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ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement
AFROSAI-E	African Organization of Supreme Audit Institutions-English speaking
AGI	Adolescent Girls Initiative
BNR	National Bank of Rwanda
BRD	Banque Rwandaise de Dévelopement
CHUK	University Teaching Hospital- Kigali
CNLG	National Commission For The Fight Against Genocide
CSRP	Civil Service Reform Project
CTAMS	Mutual Health Technical Support Cell
EAAPAC	East Africa Association of Public Accounts Committees
EAPHLN	East Africa Public Health Laboratory Networking Project
EARP	Electricity Access Rollout Program
EASSDP	Electricity Access Scale-Up and Sector Wide Approach Development Project
EATTFP	East Africa Trade and Transport Facilitation Project
EDPRS	Economic Development and Poverty Reduction Strategy
EIF	Enhanced Integrated Framework
EWSA	Energy, Water and Sanitation Authority
FARG	Genocide Survivors Fund
FER	Fond d'Entretien Routier (Road Maintenance Fund)
GBEs	Government Business Enterprises
GMO	Gender Monitoring Office
GoR	Government of Rwanda
ICPAR	Institute of Certified Public Accountants of Rwanda
IDF	Institutional Development Fund
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organisation of Supreme Audit Institutions
IPPIS	Integrated Personnel and Payroll Information System
KWAMP	Kirehe Community Based Watershed Management Project
LEVEMP	Lake Victoria Environmental Management Project
LODA	Local Administrative Entities Development Agency
LWH	Land Husbandry Water harvesting and Hillside Irrigation
MDTF	Multi Donor Trust Fund
MHC	Media High Council
MIDIMAR	Ministry of Disaster Management and Refugee Affairs
MIFOTRA	Ministry of Labour and Skills Development
MINADEF	Ministry of Defence
MINAFFET	Ministry of Foreign Affairs
MINAGRI	Ministry of Agriculture
MINALOC	Ministry of Local Government
MINEAC	Ministry of East African Community

MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MINIFOM	Ministry of Forestry and Mines
MINIJUST	Ministry of Justice
MININFRA	Ministry of Infrastructure
MININTER	Ministry of Internal Affairs
MINIRENA	Ministry of Natural Resources
MINISANTE	Ministry of Health
MINISPOC	Ministry of Sports and Culture
MINIYOUTH	Ministry of Youth, Culture and Sports
NBA	Non Budget Agency
NDIS	National Decentralization Implementation Secretariat
NEC	National Electoral Commission
NHRC	National Human Rights Commission
NIDA	National Identification Agency
NIMR	National Institute of Museums of Rwanda
NISR	National Institute of Statistics
NPPA	National Public Prosecution Authority
NURC	National Unity and Reconciliation Commission
OAG	Office of the Auditor General of State Finances
ONATRACOM	Rwanda Public Transport Authority
OP	Payment Order
ORINFOR	National Office for Information
OTR	Ordonnateur Trésorier du Rwanda (Central Treasury of Rwanda)
PAC	Public Accounts Committee
PADAB	Bugesera Agricultural Development Support Project
PAPSTA	Support Project to the Strategic Plan for the Agriculture Transformation
PAYE	Pay As You Earn
PFM	Public Financial Management Reform Basket Fund
PHHS TF	Post Harvest Handling and Storage Task Force
PPF (LISP)	Project Preparation Facility of the Livestock Infrastructure Support Programme
PPPMER	Rural Small And Micro Enterprises Project
PRIMATURE	Prime Minister's Office
PSCBP	Public Sector Capacity Building Project
PSGG	Project for Strengthening Institutional Framework for Good Governance
RAB	Rwanda Agricultural Board
RBA	Rwanda Broadcasting Agency
RBC	Rwanda Biomedical Board
RCA	Rwanda Cooperative Agency
RCAA	Rwanda Civil Aviation Authority
RCIPRW	Regional Communication Infrastructure Program – Rwanda Project
RCS	Rwanda Correctional Services

RDB	Rwanda Development Board
RDRP	Rwanda Demobilization and Reintegration Programme
REB	Rwanda Education Board
REMA	Rwanda Environment Management Authority
RHA	Rwanda Housing Authority
RNP	Rwanda National Police
RNRA	Rwanda Natural Resources Authority
RPPA	Rwanda Public Procurement Authority
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
RSSP III	Rural Sector Support Project Phase III
RTDA	Rwanda Transport Development Agency
RURA	Rwanda Utilities Regulatory Agency
SADCOPACs	Southern Africa Development Community Organisation of Public Accounts Committees
SEDP	Sustainable Energy Development Project
SDP	Skills Development Project
SFAR	Student Financing Agency of Rwanda
SONARWA	Société Nouvelle d'Assurances du Rwanda
TSDP	Transport Sector Development Project
UAF	Universal Access Fund
UBPR	Union des Banques Populaires du Rwanda
UNAIDS	United Nations Programme on HIV/AIDS
USPLS	Public Sector Umbrella in Fight Against Aids
VUP	Vision Umurenge program
WDA	Work Force Development
SMTO	Small, Medium Taxpayers Office
LTO	Large Taxpayers Office

FOREWORD BY THE AUDITOR GENERAL

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year. That report must indicate the manner in which the budget was utilised, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

Accordingly, I now submit to Parliament a report on the audits conducted during the period from June 2016 to 26 April 2017. The audits covered state consolidated financial statements; expenditure incurred by Government entities for the year ended 30 June 2016 and operations of Boards and Government Business Enterprises. This report presents cross cutting and other key issues of national impact noted during financial audits and performance audits. Individual reports containing the audit opinion and details of all findings have been issued for each audited entity.

This report also covers other activities of the Auditor General's office for the year ended 30 June 2016 and key achievements realized during the year.

OAG AUDIT FOCUS IN THIS AUDIT CYCLE

Government Business Enterprises (GBEs) and Government Boards continue to play a key role in the development of the economy and are spearheading implementation of key Government programmes. Their failure to account for resources at their disposal as well as implement Government programmes would have a significant impact on realisation of Government objectives. My office therefore continues to focus on this cluster of Government entities. Audits were conducted for RBC, REB, RAB, NAEB, WDA, RCS, RDB, RGB, RRA, RTDA, EDCL, EUCL, REG, RURA and WASAC. In addition, the OAG audited the

University of Rwanda for the second consecutive time to follow up issues that arose from the previous audit and the integration of the former public universities and colleges that were merged to form University of Rwanda. The OAG also conducted fourteen (14) performance and special audits.

The office continues to support Government decentralized policy through audits of all Local Governments including City of Kigali. All Government Projects receiving funding from the World Bank and the entire grant from Global Fund for HIV, Malaria and TB Programmes in Rwanda. Twelve (12) Ministries were also audited during this audit period.

NUMBER OF ENTITIES AUDITED

In terms of number of entities audited, the audits covered state consolidated financial statements and **139 public entities and projects** compared to **157 public entities and projects** in my previous annual report, resulting in issuance of **147 audit reports** compared to **159 audit reports** in my previous annual report. In addition, an audit report was issued on state consolidated financial statements

AUDIT COVERAGE

The expenditure incurred by entities audited during the period June 2016 to 26 April 2017 represents **85%** of the reported Government Expenditure for the year ended 30 June 2016, compared to **82%** for the year ended 30 June 2015. The total Government expenditure reported in State consolidated financial statements for the year ended 30 June 2016 amounted to **Frw 1,923,132,183,998** compared to **Frw 1,826,772,990,826** for the previous year ended 30 June 2015. This coverage is in line with PFM audit target of 84% of expenditure incurred by Government during the year ended 30 June 2016.

The above coverage was achieved alongside audit of State consolidated financial statements, University of Rwanda, RCS, WDA EDCL, EUCL, REG, RURA and WASAC for the year ended 30 June 2015. The OAG also participated in audits of East African Community entities and projects for the year ended 30 June 2016 with full time involvement of four (4) OAG senior audit staff for two and half months, as well as involvement and participation in PAC activities especially during the months of September and October 2016.

VALUE FOR MONEY AUDITS

The office conducted **14 performance special and IT audits** during the year compared to **13 reports** issued in last year annual report. The performance and special audits covered and respective sectors are shown below.

Nº	Performance, Special and IT audits conducted	Sector covered
	Performance audits	
1	Coordination of ICT investments in public institutions for the period 1 January 2000 - 31 December 2016	ICT
2	Management of improved seeds for the period 1 January 2011 to 30 November 2016	Agriculture
3	Management of medical equipment in health facilities for the period January 2011 - November 2016	Health
4	Management of highway streets lighting project	Energy
5	Effectiveness of Ubudehe program	Social
6	Management of National Employment Program (NEP)	Public service
7	Management of pedagogical materials in primary schools	Education
8	Environmental audit on the Management of solid waste in HUYE district for the period 1 August 2013 - 30 August 2016	Environmental protection
	Special audits	
9	Special audit covering transfer of EWSA responsibilities, Assets, Liabilities and claims to REG and WASAC	
10	Review of implementation of social reintegration of orphans and other vulnerable children (OVCS) project in KAYONZA District	Social
11	Special audit on implementation of social and economic integration of historically marginalized people (Abashigajwe Inyuma N'amateka) in KAYONZA District	Social
	IT Audits	
12	Information systems/technology audit at University of RWANDA	ICT
13	Information technology audit at Rwanda Education Board (REB)	ICT
14	Information technology audit at Rwanda Biomedical Center (RBC)	ICT

OVERVIEW OF AUDIT RESULTS

Overall, there was improvement in accountability and financial management in ministries, Government projects, some central Government entities and at City of Kigali.

However, these good accountability efforts were not realised in Districts, Government Business Enterprises and Boards, putting funds at disposal of these entities at risk and leading to ineffective service delivery. In addition, there is a major concern with lack of value for money and delayed service delivery from public expenditure, mainly arising from weaknesses in contract management, increasing trend of idle assets and cases of wasteful expenditure. Key issues in this annual report are detailed below:

1 Increase in unqualified audit opinions on financial statements

The number of reports with unqualified audit opinion on financial statements increased from **78 reports (50%)** last year to **88 reports (60%)** in this annual report out of the **147** reports issued by 26th April 2016. These reports comprise of **14 reports** for Ministries, **58 reports for Government projects**; **12 reports** for Central Government entities, **1 report for** a local government (City of Kigali) and **3 reports for** Boards. The increase in number of entities obtaining unqualified audit opinion on financial statements is an indicator that Government entities are progressively embracing appropriate financial management practices.

All Government Business Enterprises and Boards (except RRA Budget Agency and Rwanda Governance Board and Rwanda Transport Development Authority) got qualified audit opinion on financial statements. All the entities in this cluster got qualified opinion on compliance aspects. The improvements in financial management and compliance with laws and regulations in Government Business Enterprises and Government Boards remain dismal despite these entities being in charge of implementing key Government programmes and managing a significant chunk of Government funds. There is need for a concerted effort by the Office of the Accountant General to further support and push Chief Budget Managers of Government Business Enterprises and Government Boards to embrace PFM initiatives towards improving financial management and accountability practices.

2 Declining trend in implementation of prior audit recommendations

Overall, public entities implemented **50%** of the audit recommendations. Government Boards and Business Enterprises continue to perform poorly in implementation of Auditor General's recommendations having not implemented **56%** of the previous audit recommendations. Among the worst performers in this cluster is EDCL that did not implement **82%** of recommendations; UR that did not implement **77%** of the recommendations; and REB that did not implement **79%** of the audit recommendations.

There were however improvements in some districts and City of Kigali. Ngoma, Nyagatare, Rwamagana, Gisagara and Gakenke districts that obtained an except for audit opinion on financial statements. Improvement was also noted in the District of Kirehe which obtained an except for opinion on compliance with laws and regulations. In addition, City of Kigali obtained unqualified audit opinion on financial statements with an except for opinion on compliance issues. This is a step in the right direction. This shows that local governments have the potential to further improve in management of public funds.

I recommend MINECOFIN to continue supporting local government entities in strengthening both the internal audit and finance units by ensuring that they are adequately equipped with skilled staff, continuous trainings based on training needs identified in order to address the gaps noted as per the individual audit reports.

With the establishment of a new position of Corporate Services Division Manager in local government, there is need to clarify the Key Performance Indicators and expected deliverables for Division Managers to facilitate them in executing their role as they seek to enhance service delivery in local government.

SUMMARY OF KEY ISSUES IDENTIFIED DURING AUDITS

1. **Lack of value for money due to persistent weaknesses in contract management:** Public entities had **98 pending contracts** worth **Frw 95,671,306,480** (**74** delayed contracts worth **Frw 82,275,604,974** and **24** abandoned contracts worth **Frw 13,395,701,506**) by the time of completing the current year audits. Out of total contract value of **Frw 13,395,701,506** in abandoned contracts, **Frw 5,621,901,154** had been paid to contractors by the time works were abandoned. Majority of the cases for pending contracts were noted in Government Projects, Government Boards and GBEs, Districts and Ministries.

2. **Increasing cases of idle assets:** There is an increasing trend of cases of idle assets acquired by public entities. During the audits, **92 cases** of idle assets worth **Frw 15,185,575,853** were noted, compared to **Frw 7,920,352,319** in last year annual report. Most of these cases are attributed to lack of proper needs assessment to inform the procurement plan. The result is procurement of items which were not required or procured before preparation of the required buildings in which to install the equipment, while in other cases, there were no proper maintenance plans to enable timely fixing of any breakdowns and repairs. It should be noted that 50% of idle assets worth **Frw 5,879,543,872** reported in previous annual report were still idle at the time of the current audits.

3. **Wasteful, unauthorised, unsupported and fraudulent expenditure:** Overall, the level of wasteful expenditure resulting from diversion of public resources and unsupported transactions has slightly reduced from **Frw 18,965,202,896** reported last year to **Frw 17,634,265,933**. However, the cases of unsupported expenditure, wasteful expenditure, unauthorized expenditure and fraudulent transactions in different public entities are still high and require urgent management attention.

4. **Project absorption challenges affecting service delivery:** The audits identified cases of low budget absorption during implementation of Government projects. Some eight (8) projects audited may be at risk of failing to absorb their allocated funding ahead of the project completion dates unless they significantly scale up their levels of implementation.

5. **Persistent problems of drug stock-outs at CHUCK:** The problem of drug stock outs at CHUK still persisted and needs attention to improve the quality of health care. The audit this year identified stock outs for drugs and medical supplies at CHUK for 110 stock items which were replenished with delay ranging from 45 to 504 days. In addition, there were **52** items (drugs, medical consumables and laboratory reagents) which had not yet been replenished by the time of audit in December 2016. These items had been out of stock for periods ranging from 10 to 705 days and were still out of stock. The stock outs are ultimately affecting the quality of health care at the referral hospital and point to financial and service delivery challenges at CHUK.

6. **Concerns over corporate governance and financial management in GBEs and BOARDS:** Financial management and accountability challenges have persisted over the years despite some of these entities having reasonably adequate staffing levels and structure for financial management, including creation of a Division of *Corporate Services* and *Chief Finance Officer* role in others. Previous recommendations have been made to strengthen corporate Governance and internal controls and financial management in these entities. Recommendations have also been made for the need to inculcate a results based performance culture in these institutions and to ensure a clear linkage between performance and rewards for management and staff. However, these recommendations and other Government interventions to reform these entities are yet to bear results in most Government Business Enterprises (GBEs) and Boards.

7. **Accounting and financial management concerns in Government entities:** Revenue generated internally by Non-Budget Agencies was omitted from State Consolidated financial statements. Available information on disclosures made for NBAs shows that a total of **Frw 140,391,913,472** of internally generated revenue was omitted from Government expenditure for the year ended 30 June 2016. There are still cases of accounting errors and omissions identified in audits of financial statements of public entities with the identified errors ultimately affecting State Consolidated financial statements. While some of the identified errors and omissions were corrected by various Budget agencies at the time of finalising their audits, some significant balances were still omitted from financial statements and are therefore not reflected in State Consolidated financial statements. These include:
   - Omitted creditors of **Frw 5,216,304,916;**

- Omitted bank accounts of which 3 bank accounts had credit balances of **Frw 430,512,369** and 4 bank accounts had debit balances of **Frw 1,556,199,132;**
- Unsupported creditors of **Frw 42,727,974,458;** and
- Unsupported debtors of **Frw 8,881,919,324**.

There were also cases of unusual balances noted in the financial statements of budget agencies including:

- Creditors amounting to **Frw 27,343,439,863** and debtors amounting to **Frw 8,056,798,274** with no detailed listings;
- Long outstanding debtors of **Frw 8,055,364,916;** and
- Long outstanding creditors of **Frw 6,516,894,142**.

The significant errors, omissions and unusual balances identified during audits of budget agencies are indicators of inadequate review of financial statements by Chief Budget Managers before they are submitted to MINECOFIN.

8. **Low recoverability of VUP loans issued under previous Umurenge SACCO Scheme:** The problem of low recoverability of VUP loans continues to persist like in the previous year. By 30 June 2016, Districts had recovered **Frw 13,088,608,858** (**60%)** out of the total loans of **Frw 21,802,476,356** issued under the old scheme from 2009 to 30 June 2015 with only **Frw 621,228,977** recovered in the current year.

KEY RECOMMENDATIONS

1. **Implementation of audit recommendations:** Entities that are keen to implement my audit recommendations have positively improved in either or both financial and compliance. BGEs and Boards have been slow to implement my audit recommendations. There is need to hold the management and boards responsible and accountable for not implementing audit recommendations. The Chief Budget Managers should ensure full implementation of audit recommendations as well as strengthen supervision of activities they preside over. This will help in ensuring full compliance with existing laws and regulations to minimize instances of irregular expenditure and fraudulent activities in public entities. In addition, there is need to enforce recovery of funds misused in public entities, including funds used in fraudulent activities. The Chief Budget Managers need to exercise utmost due care and be more vigilant in execution of duties to avoid instances of committing public entities to actions that result into losses.

2. **Strengthen supervision and monitoring of Government programmes and utilisation of procured assets:** Chief Budget Managers and supervisory authorities need to strengthen the aspects of monitoring and evaluation of programmes being implemented as part of their fiduciary duty, to ensure that initiated contracts are properly concluded and value for money obtained. Government has procured a number of strategic assets that are currently idle. There is need to collaborate appropriately so that assets procured are put to use quickly. Appropriate supervision and monitoring should facilitate timely corrective measures where necessary. Special attention need to be accorded to contract management to ensure timeliness of completion of projects and realization of value for money.

3. **Need to improve generation capacity in energy sector:** The energy sector unutilized capacity is close to 50% and yet the country continues to buy expensive power. REG/MININFRA needs to address the challenges affecting the country to reach full capacity in order to effectively contribute to economic growth and development. A comparison of energy subsidies from Government to the energy sector to value of commercial technical losses, gives an impression that a reduction in energy losses would results into reduced subsidy. REG needs to expedite initiatives aimed at reducing energy losses.

4. **Improve quality of accounting records in public entities:** There is need for officials in public entities to review accounting records and adhere to Government accounting policies and procedures in order to avoid omission of transactions and balances from the books of account. There is need for public entities to improve on documentation of transactions and filing of supporting documents to avoid cases of unsupported balances, unsupported expenditure and unsupported adjustments in the financial statements. The GBEs and Boards in particular need to take initiatives to ensure accounting records and the preparation of the financial statements is based on appropriate accounting basis. There is need to strengthen supervision of activities they preside over. This will help in ensuring full compliance with existing laws and regulations to minimize instances of irregular expenditure and fraudulent activities in public entities. In addition, there is need to enforce recovery of funds misused in public entities, including funds used in fraudulent activities.

ACKNOWLEDGEMENT

I would like to acknowledge continued support from the Government of Rwanda to OAG that has significantly contributed to the growth of the Office and the continued PFM reforms that are aimed at further enhancing public financial management.

I also acknowledge Parliament of the Republic of Rwanda for its oversight role that has progressively contributed to the strengthening of accountability in Rwanda. The continuous scrutiny of the annual Auditor General's report by PAC through public hearing sessions for Accounting Officers coupled with field visits conducted has increasingly promoted accountability in the use of public funds for effective service delivery to the public.

I would like to acknowledge the continued support from Development Partners that have steadily contributed to OAG's capacity to execute its duties.

I immensely appreciate all staff for their enthusiasm, devotion and resilience that has continuously enabled OAG to execute its Constitutional mandate.

Obadiah R. BIRARO
AUDITOR GENERAL

KIGALI, ………………………………. 2017

EXECUTIVE SUMMARY

According to Article 165 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015, and Articles 6 and 14 of Law no 79/2013 of 11/09/2013 determining the mission, organization and functioning of the Office of the Auditor General of State Finances, the responsibilities of the Office of the Auditor General include the following:

- Auditing and reporting on accounts of all public entities, local administrative entities, public enterprises, parastatal organizations and projects;
- Conducting financial and value for money, economy and efficiency audits in respect of expenditure in all institutions referred to above;
- Conducting accountability, management and strategic audits of accounts in the institutions mentioned above.

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year.

Accordingly, I submit the Annual audit report covering OAG audits of financial statements of public entities for the year ended 30 June 2016 and performance audits conducted during the period.

SECTION 1

REPORT ON OAG ACTIVITIES DURING THE YEAR

1.1 HISTORICAL BACKGROUND

The Office of the Auditor General was established in 1998. It became the SAI of Rwanda in June 2003. The Office of the Auditor General is vested with legal personality, financial and administrative autonomy.

Its first annual report issued to Parliament in 2000 had 17 entities audited and first produced its performance audit report on maternal health care in November 2007. The annual report for the year ended 30 June 2016 has **147** reports from **139** entities and projects, alongside the audit report on state consolidated financial statements. The annual report also covers 14 performance/special audits and one consolidate report.

1.2 MANDATE AND FUNCTIONS OF THE AUDITOR GENERAL

Article 165 of the Constitution of the Republic of Rwanda of 4 June 2003 revised in 2015, and Articles 6 and 14 of Law no 79/2013 of 11/09/2013 determining the mission, organization and functioning of the Office of the Auditor General of State Finances (OAG) require the Auditor General to audit and report to Parliament on the Public Accounts of Rwanda and of all Public offices including local government organs, public enterprises and parastatal organizations, privatized state enterprises, joint enterprises in which the State is participating and government projects.

The responsibilities of the Office of the Auditor General include the following:

- Auditing and reporting on accounts of all public entities, local administrative entities, public enterprises, parastatal organizations and projects;
- Conducting financial and value for money, economy and efficiency audits in respect of expenditure in all institutions referred to above;
- Conducting accountability, management and strategic audits of accounts in the institutions mentioned above.

In addition, Article 166 of the Constitution of the Republic of Rwanda of 4 June 2003 revised in 2015, stipulates that the Auditor General shall submit each year to each Chamber of

Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year. That report must indicate the manner in which the budget was utilized, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

1.3 OAG VISION, MISSION AND CORE VALUES

Vision

"To promote an accountable, honest and effective Government administration".

Mission

"To promote accountability, transparency and best practice in Government operations as a means to good governance".

Core Values

The Auditor General and the staff of the Office of the Auditor General, in executing their responsibilities are committed to live by the office's core values of:

- **Integrity**: Being upright and honest;
- **Objectivity**: to display impartiality and professional judgment;
- **Independence:** from the audited entity and other outside interest groups;
- **Accountability:** by providing assurance that activities were carried out as intended and with due regard for fairness, propriety, and good stewardship;
- **Confidentiality**: respect of the confidentiality of information acquired in the course of work; and
- **In Public Interest**: by making decisions with the public interest in mind.

1.4 OAG STRUCTURE AND STAFFING

As provided by Law n° 79/2013 OF 11/09/2013, determining the mission, organization and functioning of the office of the auditor general of state finances, the OAG organization structure was approved by the Auditor General and gazetted. During the financial year 2016/17, OAG experienced high staff turnover. Fifteen (15) experienced audit staff members in the year 2016/17 left and we lost one staff. The sixteen staff were in addition to 13 who left last year. As a consequence, it requires OAG to invest in more resources inform of time and finances to continuously recruit and train new employees.

1.5 STRATEGIC PLAN IMPLEMENTATION

OAG has extended its strategic plan from 2015/2016 to 2017/2018, which represents an extension and continuation of OAG's performance improvement programme that was detailed in its Strategic Plan for 2011–2016. Recommendations from mid-term review of the strategic plan and institutional review are being implemented to address OAG changing needs. There is notable progress in its implementation with only one year left.

The main building blocks of this extended Strategic Plan remained the previous five pillars, namely:-

1. Enhancing the independence of OAG;
2. Strengthening institutional capacity in line with its mandate;
3. Building and strengthening professional audit capacity;
4. Strengthening OAG's capacity to engage stakeholders effectively; and
5. Oversight, coordination, implementation and monitoring of the Strategic Plan.

The main objective of these continued reforms is to further strengthen OAG as an acknowledged highly competent Supreme Audit Institution, fully able to deliver its mandate in line with international best practice.

The achievements realized on each pillar are summarized below:

1.5.1 Enhancing the independence of OAG

In order to further enhance the independence of OAG, a staff special statute was approved by the Cabinet and promulgated in Presidential Order No 38/01 of 22/02/2017 establishing the special statutes governing employees of the Office of the Auditor General of State Finances published in the Official Gazette n° Special of 23/02/2017.

Following the recommendations from the institutional review, OAG management revised its organization structure with job summary, job profile which was approved and promulgated in Auditor General Instructions No 01/11/AG/16 of 01/11/2016 determining the organizational structure of the Office of the Auditor General. Placement of staff in the revised organisation structure was done and other vacant posts shall be filled progressively as the resource envelope of OAG improves.

1.5.2 Strengthening institutional capacity in line with its mandate

With full automation of the audit processes using teammate audit software and rolled out to all financial and performance audit staff members, OAG has embarked on its optimal usage and obtain value for money. Teammate usage has significantly reduced paper utilisation in OAG. In addition, during the year, OAG hired a consultant to review the ICT Systems and Infrastructure. The objective of the consultancy was to advise OAG on how to improve on the reliability of the ICT infrastructure and systems. The Consultancy was completed and we are in process of engaging with different stakeholders in order to implement the recommendations provided. This will enable OAG to effectively utilize technology to deliver its mandate in a stable, safe and cost-effective fashion.

1.5.3 Building and strengthening professional audit capacity

Under this pillar, the Office achieved the following:

a) Graduate recruitment program (GRP)

In line with the Graduate recruitment program, the Office replaced outgoing audit staff with four (4) new audit staff. This program attracts the best Rwandan students in accounting faculties at universities in the country as well as outside the country. An induction training was conducted for the successful applicants before being deployed on audit work.

b) Professional Training and development

OAG staff members are sponsored for professional courses. A total of 91 OAG students sat for various professional exams and are now preparing for the June 2017 professional exams, as shown in table below:

Professional course	Number of staff enrolled
ACCA	47
CPA	39
CISA	4
ICSA	1
Total	**91**

OAG has continued to heavily invest in professional trainings and development of its staff. As a result, it has recorded additional qualified audit staff. At present, the office has 25 professional qualified audit staff.

Apart from the accounting professional certification courses, in-house trainings and trainings organised by ICPAR, the Office has sponsored its staff in other trainings including trainings that are organized outside the country as per the annual training plan.

c) Continuous Professional Development (CPD)

OAG staff attended different trainings and workshops organized by AFROSAI as part of continuous professional Development (CPD) as follows:

- OAG and AFROSAI-E organized a Leadership training and Management Development Programme -MDP Refreshers for top and senior managers that was conducted from 29 August to 02 September 2016 and 59 participants attended; 56 managers including Auditor General, Deputy Auditor General and Secretary General. The training was about ‘Emotional Intelligence Leadership for SAI Rwanda. The expected outcome was to enhance leadership at all levels of OAG to further improve efficiency in our operations.
- Two (2) IT staff went for Network security training organized by AFROSAI-E in South Africa for one (1) week in August 2016. It was an opportunity for OAG IT staff to acquire and share experience on how to approach a Network security audit by practically sharing with participants how to perform it, tools that can be used, how to report on network security findings and sharing during training on needed skills and knowledge in the network security audit filed;
- In October 2016, 4 Auditors attended AFROSAI-E workshop on quality assurance in East Africa – Module II held at Kampala / Uganda in way to enhance each SAI capability in quality assurance;
- In November 2016, 3 auditors went to Durban / South Africa for technical updates and refresher training forum; the purpose of the technical updates was to update the technical managers of SAI on the outcomes of the changes in the manuals and standards. It was also an opportunity to discuss and share experiences between SAIs representative staff.
- In October-November 2016 one (1) Auditor attended an international training program on audit of state owned enterprises at ICISA, Noida, New Delhi in India;
- In November-December 2016 one (1) performance Auditor attended an International training program on performance audit at ICISA, Noida, and New Delhi in India. The training provided a framework of exchanging experience in auditing with auditors from twenty eight SAIs members of INTOSAI.
- From 2nd to 4th November 2016, two (2) OAG staff attended the 9th East Africa Public Procurement Forum with a theme “Promoting procurement practices that deliver better results”. The training emphasized the importance of procurement in ensuring transparency in public expenditure and obtaining goods and services taking into consideration economy, efficiency and effectiveness while using public resources.

- In November - December 2016 AMC Kenya provided a training ISO/IEC27001 to one (1) IT Auditor; the tool is a family of standards that helps organizations keep information assets secure. ISO/IEC27001 is the best-known standard in the family providing requirements for an information security management system (ISMS);
- One (1) performance Auditor attended module 3 performance audit course training organized by AFROSAI-E in Mombasa-Kenya for one week in January 2017. The training focused on preparing performance audit reports, quality control and quality assurance and follow up of the audit report with the intended stakeholders for appropriate action.
- Two (2) IT staff attended intranet training in Dar es Salaam Tanzania for one week in January 2017. This facilitated the IT staff to acquire skills of developing transitional intranet using igloo.
- In February 2017, one (1) performance Auditor attended AFROSAI-E workshop on supervision and review in performance audit in South Africa. This training aimed to provide guidance on overall planning, supervision and support in Performance Audit, review of draft audit reports and leadership styles.
- Three (3) Auditors attended ICPAR workshop for the 1st ICPAR Bi-Annual Tax Forum for one day in July 2016. The main focus was on how to address all VAT issues across sectors.
- Six (6) OAG staff members attended ICPAR annual seminar for 3 days held at Rubavu District in October 2016. The theme was ‘Holding organizations accountable and compliant in contribution to the Economic Prosperity’. This annual seminar helped the participants in improving soft and technical skills that will enable them to perform their daily duties.
- Five (5) Auditors attended 6th ICPAR tax returns preparation forum for one day in February 2017, this forum helped the participants to improve their knowledge in tax laws and this will contribute a lot in conducting the day to day audit work

1.5.4 Strengthening OAG’s capacity to engage stakeholders effectively

During the year, OAG engaged with various stakeholders in order to enhance good governance and accountability as envisioned in the Vision 2020 and the EDPRS 2. OAG’s engagement with the stakeholders included:

I. Participation in the Public Finance Management working groups

OAG is one of the strategic PFM institutions in Rwanda. It operates under the component of External Oversight and Accountability. During the year, OAG participated actively in all the planned activities by the PFM Secretariat based at MINECOFIN.

II. Engagement in the Accountability fora organized by different stakeholders

a) Prime Minister's Office

The Auditor General addressed the annual Prime Minister's Accountability forum and briefed all Chief Budget Managers and other participants on the key highlights in the Auditor General's audit report for the year ended 30th June 2015. He also briefed participants on the main causes of persistent gaps in Financial Management/Accountability and provided recommendations on how they can be addressed to ensure proper utilisation of public funds.

III. OAG involvement with development partners falling under PFM

OAG audited projects activities funded by Global Fund, World Bank and IFAD under the agreements signed between the government of Rwanda and development partners and OAG has successfully submitted the reports on time.

b) MINECOFIN

Auditor General addressed the annual workshop for Chief Budget Managers organized by MINECOFIN under the theme "Understanding the PFM Automation Process "He made a presentation on "Discussion on the current audit environment: gains made and challenges". This was to facilitate Chief Budget Managers improve the day to day management of public funds through implementation of the Auditor General's recommendations and be able to address the challenges encountered in executing their responsibilities as accounting officers.

c) Engagement with the Local Government Authorities Forum

- **Eastern Province**

The Auditor General attended a PFM meeting organized by the Eastern Province to address all Provincial accounting officers on the weakness in the Public Finance Management highlighted in the Auditor General's report for the year ended 30th June 2015. The meeting was meant to enhance management of public funds through implementation of Auditor General's recommendations. There was an open discussion regarding any challenge encountered in implementing the recommendations from Auditor General's report. It is anticipated to accelerate the implementation of Auditor General's recommendation.

- **Southern province**

The Auditor General participated in the *Itorero* of Heads of departments in all Public institutions which took place in Huye. He made a presentation on the nature and consequences of corruption in service delivery.

c) Rwanda National Police

The Auditor General was invited by Rwanda National Police to give a lecture on ensuring accountability in managing public funds to judicial police officers. The topic was the role of Rwanda National Police in ensuring accountability in managing public funds.

d) ICPAR

The Auditor General participated in the 4th Annual Seminar organized by ICPAR under the theme "Holding Organisations Accountable and Compliant in Contribution to the Economic Prosperity". He presented on the role of Accountants in propelling Rwanda from Vision 2020 to Vision 2050. It was highlighted that role of accountants is very critical in promoting growth and development. This is done through enhancing transparency and accountability in the use of public funds, and increase reliability of country systems. As a result, attract foreign direct investments and increase confidence to development partners.

d) **Hosting of delegation from Government of Rivers State of Nigeria**

OAG hosted a delegation from Government of Rivers State of Nigeria that had come to learn, share experiences, challenges and benefits on how the government of Rwanda has achieved enviable success in implementing PFM reforms over a long period of time. OAG shared with the delegation on how the success of PFM reforms have been achieved and challenges faced.

IV. INTOSAI and IDI

INTOSAI is an organization of Supreme Audit Institutions (SAIs) of countries who are members of the United Nations. INTOSAI Development Initiative (IDI) is the training arm of the INTOSAI through which members of INTOSAI share knowledge, skills and information through training. The Office of the Auditor General subscribes to and is a permanent member of INTOSAI.

From 06 to 18 February 2017, The Office of the Auditor General hosted an international meeting organized by INTOSAI Initiative Development (IDI). Ten (10) countries (Tanzania, Gambia, Malawi, Rwanda, Sierra Leone, Zambia, Liberia, South Africa, Sweden and Namibia) were represented by 28 participants. The theme was "*Audit Review and Planning of Externally Funded Project in Agriculture and Food Security Sector (IFAD)''*.

Again OAG hosted the SAIs Engaging with Stakeholders Programme Product Development Meeting that was held from 13th -24th March 2017 in Kigali, Rwanda. The outcome was to develop toolkit to be used by SAIs in engaging stakeholders.

V. AFROSAI and AFROSAI-E

AFROSAI is a continent wide organization of Supreme Audit Institutions (SAIs) of Africa and a Regional African continental member of INTOSAI. Through participating in the programs and events of AFROSAI, member SAIs share knowledge, information and experiences in audit of public finances. The Office of the Auditor General subscribes to and is a member of AFROSAI.

VI. Secondments to GAO

One senior staff is attending 2017 International Auditors' Fellowship program at the United States Government Accountability Office. It is a four 4 months program. Such trainings help staff to update their skills in order to cope up with the new challenges. This is in line with the strategic plan Pillar 3: Building and strengthening professional audit capacity.

VII. Audit of East African Community

OAG is a member of the EAC Audit Commission, a body responsible for audit of the East African Community Secretariat and its organs. The Office provided four (4) senior staff members to conduct the audit of EAC Secretariat and its organs. The Office shall continue to provide senior audit staff members to conduct these audits. In addition, the Auditor General shall continue to provide the necessary supervision to the audit team.

SECTION 2

AUDIT COVERAGE AND OAG AUDIT PROCESS

2.1 PUBLIC ENTITIES COVERED BY OAG AUDITS

Summary	No. of consolidated entities	No. of entities audited	%age of entities covered by audits	Reports from audited entities	Expenditure for y/e 30 June 2016 covered by the audits
					(Frw)
Projects	121	62	51%	65	150,509,958,003
Central Gov't agencies	91	18	20%	20	184,421,806,480
Boards	15	11	73%	12	337,859,306,366
GBEs	23	5	22%	5	0*
Ministries	18	12	67%	14	577,348,585,677
Districts and City of Kigali	31	31	100%	31	383,143,297,793
Total	**299**	**139**	**46%**	**147**	**1,633,282,954,319**
Consolidated expenditure-2015/2016					**1,923,132,183,998**
Audit coverage-2015/2016					**85%**

**Expenditure of GBEs is not consolidated and therefore are not included as part of our computation of the expenditure coverage of 85%. The transfers to EDCL, EUCL and WASAC were also made in prior year, as shown below:*

		Year end	Total assets/ Prior year expenditure
			Frw
	Assets		
1	REG	30-Jun-15	454,356,991,835
2	WASAC	30-Jun-15	91,053,464,337
3	RURA	30-Jun-16	15,145,254,761
	Expenditure		
	WASAC Development Unit	30-Jun-15	17,829,797,278
	REG-EDCL/Development unit	30-Jun-15	53,655,477,981
	REG-EUCL transfers (Subsidy)	30-Jun-15	88,978,313,861
	Total		**721,019,300,053**

The audits covered **46%** of public entities reported in State Consolidated financial statements for the year ended 30 June 2016 and resulted in **147 audit reports**. In terms of expenditure, the audits covered **85%** out of the Frw **1,923,132,183,998** of consolidated Government expenditure for the year ended 30 June 2016.

Entities where OAG focused audits

In terms of entity focus, attention was put on audit of **Frw 1,147,354,557,580** (60% of Government expenditure) in expenditure incurred by boards and University of Rwanda and constituent colleges, Workforce Development Authority (WDA) and its IPRCs; and on assets managed by REG, WASAC and RURA, as shown in table below:

		Year end	Total assets/ Prior year expenditure
			Frw
	Assets		
1	REG	30-Jun-15	454,356,991,835
2	WASAC	30-Jun-15	91,053,464,337
3	RURA	30-Jun-16	15,145,254,761
	Expenditure		
4	Rwanda Correctional Services (RCS)	30-Jun-15	13,703,680,895
5	University of Rwanda (UR)	30-Jun-15	46,655,762,623
6	Workforce Development Authority (WDA)	30-Jun-15	28,116,507,643
	WASAC Development Unit	30-Jun-15	17,829,797,278
	REG-EDCL/Development unit	30-Jun-15	53,655,477,981
	REG-EUCL transfers (Subsidy)	30-Jun-15	88,978,313,861
7	RAB	30-Jun-16	31,032,472,307
8	NAEB	30-Jun-16	10,159,936,226
9	REB	30-Jun-16	76,677,088,140
10	RBC	30-Jun-16	78,977,504,534
11	RDB	30-Jun-16	53,747,209,672
12	RTDA	30-Jun-16	62,818,113,105
13	RRA	30-Jun-16	22,922,200,838
14	RGB	30-Jun-16	1,524,781,544
			1,147,354,557,580

Further, attention was given to the audit of all Districts, World Bank projects, three (3) Global Funded grants and majority of ministries responsible for supervision of the boards.

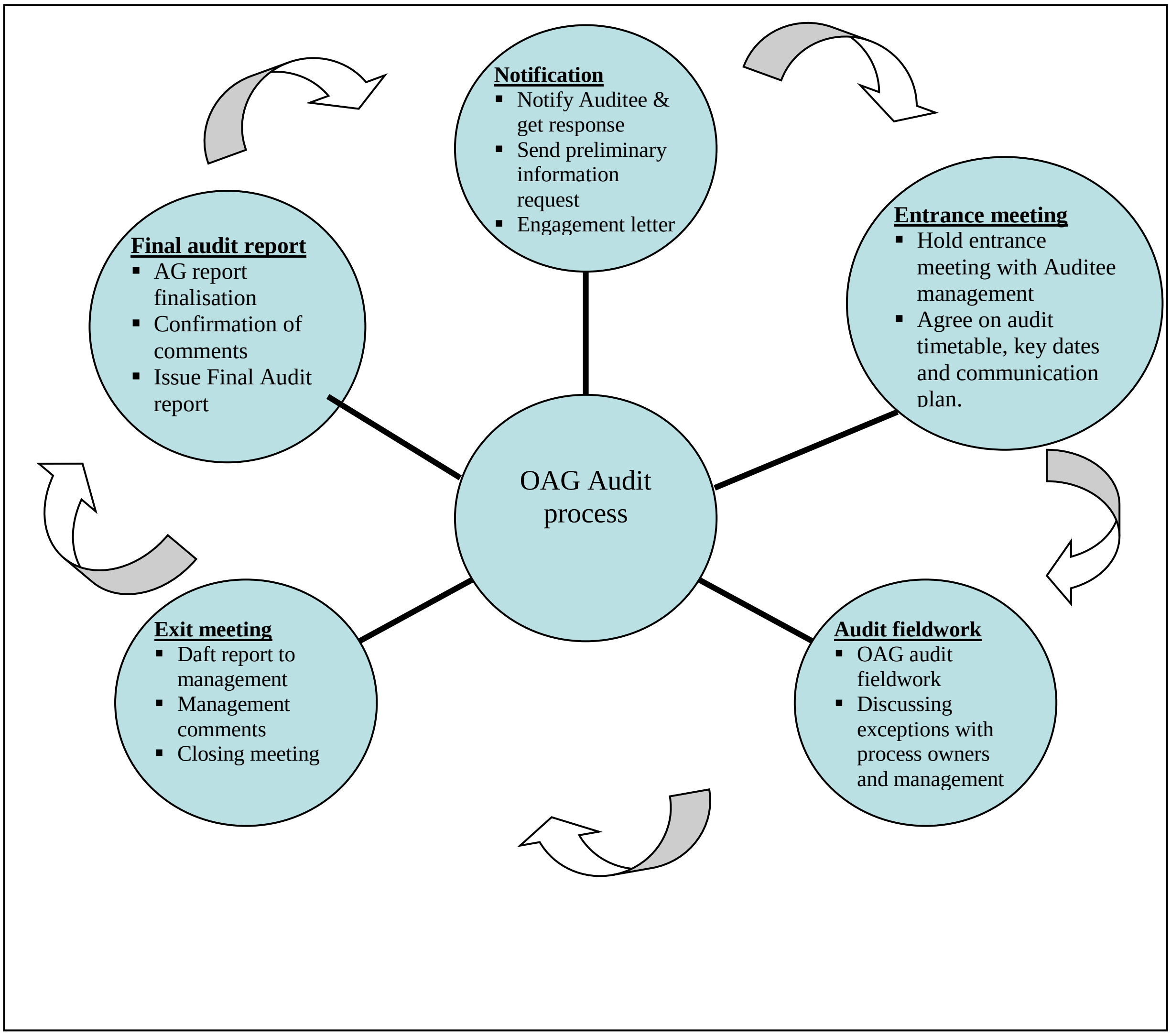
2.2 COVERAGE FOR PERFORMANCE AUDITS

Nº	Performance, Special and IT audits conducted	Sector covered
	Performance audits	
1	Performance audit on Coordination of ICT investments in public institutions (1st January 2000-30 December 2016)	ICT
2	Performance audit report on the Management of Improved seeds (1st Jan 2011-30th November 2016)	Agriculture
3	Performance audit on Management of Medical equipment in health facilities for the period January 2011- November 2016	Health
4	Management of highway street lighting project	Energy
5	Performance audit on effectiveness of Ubudehe program	Social security
6	Performance audit on management of National Employment Program (NEP)	Public service
7	Management of Pedagogical materials in Primary Schools	Education
8	Environmental audit on the Management of solid waste in HUYE district for the period 01 august 2013 - 30 august 2016	Environmental protection
	Special audits	
9	Special audit covering transfer of EWSA responsibilities, Assets, Liabilities and claims to REG and WASAC	Energy and sanitation
10	Review of implementation of social reintegration of orphans and other vulnerable children (OVCS) project in KAYONZA District	Social security
11	Special audit on implementation of social and economic integration of historically marginalised people (Abashigajwe Inyuma N'amateka) in KAYONZA Disrict	Social security

Nº	Performance, Special and IT audits conducted	Sector covered
	Performance audits	
	IT Audits	
12	Information systems/technology audit at University of RWANDA	ICT
13	Information technology audit at Rwanda Education Board (REB)	ICT
14	Information technology audit at Rwanda Biomedical Center (RBC)	ICT

2.3 THE AUDIT PROCESS FOR OAG AUDITS

In conducting the **147** audits, the OAG complied with International Standards for Supreme Audit Institutions (ISSAIs) and requirements of Article 165 of the Constitution of the Republic of Rwanda 2003, as revised in 2015. The audits were conducted following the process below:



Generally, the Chief Budget managers have continued to cooperate and support OAG when conducting the audits. However in isolated cases, some Chief Budget Managers need to ensure that information required for the audit, and appropriate management comments are provided timely to support the audit process.

SECTION 3

OVERVIEW OF AUDIT RESULTS

Overall, there was proper accountability and financial management in ministries, Government projects, some central Government entities and at City of Kigali.

However, these good accountability efforts were not realised in Districts, Government Business Enterprises and Boards, putting funds at disposal of these entities at risk and leading to ineffective service delivery. In addition, there is a major concern with lack of value for money and delayed service delivery from public expenditure, mainly arising from weaknesses in contract management, increasing trend of idle assets and cases of wasteful expenditure. An overview of the audit reports issued and trend in implementation of audit recommendations is provided below:

1) Majority of unqualified audit opinions on financial statements are for Projects and Ministries

Out of 147 reports issued in this annual report, **88 reports (60%)** for public entities obtained unqualified audit opinion on their financial statements. This is an increase compared to as last year, where 80 reports obtained unqualified audit opinion.

Like in previous annual reports, the majority of those with unqualified audit reports are Government projects and ministries (representing 85% of all unqualified audit opinions). Government Business Enterprises, Districts and all Government Boards except for Rwanda Revenue Authority (budget agency with expenditure of **Frw 22,922,200,838**), Rwanda Governance Board (RGB) and Rwanda Transport Agency (RTDA) are yet to obtain an unqualified audit opinion, as shown in table below:

Cluster	No. of reports issued	Expenditure	No. of unqualified reports (F/Statements)	%age of unqualified
		Frw		
Projects	65	150,509,958,003	59	91%
Ministries	14	577,348,585,677	14	100%
Central Government	20	184,421,806,480	11	55%
Boards	12	337,859,306,366	3	25%
GBEs	5	0	0	0%
Districts & Kigali City	31	383,143,297,793*	1	3%
Total	**147**	**1,633,282,954,319**	**88**	**60%**
%age of expenditure				

2) Non-compliance and value for money concerns are still a major problem

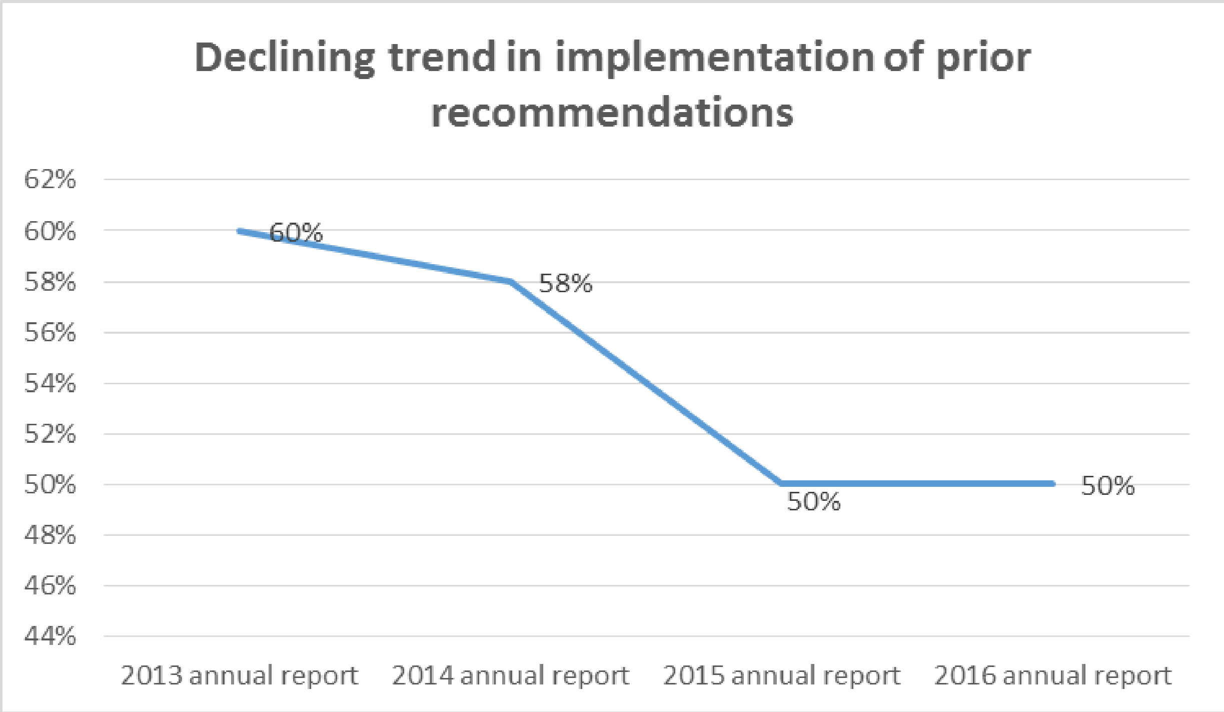
Whilst 60% of public entities audited obtained unqualified audit opinion on their financial statements, only **34%** were able to demonstrate compliance with laws and regulations and to realise value for money from resources provided to them. Even for projects and ministries, the number of those realising value for money and complying with laws and regulations declined from the percentage that obtained unqualified opinion on financial statements.

Ultimately, majority of the public entities audited failed to obtain an unqualified audit opinion on compliance and value for money aspects of their operations. Out of **147 reports** issued in this annual report, **only 50 reports (34%)** for public entities obtained an unqualified audit opinion on compliance. All Government Business Enterprises, Districts and Government Boards failed to get an unqualified audit opinion on compliance. Further, even many projects and ministries which had obtained clean audit opinion on financial statements failed to comply with the existing laws and regulations to ensure value for money in delivery of services. **See table below:**

Cluster	No. of reports issued	Expenditure	No. of unqualified reports/ Compliance	%age of unqualified
Projects	65	150,509,958,003	37	57%
Ministries	14	577,348,585,677	8	57%
Central Government	20	184,421,806,480	5	25%
Boards	12	337,859,306,366	-	0%
GBEs	5	-	-	0%
Districts & Kigali City	31	383,143,297,793	-	0%
Total	**147**	**1,633,282,954,319**	**50**	**34%**
%age of expenditure				

3) Declining trend in implementation of prior audit recommendations

In terms of prior year audit recommendations, the percentage of Auditor General's recommendations fully implemented by public entities has continued to decline compared to previous years. This steady decline in percentage of prior year audit recommendations fully implemented by public entities, from **60%** in the 2013 annual report to **58%** in the 2014 annual report, to **50%** in the 2015 annual report and **50%** in the current annual report. This may undo the gains made in improving public financial management over the years, and undermine accountability and service delivery in public entities. See graph below:


Declining trend in implementation of prior recommendations
62%
60%
58%
56%
54%
52%
50%
48%
46%
44%
60%
58%
50%
50%
2013 annual report
2014 annual report
2015 annual report
2016 annual report

SECTION 4

TRACKING IMPLEMENTATION OF AUDITOR GENERAL's AUDIT RECOMMENDATIONS

4.1 STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

	Projects	Central Govt	Boards	GBEs	Ministries	Districts	Total
Number of prior recommendations followed up	**155**	**303**	**757**	**62**	**130**	**1,122**	**2,529**
Status as follows:							
Fully implemented	80	181	305	25	75	561	1227
Partially implemented	36	60	198	15	25	188	522
Not implemented	37	61	199	14	30	354	695
%age fully implemented	**52%**	**60%**	**40%**	**40%**	**58%**	**50%**	**50%**

Overall, 50% of recommendations were implemented. Majority of the implementation was done by Central Government entities, projects and ministries. The Boards and GBEs failed to implement most of the recommendations.

4.2 KEY ISSUES PERSISTING SINCE 2014 ANNUAL REPORT

There are persistent issues highlighted in Auditor General's Audit reports yearly, which have not been addressed to bring out the necessary improvements. These unresolved issues include:

1) **Weaknesses in management of Government Business Enterprises and Boards**, leading to lack of proper financial accountability and challenges in service delivery;
2) **Concerns over increasing cases of delayed Contracts and abandoned contracts**, affecting value for money in Government expenditure and undermining service delivery;
3) **Increasing trend idle assets**, which is on the increase and undermining service delivery;
4) **Wasteful expenditure** in public entities, which also undermines service delivery.
5) **Challenges in recovering Fertiliser and VUP funds**.
6) **Continued accounting errors** in financial statements of public entities, which are mainly corrected after the audits.

The above issues have been presented again in this report for emphasis and need to be addressed to improve service delivery and enhance value for Government expenditure.

SECTION 5

VALUE FOR MONEY CONCERNS AND SERVICE DELIVERY CHALLENGES

5.1 LACK OF VALUE FOR MONEY DUE TO PERSISTENT WEAKNESSES IN CONTRACT MANAGEMENT

Concerns over service delivery and lack of value for money in implementation of many contracts have persisted, especially in Local Governments, Boards and Government Business Enterprises. There are still many contracts: **73** contracts worth **Frw 73,982,398,418** had either been delayed or abandoned by the time of the audits, hence denying the public, envisaged services within the planned time frames. See summary in table below:

	No. of contracts	**Frw**
Delayed contracts	61	63,846,563,859
Abandoned contracts*	12	10,135,834,559
Total	**73**	**73,982,398,418**

For the 12 abandoned contracts, a total of **Frw 3,785,664,352 had been paid to the contractors.*

Follow up on previously reported cases of delayed and abandoned contracts

A follow up on previous cases of delayed contracts and abandoned works revealed the following:

- Out of **77 contracts** worth **Frw 126,052,898,036** reported as delayed or abandoned in the 2014 annual report, **9 contracts** worth **Frw 4,926,424,742** had not yet been completed by the time of concluding the current year audits. The status of those not completed is as shown in table below:

	No. of contracts	**Value of contracts**
Total contracts reported in 2014 annual report	**77**	**126,052,898,036**
Contracts completed by time of current audits	(42)	(23,950,642,592)
Finalised but still at provisional handover as at time of current audits	(26)	(97,175,830,702)
Pending contracts from 2014 annual report	**9**	**4,926,424,742**
Not finalised and contracts were still ongoing at time of current audits	5	3,668,664,602
Not finalised and contracts which were abandoned at time of current audits	4	1,257,760,140

Delayed contracts that were subsequently provisionally handed over include contract worth **Frw 27,410,844,349** for rehabilitation of Kigali-Ruhengeri road at RTDA and contract worth **Frw 1,338,077,182** for construction of a maternity block at Nyagatare hospital where significant defects noted at the time of handover had not been rectified at the time of audits.

- Out of **70 contracts** worth **Frw 32,492,344,915** reported as delayed or abandoned in the 2015 annual report, **16 contracts** worth **Frw 16,762,483,320** had not yet received provisional or final handover by the time of concluding the current audits. The status of those not handed over is as shown in table below:

	No. of contracts	**Value of contracts**
Total contracts reported in 2015 annual report	**70**	**32,492,344,915**
Contracts completed by time of current audits	(31)	(4,049,876,436)
Finalised but still at provisional handover as at time of current audits	(23)	(11,679,985,157)
Pending contracts from 2015 annual report	**16**	**16,762,483,320**
Not finalised and contracts were still ongoing at time of current audits	9	14,760,376,513
Not finalised and contracts which were abandoned at time of current audits	7	2,002,106,807

Ultimately, public entities had **98 pending contracts** worth **Frw 95,671,306,480** (**75** delayed contracts worth **Frw 82,275,604,974** and **24** abandoned contracts worth **Frw 13,395,701,506**) by the time of completing the current year audits. The breakdown of these contracts per year of audit is shown in the table below.

	No. of pending contracts	**Value of contracts**
Total contracts reported in 2014 annual report	9	4,926,424,742
Total contracts reported in 2015 annual report	16	16,762,483,320
Total contracts reported in current audits	73	73,982,398,418
Total pending contracts	**98**	**95,671,306,480**

In terms of entities, majority of the delayed and abandoned contracts were in Government projects, GBEs and Boards and Districts as shown in table below:

	No. of delayed contracts	**No. of abandoned contracts**	**Total contracts delayed/ abandoned**	**Value of delayed contracts**	**Value of abandoned contracts**	**Value of delayed/ abandoned contracts**
				Frw	**Frw**	**Frw**
Projects	20	1	**21**	39,410,546,557	698,260,619	40,108,807,176
Central Gov't	3	0	**3**	3,013,212,093	-	3,013,212,093
GBEs & Boards	16	7	**23**	18,909,700,658	7538,825,161	26,448,525,819
Ministries	6	0	**6**	7,672,238,828	-	7,672,238,828
Districts	30	16	**46**	13,269,906,838	5,158,615,726	18,428,522,564
Total	**75**	**24**	**99**	**82,275,604,974**	**13,395,701,506**	**95,671,306,480**

*Out of total contract value of **Frw 13,395,701,506** in abandoned contracts, **Frw 5,621,901,154** had been paid to contractors by the time works were abandoned.

Majority of the cases for pending contracts were noted in Government Projects, Districts, Boards and GBEs. Below are some highlights for identified cases of delayed contracts and abandoned works.

5.1.1 Contract management in Government projects

Key Government projects continue to stall with contracts worth **Frw 39,410,546,557** not yet completed by the time of the audits. Key contracts comprising this amount include:

- Delayed electrification contracts worth **Frw 24,371,653,861** in several parts of the country being implemented under the EARP project at REG;
- Delayed contracts for projects at RBC worth **Frw 6,948,777,829** and **Frw 914,109,673** for construction of maternity wards and laboratories respectively for several hospitals; and
- Contract for construction of One Stop Border Post at Gatuna worth **Frw 6,345,986,395** being implemented at RTDA.

5.1.2 Contract management under Boards and Government Business Enterprises (GBEs)

Government Boards and GBEs continue to perform badly in contract management with delayed and abandoned contracts in this cluster amounting to **Frw 27,146,786,438** at the time of audits. Some of the key contracts comprising this amount include the following.

- At WDA, contract worth **Frw 2,143,836,180** relating to construction of classroom and external works, administration building and other works at Gishari Integrated Polytechnic Training School had delayed for 891 days. Two other contracts for construction and rehabilitation of Kabarondo VTC and hospitality center at ESTB Busogo worth **Frw 1,106,242,920** and **Frw 1,051,173,980** respectively were abandoned and work had not resumed by the time of current audits;
- At University of Rwanda, contract for construction of veterinary complex worth **Frw 3,765,124,317** was abandoned since 1 December 2015;
- At Rukara College (University of Rwanda), contract worth **Frw 1,371,683,200** relating construction of classroom blocks had been delayed for over 437 days.
- At EWSA, contract for construction of water supply system and reservoir worth **Frw 5,904,829,351** had delayed for 496 days;

- At EDCL, contract worth **Frw 4,669,298,467** relating to design, supply and installation of Ntendezi substation - Lot No 1 and extension of Bugarama substation had delayed for 298 days; and
- At RAB, contract worth **Frw 840,179,995** for construction of central laboratory (phase I) at Rubirizi in Kicukiro District had not been completed for over 492 days.

5.1.3 Contract management in Local Governments

Delayed and abandoned contracts worth **Frw 18,463,353,714** were noted in Local Governments. Notable contracts among pending works in local governments include:

- Contract worth **Frw 618,100,530** at Gicumbi district for construction of Nyamiyaga Health Center that had delayed for 310 days;
- Contract worth **Frw 279,933,136** at Muhanga district for construction of "4 in 1" houses for Genocide survivors in Cyakabiri Integrated Development Program (IDP) Model Village that had delayed for over 300 days,
- Contract worth **Frw 1,147,297,198** for construction of Rutsiro guest house where works were still ongoing at the time of audits despite original expected completion timing of October 2015;
- Contract worth **Frw 636,566,000** at Rusizi for installation of public lighting equipment that had delayed for over 700 days;
- Contract worth **Frw 700,489,300** at Bugesera relating to construction of dyke in Migina marshland where works were abandoned after paying the contractor **Frw 421,475,038**;
- 2 contracts worth **Frw 2,221,793,852** for road construction works at Nyabihu district that were abandoned by the contractor;

5.1.4 Contract management in Ministries and other central government entities

Pending contracts worth **Frw 7,672,238,828** were noted at two ministries of MINISANTE and MINAGRI. Completion of 2 contracts at MINAGRI totalling **Frw 2,511,709,237** relating to construction of feeder roads and installation of water pump systems at Gako Intergrated Beef project were behind schedule.

Delayed contracts at MINISANTE include contract worth **Frw 4,135,652,081** for re-construction of Byumba hospital that had delayed for over 330 days and contract for construction of maternity ward at Rutare Health Center worth **Frw 578,918,510** that had delayed for 721 days by the time of current audits.

A contract worth **Frw 2,623,009,143** at RTDA relating to construction of access road to Rusizi III hydropower dam had delayed for over 700 days.

There is strong need by chief budget managers to strengthen contract management mechanism to ensure that contracted works are completed on time for seamless service delivery and for value for money to be obtained.

5.2 INCREASING TREND OF IDLE ASSETS

There is an increasing trend of cases of idle assets acquired by public entities. During the audits, **92 cases** of idle assets worth **Frw 15,185,575,853** were noted, compared to **Frw 7,920,352,319** in last year annual report. **See summary below:**

	No. of cases of idle assets	**Value of idle assets**
		Frw
Projects	17	2,270,938,793
Central Government	22	689,189,944
Boards	11	861,093,320
GBEs	5	8,167,298,219
Ministries	6	814,940,975
Districts	31	2,382,114,602
Total	**92**	**15,185,575,853**

In addition, 13 cases (50%) worth **Frw 5,879,543,872** of idle assets reported in previous annual report were still idle at the time of the current audits. on the status of the **Frw 7,920,352,319** of idle assets in the previous year.

Most of these cases are attributed to lack of proper needs assessment to inform the procurement plan. The result is procurement of items which were not required. In other cases, items were procured before preparation of the required buildings in which to install the equipment, while in other cases, there were no proper maintenance plans to enable timely fixing of any breakdowns and repairs.

Sectors with persistent problem of idle assets

Although it is increasingly becoming a cross-cutting issue, this problem is more pronounced in the health sector, energy and water sector, agriculture sector, education sector and in Districts. See examples below:

5.2.1 Health Sector

In the heath sector, various medical equipment were procured and distributed to hospitals and health centres but are not being utilised due to mismatch between the needs of health facilities and equipment procured and also lack of spare parts of acquired equipment. The estimated value of idle assets under health sector amount to **Frw 3,577,102,047** with others not valued due to lack of documentation.

- **Ministry of Health:** Idle medical equipment distributed by MoH to different hospitals and health centres across the country worth **Frw 2,148,521,696**. Some of them were not requested for by the health facilities; Health posts rehabilitated by MINISANTE worth **Frw 16,361,945** and the incinerator at Mageragere **Frw 736,639,777** not in use

- **CHUB:** CT Scan and Oxygen plant not functional
- **RBC:** Equipment purchased by RBC SPIU for medicine quality control laboratory worth **Frw 666,575,993** not yet in use after a long period of time and Laboratory equipment worth **Frw 9,002,636** distributed to Bugeshi and Nyundo Health Centers were still idle.

5.2.2 Agriculture Sector

Cases pf idle assets worth **Frw 1,949,956,732 were noted in** agriculture sector. These relates to various agricultural machinery, equipment and motorcycles that are not in use by different entities that are in this sector.

- **RAB:** at RAB, the installed hatchery system worth **Frw 70,732,040** is not operational due to lack of permanent power supply, motorcycles worth **Frw 92,400,000** are idle in Kabuye workshop for almost one year, agricultural machineries (Potato harvesters for power tillers, Walking type rice transplanters and combine harvester) worth **Frw 50,990,901** are idle for almost 7 years that are in process of being auctioned,

  The audit also noted cases of undistributed seeds worth **Frw 314,093,244** which are rotting in RAB stores.

  Seeds processing plant worth **Frw 226,863,382** is not operational at RAB due to the absence of spare parts

- **LISP:** Equipment for milk collection centres at Mukarange, Ngarama and Rwimiyaga Karushunga worth **Frw 88,540,311** were idle for 2 years.

- **KWAMP**: a dam worth **Frw 1,062,985,082** constructed in Mahama sector for the irrigation of the area is idle for almost 4 years. At the time of the audit in September 2016, there was no water in the dam for the irrigation reason being lack of precipitation.

  The project is envisaging an alternative option of pumping water from the Akagera River to solve the problem. It's worth noting that in 2014, the provisional handover of the dam was done without testing it since there was no water in the dam.

- **NAEB:** agriculture materials (Recycling and water pumps, fan tray and fire hose reel) worth **Frw 43,711,772** idle for more than 2 years.

5.2.3 Energy and Water sector

- **WASAC:** Unutilised stock items worth **Frw 1,133,469,802** were either obsolete, dormant and slow moving at WASAC. Two (2) compact water treatment plants of 100m3/h capacity each, worth **Frw 1,747,999,883** installed at Cyondo in Nyagatare District were idle for one year.

- **PNEAR:** ECOSAN type Sanitation blocks worth **Frw 45,487,129** constructed in different school like Centre Scolaire Ruhehe, Centre Scolaire Gikoro and Groupe Scolaire Gakoro in Musanze District which had not been used by the schools for a period of 4 years.

- **REG:** There was a case of unutilised stock items worth **Frw 1,501,364,096** which were either obsolete, dormant and slow moving, hence idle stock.

- **EDCL:** Water tanks used for Karisimbi geothermal drilling project worth **Frw 2,741,462,984** were idle for 3 years. The audit also noted slow moving items worth **Frw 1,501,364,096.**

5.2.4 Education sector

In education sector, various equipment, materials, software, tractor and motorcycles worth **Frw 1,274,732,957** were idle at REB, University of Rwanda and WDA. Among these equipment and materials, the audit could not establish their values.

- **Workforce Development Authority (WDA):** There are idle equipment worth **Frw 446,616,570** at Remera Hospitality Centre, IPRC South and VTCs- Steel bender machine at Rwabuye VTC and Housekeeping rooms equipment ESTB supported by the WDA-SDP project. Some of these equipment have been idle for 3 years.

- **SDP/WDA:** Various equipment purchased by WDA for Remera Hospitality Centre, Carpentry machine for Gishari Integrated School, Electric gas cookers for IPRC South worth **Frw 604,731,974** were idle and not installed at VCTs and schools up to the time of the audit.
- **University of Rwanda (UR):** TV production studio equipment worth **Frw 121,777,226** at UR was not installed for about 15 months. There is an IEBMIS not fully utilised and yet UR continues to pay annual maintenance fees. In addition, there was an unutilised canteen which has not been operational for 2 years after provisional handover.
- **REB:** 583 XO laptops (One laptop per child/OLPC) worth **Frw 101,607,187** were lying idle and unused in different primary schools all over the country. In addition, 93 stabilisers and 8 computers at REB were unused.

5.2.5 Districts

Out of 78 reported cases of idle assets, districts had 19 idle assets with value worth **Frw 2,101,779,538**. These are mainly IT equipment, unutilised administrative buildings

- **Gatsibo district:** a guest house and related assets worth **Frw 1,109,338,181** were not yet put in use for almost one year.
- **Nyamasheke district:** a Mortuary Block at Kibogora hospital worth **Frw 50,000,000** was not put in use for six months.
- **Gicumbi district:** veterinary laboratory and equipment worth **Frw 78,700,500** not put in use since 12 November 2008
- **Kayonza district:** administrative building worth **Frw 802,868,709** was idle
- **Ngororero**: Cassava plant worth **Frw 768,070,428** has been idle since 2012. This is mainly due to machines supplied which were not meeting the standards
- **Rusizi**: a dairy plant worth **Frw 23,892,288** and a brickyard worth **Frw 79, 729,280** were not put to use by the district.
- **Rutsiro**: Greenhouse not put to use
- **Gakenke**: Administrative block not put to use since 2006.

5.3 WASTEFUL, UNAUTHORISED, UNSUPPORTED AND FRAUDULENT EXPENDITURE

Overall, the level of wasteful expenditure resulting from diversion of public resources and unsupported transactions has slightly reduced from Frw **18,965,202,896** reported last year to **Frw 17,634,265,933**. However, there are still cases of unsupported expenditure, wasteful expenditure, unauthorized expenditure and fraudulent transactions in different public entities.

5.3.1 Unsupported and partially supported expenditure

A total of **Frw 12,253,723,072** in expenditure was either unsupported or partially supported, compared to **Frw 16,624,155,784** in the previous annual report. This unsupported expenditure was incurred mainly by 12 public entities that include REG, WASAC, University of Rwanda (UR), PASP project and Musanze District.

5.3.2 Wasteful expenditure

In the case of wasteful expenditure of **Frw 1,643,449,556**, most of the expenditure was incurred by University of Rwanda (UR) **(Frw 240,477,680)**, NAEB (**Frw 178,184,535**), G4CTAP/MINICOM **(Frw 177,057,348)**, CHUB **(Frw 111,639,722)**, REG **(Frw 88,191,343), and RAB (56,005,865)**. In addition, 14 Districts incurred wasteful expenditure of **Frw 227,136,222**. Most of the above wasteful expenditure was incurred on Court fines and claims for damages and in payment of penalties, interest and fines to RRA.

5.3.3 Unauthorized expenditure

The unauthorized expenditure was mainly incurred by University of Rwanda (UR) and WDA on top up allowances and salary increments paid to staff without appropriate approvals from competent authorities, as shown in table below:

Entity	**Nature of unauthorized expenditure**	**Unauthorized payment**
		Frw
University of Rwanda	Overpayment of 15% top up amounting to Frw 232,888,193 and unauthorised salary increments of Frw 188,217,718	421,105,911
WDA	Salary top up allowances (30% gross salary) and responsibility allowances not authorised by the board of directors	169,679,519
	Total	**590,785,430**

5.3.4 Funds diverted or fraudulently utilized

Out of **Frw 906,654,335** in fraudulent expenditure, **Frw 596,052,761** is attributable to four entities (WDA, UR and RBC) **as shown in the table below:**

Entity	**Amount (Frw)**
UR	170,201,475
WDA	100,944,000
RBC	324,907,286
Total	**596,052,761**

At University of Rwanda, Consultancy payment of Frw **170,201,475** was made by the Ministry of Health to a wrong payee and wrong bank account. The payee on the payment instructions issued by Ministry of Health was different from that on the invoices received from the University of Rwanda. Subsequent follow up revealed that the wrong bank account belonged to a former employee of former NUR and the case is being handled by Rwanda National Police.

5.3.5 Concerns over inappropriate procurement practices and mismanagement of advance and performance guarantees

- **Changes in bid price by internal tender committee:** There is an increasing trend in public entities where the Internal Tender committee frequently makes price adjustments on bids submitted to correct arithmetic errors. Whilst the practice is legally provided for under the procurement laws and regulations, its frequent use and changes in bid prices is an indicator of some emerging challenge in procurement and could easily be abused. There is need to strengthen controls over this practice to ensure proper oversight. At Nyamagabe district changes were made to 14 tenders awarded during the year. The 14 contracts were awarded at **Frw 1,996,603,531** compared to **Frw 1,839,318,429** in their financial bids.
- **Mismanagement of performance guarantees:** Cases were noted where entities failed to recover guarantees provided by the suppliers/contractors, either because the guarantees expired before contract completion or management did not claim the guarantees until it was too late. In other cases, management was informed at the point of claiming that the guarantees were forged and hence not enforceable. This affected contracts worth Frw **14,979,440,358.**

5.4 PROJECT ABSORPTION CHALLENGES AFFECTING SERVICE DELIVERY

The audits identified cases of low budget absorption during implementation of Government projects. Some eight (8) projects audited may be at risk of failing to absorb their allocated funding ahead of the project completion dates unless they scale up their levels of implementation. For example, a project at University of Rwanda (CEBE has operated for 1.5 years and yet utilised only 1.6% of the budget. A project at EARP-BE1 (for improving access to reliable on-grid electricity services for households and priority public institutions in rural areas) has operated for two (2) years and yet absorbed only 3.86% of the budget. For the RTDA project for EATTFP, works at Gatuna One Border Post had not been completed by the time the project extension deadline ended on 30th September 2015. See more examples in the table below:

#	Project	Project details	Funding	Period from start date to 30 June 2016	%age absorbed by 30/6/2016	Remaining period after 30/6/2016 to closing date
1	UR-CEBE	Centre of Excellence for Biomedical Engineering and e-Health (UR-CEBE) Project	$9,110,493	1.5 years	1.67%	3.5 years
2	RBC-GAVI	Vaccination	$8,369,185	4 years	60.67%	1 year
3	RTDA-EATTFP	Gatuna One Stop border post	$15,000,000	10 years	76.99%	Closed before receiving the balance US$ 3,451,293.03
4	EDCL/ EARP-SEAP	The Scaling-Up Energy Access Project	$45,384,000	2 years	13.42%	2 years
5	EDCL/ EARP-SEDP	sub–project of Solar water heaters programme funded by a grant from the Nordic Development Fund (NDF)	€4,000,000	4.5 years	48.08%	1.5 years
6	EDCL/ EARP-BE1	improving access to reliable on-grid electricity services for households and priority public institutions in rural areas	€17,448,252	2 years	3.86%	2 years

#	Project	Project details	Funding	Period from start date to 30 June 2016	%age absorbed by 30/6/2016	Remaining period after 30/6/2016 to closing date
7	EDCL/ EARP-Dutch	Electricity Access Rollout Programme (EARP)	€9,000,000	1 year	96.59%	Closed before receiving the balance of EUR 307,332
8	Great Lakes Emergency Sexual and Gender Based violence and Women health project (MIGEPROF-GLESGBV)	Great Lakes Emergency Sexual And Gender Based Violence And Women's Health Project	$14,950,000	1.5 years	9.28%	2 years

5.5 PERSISTENT PROBLEM OF DRUG STOCK- OUT AT CHUK

The problem of drug stock outs at CHUK has still persisted and needs attention to improve the quality of health care. The audit this year identified stock outs for drugs and medical supplies at CHUK for 110 stock items which were replenished with delay ranging from 45 to 504 days. In addition, there were **52** items (drugs, medical consumables and laboratory reagents) which had not yet been replenished by the time of audit in December 2016. These items had been out of stock for periods ranging from 10 to 705 days and were still out of stock. The stock outs are ultimately affecting the quality of health care at the referral hospital and point to financial and service delivery challenges at CHUK.

SECTION 6

GOVERNMENT INVESTMENTS, BUSINESS ENTERPRISES AND BOARDS

6.1 CONCERNS OVER CORPORATE GOVERNANCE AND FINANCIAL MANAGEMENT IN GBEs AND BOARDS

Financial management and accountability challenges have persisted over the years despite some of these entities having reasonably adequate staffing levels and structure for financial management, including creation of a Division of *Corporate Services* and *Chief Finance Officer* role in some entities. Previous recommendations have been made to strengthen corporate Governance and internal controls and financial management in these entities. Recommendations have also been made regarding the need to inculcate a results based performance culture in these institutions and to ensure a clear linkage between performance and rewards for management and staff.

However, these recommendations and other Government interventions to reform these entities are yet to bear results in most Government Business Enterprises (GBEs) and Boards. Key issues of concern in most Boards and GBEs are detailed in sections below:

6.1.1 Lack of financial accountability and reliable financial statements in Government Business Enterprises and Boards

The financial statements of REG, WASAC, RDB, UR, WDA, RCS, RAB, REB, RAB are unreliable and had modified audit opinions due to significant omissions and errors. The financial statements do not provide proper accountability for resources managed by these entities. These entities were responsible for management of more than **Frw 1,147,354,557,580** equivalent to 60% of Government expenditure in annual expenditure and assets and are mandated to deliver key Government programs. See details in sections below:

6.1.1.1 WATER AND SANITATION AUTHORITY (WASAC)

WASAC with total assets of **Frw 91,053,464,337** as at 30 June 2015, had no books of account to support the financial statements and hence no proper accountability for their operations for the year ended 30 June 2015. The financial statements for the year ended 30 June 2016 had not been prepared and submitted to the Auditor General's office by 31st

December 2016. Some of the key concerns over their financial statements for the year ended 30 June 2015 included:

1) **Lack of underlying books of account** to support balances in financial statements at 1 July 2014 and 30 June 2015. WASAC did not maintain books of account for their own transactions from the date of its establishment and commencement of operations. Instead, WASAC financial transactions were recorded in the same general ledger with the transactions of Rwanda Energy Group subsidiary (EUCL), as though these companies had not started their independent operations. There was no separate chart of accounts and accounting system established to capture WASAC transactions separately, to enable them have a general ledger and trial balance for only WASAC activities. As a result, it was not possible to reconcile balances at 01 July 2014 to those at 30 June 2015. There was no analysis of the movement between 01 July 2014 and 30 June 2015.

2) **Unsupported balances for additions of assets during the year:** WASAC financial statements include a balance of **Frw 462,092,114** representing assets purchased during the year. However, these are not supported by any details for those purchase transactions nor any verifiable supporting documents.

3) **Unsupported balances for assets under construction (work in progress):** Review of the schedule of assets movement for work in progress/assets under construction revealed the following:
   - Adjustments amounting to **Frw 506,308,576** were made to the opening balance but are not supported by any listing. No other verifiable supporting documentation was provided to justify the adjustments.
   - There was no supporting documents for a total of **Frw 3,333,159,714** representing additions during the year ended 30 June 2015 as shown below:

Total additions	Frw 8,440,770,662
Less additions with supporting documents for development unit	Frw 5,107,610,948
Unsupported balance	**Frw 3,333,159,714**

4) **Lack of supporting documents for stock balances:** Opening stock balance of **Frw 9,425,785,626** was not supported by any verifiable documents. In addition, there is an unexplained difference of **Frw 4,164,192,55** in the reconciliation between the opening stock balance and the closing stock balance of **Frw 7,461,073,064** at 30 June 2015, as shown below:

Opening balance (A) Frw	Total debits (B) Frw	Total credits (C) Frw	Expected closing balance (A+B)-C Frw	Balance as presented in the financial statements Frw	Unexplained difference Frw
9,425,785,626	5,125,052,788,613	5,123,313,308,622	11,625,265,617	7,461,073,064	4,164,192,553

Management did not also provide signed valuation sheets for stock counted during the stock take conducted at 30 June 2015. Hence unreliable stock balance of Frw **7,461,073,064**.

5) **Long outstanding debtor balances:** Debtors at 30 June 2015 include balances totalling **Frw 1,852,751,686** due from various customers that have been outstanding for over three years. These include Frw **256,064,822** which is due from construction companies for water infrastructure (water networks/pipelines) damaged during road construction in various areas in the country and **Frw 1,596,686,864** due from Districts and other institutions for implementation of water supply projects. Management did not provide documentation to justify recoverability of these balances or any evidence of follow up made to recover the debts. In the case of Districts, there were no proper documents to confirm that WASAC delivered the water projects and to justify the actual balance due.

6) **Unsupported payables in financial statements:** WASAC Ltd had an opening balance at 1st July 2014 of **Frw 1,398,040,519** reported under **"**current liabilities". However, there were no supporting documents (such as contracts, purchase orders, invoices, goods received notes, etc) provided to justify these liabilities. In addition, balances totalling **Frw 925,220,784** for trade payables at 30 June 2015 were not supported by verifiable supporting documents such as purchase orders or contracts, proof of delivery and reception of goods/services, certificate of work done/completed.

7) **Unsupported reconciling items in bank reconciliations for WASAC bank accounts:** Review of bank reconciliation statements prepared for various bank accounts of WASAC as at 30 June 2015 revealed that, as at year end, there were outstanding deposits totalling **Frw 13,882,617,065** and outstanding payments totalling **Frw 14,955,411,522**. However, there were no supporting documents provided for those reconciling items. Management did not provide evidence of subsequent clearance of these reconciling items, making it difficult to confirm what they represented.

6.1.1.2 RWANDA ENERGY GROUP (REG) AND SUBSIDIARIRS (EUL & EDCL)

REG and Subsidiaries (EUCL and EDCL) with total assets of **Frw 454,356,991,835** as at 30 June 2015, had no books of account to support the financial statements and hence no proper accountability for their operations for the year ended 30 June 2015. The financial statements for the year ended 30 June 2016 had not been prepared and submitted to the Auditor General's office by 31st December 2016. Some of the key concerns over their financial statements for the year ended 30 June 2015 included:

1) **No underlying books of account** to support balances in financial statements at 1 July 2014 and 30 June 2015 for REG and its subsidiaries EUCL and EDCL. EUCL financial transactions were recorded in the same general ledger with the transactions of WASAC, as though these companies had not started their independent operations. There was no separate chart of accounts and accounting system established to capture EUCL transactions separately, to enable them have a general ledger and trial balance for only EUCL activities. As a result, it was not possible to reconcile balances at 01 July 2014 to those at 30 June 2015. There was no analysis of the movement between 01 July 2014 and 30 June 2015.

2) **Unsupported costs of works-in-progress/ assets under construction reported by EDCL:** The financial statements of EDCL as at 30 June 2015 include opening balance of **Frw 315,082,552,797** and closing balance of **Frw 133,718,703,645** for works-in-progress. However, management did not provide proper reconciliation to show how these balances were arrived at especially since the former EWSA Development unit was operating using modified cash basis of accounting. Accordingly, the audit was unable to confirm whether the opening balance of **Frw 315,082,552,797** and closing balance of **Frw 133,718,703,645** for assets under construction included all costs incurred for respective projects since their initiation.

3) **Lack of inventory movement schedule:** On 1 July 2014, inventory balance of **Frw 6,494,088,966** was handed over to EUCL per handover report. As at 30 June 2015, EUCL reported inventory closing stock balance of **Frw 8,987,111,409**. However, management did not provide the stock movement schedule to show movement in stock from opening stock balance, purchases (additions) and stock issued throughout the year and the closing stock balance as on 30 June 2015 for each of the stock items. Accordingly, there were

difficulties in ascertaining completeness of stock counted at year end and reported in financial statements.

4) **Inventory omitted from financial statements:** Unutilized fuel stock held at Jabana I and Jabana II worth **Frw 567,918,778** was expensed and not recognized as inventory in EUCL books of account and financial statements as at 30 June 2015. This was attributed to inappropriate accounting for fuel purchases, where EUCL recognized fuel purchases as cost of sales instead of accounting for them in stock.

5) **Debtor balances at 30 June 2015 not reconciled to debtor balances handed over to REG/ EUCL at 1 July 2014:** Included in REG subsidiary/EUCL financial statements at 30 June 2015 are trade debtor balances totaling **Frw 8,296,099,253**. However, management did not reconcile these balances to the balance of **Frw 6,621,008,954** for trade receivables handed over to REG/EUCL by Government at 1 July 2014. A review of the trade debtors ageing analysis provided by EUCL to support balances at 30 June 2015 (**Frw 8,296,099,253)** indicates that these customers had a balance totalling to **Frw 9,609,792,896** at 30 June 2014. This implies that balance of **Frw 6,621,008,954** handed over at 1 July 2014 was understated by **Frw 2,988,783,942**.

6) **Unsupported adjustments of Frw 9,217,269,601 made on trade debtors balances:** Management of REG subsidiary/EUCL made adjustments totaling **Frw 16,627,914,318** on debtor balances after reconciling debtor balances at 30 June 2015. The debtors were reconciled based on data in the billing and accounting systems. Out of the total adjustments of **Frw 16,627,914,318**, an amount of **Frw 7,410,644,717** relates to internal consumption which was correctly offset from trade debtors. However, management did not provide support documents to justify the remaining adjustments totaling **Frw 9,217,269,601**. Management explained that these adjustments were due to errors in recording and updating transactions in the billing system identified during the reconciliation exercise. According to management, cases had been identified where some of the customer payments had not been updated in the billing system while other entries in the billing systems had errors and were therefore corrected.

7) **Unsupported Bank balances at 30 June 2015:** REG subsidiary/EUCL financial statements had 13 bank accounts with balances totaling **Frw 2,377,479,357** at 30 June 2015. However, for 11 bank accounts with closing balance totaling to **Frw 2,349,955,615** at 30 June 2015, the balances per cashbook at 30 June 2015 totaled to **Frw 4,879,768,117**.

No reconciliations were provided to explain why the balances in books of account were different from those in financial statements. Hence unexplained differences totaling to **Frw 2,529,812,502**. In addition, two bank accounts with balance totaling to **Frw 27,523,743** had no cash books to support the reported balances.

8) **Unsupported adjustments made on opening balances for Grants in EUCL:** Adjustments amounting to **Frw 20,333,383,583** were made to reduce opening balances of grants. Management explained that some grants included in EUCL financial statements at 1 July 2014 did not belong to the utility and hence the need for the adjustments. However, they did not provide details of these adjusted grants of **Frw 20,333,383,583**. In addition, there were no supporting documents provided to support the adjustments. The audit was therefore unable to confirm the appropriateness of these adjustments.

9) **Unsupported balances for grants received for REG subsidiary/EDCL Internal projects:** EDCL financial statements included a balance of **Frw 34,257,143,483** representing grants received for subsidiary EDCL internal projects as at 30 June 2015. This amount was arrived at after making adjustments of **Frw 274,691,717,028** on opening balance of **Frw 278,379,550,343**. However, management did not provide a supporting listing of projects being adjusted to support the adjustment. In addition, management did not provide a detailed listing of internal projects to support the opening balance of **Frw 278,379,550,343**.

10) **Overstatement of Liabilities:** The financial statements of EDCL had a creditor with liability of **Frw 33,820,318,390** as at 30 June 2015 instead of **Frw 18,654,711,495**. Hence overstatement of **Frw 15,165,606,895**.

11) **Unsupported opening balance of accounts payable:** Opening balance of **Frw 4,183,306,600** for trade and other payables as at 1 July 2014 in EDCL financial statements was not supported. In addition, management did not provide documentation to support some of the movements in liabilities from the position at 1 July 2014 to the position at 30 June 2015. For example, balances for three (3) of the creditors reduced from **Frw 765,959,605** at 1 July 2014 to **Frw 6,789,223** at 30 June 2015 without any documentation to support the opening balance and the transactions debited during the year.

    At **EUCL,** management failed to provide updated individual payable ledger accounts to support creditor balances reported in financial statements at 1 July 2014 and 30 June

2015. The ledger accounts availed by management had balances different from those in financial statements. As a result, payables of **Frw 19,464,695,358** at 1 July 2014 and **Frw 14,070,030,611** at 30 June 2015 are not supported by individual ledger accounts to enable reconciliation of balances at 1 July 2014 to those at 30 June 2015 and assessment of their subsequent clearance.

6.1.1.3 RWANDA DEVELOPMENT BOARD (RDB)

RDB with total expenditure of **Frw 31,032,472,307** during the year ended 30 June 2016 had books of account and financial statements for the year ended 30 June 2016 which are misleading to the stakeholders. Some of the key concerns over their financial statements included:

1) **Wrong basis for preparation and presentation of financial statements:** As highlighted in section 6.1.2 below, RDB is applying an inappropriate basis of accounting. Consequently, **RDB** expensed investments worth **Frw 84,357,652,751** in 6 companies, instead of reporting them at a carrying value at each balance sheet date. In addition, **Frw 1,318,763,335** of advances paid by tourists in the year ended as at 30 June 2016 was recognised as revenue before the tourist visits.

   Further, cost of Land, Property and equipment is expensed and not tracked in balance sheet. During the year under audit RDB acquired fixed assets at a cost of **Frw 20,429,020,912** while assets totalling **Frw 10,743,289,186** were acquired in the prior year ended 30 June 2015. These assets were all expensed in accordance with modified basis of accounting under capital expenditure. In addition, the fixed assets register did not show the accumulated cost of RDB fixed assets as at 30 June 2016.

2) **Unexplained differences in tourism revenue:** The audit identified unexplained difference of **Frw 89,299,713** between the total tourism revenue as per financial statements of **Frw 10,510,041,312** and revenue as per annual tourism sales reports of **Frw 10,420,741,599.** In addition, there was an unexplained difference of **Frw 309,154,865** between tourism revenue in financial statements (excluding incentives given to Tour operators) **of Frw 9,917,420,455** and tourism revenue per park visit reports of **Frw 9,608,265,590**.

3) **Unexplained differences in confirmation of payable balances:** I noted unexplained differences totalling **Frw 2,860,059,825** between creditor’s balance as per direct

confirmations from creditors of **Frw 8,656,936,212** and the balance as per the books of account of **Frw 5,796,870,387** as at 30 June 2016. Management did not provide reconciliation statements to explain the variances. Consequently, liabilities reported in financial statements may be understated by **Frw 3,509,649,272**.

6.1.1.4 RWANDA EDUCATION BOARD (REB)

REB with total expenditure of **Frw 76,677,088,140** for the year ended 30 June 2016, had books of account and financial statements for the year ended 30 June 2016 which had unsupported and unreliable balances. Some of the key concerns over their financial statements included:

1) **Loan recoveries wrongly recognized as income in financial statements:** REB has an inappropriate accounting practice where collections from debtors (loan beneficiaries) are recognized as income, instead of being offset against outstanding debtor balances. During the year ended 30 June 2016, a total of **Frw 939,003,242** was presented in REB financial statements as income, instead of offsetting against outstanding debtor balances. Such inappropriate accounting implies that beneficiaries who have fully repaid their loans continue to carry balances in the financial statements and hence distorting balances for outstanding loans presented by REB.

2) **Lack of a complete students' loans database:** Included in the financial statements is a balance of **Frw 3,037,925,439** for receivables from students' loan beneficiaries. However, as highlighted in previous reports, REB does not have a complete database/detailed listing showing all loan beneficiaries and their outstanding balances to support the reported balance of debtors as at 30 June 2016. It is not clear how this balance is linked to the recoveries made annually by REB. Ultimately, its accuracy and recoverability cannot be adequately assessed.

3) **Repayable student loans expensed in REB financial statements:** The review of REB financial statements for the year ended 30 June 2016 identified that tuition fees provided by REB in sponsoring students in High Learning Institutions (HLIs) expensed fully, and yet the fees comprise of non-repayable government support (grant part) and repayable students' loan. For example, during the year, REB expensed **Frw 26,453,409,220** of student loans (tuition fees and living allowances) for students in local HLIs instead of recording the amount under receivable account. In addition, a refundable student loan

component amounting to **Frw 344,866,016** on fees payments made to Rwandan students in foreign HLIs during the year ended 30 June 2016 was also expensed instead of being recognized as a refundable to Government.

4) **Unsupported accounts payable balances:** Included in accounts payable balance is an amount of **Frw 829,588,032** consisting of various payables that are not supported by any verifiable supporting documents. In addition, there are balances for returned payments totalling **Frw 25,661,618** which were not supported by any verifiable documents. Further, there are invoices totalling **Frw 1,062,800,326** from 22 suppliers which are not supported by any supporting documents and have been outstanding for more than one (1) year.

6.1.1.5 RWANDA AGRICULTURAL BOARD (RAB)

RAB with total expenditure of **Frw 31,032,472,307** during the year ended 30 June 2016, had books of account and financial statements for the year ended 30 June 2016 which had unsupported and unreliable balances. Some of the key concerns over their financial statements included:

1) **Debtors written off by RAB without evidence that they were irrecoverable:** As highlighted in previous audit report for the year ended 30 June 2015, RAB management and Board of Directors decided to write off from RAB books of account debtors amounting to **Frw 610,748,623** (*comprising of* ***Frw 222,685,905*** *and* ***Frw 388,062,718*** *for 2014 and 2015 respectively*). However, there was no evidence to prove that all these debtors were actually irrecoverable. No documentation was provided to indicate that, prior to the write off, RAB had undertaken and exhausted all actions and efforts for following up to recover these debts. In absence of evidence that all relevant actions and efforts for recovery have been exercised by RAB and failed, there is risk of writing off genuine debts with potential for recovery, and this would constitute a loss of public funds.

2) Unexplained differences between accounts payable balances presented in the financial statements and balances confirmed by the concerned suppliers: There were differences totaling **Frw 1,603,982,220** between accounts payable balances presented in the financial statements and balances confirmed by the concerned suppliers.

3) Unexplained differences in internally generated revenue reports: Rwanda Agriculture Board (RAB) Headquarters receives monthly sales reports from each Agricultural Zone on internally generated revenue, for consolidation to prepare the sales report for RAB.

However, the audit identified unexplained differences between the individual sales reports prepared by Zones and the consolidated annual sales report prepared by RAB. There are also differences in internally generated revenue presented in the financial statements. For example, there was a difference of **Frw 48,669,110** between internally generated revenue recorded in the books of account and financial statements (**Frw 955,271,091**), and the amount per the individual sales reports prepared by the Zones (**Frw 906,601,981**.

6.1.1.6 RWANDA CORRECTIONAL SERVICES (RCS)

RCS with total expenditure of **Frw 13,703,680,895** during the year ended 30 June 2015, had books of account and financial statements which had unsupported and unreliable balances. Some of the key concerns over their financial statements included:

1) **Wrong adjustments made on opening balances:** The audit revealed errors in making prior year adjustments totaling **Frw 1,639,633,738** in respect to payables brought forward from prior years and paid through RCS bank accounts or direct payments during the year under review. The payments were erroneously recorded as expenditure for the year and credited under cash and bank adjustments account instead of offsetting liabilities.

2) **Unexplained difference between other revenue as per production reports and related amount disclosed in RCS financial statements:** Rwanda Correctional Services (RCS) generates income from different TIG camps and prisons activities. However, there was an unexplained difference of **Frw 605,847,670** between total revenue from different TIG camps and prisons as per production reports and related total revenue disclosed in the financial statements. The completeness and accuracy of revenue included in RCS financial statements may be materially misstated.

3) **Revenue from sale of rice not supported by proper records:** Included in Huye prison's annual production report for the year ended 30 June 2015 is an amount equivalent to **Frw 18,540,100** obtained from sale of rice, however, the prison did not regularly maintain proper records on quantity of rice produced, sold as well as the balance, to facilitate the linkage between the sales revenue reported and the actual quantity of rice sold. Accuracy and completeness of rice sales value reported in RCS financial statements for the year under review could not be confirmed.

4) **Unexplained differences in bank reconciliations:** The bank reconciliation of RCS operational bank account and RCS production account maintained at RCS Headquarters, indicate unreconciled differences of **Frw 65,326,759** and **Frw 2,894,748** as at 01st July 2014. The bank reconciliations statements continued to contain differences throughout the year and ended with unexplained differences of **Frw 2,111,776** and **Frw 4,230,324,** respectively, as at 30th June 2015. There was no evidence to show recent actions taken by the management to address those differences, which were still persistent up to the time of audit in October 2016.

5) **Misstatement of transit funds account balance:** Included under payable transit fund account is a balance of **Frw 201,994,919**. The review of the supporting documents indicate that this balance constitute the transfers from Nyarugenge District to RCS, for construction of MAGERAGERE Prison, that have been recorded under payable account instead of transfers from reporting entities account. The payable and revenue accounts are misstated.

6.1.1.7 UNIVERSITY OF RWANDA (UR)

UR with total expenditure of **Frw 46,655,762,623** during the year ended 30 June 2015, had books of account and financial statements for the year ended 30 June 2015 which were incomplete and had unsupported and unreliable balances. Some of the key concerns over their financial statements included:

1) **Kavumu and Rukara colleges not consolidated:** All transactions and balances for Kavumu College of Education and some transactions and balances for Rukara College of Education were omitted from UR financial statements in addition to other accounting errors. Total revenue of **Frw 2,258,269,247** for Rukara College and **Frw 534,951,690** for Kavumu College and the related expenditure and assets were omitted from UR financial statements.

2) **KISTCO and KHIBD investments not accounted for:** I also noted that UR has two private companies namely KISTCO and KHIBD where it is the sole shareholder. However, the investment and other information related to these companies were not disclosed in UR financial statements.

3) **Failure to disclose penalties related to pension liabilities:** As highlighted in the previous audit report for the year ended 30 June 2014, potential liabilities amounting to

Frw 969,731,250 were not disclosed in UR financial statements. Consequently, the financial statements of UR are incomplete and this may mislead users who may make decisions based on the financial information included in the financial statements.

4) **Irregularities noted in “unallocated” student receipts:** There are ***unallocated student receipts*** amounting to **Frw 665,903,556** which are recorded in a suspense account in UR financial statements. There was no evidence to show that management has subsequently reconciled and allocated the unallocated receipts to the respective students’ accounts. Technically, this implies that some students whose payments have been made may still be held as debtors in the books of account and hence overstatement of other revenues and student receivables.

5) **Unsupported revenue transactions:** The financial statements included revenue transactions of **Frw 2,453,444,767** not supported by any verifiable document and **Frw 95,364,244** which were partially supported.

6) **Lack of individual debtor ledger accounts:** UR receivables included student accounts receivable of **Frw 7,182,718,341** at 30 June 2015. However, UR does not maintain individual ledger accounts for its students. All student transactions were recorded in one ledger account. The individual accounts were kept at College level and they were not provided for audit except for the individual students’ accounts provided by CASS. There are also other accounts receivable of **Frw 498,390,114** without any individual ledgers. All clients’ transactions were recorded in one ledger account.

7) **Lack of itemised list of accounts payable:** The UR financial statements for the year ended 30 June 2015 include payables amounting to **Frw 5,008,845,972**. Out of this balance, **Frw 4,569,038,690** is not supported by itemized listing of creditors.

6.1.1.8 WORKFORCE DEVELOPMENT AUTHORITY (WDA)

WDA with total expenditure of **Frw 28,116,507,643** had books of account and financial statements for the year ended 30 June 2015 which were incomplete. Operations of 58 VTCs were not consolidated, resulting into incomplete and unreliable financial statements. Out of these **58 VTCs**, management provided financial information on **17 VTCs;** indicating that these 17 VTCs held cash and bank balances amounting to **Frw 177,708,460** as at 30th June 2015. Management failed to provide financial information for the remaining 41 VTCs.

Ultimately, the total assets, liabilities, revenue and expenditure omitted from all the VTCs could not be ascertained.

6.1.2 Inappropriate accounting framework used for accounting in some Government Boards

There are cases where Government Boards were applying modified cash basis of accounting and yet their operations required them to operate using accruals basis of accounting to avoid misleading users of their financial statements. This was noted at RDB which is involved in Tourism Business, holds investments and owns significant fixed assets and yet these are not reported correctly in financial statements prepared under modified basis of accounting.

For RBC, the MPPD Division is responsible for procurement, management and distribution of stocks and yet their activities are reported as part of the consolidated financial statements of RBC on modified cash basis of accounting. This misleads users of financial statements of RBC since stock balances and fixed assets are not reflected in the financial statements. Other entities whose accounting framework is not appropriate include: Rwanda Broadcasting Agency as highlighted in previous audit reports.

6.1.3 Lack of approved Strategic plans to guide operations of Business Enterprises and Boards

The audits identified cases of Public entities operating without approved strategic plans. This was noted at RDB, REG and UR. At UR, activities in transition period have not been performed and there is no proper linkage with strategic plan. This implies that these public entities may not operating with proper strategic direction to guide their operations.

6.1.4 Concerns over accountability for EWSA assets after separation

Energy, Water and Sanitation Authority (EWSA) law was repealed by Law N°97/2013 of 30/01/2014 (gazetted on 12/02/2014) to transfer EWSA responsibilities, movable and immovable property as well as claims and debts to two entities of: Energy Company (REG); Water and Sanitation Company (WASAC).

However, there was no reconciliation between fixed assets allocated as per the Prime Minister’s Order and those valued and handed over to REG and WASAC. The assets’ allocation as per the Prime Minister’s Order (PMO) no 87/03 of 16/8/2014 was based on the fixed asset register of EWSA as at 30 June 2013 and yet fixed assets handed over to WASAC and REG were based on the Assets Verification and valuation report issued after conducting the asset verification exercise in December 2014.

Further, there were cases where assets in the fixed asset registers handed over to REG and WASAC could not be traced in the list of assets allocated to these entities under the Prime Minister's Order. On the other hand, there were assets allocated to these entities under the Prime Minister's Order that could not be traced in the fixed asset registers handed over to REG and WASAC. It should be noted that the valuation report also highlighted that some assets were missing and could not be traced during the physical verification.

6.2 SERVICE DELIVERY CHALLENGES IN BOARDS AND GBEs

6.2.1 WATER AND SANITATION AUTHORITY (WASAC)

WASAC started its operations in August 2014 and is the utility company which took over responsibility to manage water and sanitation services in Rwanda from EWSA. Audit of its first year of operations identified that in addition ***to the lack of financial accountability reported in section 6.1.1*** above, there are other gaps affecting service delivery at WASAC. Key of these are highlighted below:

6.2.1.1 Water treatment plants operating below installed capacity

Two (2) of the biggest water treatment plants operated by WASAC- Nzove and Kimisagara are operating below their installed capacity, with a daily shortfall of **14,445 m^3** for Nzove (operating at 64% of installed capacity) and **2,762 m^3** for Kimisagara (operating at 90% installed capacity). In addition, Mutobo and Cyunyu water treatment plants are also operating below installed capacity, with Mutobo at 82% of installed capacity and Cyunyu at 72% of installed capacity. The total daily shortfall from Mutobo and Cyunyu combined is 3,321 **m^3**.

The total daily shortfall from the above four (4) water treatment plants is **20,528 m^3** and **7,492,643 m^3** per year. This represents 23% of the daily water needs for Kigali City (estimated at **90,000 m^3**) and would go a long way in improving water supply and to reduce concerns of water shortages. **See summary table below:**

No	Water treatment plant	Daily installed capacity	Average daily production for the year 2014-2015	Shortfall	Production performance in percentage for 2014-2015
		A	B		C=A/B
1	Kimisagara	28,349	25,587	2,762	90%
2	Nzove	40,000	25,555	14,445	64%
	Kimisagara & Nzove	**68,349**	**51,142**	**17,207**	**75%**
3	Mutobo	12,499	10,309	2,190	82%
4	Cyunyu	4,000	2,869	1,131	72%
	Daily capacity & production	**84,848**	**64,320**	**20,528**	
	Annual capacity & production	**30,969,250**	**23,476,607**	**7,492,643**	

6.2.1.2 Persistent high levels of unbilled water

As highlighted in previous reports, the problem of high levels of unbilled water has not been addressed. For the year ended 30th June 2015, WASAC Ltd produced **42,193,994 m^3** of water. However, only **24,394,155 m^3** were billed to customers during the same period, leaving **17,799,779 m^3** of unbilled water. This represents **42 %** of total water production during that year. No detailed analysis was provided to indicate what caused the **17,799,779 m^3** of unbilled water. This represents an estimated **Frw 8,671,546,566** in lost revenue and **Frw 1,560,878,562** in VAT lost on this unbilled water, denying WASAC and Government revenue to finance projects needed to enhance service delivery.

Management indicated that 3% of the unbilled water was used for water treatment and Network washing hence unbilled water of 39%. In addition, they indicated that various initiatives are underway to address this problem and that these initiatives have reduced level of unbilled water from 42% in 2012-2013 to 35.5% by end of June 2016.

6.2.1.3 High levels of dormant and obsolete stock of pipes and other materials

The audit identified high volume of obsolete, dormant and slow moving stock **(Frw 1,133,469,802)**. Many of these were inherited from EWSA and comprised mainly of pipes which had been acquired without an appropriate utilization plan. Some of the pipes like ***DN 300*** were last used in December 2015 and significant quantities were still in store by the time of audit in September 2016.

6.2.2 RWANDA ENERGY GROUP (REG)

REG is one of the entities that took over EWSA responsibilities in July 2014. The REG group comprises of Energy Development Corporation Limited (EDCL) responsible for energy development and generation and transmission; and Energy Utility Corporation Limited (EUCL) which is responsible for power distribution to customers. Audit of its first year of operations the two companies and the group identified that in addition ***to the lack of financial accountability and unreliable financial statements***, there are other gaps affecting service delivery at EUCL and EDCL. Key of these are highlighted below:

6.2.2.1 Majority of power plants operating below installed capacity

During the period 1 July 2014 to 30 June 2015, majority of the power plants were operating below installed capacity. Only 7 power plants out of the 33 plants in Rwanda (Government and private) operated at more than 50% of their installed capacity. Four (4) power plants at Rugezi, Gashashi, Nyabahanga and Nyamyotsi did not generate any electricity during the year ended 30 June 2015. Action needs to be taken quickly to address this issue as it has significant impact on the cost of power and consequently on the economic development of the country.

6.2.2.2 High levels of electricity losses

REG (EUCL) experienced high power losses, especially in power transmission losses. Available data revealed power losses of **21.18%** of electricity produced. This is equivalent to **Frw 16,274,073,674** at the sale price of Frw 134/Kwh and significantly erodes revenue expected from electricity sales. Transmission losses accounted for **17%** of the total power generated during the year ended 30 June 2015. Management indicated that initiatives are being undertaken to reduce this trend and reduce the level of power losses. Again a reduction in both commercial and technical losses has a significant impact on the final tariff charged for power consumption. Management need to prioritise activities aimed at reducing this technical and commercial losses.

6.2.2.3 High levels of dormant and obsolete stock at REG (EUCL)

The audit of REG identified high volume of obsolete, dormant and slow moving stock **(Frw 1,501,364,096)**. Some of these stock items have been in the store for over five (5) years. The value of this unutilized old stock was **Frw 904,615,566** at 1 July 2014 (handover date); **Frw 830,867,471** at 30 June 2015 and **Frw 771,426,746** at 30 June 2016. This represents utilization of only 14.7% over a 3 years period between 30 June 2014 and 30 June 2016 and may be an indicator that these stock items are not required by REG subsidiary/EUCL.

In addition to the above slow moving stock, the physical count conducted by REG subsidiary/EUCL management in March and April 2016 identified that stock items worth **Frw 729,937,350** handed over to the subsidiary EUCL on 1 July 2014 were obsolete. Consequently, stock handed over of **Frw 1,501,364,096** is obsolete or at risk of becoming obsolete and hence loss of public resources.

6.2.2.4 High cost of power production threatening sustainability of services

REG (EUCL) supplies electricity acquired at high cost of power production and sells it below the cost of production, hence threatening sustainability of service delivery. The high cost of production is mainly attributed to the purchase of expensive thermal power to increase power supply on the grid to meet electricity demand and yet many of the hydro power plants which produce cheap power are operating below installed capacity. The production of electricity from a Peat power plant at Gishoma has also delayed and this has consequently led to installation of a thermal power plant to supply a key customer in Rusizi, increasing the total cost of power supply to the grid.

Ultimately, EUCL is depending on Government funding to subsidise the thermal power supply and yet this cost would have been minimised if majority of the hydro power plants were repaired and functionally operating at installed capacity throughout the period. Based on records provided during the 2015 audit, the total cost of electricity supply during the year ended 30 June 2015 was Frw **79,322,448,286** and yet total revenue from sale of electricity was Frw **59,441,530,137 (33.4% gross loss)**. This shortfall was financed through Government subsidy of **Frw 20,321,037,404**. A reduction in technical and commercial losses coupled with improved utilization of low cost power production means (hydro) would results in a significant reduction of subsidy from government of Rwanda. This double pronged approach is a priority for the energy sector.

6.2.2.5 Delayed interest payments and related penalties

The audits identified that EWSA and subsequently EDCL had failed to make interest repayments amounting to **Frw 2,529,743,565** for a loan obtained from a commercial bank at 15% to finance construction of Gishoma Peat power plant. This resulted in payment of additional charges and penalties amounting to **Frw 200,039,274** due to delayed repayments as at 31 December 2014. Even in subsequent period from January 2015 to June 2015, REG still failed to make interest repayments, resulting in unpaid interest of **Frw 1,364,900,033** including additional charges and penalties of **Frw 134,452,803** due to delayed repayments during this period. The project financed by the loan had delayed and was not operational at the time of audit in September 2016. This affects expected cash flows required to finance loan repayments. The penalties are eroding value from the investment and increase the cost of investment.

6.2.3 UNIVERSITY OF RWANDA (UR)

6.2.3.1 Concerns over location of colleges- high cost of transport

From the spirit of transforming public higher education in Rwanda, UR was created to improve quality and efficiency of teaching and learning. From this initiative, six (6) colleges with 20 schools located in 10 campuses spread throughout the country were created and are now operated in more than one campus except CE. This requires lecturers to travel from one campus to another.

However, during my audit I noted that UR overpaid an amount of **Frw 764,647,045** on budget for transport and perdiem to pay lecturers transport fees and mission allowances. This may negatively impact the quality of teaching offered by UR lecturers regarding the time used by lecturers to travel from one campus to another and also expected cost efficiency can not be achieved due to the increase in transport and perdiem cost

6.2.3.2 Non-compliance with workload policy- staff teaching less than the standard workload

Workload for staff at UR is to be calculated in line with the policy of 9 June 2014 that set the load for academic staff to five days in a working week and thus 220 working days in a year and 1,980 hours in a year.

However, I noted cases of noncompliance with this requirement whereby on a sample of **386** academic staff of CBE, CE and CMHS, **116 academic staff** workload was less than the normal workload of 1,980 hours in a year during the academic year 2014/2015.

It is worth noting that while the above academic staff had worked less hours than expected there were others who worked extra workload and UR had paid them **Frw 201,114,200** as extra workload allowances.

UR did not provide necessary information on workload for academic year **2014 -2015** indicating the name of academic staff, expected hours to be worked and hours actually worked for each academic staff for CST, CASS, CAVM and Nyagatare campus to confirm whether UR complied with workload policy.

This may imply poor allocation of workload and ineffective delivery of services by lecturers which hinders the completion of modules and performance of students. Presence of under worked staff, implies over workload for other staff to complete modules which attract ineligible expenditure.

6.2.4. RWANDA EDUCATION BOARD (REB)

6.2.4.1 Concerns over acquisition, distribution and use of laptops

- **Laptops purchased without any concept document**

In 2014, the Government of Rwanda (GoR) entered into an agreement with Positivo BGH Rwanda for the development, financing, construction and operation of an assembly plant to produce a range of ICT devices in Kigali including: laptops, desktops, tablets, cell phones, home appliances and a variety of other ICT and home appliances for a period of five (5) years.

After the signing of this agreement, the government was supposed to purchase 50,000 XO laptops (OLPC) and 100,000 other laptops (notebooks) at a value of **USD 34,100,000** during the first year of the agreement, followed by purchase of 40,000 devices per year from year 2 to year five of the Agreement.

During the execution of this contract the audit noted that REB acquired **24,180** XO laptops and **58,956** other laptops (note books) from Positivo Ltd without any concept document outlining how this equipment will be used, who the intended beneficiaries are, how the contractual commitment will be financed and a statement of clear responsibilities of each public entity involved in this contract. These laptops were distributed by REB to schools, universities, districts and sectors.

a) Idle laptops

The problem of unutilised laptops highlighted in previous Auditor General's reports has not yet been resolved by REB. The audit noted that a number of **XO laptops** are still lying idle and unutilized in different primary schools all over the country. ***See examples of unused laptops in the table and photos below:***

District	Name of the school visited	Quantity laptops Supplied (A)	Number of laptops in use (B)	Number of laptops not used (C=A-B)
Ngoma	G.S Gahima	100	40	60
Ngoma	G.S Kabare	100	80	20
Bugesera	GS Nyamata Catholique	100	40	60
Gasabo	GS Gikomero	100	26	74
Gasabo	GS Ndera Catholic	100	-	100
Bugesera	EP Ruzo	156	-	156
Bugesera	EP Murambo	113	-	113
Total		**769**	**186**	**583**

Some cases are illustrated in the photos below.

Laptops still packed in boxes at GS GAHIMA: Photo taken by OAG on 23 March 2017.

Laptops still packed in boxes at GS GIKOMERO: Photo taken by OAG on 22 March 2017

b) Weaknesses noted in implementation of agreement between the Government of Rwanda and ASI-D Ltd on wholesale and distribution of laptops from Positivo Ltd

The Government of Rwanda (GoR) into an agreement with Africa Smart Investments-Distribution Ltd (ASI-D Ltd) for wholesale and distribution of products produced by Positivo PBG Ltd for a period of 5 years. ASI-D Ltd agreed to purchase and distribute 50,000 XO laptops and 100,000 other laptops in the first year. In all subsequent years of the purchase and distribution, the company committed to purchase and distribute products/laptops with an aggregate monetary value equal to or greater than the value of 150,000 other laptops.

The agreement states that ASI-D Ltd is responsible for marketing and selling the laptops both domestically (in Rwanda) and export to other countries and the government shall not provide financial support to or sign any agreement providing support during the purchase and distribution period with any other company or enterprise planning to wholesale and distribute the products inside or outside Rwanda and which may compete with the ASI-D Ltd.

The following weaknesses were noted during the implementation of this contract:

- **Purchases directly from Positivo Ltd By REB:** the audit noted that the government (through REB) continues to buy laptops directly from Positivo instead of ASI-D Ltd and total payments made to Positivo during the year under audit were worth Frw **13,071,357,372** for the supply of **24,180** XO laptops and **58,956** other laptops.
- **Laptops purchased by REB but instead delivered to ASI-D Ltd:** During the year under review REB paid **Frw 9,546,972,573** for **58,956** other laptops (note books). Out of these 58,956 laptops paid for, only **30,804** laptops were delivered to REB and the remaining **28,152** laptops were instead delivered to ASI-D Ltd.

  Out of the 28,152 laptops paid for by REB but delivered to ASI-D Ltd, the audit noted that ASI-D Ltd reimbursed REB an amount of **Frw 1,955,459,059** in respect of **10,512** laptops and the outstanding **17,640** laptops (28,152 less 10,512) valued at **Frw 3,281,421,024** were still not yet reimbursed by ASI-D Ltd up to the time of the audit in March 2017.

6.2.4.2 Delay in distribution of learning and teaching materials

Government is implementing a competence based curriculum in 3 phases. The first phase started in the academic year 2016 with the distribution of textbooks for the primary levels P1 and P4. The second phase was to be implemented in the academic year 2017 with the distribution of learning and teaching materials for primary levels P2 and P5 and the last phase will be implemented in the academic year 2018 though distribution of learning and teaching materials for P3 and P6.

Delay in distribution of books: During my site visits I noted that the distribution of test books for education year 2016 had been delayed for a period ranging from 6 to 13 months. In the academic year 2017, during my physical verification conducted in March 2017, I noted that text books for phase 2 (P2 and P5) had not yet been delivered and yet the academic year had started in February 2017. In addition, science kits meant to provide satisfactory coaching to learners and streamlining learning and teaching in classes had not been received by 80% of the primary schools (2,041 out of 2,541).

The delay to distribute the teaching materials relevant for the implementation of the competence based curriculum affects the learning of the pupils and ultimately the goals of the program. Therefore, in the academic year 2018, pupils will be tested on the curricular that has not been fully covered.

Idle textbooks: There is more than one publisher delivering textbooks for one subject in schools and during physical verification carried out in primary schools, I noted that there are textbooks that have never been used by teachers, they were kept in the boxes in stores since delivery and there is no evidence that these textbooks will be used. According to head teachers after delivery of the new textbooks, teachers were not trained on how the use them. A delay in training teachers on how to use the new textbooks affects the realization of the goals of the program.

6.2.5. RWANDA BIOMEDICAL CENTRE (RBC)

6.2.5.1 Gaps in accountability system of funds transferred by RBC to district hospitals and health centres

There were significant issues identified in relation to the accountability of funds sent by RBC to district hospitals and health centers during the audit. For example, funds amounting to **Frw 615,700,031** were not properly accounted by hospitals and health centres. It is worth noting that, out of this amount, a value of **Frw 489,685,642** was meant to reduce childhood stunting and to implement polio eradication activities in Rwanda.

6.2.6 RWANDA AGRICULTURE BOARD (RAB)

6.2.6.1 Poor management of improved seeds in Storage

There is poor storage of improved seeds at RAB. This has resulted into the following:

- **Improved seeds stock declared for consumption:** I noted that since 31st December 2015, a large quantity totaling 694.4 Tons of improved seeds (maize ZM 507-5.9T and pool 9A-688.5T) costing **Frw 347,200,000** were moved from RAB Masoro store to the National Strategic Grain Reserve kept at Kicukiro for consumption. I did not get documentation justifying why improved seeds were approved for consumption.

- **Rotting seeds in storage:** On 21st October 2016 and 07th November 2016, I carried out physical stock count of improved seeds of maize, sunflower, and wheat that were acquired since September 2011 and kept in stores of RAB at Masoro and Huye respectively. However, I noted that 80% of 39,614 kg costing at **Frw 72,471,984** in stores of RAB at Masoro and 229,382 kgs costing **Frw 241,621,260** at Huye respectively are rotting in storage. These improved seeds have been kept in warehouse for a period ranging from **38 to 62 months**.

6.2.6.2 Seeds loaned by RAB to seeds importing Companies not paid back

Seeds worth **Frw 250,019,920** out of Frw 614,465,996 loaned to different importing companies especially in 2014 were not paid back. It's worth noting that these companies are the ones supplying imported seeds to RAB and during the year they continued supplying imported seeds and being paid their bills without reimbursing RAB for borrowed seeds.

6.2.6.3 Shortfall on the quantity of seeds to be distributed to farmers

Weaknesses continue to exist in the implementation of the crop intensification programme especially failure to ensure that procured seeds reach the intended beneficiaries/farmers. During the season 2016 B, only **58%** of the needed seeds were availed to farmers. The needed production/harvest may also not be achieved due to failure to obtain improved seeds by the farmers

6.2.6.4 Failure by RAB to collect the debts due from Agro-dealers for seeds sold

Seeds worth **Frw 114,889,470** were distributed to different Agro-dealers from August 2014 to January 2015 **114,889,470.** However, no funds have been collected by RAB from the concerned Agro-dealers and these debtors had been recognized in the books of account as debtors.

All these inefficiencies in management of seeds adversely affect agricultural productivity and food security in the country. There is need for RAB management and other strategic stakeholder to resolve this issue by reviewing the seed distribution mechanisms.

There is also need for RAB management in collaboration with MINAGRI to establish a clear roadmap for recovery of the outstanding balances.

6.2.6. Failure to recover funds from sales of fertilisers

As highlighted in previous annual reports, the recovery rate of funds from the sales of fertilizer is still very low and Post-Harvest Handling and Storage Taskforce (PHHSTF) is still struggling to recover these balances from distributors and Agro dealers. Out of the total balance of **Frw 11,493,931,801** outstanding as at 1 July 2015, only **Frw 12,245,291** (representing **0.1%**) was recovered during the year. This slow rate of recoverability has persisted since 2010 to date.

6.2.7 RWANDA TRANSPORT DEVELOPMENT AGENCY (RTDA)

The audit of RTDA identified significant contract variations (time and cost) which were necessary during the execution of road design studies, construction, and maintenance contracts. Management explained that these variations were required due to various reasons, including: delays in payment of Contractor invoices (road design studies); delays in payments for expropriation; unforseen adverse climatic conditions (heavy rainy seasons leading to obstacles such as landslides) on some sections of the roads; and unforeseen additional works required. While the above variations are justified, they are pointers to gaps in financing and planning of road construction, rehabilitation and maintenance projects. The audit identified that out of **63 contracts** worth **Frw 430,854,337,675** (ongoing and completed), 39 contracts (62%) had average time variation of up to 90% compared to initial completion date. In terms of cost, 26 contracts (43%) were subject to cost variations worth **Frw 18,672,732,256**.

6.2.8 Rwanda Correctional Services (RCS)

6.2.8.1 Weaknesses in management of internally generated revenue

There are weaknesses in management of internally generated revenue in prisons. These include the following:

- No approved policy and procedures to guide tariffs charged by prisons for services
- Lack of production reports for items produced in prisons for sale (e.g rice in Huye prison, agriculture and dairy products in Rwamagana prison). Therefore internally generated revenue from prisons not appropriately supported by production and sales reports.

6.2.8.2 Gaps in procurement of construction materials

There are concerns over the procurement of construction materials at Rwanda Correction services. These include:

- Lack of procurement plan for each prison and yet each prison has specific procurement needs.
- Procurement of construction materials is done based on estimates without detailed Bills of quantities to justify the quantity to be procurement during the year.

SECTION 7

OTHER KEY SECTOR SPECIFIC FINDINGS

7.1 FINANCIAL MANAGEMENT IN PUBLIC ENTITIES

7.1.1 Internally generated revenue and expenditure for NBAs not reflected in National Budget

A review of the Budget execution report revealed that budget and expenditure for revenue generated internally by Non-Budget Agencies is omitted. Available information on disclosures made for NBAs shows that a total **Frw 140,391,913,472** of internally generated revenue was omitted from Government expenditure for the year ended 30 June 2016. **See summary table below:**

Name of subsidiary entity	Adjusted opening Balance	Transfer from the District	Other revenue	Expenses	Fund balance at the end of the period
	Frw	Frw	Frw	Frw	Frw
District Pharmacy	6,468,189,157	10,475,590	14,215,607,678	13,368,541,752	7,325,730,673
Sectors	8,731,473,126	25,100,322,541	3,297,376,954	29,056,851,810	8,072,320,811
Primary Schools	954,205,640	5,425,667,719	1,883,729,113	7,415,750,481	847,851,991
Secondary Schools	3,945,224,034	11,070,499,036	29,168,879,492	39,124,586,340	5,060,016,223
District Hospitals	10,646,846,791	12,452,765,980	46,798,787,022	58,750,790,578	11,147,609,215
Health Centres	11,051,074,463	11,237,061,996	44,218,907,094	51,461,170,726	15,045,872,827
Vision Umurenge Programs	7,317,271,895	6,368,398,419	808,626,124	7,830,469,892	6,663,826,546
Grand Total	**49,114,285,106**	**71,665,191,281**	**140,391,913,477**	**207,008,161,579**	**54,163,228,286**

7.1.2 Gaps in reporting system for Non Budget Agencies (NBAs)

There were significant errors and omissions identified during audits of Non Budget agencies. In some cases, information from NBAs financial operations at District level is different from that in financial reports of NBAs.

These are indicators of inadequate review of financial reports submitted by NBAs in order to be reported by the district. There is need for districts to ensure that financial reports of NBAs are properly reviewed and any errors and omissions corrected before they are consolidated and disclosed in the district financial statements.

7.1.3 PERSISTENT ACCOUNTING ERRORS IN FINANCIAL STATEMENTS OF PUBLIC ENTITIES

There are still cases of accounting errors and omissions identified in audits of financial statements of public entities with the identified errors ultimately affecting State Consolidated financial statements. As a result, State Consolidated financial statements for the fiscal year ended 30 June 2016 approved by Cabinet were subsequently adjusted to correct errors identified during the audits of financial statements of individual budget agencies. The adjustments emanated from accounting errors and omissions discovered during audits of different budget agencies which were corrected before signing of audit reports. The magnitude of the corrected errors and omissions is illustrated by overall increases in revenue of **Frw 608,929,398** and reduction in expenditure of **Frw 4,557,794,079** reported in the adjusted State Consolidated financial statements, when compared to balances presented in the State Consolidated financial statements originally approved by Cabinet. Analysis of differences is as shown in table below.

	Balances in State Consolidated financial statements approved by Cabinet at 30/9/2016	**Adjustments made on State Consolidated financial statements after approval**	**Balances in Revised State Consolidated financial statements issued at 30 April 2017**
	Frw	**Frw**	**Frw**
Opening fund balance at 1/7/2015	(294,837,136)	198,577,125	(96,260,011)
Adjustments on opening balance	12,627,115,792	(8,136,578,569)	4,490,537,223
Adjusted opening balance (A)	**12,332,278,656**	**(7,938,001,444)**	**4,394,277,212**
Revenue (B)	1,951,399,438,375	608,929,398	1,952,008,367,773
Expenditure (C)	1,927,689,978,077	(4,557,794,079)	1,923,132,183,998
Surplus/(deficit) for the year D=(B-C)	**23,709,460,298**	**5,166,723,477**	**28,876,183,775**
Accumulated surplus as at 30/6/2016 (A+D)	**36,041,738,954**	**(2,771,277,967)**	**33,270,460,987**

Accounting errors and omissions not corrected in the financial statements of Budget Agencies

While some of the identified errors and omissions were corrected by various Budget agencies at the time of finalising their audits, some significant balances were still omitted from financial statements and are therefore not reflected in State Consolidated financial statements as highlighted below.

- Omitted creditors of **Frw 5,216,304,916** (2015: **Frw 15,569,062,467**). Significant balances were noted at Rwanda Energy Group **(Frw 4,025,450,047)** and University of Rwanda **(Frw 1,050,000,000).**
- Seven (7) omitted bank accounts of which 3 bank accounts had credit balances of **Frw 430,512,369** and 4 bank accounts had debit balances of **Frw 1,556,199,132.** These bank accounts were identified at EDCL and WASAC (2015: 11 bank accounts with credit

balances of **Frw 58,606,283** and 4 bank accounts with debit balances of **Frw 2,212,425,929**).

- Unsupported creditors of **Frw 42,727,974,458** (2015: **Frw 29,889,751,578)** mainly identified at WASAC **(Frw 39,477,021,177)** and EDCL **(Frw 2,633,034,793).**
- Unsupported debtors of **Frw 8,881,919,324** (2015: **Frw 3,844,269,244)** mainly identified at WASAC **(Frw 8,475,746,271)** and University of Rwanda **(Frw 210,621,827).**

There were also cases of unusual balances noted in the financial statements of budget agencies as illustrated by the following:

- Creditors amounting to **Frw 27,343,439,863** and debtors amounting to **Frw 8,056,798,274** with no detailed listings (2015: Debtors - **Frw 27,335,403,764** and creditors - **Frw 12,449,917,427).** Creditors without detailed listings were mainly identified at WASAC **(Frw 20,693,059,403),** University of Rwanda **(4,569,038,690)** and EDCL (**Frw 1,677,949,644)** while debtors without detailed listings were mainly identified at University of Rwanda **(Frw 7,478,582,936)** and Bugesera District **(Frw 530,974,465).**
- Long outstanding debtors of **Frw 8,055,364,916** including a balance of **Frw 2,037,042,150** at WASAC, **Frw 1,087,017,869** at University of Rwanda, **Frw 798,813,262** at WDA and **Frw 760,110,941** at CHUCK (2015: **Frw 17,743,210,882).**
- Long outstanding creditors of **Frw 6,516,894,142** mainly noted at EDCL (**Frw 1,677,949,644**), REB (**Frw 1,062,800,326**), University of Rwanda **(Frw 886,980,504)**, WASAC (**Frw 823,747,708**), RDB (**Frw 499,588,058**) and Nyamagabe District (**Frw 231,041,287**).
- Omissions, errors and inconsistencies in bank reconciliation statements including cases where bank reconciliation statements for some bank accounts were not prepared at all, bank reconciliations with unexplained differences and bank reconciliations with irregular reconciling items as highlighted below.
    - A total of 17 bank accounts with balances totalling to **Frw 2,640,361,232** did not have bank reconciliations. 11 of these bank accounts with balances totalling to **Frw 2,349,955,615** were identified at EUCL.
    - Bank reconciliations for 22 bank accounts with balances totalling **Frw 5,060,206,874** had unexplained differences implying that reported balances were not accurate. These bank accounts were mainly identified at University of Rwanda (7 accounts with total balance of **Frw 1,124,308,213**), RURA (2 bank accounts with total balance of **Frw**

1,771,067,490), Nyaruguru district (3 bank accounts with total balance of **Frw 666,662,478**) and WASAC (4 bank accounts with total balance of **Frw 360,936,951**).

- Bank reconciliations for 23 bank accounts had irregular reconciling items. These bank accounts were mainly identified at WASAC (19 bank accounts) and RCS (3 bank accounts).

The significant errors, omissions and unusual balances identified during audits of budget agencies are indicators of inadequate review of financial statements by Chief Budget Managers before they are submitted to MINECOFIN. Majority of the errors ought to have been identified and corrected by management itself before submitting financial statements to MINECOFIN. There is need for budget agencies to ensure that financial statements are properly reviewed and any errors and omissions corrected before they are submitted to MINECOFIN. The Accountant General's Office should continue to provide necessary support and training to staff in budget agencies to improve the reliability of monthly and annual financial statements. At MINECOFIN level, the extent of reviews performed on monthly financial statements submitted by Budget agencies should be intensified and support provided to budget agencies to correct identified errors to minimise misstatements in the annual State Consolidated financial statements.

7.2 LOCAL GOVERNMENTS

7.2.1 Challenges with recoverability of VUP Loans

a) **Low recoverability of VUP loans issued under previous Umurenge SACCO Scheme:** LODA previously disbursed loans through the Local Government system at Sector level (Old scheme). According to the loan portfolio report issued by LODA for the year ended 30 June 2016, Districts had recovered **Frw 13,088,608,858** (**60%)** out of the total loans of **Frw 21,802,476,356** issued under the old scheme from 2009 to 30 June 2015. It should be noted that during the year ended 30 June 2016, only **Frw 621,228,977** was recovered, hence challenges in loan recovery. **See summary below:**

Year (Old Scheme)	Total Loan Amount Disbursed (A)	Total Amount Paid Back as at 30/06/2016 (Repayment) (C)	Balance (unpaid as at 30 June 2016 D= (B-C)	Recovery rate (%) E= (C*100)/B
2009-2010	4,197,856,838	3,238,376,572	959,480,266	77%
2010-2011	4,280,355,011	3,071,316,138	1,209,038,873	72%
2001-2012	4,062,906,211	2,561,269,134	1,501,637,077	63%
2012-2013	3,843,493,244	2,136,167,653	1,707,325,591	56%

2013-2014	3,797,910,385	1,361,689,148	2,436,221,237	36%
2014-2015	1,619,954,667	719,790,213	900,164,454	44%
Total	**21,802,476,356**	**13,088,608,858**	**8,713,867,498**	**60%**

b) **Non-existence of projects that received VUP loans:** The physical verification carried out in some districts revealed that some of the projects that received VUP loans were not in existence. This was noted in Rutsiro (11 groups), Kirehe (7 groups), Gicumbi (6 groups), Muhanga (4 Groups), Nyamasheke (10 groups) and Nyaruguru (5 groups), Gisagara (1 project). These groups had received **Frw 26,299,610** in loans.

c) **Sharing of VUP loans**: There are also cases where the beneficiaries shared the loans obtained instead of investing the proceeds in the group projects. This was noted in districts of Ruhango (3 projects), Rwamagana (13 projects), Nyagatare (4 projects) and Rusizi (2 projects), where total loans of **Frw 42,081,800** had been shared. Previous audit reports had identified this problem in Gicumbi and Nyamasheke districts, where VUP loans amounting to **Frw 51,216,240** (Gicumbi) and **Frw 45,910,000** (Nyamasheke) had been shared between beneficiaries. Management in these districts did not provide any evidence of steps taken to recover these funds and to ensure that group projects are implemented.

The above challenges ultimately affect the realization of the overall objective of uplifting the welfare of the beneficiaries. This is being derailed due to the recoverability challenges and hence the need for review of the program to continue providing access to finances but at the same time improve recoverability.

7.2.2 Weaknesses in implementation of Ubudehe program across the districts in the country

Ubudehe Program is one of the Government's social protection interventions for fighting poverty within communities based on collective and individual actions. The program also enhances the Government's decentralization policy. It is initiated and implemented by the population itself at the level of the decentralized administrative entity nearest to the recipients (i.e. the villages) since they fully understand the village problems. The audits identified the following concerns:

a) **Delay to transfer the amount budgeted for Ubudehe program:** Some districts delayed to transfer the amount for the implementation of the planned projects. These delays were noted in Ruhango, Nyaruguru, Nyanza, Nyagatare, Muhanga, Kayonza, Kamonyi, Nyamagabe and Bugesera districts. Delayed funding of projects that were meant to improve the wellbeing of the community denies timely development in the beneficiary villages. Hence, objectives of Ubudehe support are not timely achieved.

b) **Ubudehe funds not used for the implementation of the planned projects:** There were cases whereby the funds transferred amounting to **Frw 258,588,755** to SACCOs to implement UBUDEHE programme were not used to implement the planned projects. Funds were still kept idle on SACCOs' accounts at the time of district audits. These cases were noted in Ruhango, Nyabihu, Gakenke, Nyamagabe and Ngoma districts. The government's social protection interventions for fighting poverty of intra-community co-operation based on collective and individual actions was not achieved within the expected time frame, hence undermining the development of villages and citizens through UBUDEHE program.

7.2.3 Poor Solid Waste Management across all the districts in the country

As noted in the previous audit report on Nduba landfill (City of Kigali), there are concerns over solid waste management in towns and urban centres. Audits conducted during the year on dumpsites and landfills in nine (9) districts of Huye, Muhanga, Nyanza, Rusizi, Nyamagabe, Nyagatare, Musanze, Kayonza and Gicumbi identified the following:

a) **Lack of separation of biodegradable and non- biodegradable waste:** Districts do not have appropriate solid waste management of separating Biodegradable and non-biodegradable waste. Separation is necessary to facilitate appropriate disposal.

b) **Inappropriate location:** Most of dumping sites & Landfills are located in less than required distance of 400 metres at proximity of resident homes and other infrastructures. This was noted in Musanze, Muhanga, Nyanza, Rwamagana, Kayonza, Rubavu, Nyagatare and Gicumbi.

c) **Inappropriate landfill:** Cases were noted where the landfills in districts were not appropriate and were not fenced to protect them and to limit access of unauthorized people. This was noted in Muhanga, Nyanza (former landfill closed in August 2016), Rusizi, Nyamagabe, Nyagatare, Musanze, Kayonza and Gicumbi.

d) **Lack of appropriate working conditions**: Workers involved in collection, transportation and disposal of solid waste do not have enough required materials such as clothing which include overalls, working boots, gloves, dust masks, eyes protective glasses and helmets to protect themselves when working.

7.2.4 Service Access Points in Sectors not operational despite RDB providing equipment

Regional Communications Infrastructure Program-Rwanda (RCIPRW) established under the Rwanda Development Board/ IT had objectives to contribute to lower prices for international internet connectivity capacity; and extend the geographic reach of broadband networks in the territory of Rwanda. Within this framework, RDB signed two (2) contracts for the supply of IT and office furniture equipment to Rwanda online access points in 200 sectors. The contracts were worth **USD 563,600** for IT equipment and **Frw 104,143,675.16** for office furniture equipment.

In 2015, RDB signed a Memorandum of Understanding (MoU) with beneficiary Districts. The purpose of the MoU was to establish the Service Access Points **(SAPs)** at the sector level around the provinces. However, the audits of RDB project and districts identified that in many sectors, **SAPs** had not been established. In 50 sectors visited, IT equipment and furniture that had been delivered were not put in use and therefore idle. In other cases, the IT equipment (laptops and printers) and furniture (tables and chairs) had been diverted to other uses instead of being used to set the **SAPs**.

Many sectors attributed this failure to operationalize SAPs to lack of Sim cards for modems for internet connectivity; technical issues in installing the equipment; lack of cartridges for printers; and no space/room to accommodate **SAP** activities.

7.3 TRADE AND INVESTMENTS

7.3.1 National Employment programme (NEP)

The audit of the programme revealed exceptions on some of the funds provided amounting to **Frw 1,565,292,754** as follows:

- **Low disbursement rate on funds for some of the components;** the review of **two (2)** financing arrangements; asset leasing to ICPCs and start-up tool kit loans through SACCOs revealed that out of funds availed amounting to **Frw 1,407,725,000** only **Frw 136,000,000** had been disbursed representing **10%** of total funds availed to BDF for these financing arrangements. The low disbursement rate noted may hinder the achievement of the programme’s intended objectives to create additional employment.

- **Low recovery of loans disbursed by SACCOs with in the City of Kigali;** in support of Kigali City authorities in their efforts to eliminate street vending, NEP provided funds to City of Kigali amounting to **Frw 373,351,108**. Out of these funds, **Frw 157,567,754** was disbursed by SACCOs as small business loans to former street vendors (organised in cooperatives). However, the audit noted that the recovery rate for the loans disbursed by SACCOs stood at **22% (Frw 35,379,425/Frw 157,567,754)**.

7.4 GOVERNMENT ICT INVESTMENT

7.4.1 Idle Telemedicine facilities

This project has the objective of improving health care delivery through ICT and to improve accessibility and affordability to specialized healthcare services in remote areas. According to the documents provided, the project had already spent **Frw 190,680,000** by November 2016 and it had a target of equipping 43 Hospitals with the systems by 2014.

However, at the time of audit in November 2016, only 15 Hospitals were equipped with telemedicine equipment. A physical verification conducted in 5 hospitals namely CHUB, Kabgayi, Kibuye, Ruhengeri and Rwamagana found that the facilities were idle. Hospital management indicated that telemedicine facilities had been established at hospitals without assessing the availability of users and readiness of hospitals. Accordingly, there is no value for money derived from the funds invested in telemedicine project.

7.4.2 Delay in implementation of Public Key Infrastructure project

As the Government deploys more resources online, there is a need to build trust among users. A Public Key Infrastructure (PKI) system that validates users' digital identity over a public or private network was supposed to be set up. This project has the objective of guaranteeing the authenticity, confidentiality, integrity and non-repudiation of electronic information and transactions in Rwanda's cyberspace.

However, the audit identified the following:

- **Delay in implementation of Government Enterprise architecture project:** The project aimed to establish a blue-print of Government of Rwanda Enterprise "to-be" Architecture that would guide future application development and deployment in public institutions. According to available documentation, the project cost was **Frw 1,514,825,452**.

However, I noted that RDB has not been able to establish the Government Enterprise architecture Framework which government institutions would conform to, during their development or acquisitions of IT solutions. Systems and IT solutions are being developed or acquired without a master plan. This raises duplication of system functions within government institutions.

The failure to implement Government Enterprise Architecture project may lead to systems/applications which are not compatible and unable to share information easily. In addition, Government institutions may not do transactions and services online, as well as collaborating within them with interoperable systems and applications. Further, duplication of data/application within government institutions, agencies and organizations will continue to rise and cost the government a lot of resources and efforts. Consequently, there will be no improved public sector service delivery including performance and efficiency.

7.4.3 Concerns over IT Applications acquired/developed by public entities

Cases were identified where Government entities acquired/developed IT application systems without evidence that they followed an appropriate application development process. The lifecycle ordinarily follows the following steps: Business application initiation, development, deployment, maintenance and retirement and should enable the public entities to acquire relevant and appropriate IT systems.

Consequently, there were cases noted where IT applications were either idle or not achieving their intended development/acquisition purpose or have gaps that need the attention of the users due to built-in errors, security concern gaps or long term consideration, as shown in table below:

Gaps identified from audits	**No. of applications**	**Entities having the applications**
Not achieving their intended development/acquisition purpose	3	**UR** (Integrated Educational Business Management Information System); **REB** (SFAR Management Information System) and Teacher Management System)
Gaps that need the attention of the users due to built-in errors, security concern gaps or long term consideration	6	**RBC** (RapidSms, RBCnet, Electronic Logistic Management Information System) and **REB** (Learning and Textbook Material Management Information System; and National Examination Publication System; and School renovation)
IT applications not utilised	3	**RBC** (MEMMS, Malaria Tracking System) and **REB** (ICT Asset Management System)
Total applications	**12**	

7.5 NON COMPLIANCE WITH LAWS AND REGULATIONS

Some institutions continue not to deduct withholding tax and some did not remit tax withheld to Rwanda Revenue Authority as required by the law. In some cases, the withholding tax is either remitted late or not remitted at all to Rwanda Revenue Authority. These cases include:

- An amount of Frw **127,139,941** was not deducted as 18% tax from suppliers. In addition, an amount of **Frw 28,075,238** deducted was not remitted by some entities to Rwanda Revenue Authority.
- An amount of Frw **27,649,413** was not deducted as 3% withholding tax from suppliers.
- An amount of Frw **1,507,837,120** was not deducted as 15% withholding tax from suppliers. In addition, an amount of Frw **84,257,793** deducted was not remitted to Rwanda Revenue Authority.
- Pay As You Earn (PAYE) amounting to **Frw 2,209,239** was not deducted while **Frw 675,486,848** was deducted but not remitted to RRA.
- An amount of Frw **1,628,450** was not deducted for CSR. In addition, an amount of Frw **53,007,785** deducted for CSR was not remitted to CSR.

This continued failure to remit taxes to RRA attracts a lot of penalties and there is need for public entities to ensure full compliance with the existing tax laws and regulations.