliance with the overall PFM are three-fold:

1. Individual factors: According to the interviewee, the key challenge is the lack of ownership and, to a certain extent, the problem of greed among district staff.
2. Capacity gaps: Districts in rural areas lack competent staff, as qualified employees often prefer to work in urban areas which offer a more conducive working environment.
3. Systemic gaps: Insufficient staff (workload), lack of appropriate accounting systems in NBAs (IFMIS, SEAS), absence of adequate staffing and training in NBAs are systemic obstacles to the compliance with laws and procedures.

Especially in remote areas, collected taxes may not be deposited in the district accounts on time due to practical reasons: The costs to transport and put the revenues in the district bank account can actually be bigger than the amount of collected taxes. However, no exceptions are provided in the law for these cases. Some electronic measures are envisaged to overcome this situation, said one of the interviewees.

Table 15: Causes of non-respect of laws and procedures

Causes	Underlying factors
<ul style="list-style-type: none"> • Lack of knowledge of guiding laws and procedures • “Culture of no reading” of official documents and 	Greed and lack of integrity
	Lack of accountancy and procurement capacities

guidelines	
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4.2.2. Poor bookkeeping

Only five districts were not affected by poor bookkeeping, namely Burera, Kamonyi, Kirehe, Nyamagabe and Nyamasheke (see Table 16). It is worth noting that Kamonyi has also been among the six districts that were not affected by poor bookkeeping in the previous financial year. In monetary terms, weaknesses linked to poor bookkeeping increased compared to the previous years, whereas all other non-expenditure related weaknesses decreased (see also Figure 4).

Table 16: Weaknesses related to poor bookkeeping per district

RUTSIRO	4,936,000
GICUMBI	9,471,205
GISAGARA	23,076,138
RUSIZI	25,712,323
MUHANGA	31,501,326
MUSANZE	39,026,395
RUBAVU	45,954,329
HUYE	50,860,370
GATSIBO	64,436,890
GASABO	91,357,968
RULINDO	96,267,901
NYARUGURU	110,330,789
RWAMAGANA	115,682,091
GAKENKE	137,072,095
NYAGATARE	167,538,535
NYABIHU	172,108,734
NYANZA	273,592,887
KARONGI	313,209,853
CITY OF KIGALI	322,523,672
KICUKIRO	347,162,154
BUGESERA	384,235,344
KAYONZA	451,621,273
RUHANGO	512,867,461



NGOMA	535,095,183
NGORORERO	821,168,170
NYARUGENGE	1,425,603,201
TOTAL	6,572,412,287

As per the AG report, the reasons behind poor bookkeeping in districts are outlined as follows:

- Long outstanding debtors and creditors;
- Unrecorded revenue from private tax collectors;
- Differences between total tax revenues as per financial statements and those computed from the district list of taxpayers;
- Bank account not disclosed in the books of accounts of the district;
- Long outstanding receivables;
- Unsupported debtors balances;
- Liability paid but still appearing on the list of creditors;
- Overdrawn bank account leading to negative bank balance;
- Unsupported transactions cleared through the bank and not appearing in the district books of account;
- Bank reconciliation statements not properly prepared;
- Lack of detailed list to support payables disclosed;
- Omitted bank accounts and other irregularities;
- Weaknesses in reconciliation of revenue;
- Lack of contract agreements for grants and transfers received from other government reporting entities.

Workload and capacity gaps remain the major reasons for poor bookkeeping in districts. During the interview, a representative from the Auditor General Office evoked the following underlying factors (see Table 17):

- Lack of a clear retention strategy for qualified staff;
- Inexperienced staff as a result of not having a succession plan for those leaving staff;
- Insufficient coaching and mentoring for new staff.

The problem of workload was also highlighted by districts accountants during FGDs.

Table 17: Causes of poor bookkeeping

Causes	Underlying factors
<ul style="list-style-type: none"> • Heavy workload in financial department of districts – failure to enter revenues/expenditures in the book of accounts • Capacity gaps of accountants (mainly in the rural districts) 	Lack of clear retention strategy for qualified accountants
	Lack of succession plan for experienced accountants
	Insufficient coaching and mentoring for new staff
	Lack of possibility to offer attractive conditions for qualified accountants

4.2.3. Posting errors

The AG report shows a great improvement in the reduction of posting errors from 1.4 billion RWF in the previous financial year down to 91 million RWF (see Figure 4). In the financial year 2013/14, only 3 districts were affected by posting errors (see Table 18).

Table 18: Posting errors

29	NYANZA	11,765,705
30	KARONGI	35,632,174
31	NGORORERO	43,540,250

The reasons behind the posting errors are mainly linked to poor internal checking of accounting records and the lack of capacity in bookkeeping. Posting errors include:

- Unexplained postings to opening balances;
- Fictitious revenues that were recorded and could not be traced on the bank account;
- Mispostings that were made under the use of goods and services;



- Proposed adjustments that have not been made;
- Wrong adjustments;
- Monthly bank reconciliation statements of SACCO bank accounts not prepared;
- Cash books not maintained.

Furthermore, according to FGD participants, districts are sometimes obliged to implement instructions that come from the central government without taking into consideration the approved activity plan of the district.

A large part of the posting errors are made within NBAs which are known to not have sufficient accountancy capacities (see Table 19). This fact was substantiated during the interview with NBA officials. Sometimes, customer care staff members are in charge of finances. The role of districts councilors in this endeavor was also discussed with key PFM stakeholders. It emerged from the interview that, in some districts, the councilors are very committed to assuming their oversight roles and hold the districts officials accountable. It was also revealed that in order to increase the responsibility and capacity of district councilors, as well as to strengthen existing PFM initiatives such as PFM committees, a PFM capacity development project will be implemented very soon (early next year) and will contribute to eliminate financial and non-financial related weaknesses especially in NBAs.

Table 19: Causes of posting errors

Causes		Underlying factors
Individual	Systemic	
Poor internal check of accounting records by the competent staff	Lack of capacity in bookkeeping	Lack of ownership among Directors of Finance
		Lack of experienced staff in accounting

5. MONITORING OF RECOMMENDATIONS

With an average of 66% of AG’s recommendations implemented, districts have performed generally well (see Table 20). Interestingly, two districts were able to implement over 80% of the AG’s recommendations, 12 districts achieved 70% and above. This is an indication of the districts’ commitment to improving their PFM. However, five districts only reached an implementation level below 60%, namely Rusizi, Ngororero, Rulindo, Nyamasheke and Rutsiro.

Table 20: Status of implementation of previous years' Audit Recommendations by Districts and City of Kigali

	District Name	% of fully implemented previous years' audit recommendations
1	KAMONYI	85%
2	GAKENKE	83%
3	NYAMAGABE	79%
4	NGOMA	76%
5	BURERA	75%
6	GICUMBI	75%
7	KARONGI	75%
8	NYARUGENGE	72%
9	NYANZA	72%
10	NYAGATARE	71%
11	RUHANGO	71%
12	GISAGARA	70%
13	MUHANGA	70%
14	MUSANZE	70%
15	KIREHE	69%
16	NYARUGURU	68%
17	KICUKIRO	67%
18	GATSIBO	66%
19	KAYONZA	65%
20	BUGESERA	63%
21	HUYE	62%
22	NYABIHU	62%



23	RWAMAGANA	62%
24	GASABO	61%
25	KIGALI CITY	60%
26	RUBAVU	60%
27	RUTSIRO	58%
28	NYAMASHEKE	56%
29	RULINDO	56%
30	NGORORERO	44%
31	RUSIZI	37%

As Table 21 shows, more than half of the districts (17 out of 30) performed worse regarding the implementation of AG's recommendations this year compared to the last financial year.

Table 21: Monitoring of implemented recommendations from the 2011/12 AG report

<i>District Name</i>	<i>% of fully implemented previous years' audit recommendations 2012</i>	<i>% of fully implemented previous years' audit recommendations 2013</i>	<i>% of fully implemented previous years' audit recommendations 2014</i>	<i>TREND 2013</i>	<i>TREND 2014</i>
1 BUGESERA	83%	71%	63%	-12%	-8%
2 BURERA	60%	61%	75%	1%	14%
3 GAKENKE	56%	74%	83%	18%	9%
4 GASABO	68%	56%	61%	-12%	5%
5 GATSIBO	48%	35%	66%	-13%	31%
6 GICUMBI	73%	64%	75%	-9%	11%
7 GISAGARA	70%	89%	70%	19%	-19%
8 HUYE	65%	79%	62%	14%	-17%
9 KAMONYI	81%	67%	85%	-14%	18%

10	KARONGI	75%	47%	75%	-28%	28%
11	KAYONZA	53%	64%	65%	11%	1%
12	KICUKIRO	56%	75%	67%	19%	-8%
13	KIREHE	55%	72%	69%	17%	-3%
14	MUHANGA	72%	80%	70%	8%	-10%
15	MUSANZE	65%	61%	70%	-4%	9%
16	NGOMA	71%	90%	76%	19%	-14%
17	NGORORERO	50%	60%	44%	10%	-16%
18	NYABIHU	59%	64%	62%	5%	-2%
19	NYAGATARE	77%	73%	71%	-4%	-2%
20	NYAMAGABE	53%	69%	79%	16%	10%
21	NYAMASHEKE	58%	75%	56%	17%	-19%
22	NYANZA	53%	66%	72%	13%	6%
23	NYARUGENGE	55%	57%	72%	2%	15%
24	NYARUGURU	49%	68%	68%	19%	0%
25	RUBAVU	71%	79%	60%	8%	-19%
26	RUHANGO	84%	88%	71%	4%	-17%
27	RULINDO	72%	68%	56%	-4%	-12%
28	RUSIZI	50%	71%	37%	21%	-34%
29	RUTSIRO	76%	71%	58%	-5%	-13%
30	RWAMAGANA	68%	63%	62%	-5%	-1%



6. CONCLUSION AND RECOMMENDATIONS

This study consisted of analysing the causes of financial and non-financial weakness identified in the Auditor General's reports of decentralized entities for the financial year ending 30 June 2014. The secondary and primary data were used for the purpose of this study.

6.1. CONCLUSIONS

Based on the study findings, the followings are the conclusions drawn by the research team:

Again, NBAs were the major cause of financial weaknesses in the districts, representing 98.4 % of the total expenditure related weaknesses. For the expenditure related weaknesses such as wasteful and unsupported expenditures have slightly increased in comparison with the situation of the financial year 2012/13.

In regards to the non-expenditure related weaknesses like non-respect of laws and procedures and posting errors, the study found that these weaknesses have declined, whereas poor bookkeeping has increased.

The main causes for expenditure related weaknesses in NBAs are linked directly to the systemic factors such as the absence of qualified accountants or professional skills in accountancy, absence of IFMIS/ SEAS in schools and hospitals as well as lack of procurement officer to handle tender process properly.

Expenditures with overstatement of payments were mainly due to the fact that districts are understaffed especially in the department of finance. Most wasteful expenditures were due to expenses related to the fines and penalties as a result of court cases which districts lost. There are also ad hoc and unplanned activities which required the use of public funds without complying with the existing procurement process.

The study showed that the non-respect of laws and procedures can be reasonably addressed if the staffs involved in the procurement and finance of districts as well as the executive committees are trained and adhere to existing laws and procedures. Additionally, the internal audit functions as well as oversight committees have to be directly linked or worked with the technical department in order to prevent PFM weaknesses.

Districts have performed well in terms of implementing the AG recommendations with an average of 66%. However, six districts achieved only an implementation rate below 60%.

6.2. RECOMMENDATIONS

Based on the findings of this analysis and on the inputs from the districts staff during the Focus Group Discussions, we recommend the following:

- 1:** Same as last year, qualified accountants should be recruited at NBAs level and the accounting software should be installed and used in all NBAs in order to help in recording all financial transactions and regular reporting (monthly) to districts;
- 2:** District internal auditor should be supported by the executive committee and work closely with oversight committee (audit committee) in order to help all relevant departments to comply with the existing PFM laws and procedures. Simplified checklist should be developed and used in order to strengthen and improve the existing internal control system at district level.
- 3:** District Executive Secretaries, Legal Advisors, Procurement officers and internal auditors should be trained in the contract management in order to avoid wasteful expenditures which were mainly related to the fines and penalties as a result of court cases lost by districts. In a special case, an independent lawyer can be hired instead of relying on the State's Attorney who normally represents court cases on behalf of the Government Institutions.



4: In order to reduce the non-respect of the PFM laws and procedures, simplified guidelines should be developed and disseminated to the users. Additionally, Districts authorities should have zero tolerance to negligence and lack of integrity among the staff;

5: Districts internal auditor and division manager should be trained on the use of IFMIS so that they can cross check the reliability of the accounting transactions recorder in the system before being audited by the AG and qualified as posting errors. Furthermore, a coaching and mentoring program should be introduced for new or inexperienced accountants;

6: Full implementation of the Auditor General's recommendations must be included in district performance contract in order to ensure regular monitoring and improvement of PFM environment at local level.

7: A detailed research/study on NBA financial weaknesses, their causes, context, etc. should be commissioned. The research should aim at identifying concrete policy actions to reduce the huge volume of financial weaknesses at NBAs level.

8: In order to implement interim financial management guidelines for Sectors No 2738/13/10/NB of July 8th, 2013, all sectors should have a procurement officer and trained internal tender committee.

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13. Audit Committee Handbook
14. Public Financial Management Inspection for Districts and Subsidiary Entities
15. Law n° 59/2011 of 31/12/2011 establishing the sources of revenue and property of decentralized entities and governing their management
16. RRA (2015) MoU between Districts and RRA, Kigali Rwanda



Annex 1: FGDs checklist at district level

QUESTIONS

1. Among PFM related weaknesses, which were highlighted by the Auditor General in his audit report for the financial 2013-2014 in your district?
2. What would be the causes or the reasons behind? What do you think can be done (drivers of change) by districts and other stakeholders to avoid weaknesses in PFM at district level? Probe by type of weaknesses:

Expenditure related weaknesses	Reasons behind the weakness	Actions to be taken to avoid weakness (drivers of change)
Unsupported expenditures		
Wasteful expenditures		
Overstated expenditures		
Fraudulent expenditures		
Payments to nonexistent staff		
Unrecorded transactions for Non-Budget Agencies (NBAs)		
Non Expenditure related weaknesses	Reasons behind the weakness	Actions to be taken to avoid weakness (drivers of change)
Non respect of laws and procedures		
Poor book keeping		

Posting errors		

3. To what extent do Non-Budget Agencies (NBAs) contributed to the identified weaknesses? What are the reasons behind? What do you think can be done (drivers of change) by NBAs and other stakeholders to avoid weaknesses in PFM at this level?
4. What are the challenges caused by the IFMIS in the district financial management?
5. What is the role of district councilors in the management of district/City of Kigali funds?
6. Do you think that councillors are actively involved in the PFM process of your district/City of Kigali?
7. To what extent are councillors committed to play their role in terms of internal control of the district funds?
8. Do you think that district councillors have enough time and the capacity to understand the budget execution process and advice on the management of funds? Explain.
9. How do you think that district councillors can be helped more to play their role in the management of district funds?
10. What are the reasons behind the failure of not fully implementing the AG recommendations 2013-2014?
11. What do you think could be the best strategies that could help your district to implement fully the audit recommendations issued by the Auditor General?



Annex 2: Observation checklist

District Name

SN	PFM Performance questions	YES	NO	Observation
1	Annual Action Plan of activities approved by the district council			Check and write the date of approval
2	Preparation and approval of the district MTEF by the District council			Check and write the date of approval
3	Procurement plan approved and published in newspapers			Check the date of approval and the name of the newspaper
4	Approval of cash flow plan on quarterly basis			Check the date of approval
5	The revised budget(if applicable) has been approved			Check the date of approval
6	Based on a particular payment, check whether the following PFM standards have been respected			
6.a.	The activity paid for is included in the approved MTEF			Check the existence of that activity in the MTEF
6.b.	The activity paid for is included in the approved procurement plan			Check the existence of that activity in the Procurement plan
6.c.	The tender for that activity was advertised in a newspaper			Check that newspaper

6.d.	The opening report of the bids			Check minutes and date
6.e	The evaluation report of the tender			idem
6.f	Provisional notification			idem
	Final notification of the tender award			idem
6.g	Contract negotiation if any			Idem
6.h	Contract			See date of signature
6.i	Performance guarantee and advance guarantee if required by the contract			Check existence of guarantee
7	Accounting and reporting process			
7.a.	Data entry of payment and revenues were made on due time			Check whether the current payment and revenues are entered in the IFMIS (Integrated Financial Management Information System)
7.b.	Verification of data entry and reconciliation of accounts by the Director of Finance			Check the proof of verification
7.c.	Production of general ledger and trial balance by Director of Finance			Check physical existence
7.d.	Preparation and submission of financial statement on time by CBM (15 th of every month ; 31 st July every year)			Check the date of submission



8.	Management of external audit process		
8.a.	Existence of internal audit report on quarterly basis		Check the Date of submission to the district council
8.b.	Actions taken by district council on the internal audit recommendations		Check the Minutes and date
8.c.	Actions taken by District council on Auditor General recommendations of the FY 2013-2014		Check the Minutes and date

Annex 3: KII Guide(district level)

District Name

1. Are you aware of PFM related weaknesses which the Auditor General report 2013-2014 revealed in your district? Elaborate
2. What would be the causes or the reasons behind? What do you think can be done (drivers of change) by districts and other stakeholders to avoid weaknesses in PFM at district and City of Kigali level?
3. To what extent do Non-Budget Agencies (NBAs) contributed to the identified weaknesses? What are the reasons behind? What do you think can be done (drivers of change) by NBAs and other stakeholders to avoid weaknesses in PFM at this level?
4. What would be the role of District/ City of Kigali staff in performing their PFM?
5. What would be the role of district/City of Kigali councillors in performing the PFM at district level?
6. What would be the role of central government to help district /City of Kigali in performing their PFM
7. Why do you think are the reasons behind the fact that the Auditor General recommendations are not fully implemented by district /City of Kigali?
8. What are the measures to be taken by district /City of Kigali and their stakeholders to have clean audit or fully implement the AG recommendations?

Annex 4: KII Guide (central government level)

1) The PFM oversight at the district level is weak due to low capacity of District Councils. Despite some trainings for the councillors, they are still not able to perform the function of a watchdog regarding financial- and non-financial expenditure weaknesses. What can be done in this respect?



- 2) Forging of supporting documents for data entered into IFIMIS is a challenge in some districts. Can the oversight of the authenticity of the documents be strengthened or ensured? How?
- 3) Poor contract management results in significant financial weaknesses, especially wasteful expenditures due to extending of contracts beyond the agreed length. Districts argue that extending contracts with suppliers is more effective and cheaper than cancelling contracts. Yet, AG ranks this practice as a weakness. Are there any guidelines/ advisory on this issue?
- 4) IFIMIS system is not extended to NBAs. Yet, most of financial weaknesses come from NBAs. Districts have no system how the NBA software can be integrated with IFIMIS. However, they are still made responsible for NBA weaknesses. How can this be avoided? Whose responsibility is it to eliminate NBA weaknesses?
- 5) Financial transfers from districts to sectors are delayed which results in disruptions of disbursements for economic and social activities in the sectors. Districts also claim that these delays stem from delayed transfers from MINECOFIN to districts. Also, finances coming from districts do not sometimes specify the purpose so money is used for other activities than envisaged for. Where is the problem? Who is responsible?
- 6) A number of wasteful expenditures in many districts is ranked due to lost court cases. What can be done in this respect to avoid these cases?
- 7) Sectors face a number of PFM issues. Internal auditors and accountants are not available, sector budgets are planned unrealistically, their accounts have errors. These entities are at the same time responsible for most of the service delivery. What can be done to improve this situation?
- 8) Book-keeping and accounting staff in districts are overwhelmed and not able to check all entities under their responsibility. Especially NBAs are affected. Is there a plan to increase the number of staff responsible for financial oversight? That could decisively help in putting the AG recommendations in place. Is there a different problem?

9) Some district councillors and even district staff especially NBAs which are most affected have never been briefed or seen the AG reports. What can be done on their awareness? Is this issue being discussed?

10) There are some responsibilities which can be addressed in the districts when it comes to AG recommendations but many rest with national ministries. Yet, districts are blamed even for issues over which they have no control (e.g. IFIMIS). How can this be solved?

11) In some cases, the tax collection is more expensive than the actual tax revenue. For example, in remote and poor areas, the tax collection can be as low as 2000RWF. But, due to the law on depositing public money to district accounts within 24 hours, the cost to transport the revenues and put them in the bank account is minimum 10 tsd RWF. Can the law be changed? What can be done in this absurd situation?

12) The SIS software has been introduced to sectors but health centres and schools still have not received. When will it be rolled out?



Annex 5: CONCEPT NOTE

1. Background and context of the project

Rwandan government recognizes the importance of good PFM as precondition to achieving EDPRS objectives and Vision 20/20. The PFM Reform Strategy for 2008-2012 was implemented successfully and the Government developed a new Public Financial Management (PFM) Sector Strategic Plan (2013-2018) and committed to its implementation so that by the end of 2018, the mission of PFM SSP “*ensuring efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery*” will be achieved as planned.

Despite all the efforts and investment done by the GoR in order to improve PFM in all levels, it has been noticed however that PFM at the district and City of Kigali level still remains a challenge. The 2012-13 financial year analysis of district expenditures showed 107.241.260.111 RWF worth of expenditure weaknesses, of which 95% fell for non-budgetary agencies as unrecorded or wrongly booked expenditures.

This was just recently confirmed again when the Auditor general reports for the financial year ended 30th June 2014 was published before MPs at Parliament on May 12th, 2015. Given the impact of Transparency International Rwanda’s analysis of the previous Auditor General’s report, this assignment will contribute to the monitoring of the findings and continue the dialogue with the relevant stakeholders to improve the dissemination and implementation of the Auditor General’s report of the financial year 2013-2014. Even if the extent of expenditure related weaknesses becomes apparent, the factors leading to errors and misconduct are less clear.

2. Specific objectives

The purpose of the assignment is to undertake a detailed, deep and critical analysis of reports of the Office of the Auditor General for all districts and City of Kigali for the financial year 2013-2014. The results of the study shall be later used for:

- 5) Evidence based information for the governmental stakeholders involved in the PFM oversight and planning in local governments showing the extent and reasons behind expenditure related weaknesses in districts,.
- 6) Evidence based data for the service monitoring of the districts;
- 7) Evidence based findings that will guide the Fiscal Decentralization Steering Committee (FDSC) and other key stakeholders in the planning of important activities which can support LG to improve PFM overtime.
- 8) Monitoring the indicator “*the expenditures of districts that lead to complaints as evidenced by the Office of the Auditor General reports are reduced by 20% by end of the program in December 2015*”.
- 9) for the Decentralization and Good Governance Program and the steering of the fiscal decentralization component of the Good Governance Program, GIZ;

3. Expected outputs/results of the assignment

The expected outputs of the assignment are:

- A clear methodology to categorize the expenditures of the districts which leads to complaints by the Auditor General report comparable to the previous report;
- Recommendations for quick wins and long-term solutions to improve PFM performance of districts in the field of expenditure;
- An updated structure for improved monitoring and evaluation of the implementation of the audit recommendations from the office of Auditor General including the assignment of responsibilities of the different government agencies;
- A detailed contextual analysis/explanation for potential performance gaps and practical recommendations measures to be undertaken;
- A detailed, deep and critical analysis of the Auditor general reports which will highlight and analyse the main reasons of complaints concerning the expenditure based on the frequency including why districts with the same resources in their disposal are performing differently;
- Analyse main reasons for non-compliance with PFM-Standards/underperformance at district level and identification of underlying causes for non-implementation of Auditor General’s recommendations from the previous Fiscal Year;



- Translated document in Kinyarwanda is disseminated up to the District/City of Kigali Council level.

4. Planned activities

Transparency International - Rwanda is expected to focus on the following activities:

- Data entry from all audit reports;
- Analyse Auditor General reports of all 30 districts and City of Kigali;
- Development of guiding question to be used during the focal point group discussions;
- Analyse main reasons for the complaints of the Auditor general systematically based on frequency and importance and identifying the main reasons for non-compliance at district level;
- Elaborate recommendations and strategies for capacity building of local governments for how Auditor General complaints can be reduced in the future;
- Organize different meetings for consultations and dissemination of the findings;
- Translate the English version into Kinyarwanda Version.

5. Methodology

For this assignment to be done properly, all Auditor General's reports of the 30 districts and City of Kigali will be analysed through desk research, interviews and focus group discussions. Validation of the tools, methodology and findings will be done with the relevant stakeholders. Additionally TI-Rw will liaise and work in close cooperation with GIZ.

The Focal Point Discussions (FGDs) will target staff involved in the financial management and related activities at district level including Executive Secretary, Director of Finance, Budget Officer, Director of Planning, Director of Good Governance, Accountant, internal auditor and Procurement officer while interviews will include mayors, officials from the office of Auditor General, RALGA, RRA, RGB, Parliament, Office of ombudsman, RPPA, MINALOC and MINECOFIN.

To ensure the quality of the work, Transparency International Rwanda will hire two consultants (team leader and junior) who will collect and conduct data analysis of the Auditor General reports of the financial year ended 30 June 2014

6. Dissemination and advocacy on the basis of the analysis of the Auditor General's report

The assignment will also consist of setting up a monitoring and evaluation structure for the status of the implementation of the recommendations from the Auditor General's report. This activity aims to ensure the dissemination of the results of the analysis through the printing and presentation of the TI-Rw report to the district officials, district councillors and other relevant stakeholders. A leaflet summarizing the full report will be of a paramount importance and will be used for awareness raising and advocacy purposes. That leaflet will be also translated in Kinyarwanda for facilitating citizens to understand the core findings from the analysis. Meetings will be done at the provincial level to gather the district officials in the 5 provinces of Rwanda. Additionally, dissemination through media will be also very important in order to ensure the maximum of the coverage for awareness purpose.

7. Timeframe

The final report of the analysis will be submitted at the end of three (3) months from the disbursement of the advance on the local subsidies contract.

8. Source of Funds: German Development Cooperation through GIZ Decentralization and Good Governance Program.



Annex 6: List of consultative meetings within the scope of this assignment (districts)

QUALITATIVE DATA COLLECTION ON PFM IN THE SELECTED DISTRICT (AGR 2013-2014)				
OPERATIONAL PLAN				
PROVINCE	DISTRICT	Date	Activity	Responsible
Kigali City	Nyarugenge	29 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
	Gasabo	3 Nov 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
EASTERN	Gatsibo	4 Nov 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
	Rwamagana	5 Nov 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
WESTERN	Karongi	20 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
	Rubavu	21 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
NORTHERN	Musanze	22 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
	Burera	23 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
SOUTHERN	Huye	27 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
	Kamonyi	28 Oct 2015	FGD (1) with district staff, FGD(2) with councillors Interviews with Mayor, ES of Sector, NBAs managers(school and hospital) and Observation	Qualitative analyst consultant and TI-RW researcher
KIGALI		29 Oct 2015	Interviews with the office of Auditor General, RALGA, RRA, RGB, Parliament, Office of Ombudsman, RPPA, MINALOC and MINECOFIN	Qualitative analyst consultant and TI-RW researcher

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