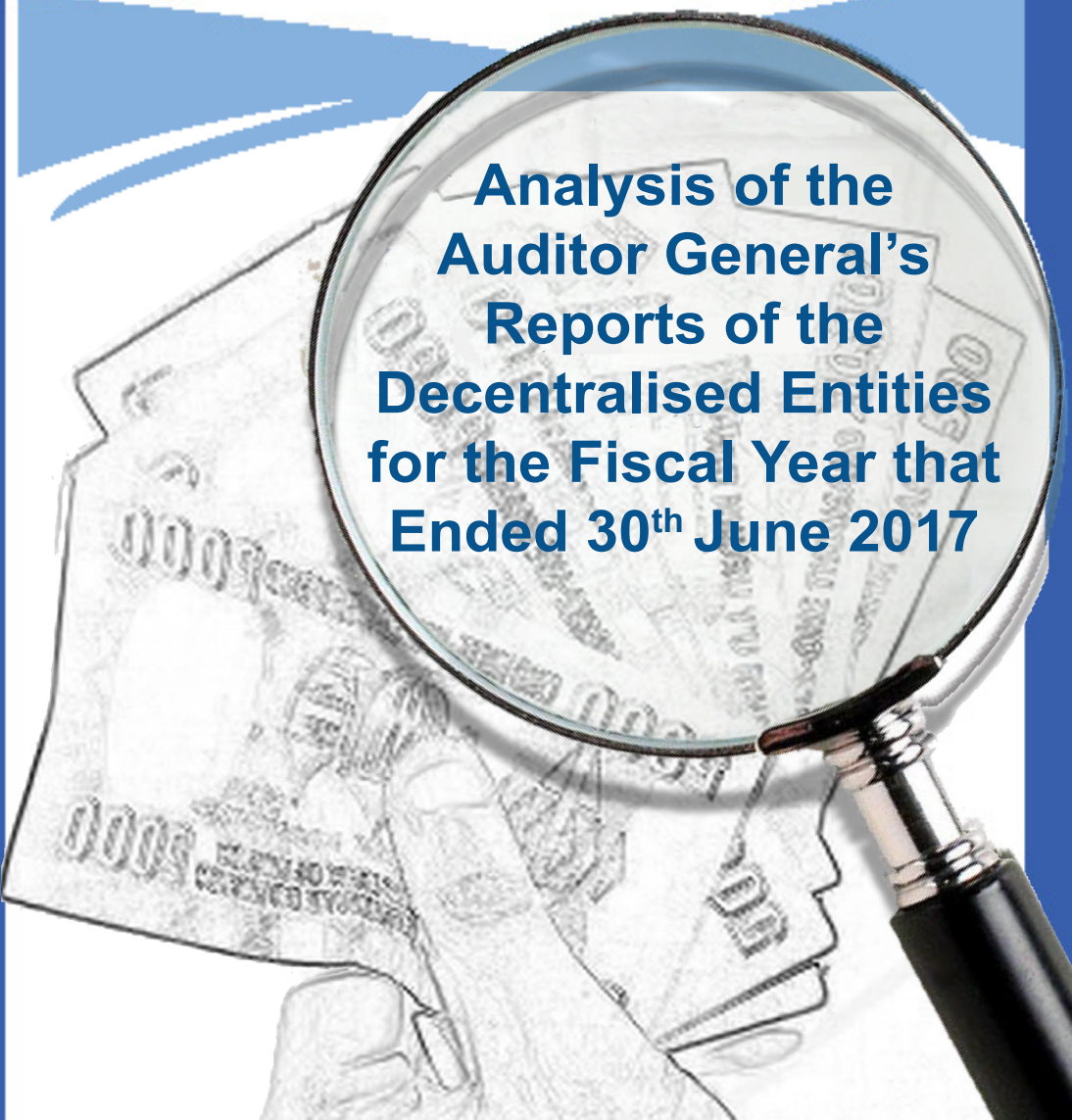




**TRANSPARENCY
INTERNATIONAL
RWANDA**



**Analysis of the
Auditor General's
Reports of the
Decentralised Entities
for the Fiscal Year that
Ended 30th June 2017**



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DEUTSCHE ZUSAMMENARBEIT

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Analysis of the Auditor General's reports of the decentralized entities for the fiscal year that ended 30th June 2017

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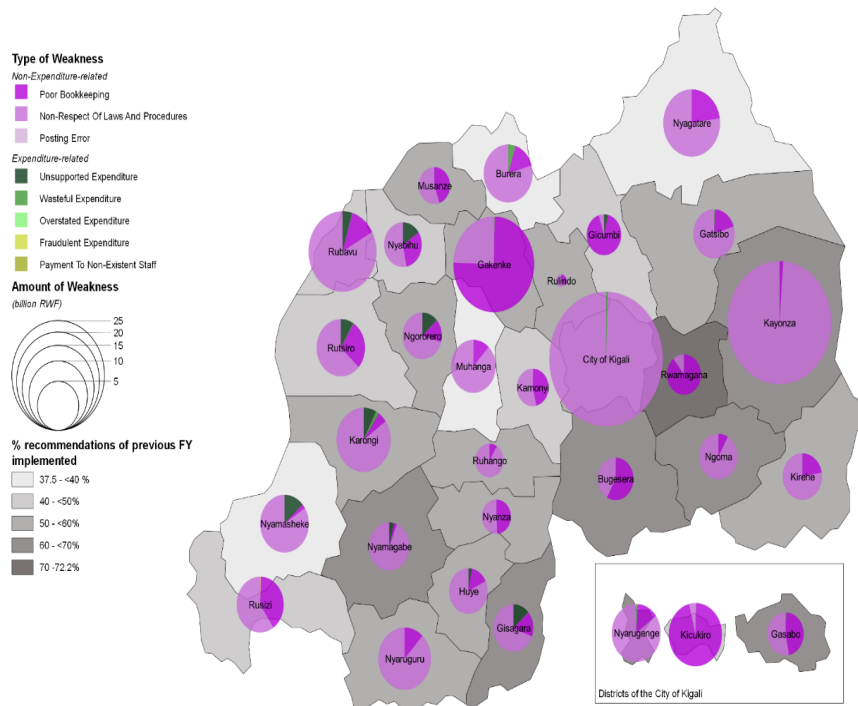
Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of November 2018. Nevertheless, Transparency International Rwanda cannot accept responsibility for the consequences of its use for other purposes or in other contexts.



Analysis of the Auditor General's Reports of the Decentralised Entities for the Fiscal Year that Ended 30th June 2017



Figure 1: Overview of the volume of weaknesses and level of recommendations implementation per District





Executive Summary

Transparency International Rwanda (TI-RW) considers the monitoring of public financial management (PFM) as part of its mission to prevent corrupt behavior and improve horizontal and vertical accountability amongst the institutions in Rwanda. In this perspective, TI-RW provides an analysis of the Office of Auditor General's (OAG) audit reports of all the Rwandan districts and the City of Kigali. This edition is the sixth of its kind and takes into account the audit reports of the fiscal year (FY) 2016-17. It is intended to serve a broad audience including the Rwandan public, stakeholders of public finance and local government. As part of the analysis, all weaknesses identified by the auditors are categorized as either expenditure related (**unsupported, wasteful, fraudulent and overstated expenditures as well as payments made to non-existent staff**) or non-expenditure related (**non-respect of laws and procedures, poor bookkeeping and posting errors**). Since last year's edition, TI-RW also aggregates and consolidates data on **idle funds and assets** identified by the OAG auditors.

All identified weaknesses are assigned an additional thematic category. Thus, it is possible to indicate which programmes, sectors, types of infrastructures etc. are most affected by PFM weaknesses. In addition to that, the analysis includes a detailed analysis of recommendations issued in the previous fiscal year according to their implementation status and according to their difficulty level and their link to weakness categories. The quantitative data compiled is complemented by primary data collected through ten focus group discussions (FGDs) at District level and key informant interviews at national level.

For the second year in a row, the total amount of financial and non-financial weaknesses of the decentralised entities as identified by the OAG **has increased dramatically** to more than **244 billion RWF**, issues regarding idle funds and idle assets not included. This is an inflation-adjusted increase of 125% compared to the previous FY and 674% compared to the FY 2014-15.

Only 2.7% of these weaknesses are related to expenditures, such as unsupported, wasteful, fraudulent or overstated expenditures. The remaining 97% are made up of non-expenditure related weaknesses, mostly poor bookkeeping, posting errors and the non-respect of laws and procedures.

Furthermore, a number of cross-cutting issues that effected districts' PFM in various weakness categories were identified: Irregularities in **public procurement** including **delayed or abandoned construction works** of public projects amount to more than 100 billion RWF. Furthermore, the OAG auditors identified recurrent and increasing issues with Districts' investments in **provincial investment corporations** and other private ventures (42 billion RWF, compared to 8.2 billion RWF in FY 2015-16). Significant **delays in transfers** to beneficiary households of **VUP Direct Support** put vulnerable citizens at risk of decent into



extreme poverty. Delays in transfers of **capitation and school feeding grants** to schools undermine efforts to strengthen the education system and fight malnutrition among children. In the FY 2016-17, 1.6% of all expenditures of the 30 districts and the City of Kigali have been queried by the auditors. Though this proportion has increased compared to last FY, it can be assumed that a considerable amount of weaknesses still remains undetected.

There is some evidence that suggest that decentralized entities that have managed to implement a higher proportion of audit recommendations are effectively more likely to witness less increase in the amount of weaknesses. However, the correlation is very weak, indicating that implementation of audit recommendations only explains a small partition of the difference in PFM performance between the Districts.

Based on the findings, TI-RW issues recommendations in order to address some challenges identified. Districts are urged to make regular and predictable cash transfers to VUP Direct support beneficiaries and timely disburse capitation and school feeding grants. They should refrain from investments that lack clear and realistic business plans, they should systematically seize performance guarantees, and they need to comply with tax law. Districts and RRA should strengthen their cooperation and provide each other with access to information regarding revenue collection. MINECOFIN and other stakeholders should ensure that funds are provided to the Districts in time. MINALOC and LODA should strongly support Districts in carrying out high quality in-depth feasibility studies. Peer review and peer learning between Districts, particularly in the domain of public procurement, should be strengthened. LODA should consider a decrease in the interest rate on VUP Financial Services. MINECOFIN should further strengthen the capacities of staff of subsidiary entities and bring professional training closer to staff in remote rural areas. Last but not least, cases of procurement processes with various irregularities should be examined closely.



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List of Abbreviations

7YGP	Seven Years Government Programme
ACCA	Association of Chartered Certified Accountants
CAT	Certified Accounting Technicians
CIA	Chartered Internal Auditors
CPA	Certified Public Accountants
EDPRS	Economic Development and Poverty Reduction Strategy
EICV-4	Rwanda Integrated Household Living Conditions Survey 2013-14
EPIC	Eastern Province Investment Corporation
FONERWA	National Climate and Environment Fund
FGD	Focus Group Discussion
FY	Fiscal Year
GABI	Gisagara Agro- Business Industries Limited
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoR	Government of Rwanda
KII	Key Informant Interview
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IPPIS	Integrated Payroll and Personnel Information System
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
LODA	Local Administrative Entities Development Agency
MINAGRI	Ministry of Agriculture and Animal Resources
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
NBA	Non-Budget Agency
NISR	National Institute of Statistics Rwanda
NST	National Strategy for Transformation
OAG	Office of the Auditor General
PFM	Public Financial Management
PFMSSP	Public Financial Management Sector Strategic Plan
RLMUA	Rwanda Land Management and Use Authority
RALGA	Rwandan Association of Local Government Authorities
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
RWF	Rwandan Franc
SACCO	Savings and Credit Cooperatives
SPIC	Southern Province Investment Corporation
TI-RW	Transparency International Rwanda
VUP	Vision 2020 Umurenge Program
WESPIC	Western Province Investment Corporation



1. Background and Context

In 2000, the Government of Rwanda (GoR) adopted the Vision 2020 as its long-term strategy for the development of the country. Its objective is to transform Rwanda into a middle-income country by the year 2020. At present, the GoR is drafting a Vision 2050 with the target for Rwanda to become an upper middle-income country by 2035 and a high-income country by 2050. In this spirit, the “National Strategy for Transformation” (NST-1) was elaborated to complement the EDPRS-2 and it bridges to the vision 2050 as well. The decision was made to merge the new Seven Years Government Programme (7YGP, 2017-2024) with NST-1. The latter is built on three pillars:

- Economic Transformation,
- Social Transformation, and
- Transformational Governance.

Under the governance transformation pillar, the GoR has set the broad objectives of streamlining the planning, monitoring and evaluation in all government entities and monitor public financial management (PFM) implementation in order to achieve that 70% of all audit reports would be clear in the fiscal year (FY) 2016-17, as opposed to 60% achieved in FY 2015-16. In this context, the GoR has finalised the elaboration of a new Public Financial Management Sector Strategic Plan (PFMSSP, 2018-2024) to align with the requirements of NST-1.

However, despite the efforts and investments in improving PFM at all levels, the Auditor General noted numerous challenges that aligned with PFM at the level of the decentralised budget entities, i.e. the Districts and the City of Kigali, in this annual report of state finances to the Rwandan parliament (OAG, 2018, pp. 115–120).

Since 2012, Transparency International Rwanda (TI-RW) regularly analyses the expenditure- and non-expenditure-related weaknesses of PFM identified in the Office of the Auditor General's (OAG) audit reports of decentralised entities. TI-RW is financially and technically supported in this task by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and its Decentralisation and Good Governance (DGG) programme.

The main objective of this assignment is to collect qualitative data from concerned stakeholders, aggregate and analyse data from the 31 OAG audit reports of decentralised entities for the FY that ended June 2017, and to make the findings available to the public. The results of the analysis are useful for:

- Serving as a basis to increase the understandability and transparency of the OAG's reports towards the general public as well as Local Government officials;
- Providing evidence-based information for the steering of activities of all key stakeholders of local PFM;
- Providing reliable information to DGG's monitoring system;
- Preparing DGG for policy uptake discussions with relevant stakeholders with active participation of TI-RW.



1.1. Recent Developments in PFM in Rwanda

The Government of Rwanda (GoR) has remarkably improved its PFM systems through the implementation of the five years PFMSSP (2013-2018). The progress in PFM is particularly manifest in:

- Strengthened capacities in PFM across government agencies both at central and local level;
- The implementation of the Integrated Financial Management Information System (IFMIS) in almost all budget agencies.

The IFMIS is now implemented at the level of Sectors and is planned to be rolled out in other subsidiary entities of the Districts, i.e. district pharmacies and schools, in the near future. The Central Bank has created an automatic link between the IFMIS and the Online Banking System to facilitate quick payments and data sharing between the two, so that bank reconciliations can be carried out on a more regular basis.

In a bid to enhance professionalization and capacity building across all PFM disciplines, the GoR is currently implementing a PFM Learning and Development Strategy which was adopted early this year. In this context, all Government officials involved in PFM such as Directors of Finance, accountants, internal auditors and budget officers will be facilitated to attend professional courses that lead to certification on different levels, namely Association of Chartered Certified Accountants (ACCA), Certified Public Accountants (CPA), Chartered Internal Auditors (CIA), Certified Accounting Technicians (CAT) as well as the International Public Sector Accounting Standards (IPSAS) certificate and the International Financial Reporting Standards (IFRS) certificate.

Despite the efforts made to improve the level of compliance, serious issues in PFM persist in Rwandan institutions. The Auditor General's report of state finances for the FY 2016-17 (OAG, 2018) shows that only 50% of public entities audited received an unqualified audit opinion (compared to 60% in the previous FY). The situation remains particularly worrisome for the decentralised entities, of which only the City of Kigali received an unqualified audit opinion. Decentralised entities continue to face PFM weaknesses such as poor contract management, irregularities in public procurement and investments, a low percentage of implementation of audit recommendations, seriously delayed payments to suppliers, schools and social protection beneficiaries, an increasing number of idle assets and cases of unsupported expenditure.

1.2. Grants and Transfers to Subsidiary Entities

The Ministerial Order no 001/16/10/TC of 26/01/2016 in its Art.113 provides that the Chief Budget Manager of a decentralised entity shall ensure that the reports of all subsidiary entities (non-budget agencies, NBA) under its supervision are summarized and included as annex to the main report of the decentralized entity according to the format issued by the office of the Accountant General. It is therefore very clear that the submission of these reports to the Ministry of Finance and Economic Planning has to respect the deadlines specified by the Organic Law.



Once the district receives these financial reports signed by the head of the subsidiary entity, an internal review should be made by the accountant who is in charge of NBAs at District level. Once he/she is satisfied with the quality of information received, he/she prepares a summary of these reports per subsidiary entity category containing the opening balances, transfers from decentralized entities, other revenues, total expenses, surplus or deficit, bank and cash balances, accounts receivables and accounts payables. The decentralized entity discloses by way of notes to the annual financial statements, the summary financial results of the subsidiary entities under their control. In principle, the figures reported by NBAs should be reconciled with some of those in district financial statement in order to avoid discrepancies. al statements in all Districts.

Table 1 shows, however, that there are discrepancies between the grants and transfers according to the disclosure notes and according to the District's financial statements in all Districts.

Table 1: Discrepancies in grants and transfers from Districts to subsidiary entities

District	Grants and transfers to NBA according to District in RWF (A)	Grants and transfers as disclosed by NBA in RWF (B)	Difference (A-B)	%
Nyamasheke	1,108,745,410	27,596,479	1,081,148,931	98%
Gakenke	985,381,529	657,604,166	327,777,363	33%
Rwamagana	1,255,217,498	996,474,620	258,742,878	21%
Nyaruguru	794,980,440	650,890,286	144,090,154	18%
Gisagara	716,062,416	599,177,253	116,885,163	16%
Muhanga	2,295,940,201	1,943,386,804	352,553,397	15%
Musanze	1,951,383,909	1,676,007,967	275,375,942	14%
Ruhango	2,562,634,428	2,248,258,982	314,375,446	12%
Karongi	971,430,711	859,826,934	111,603,777	11%
Nyarugenge	1,894,887,880	1,691,929,055	202,958,825	11%
Ngoma	1,318,600,424	1,180,735,526	137,864,898	10%
Nyamagabe	2,632,110,326	2,376,980,329	255,129,997	10%
Kayonza	1,519,893,952	1,418,086,272	101,807,680	7%
Burera	776,964,676	725,559,671	51,405,005	7%
Bugesera	1,989,801,143	1,875,189,662	114,611,481	6%
Kicukiru	1,848,355,561	1,749,355,139	99,000,422	5%
Gasabo	2,633,901,042	2,539,887,717	94,013,325	4%
Huye	1,515,033,343	1,473,229,498	41,803,845	3%
Ngororero	2,068,311,788	2,017,892,251	50,419,537	2%
Rutsiro	691,517,993	676,368,806	15,149,187	2%
Kirehe	1,318,272,724	1,303,155,686	15,117,038	1%
Nyabihu	1,658,665,678	1,696,670,401	-38,004,723	-2%
Gicumbi	1,144,321,263	1,224,383,353	-80,062,090	-7%
Gatsibo	1,078,638,361	1,178,491,205	-99,852,844	-9%
Nyanza	1,735,255,309	1,912,720,993	-177,465,684	-10%
Rulindo	1,169,325,216	1,311,316,251	-141,991,035	-12%



Nyagatare	1,276,926,464	1,480,695,068	-203,768,604	-16%
Kamonyi	1,196,303,310	1,483,455,162	-287,151,852	-24%
Rubavu	1,264,678,794	1,649,651,700	-384,972,906	-30%
Rusizi	1,056,092,895	1,933,600,283	-877,507,388	-83%
Total	44,429,634,684	42,558,577,519	1,871,057,165	

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

2. Methodological Approach

Categorized and aggregated secondary data obtained from the OAG's audit reports of the 30 Districts and the City of Kigali serve as the main source of information of this analysis. Primary qualitative data was collected from concerned stakeholders through focus group discussions and interviews.

2.1. Data

The first step of the analysis was a tabulation of complaints in expenditure- and non-expenditure-related weaknesses from the 31 decentralized entities, as described in the respective narratives of the audit reports. Table 2 below presents the categories used for the categorisation of audit complaints.

Table 2: Weakness category definitions

Expenditure related weaknesses	
Unsupported expenditure	Absence of supporting documents to justify the expenditure
Wasteful expenditure	Expenditures which could have been avoided including expenditure for unplanned and unnecessary activities such as fines, penalties, etc.
Overstated expenditure	Expenditures where the amount is erroneously recorded, exceeding the amount due. This could be a transposition error of sums or any other record resulting in a registered amount exceeding the amount spent.
Fraudulent expenditure	In the context of this analysis, 'fraudulent expenditure' involves unlawful transfer of the ownership of District assets to one's own personal use and benefit
Payment to non-existent staff	Payment of wages and salaries to ghost employees
Non-expenditure related weaknesses	
Non-respect of laws and procedures	Remarks on non-compliance with existing laws and procedures of public financial management
Poor bookkeeping	Accounting errors that refer to no entry of financial data, inconsistent usage of accounting method, lack of reconciliation of books with bank statements, incomplete or lack of inventor, lack of accurate records and poor filing system; failure to make taxes payable entries to the books of accounts, yet taxes has been duly deducted.
Posting errors	Accounting errors that refer to entries from books of original/prime entry to wrong accounts in the ledger and sometimes to wrong sides of the accounts.
Idle assets/funds	
Assets/funds that are not being used/utilised, severely underused or used for a purpose other than the intended one.	



In addition, each weakness identified was also categorized thematically and according to the related subsidiary entity or programme.

Furthermore, the review of audit reports provides a tabulation of all audit recommendations made by OAG auditors in their reports of the previous year with their current implementation status, the category of complaint that the recommendation refers to and an assessment of the difficulty of the implementation of the recommendation.

The purpose of the categorization is to determine the likeliness of different types of recommendations to lead to immediate PFM performance improvements of the decentralised entities. A resulting table that indicates the level of implementation of recommendations of different categories for each decentralized entity is compared with the performance in each weakness category for the respective decentralised entity. This allows to identify correlations between implementation of recommendations and performance for different thematic types of recommendations (see chapter 4).

The categorization of recommendations by difficulty allows a better understanding of the decentralised units' different levels of implementation. This is achieved by comparison of the decentralised entities' respective levels of implementation of recommendations and the overall difficulty of the recommendations issued.

The difficulty level for implementing a recommendation will be selected based on criteria such as staffing, the extent to which the recommendation is under the district's control, required technical skills and resources as described in Table 3.

Table 3: Definitions of the difficulty level of recommendations implementation

Difficulty	Requirement for selection of difficulty level to implement a recommendation
Very easy	Implementation only requires the management's and the staff's commitment. No additional staff, technical skills, resources needed. It is entirely under the district's control.
Easy	Low input of additional staff, technical skills or capacity building needed. It is entirely under the district's control
Moderate	Implementation requires moderate inputs of staff, technical skills, resources. It is entirely under the district's control.
Difficult	Implementation requires significant inputs of staff, skills and resources. It is partially under the district's control.
Very difficult	Implementation requires very significant inputs of staff, skills, and resources. It is beyond the district's control or cannot realistically be implemented within a period of one year.

2.2. Primary Data

In addition to the quantitative categorization of financial and non-financial weaknesses consolidated from desk review, this study uses primary data obtained through qualitative data collection techniques including focus group discussions (FGD) and key informant interviews (KII) conducted at the level of decentralised entities as well as at national level.



A total number of ten FGD were conducted in different Districts of Rwanda. Participants in each FGD were 10 members of District staff who are actively involved in the financial management and related activities of selected decentralized entities, such as Executive Secretaries, Corporate Services Division Managers, Directors of Finance, Directors of Planning, Directors of Good Governance, Accountants, Budget Officers, Internal Auditors, Logistics Officers and Procurement Officers.

The Districts for FGD were chosen according to the following criteria:

1. Implementation status of previous FY audit recommendations per province (lowest and best performers), and
2. Geographical setting (urban and rural).

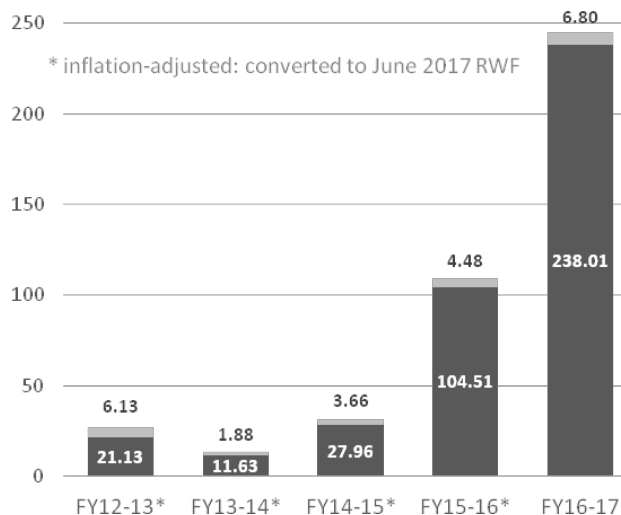
Key informants for interviews were selected according to their familiarity, expertise and experience with the Public Financial Management (PFM) at national level.



3. Analysis of the Financial and Non-Financial Weaknesses of Decentralised Entities for the FY 2016-17

For the second year in a row, the total amount of financial and non-financial weaknesses of the decentralised entities as identified by the OAG has increased dramatically (see Figure 2) to more than 244 billion RWF, issues regarding idle funds and idle assets not included. This is an inflation-adjusted increase of 125% compared to the previous FY and 674% compared to the FY 2014-15.

Figure 2: Amount of PFM weaknesses (in billion RWF) per FY



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The data obtained from the audit reports suggests that a significant part of the increase is due to weaknesses identified in the domain of public procurement and in Districts' investments.

Further details are provided in the following sections on expenditure-related and non-expenditure-related PFM weaknesses of the decentralised budget entities.

3.1. Expenditure-Related Weaknesses

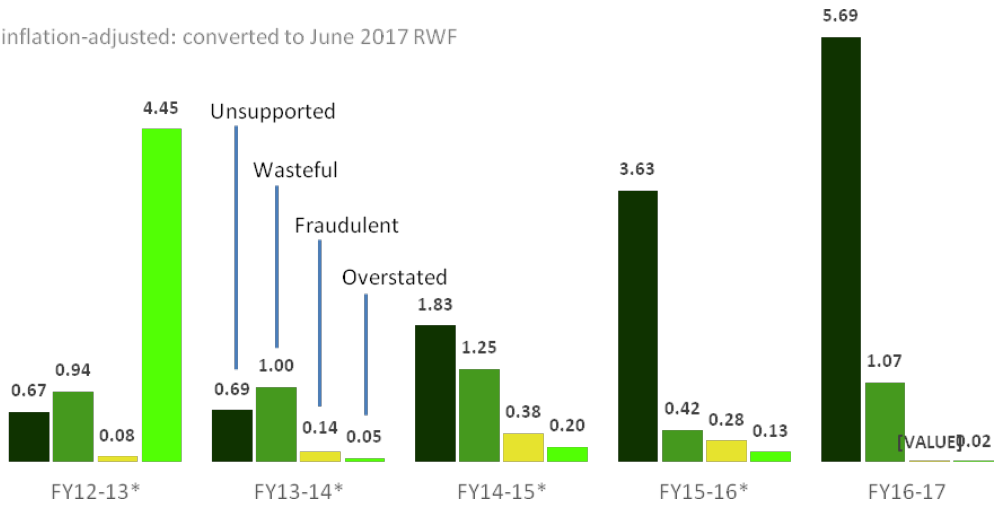
Expenditure-related weaknesses have increased by 52% compared to the previous FY and 86% compared to FY 2014-15. They amount to 6.8 billion RWF. While increasing in absolute numbers, the proportion of the amount of expenditure-related weaknesses to the total amount of weaknesses is decreasing due to the much faster and more drastic increase in non-expenditure-related weaknesses (see 0). In the FY under current scrutiny, expenditure-related weaknesses only account for 2.7% of the total amount, compared to 4.1% in FY 2015-16 and 11.6% in FY 2014-15. However, it would be a mistake to discount expenditure-related weaknesses based on their low share, as e.g. wasteful or fraudulent expenditure may have different and more severe qualitative implications than a mere posting error.

Expenditure-related weaknesses are concentrating more and more on the category of unsupported expenditure (see Figure 3).



Figure 3: Amount of expenditure-related weaknesses per FY (in billion RWF)

* inflation-adjusted: converted to June 2017 RWF



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

While the amount of wasteful expenditure has remained more or less constant around 1 billion RWF over the years (with the exception of FY 2015-16), the amount of unsupported expenditure has increased consistently, whereas fraudulent and overstated expenditure have nearly disappeared from the audit reports¹.

In the current FY, expenditure-related weaknesses also concentrate geographically in the Western Province of Rwanda (see Figure 5).

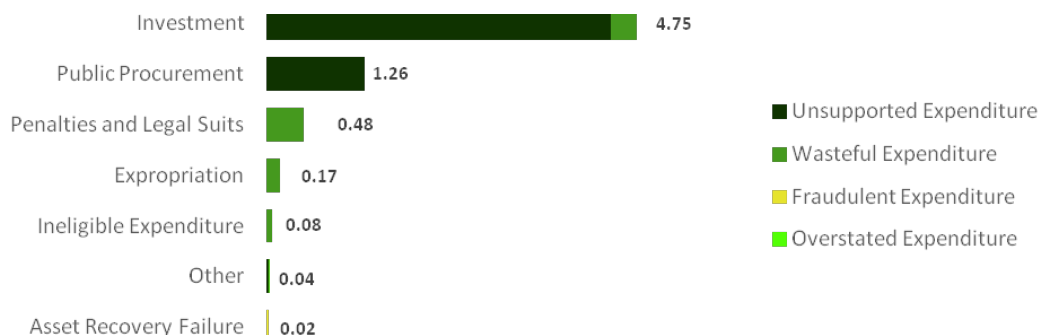
This can clearly be attributed to large amounts of unsupported expenditure referring to Districts' investments in the Western Province Investment Corporation (WESPIC), as will be further elaborated in 3.3.2.

Issues in Districts' investments, either deemed as unsupported or wasteful expenditure, account for almost 70% of all expenditure-related weakness (see Figure 4).

¹ As has happened to „Payments to non-existent staff” even earlier.



Figure 4: Expenditure-related weaknesses by thematic subcategory (in billion RWF)



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali

The Districts most concerned by these issues with unsupported investments (i.e. Ngororero, Rubavu, Rutsiro, Nyamasheke, Karongi and Nyabihu in the West, as well as Gisagara in the South) have a proportion of up to more than 7.5% of their actual annual expenditure questioned by the audit (see Table 4).

All in all, 1.61% of the total amount of actual expenditure of the 30 Districts and the City of Kigali have been identified by the auditors as either unsupported, wasteful, fraudulent, overstated or as a payment to non-existent staff in this FY.

Table 4: Change in amount of expenditure-related weaknesses per District

No	District	Amount of exp.-related weaknesses FY 2016-17 (RWF)	Amount of exp.-related weaknesses FY 2015-16 (RWF)	% change	% of actual District expenditure
1	Musanze	0	220,368,126	-100%	0.00%
2	Ngoma	0	29,335,120	-100%	0.00%
3	Nyagatare	0	3,759,128	-100%	0.00%
4	Nyanza	0	64,063,555	-100%	0.00%
5	Ruhango	0	93,726,867	-100%	0.00%
6	Rulindo	0	317,030,682	-100%	0.00%
7	Rwamagana	0	5,370,000	-100%	0.00%
8	Kirehe	0	0		0.00%
9	Nyaruguru	0	0		0.00%
10	Kayanza	3,500,300	79,744,015	-96%	0.03%
11	Muhanga	5,462,500	73,180,174	-93%	0.04%
12	Kamonyi	6,961,500	39,551,562	-82%	0.07%
13	Rusizi	17,680,000	870,925,559	-98%	0.11%
14	Bugesera	21,172,232	385,264,414	-95%	0.15%
15	Gasabo	33,183,259	9,247,028	259%	0.16%
16	Kicukiro	31,327,647	21,190,900	48%	0.28%



17	Gatsibo	46,200,000	201,650,809	-77%	0.36%
18	Gakenke	64,490,051	103,596,250	-38%	0.49%
19	Nyarugenge	77,234,149	209,816,324	-63%	0.55%
20	City of Kigali	198,053,311	86,832,691	128%	0.71%
21	Huye	121,618,608	0		0.89%
22	Gicumbi	138,473,624	316,045,571	-56%	0.99%
23	Nyamagabe	186,576,000	149,688,849	25%	1.40%
24	Burera	354,443,926	12,603,057	2 712%	2.62%
25	Ngororero	701,427,680	28,162,100	2 391%	4.79%
26	Rubavu	665,325,664	542,059,153	23%	4.84%
27	Gisagara	728,804,288	0		5.76%
28	Rutsiro	673,428,273	2,244,399	29 905%	5.90%
29	Nyamasheke	1,062,935,509	60,052,768	1 670%	6.20%
30	Karongi	901,766,052	95,668,368	843%	6.56%
31	Nyabihu	760,000,000	72,943,425	942%	7.56%
	Total	6,800,064,573	4,094,120,894	66%	1.61%

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

3.1.1. Unsupported Expenditure

Unsupported expenditure amounts to almost 5.69 billion RWF and thus accounts for roughly 84% of the total amount of expenditure-related weakness. While the amount increased by 71% compared to the previous FY (see Table 5), it is now concentrated on a smaller number of Districts (see

Figure 5) and is mostly associated with unsupported investments (4.4 billion RWF).

Table 5: Amount of unsupported expenditure per District

No	District	Amount of unsupported exp. FY 2016-17 (RWF)	Amount of unsupported exp. FY 2015-16 (RWF)
1	Bugesera	0	345,332,614
2	Burera	0	5,484,447
3	Gakenke	0	53,709,000
4	Gatsibo	0	201,650,809
5	Kamonyi	0	29,430,000
6	Kayonza	0	15,000,000
7	Muhanga	0	66,970,030
8	Musanze	0	156,618,218
9	Nyanza	0	530,040
10	Nyarugenge	0	147,836,375
11	Ruhango	0	25,787,818
12	Rulindo	0	300,922,082
13	Rusizi	0	870,925,559
14	Huye	121,618,608	0
15	Gicumbi	138,473,624	312,478,915
16	Nyamagabe	186,576,000	136,273,740



17	Rutsiro	642,857,143	0
18	Rubavu	650,000,000	542,059,153
19	Ngororero	686,034,600	28,162,100
20	Gisagara	716,540,000	0
21	Karongi	721,394,264	0
22	Nyabihu	760,000,000	72,943,425
23	Nyamasheke	1,062,935,509	0
Total		5,686,429,748	3,312,114,325

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Auditors found that Districts in the Western Province are still unable to properly support their investments in the Western Province Investment Corporation (see 3.3.2).

Other unsupported expenditure is related to processes and payments in the domain of public procurement (see also 3.3.1) that lack proper documentation. Most notably, Gisagara District failed to provide any documentation on awarded tenders (717 million RWF) of the year 2017 at the time of the audit in March 2018.



3.1.2. Wasteful Expenditure

The amount of wasteful expenditure has increased from 425 million RWF (inflation adjusted) to more than 1 billion RWF in FY 2016-17 (see Table 6).

Table 6: Amount of wasteful expenditure per District

No	District	Amount of wasteful exp. FY 2016-17 (RWF)	Amount of wasteful exp. FY 2015-16 (RWF)
1	Kamonyi	0	2,474,122
2	Musanze	0	16,186,600
3	Ngoma	0	29,335,120
4	Nyamagabe	0	12,811,109
5	Nyamasheke	0	58,025,678
6	Nyanza	0	1,039,312
7	Ruhango	0	67,939,049
8	Rulindo	0	15,220,628
9	Rwamagana	0	5,370,000
10	Kayonza	3,500,300	10,058,049
11	Muhanga	5,462,500	6,210,144
12	Gisagara	12,264,288	0
13	Rubavu	15,325,664	0
14	Ngororero	15,393,080	0
15	Bugesera	21,172,232	8,436,470
16	Rutsiro	30,571,130	0
17	Kicukiro	31,327,647	21,190,900
18	Gasabo	33,183,259	9,247,028
19	Gatsibo	46,200,000	0
20	Gakenke	47,196,560	0
21	Nyarugenge	77,234,149	25,507,667
22	Karongi	179,720,050	7,000,000
23	City of Kigali	198,053,311	86,832,691
24	Burera	351,077,074	5,188,902
	Total	1,067,681,244	388,073,469

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The largest part (478 million RWF) of wasteful expenditure consists in costs of legal suits and penalty payments of the Districts. Penalties payments were often due to the failure to declare and remit tax or social security. For example, the City of Kigali had to pay penalties amounting to almost 188 million RWF due to late payment of withholding tax.

Lost court cases result in unnecessary costs for the Districts, but they may have an even larger impact on the society and on individual citizens. Many lost court cases are due to the fact that the District has infringed the rights of a citizen. For example, Muhanga District lost a case in court because they had illegally demolished the house of a citizen. Rutsiro and Gisagara Districts lost court cases because of the unlawful dismissal of staff.



Other wasteful expenditure identified is related to unnecessary expropriation due to an inappropriate feasibility study (Karongi District), ineligible fuel coupons issued by Gatsibo District to Sector Executive Secretaries and lack of due diligence (Burera District) in a planned joint venture investment (see also 3.3.2).

3.1.3. Fraudulent Expenditure

Cases of fraudulent expenditure were limited to the failure of asset recovery in FY 2016-17 and to the comparatively small amount of 24.6 million RWF (see Table 7). One must consider, however, that fraudulent expenditure of District may not always be properly detected or may be hidden behind irregularities and cases of non-compliance with law and procedures, e.g. in public procurement. The real amount of fraudulent expenditure may thus be much larger.

Rusizi District failed to recover VUP Financial Services funds fraudulently paid to former staff of Nyakarenzo Sector (13.7 million RWF) and to a fictitious association in Nkombo Sector (4 million RWF) in previous FY. Kamonyi District failed to recover parts of a fraudulent payment of FY 2014-15.

Table 7: Amount of fraudulent expenditure per District

No	District	Amount of fraudulent exp. FY 2016-17 (RWF)	Amount of fraudulent exp. FY 2015-16 (RWF)
1	Gakenke	0	49,887,250
2	Karongi	0	48,764,832
3	Kayonza	0	54,685,966
4	Nyamagabe	0	604,000
5	Nyanza	0	61,662,050
6	Nyarugenge	0	36,472,282
7	Kamonyi	6,961,500	6,961,500
8	Rusizi	17,680,000	0
	Total	24,641,500	259,037,880

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

3.1.4. Overstated Expenditure

Auditors noted only two cases of overstated expenditure in FY 2015-16 (see Table 8), both related to employee management of the concerned Districts. Burera Districts overpaid employees because data in the Integrated Payroll and Personnel Information System (IPPIS) was not in alignment with the approved salary scales. Gakenke District failed to claim payments of maternity leave benefits from RSSB.



Table 8: Amount of overstated expenditure per District

No	District	Amount of overstated exp. FY 2016-17 (RWF)	Amount of overstated exp. FY 2015-16 (RWF)
1	Bugesera	0	31,495,330
2	Kamonyi	0	685,940
3	Karongi	0	39,903,536
4	Musanze	0	47,563,308
5	Nyanza	0	423,060
6	Burera	3,366,852	1,929,708
7	Gakenke	17,293,491	0
		20,660,343	122,000,882

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

3.1.5. Payment to Non-Existent Staff

In the FY 2016-17, the issue of payments to non-existent staff was limited to Karongi District where retired staff members were continued to be paid salaries of a total amount of 651,738 RWF.

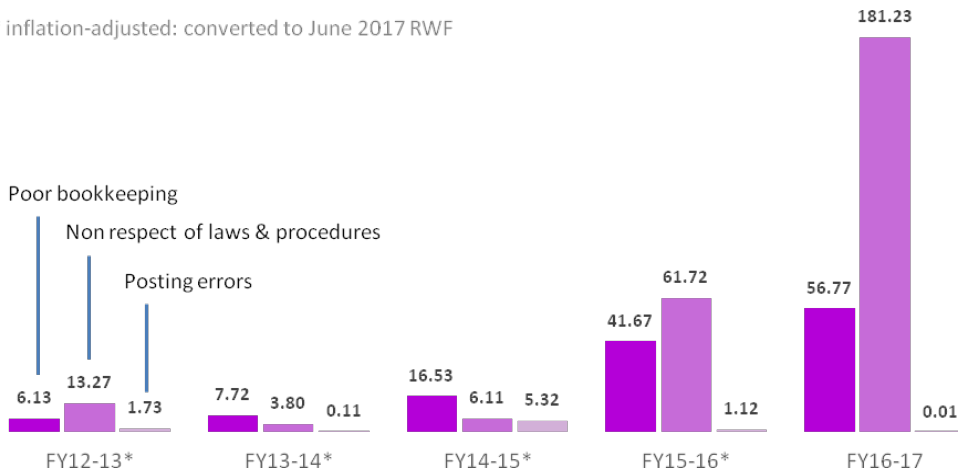


3.2. Non-Expenditure-Related Weaknesses

Non-Expenditure-related weaknesses have increased by 125% compared to the previous FY and a staggering 674% compared to FY 2014-15. They amount to 238.1 billion RWF and account for almost 96% of the total amount of weaknesses. The largest part of the increase is due to growing weaknesses of the category “Non-Respect of Laws and Procedures” (see Figure 6). Posting errors have almost disappeared as complaints from the audit reports.

Figure 6: Amount of non-expenditure-related weaknesses per FY (in billion RWF)

* inflation-adjusted: converted to June 2017 RWF



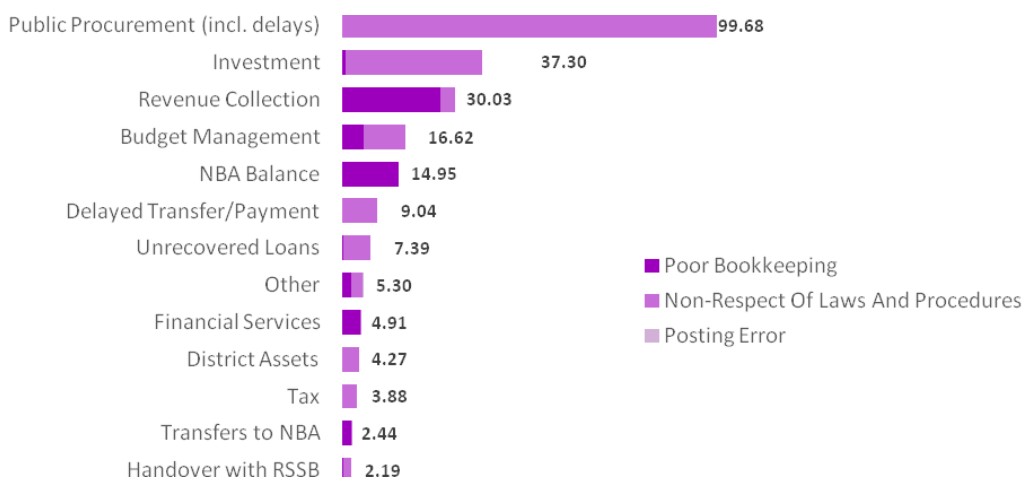
Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Just as in the previous FY and as in the expenditure-related weaknesses, weaknesses in public procurement and delays in the execution of contracts make up a very significant proportion (almost 42%, see 3.3.1) of the total amount of non-expenditure-related weaknesses, as do irregularities in Districts’ investments (almost 16%, see 3.3.2). Problems in revenue collection are to a large extent due to data discrepancies and a lack of information sharing between Districts and Rwanda Revenue Authority (RRA) or private tax collectors. Delayed transfers and payments (see also 3.3.3) account for a smaller proportion of weaknesses, but may have negative effects on local enterprises (delayed payment of suppliers) and particularly harmful impact on poverty alleviation and the quality of education (delayed transfer of VUP Direct Support, of school capitation grants and school feeding funds).

Other non-expenditure weaknesses refer to poor budget management, unreconciled discrepancies between balances of subsidiary entities, unrecovered loans (mostly VUP Financial Services) and non-compliance with tax law (see Figure 7).



Figure 7: Non-expenditure-related weaknesses by thematic subcategory (in billion RWF)



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Other than for the expenditure-related weaknesses, there is no clear geographical pattern in the distribution of non-expenditure-related weaknesses across the country (see Figure 8). Particularly large amounts of weaknesses are attributed to Kayonza District and to the City of Kigali (see Table 9), which are both due to very specific single audit complaints that will be explained in 3.3.1 and 3.3.2.



Table 9: Change in amount of non-expenditure-related weaknesses per District

No	District	Amount of non-exp.-related weaknesses FY 2016-17 (RWF)	Amount of non-exp.-related weaknesses FY 2015-16 (RWF)	% change
1	Rulindo	323,035,589	2,396,510,498	-87%
2	Ruhango	2,357,791,639	1,771,906,597	33%
3	Nyanza	2,480,490,945	1,389,079,623	79%
4	Musanze	2,842,689,921	1,677,426,835	69%
5	Kamonyi	2,959,079,826	2,258,702,155	31%
6	Rwamagana	3,376,450,317	888,553,415	280%
7	Gicumbi	3,476,991,338	5,819,127,441	-40%
8	Bugesera	3,776,330,809	2,678,071,983	41%
9	Gasabo	3,888,170,336	6,821,956,812	-43%
10	Nyabihu	4,131,412,054	3,845,900,462	7%
11	Ngoma	4,310,574,622	1,103,118,121	291%
12	Huye	4,353,084,163	2,518,748,909	73%
13	Kirehe	4,522,501,000	2,775,759,614	63%
14	Ngororero	4,532,098,347	6,758,580,919	-33%
15	Gisagara	4,666,162,226	2,090,149,664	123%
16	Nyamagabe	4,826,505,662	3,603,617,681	34%
17	Gatsibo	4,979,739,772	1,806,702,630	176%
18	Muhanga	5,846,490,732	1,596,584,929	266%
19	Rusizi	6,453,770,559	5,346,639,947	21%
20	Rutsiro	6,879,325,060	3,478,485,090	98%
21	Nyamasheke	6,902,105,515	5,868,032,619	18%
22	Burera	6,994,946,631	1,243,459,402	463%
23	Nyarugenge	7,036,301,901	3,049,223,873	131%
24	Nyaruguru	8,052,664,197	3,802,536,289	112%
25	Kicukiro	8,317,218,731	606,331,461	1 272%
26	Karongi	8,580,564,559	7,660,909,762	12%
27	Nyagatare	9,414,022,146	1,396,157,698	574%
28	Rubavu	13,477,170,449	2,637,871,097	411%
29	Gakenke	19,133,336,956	905,015,804	2 014%
30	Kayonza	31,477,637,068	6,990,303,115	350%
31	City of Kigali	37,643,302,717	690,012,518	5 355%
Total		238,011,965,786	95,475,476,963	149%

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

3.2.1. Non-Respect of Laws and Procedures

Auditors identified cases of non-respect of laws and procedures valued at an amount of more than 181 billion RWF in FY 2016-17 (see



Table 10). A very large proportion of these weaknesses is related to public procurement, delays in execution of projects and Districts' investments, which will be discussed in further detail in chapter 4.

Table 10: Amount related to non-respect of laws and procedures per District

No	District	Amount FY 2016-17 (RWF)	Amount FY 2015-16 (RWF)
1	Gicumbi	176,132,245	4,742,243,648
2	Rulindo	195,822,821	1,121,575,639
3	Kicukiro	317,015,837	127,600,203
4	Rwamagana	362,871,141	888,553,415
5	Nyanza	1,268,978,753	838,050,577
6	Musanze	1,574,892,821	1,445,485,178
7	Kamonyi	1,592,767,489	409,566,467
8	Bugesera	1,599,453,392	925,923,254
9	Gasabo	2,086,534,899	712,418,329
10	Ruhango	2,151,153,519	1,771,906,597
11	Nyabihu	2,591,168,577	3,385,584,766
12	Kirehe	3,518,945,322	15,528,579
13	Huye	3,682,504,699	2,252,369,178
14	Ngororero	3,699,771,125	5,113,206,498
15	Gisagara	3,729,293,629	1,665,413,049
16	Rusizi	3,848,274,209	3,092,297,146
17	Ngoma	3,956,620,536	370,552,608
18	Gatsibo	4,021,525,696	653,150,888
19	Gakenke	4,681,151,078	245,761,223
20	Nyamagabe	4,706,808,676	3,268,346,680
21	Rutsiro	4,773,634,078	2,914,805,129
22	Muhanga	5,151,818,826	1,309,673,665
23	Burera	5,844,992,886	67,123,166
24	Nyarugenge	6,050,108,479	721,944,254
25	Nyamasheke	6,698,439,203	3,563,916,743
26	Nyaruguru	7,103,215,301	3,225,880,612
27	Nyagatare	7,274,303,098	509,428,827
28	Karongi	8,046,536,589	5,397,069,891
29	Rubavu	11,755,209,593	2,393,845,694
30	Kayonza	31,122,795,052	2,540,762,861
31	City of Kigali	37,643,302,717	690,012,518
Total		181,226,042,285	56,379,997,282

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The remainder of cases are related to revenue collection, budget management, delayed transfers and payments (see 3.3.3), non-recovered loans, management of District assets, tax payments and recurrent problems in the handover of the mutual health insurance to RSSB:



- Issues in revenue collection consist in the underperformance in internally generated revenue in comparison to projections and expectations, in the lack of documentation of fees collected (e.g. parking fees collected in Nyarugenge District), in Districts inadequate access to information on local taxes collected by RRA, lack of follow up on the collection of undeclared taxes and fees, as well as unexploited sources of revenues (e.g. parking fees in Gicumbi District). Huye District continued to collect taxes that were actually under the responsibility of RRA.
- The City of Kigali incurred a serious amount of weakness in budget management, as it failed to budget for the proceeds from borrowing and thus significantly exceeded the budgeted expenditure (11 billion RWF).
- Non-recovered loans are almost exclusively related to VUP Financial Services loans not recovered from beneficiaries, often for several consecutive FY.
- Nyarugenge District lacks title of deeds and other documentation to properly certify their ownership of immovable assets valued at more than 4.2 billion RWF.
- Districts failed to properly and timely declare and remit the total amount of almost 3.9 billion RWF of withholding tax, value added tax and other taxes to RRA.
- RSSB took over the management of Mutual Health Insurance from Districts in July 2015. In the year under review, the OAG auditors noted remaining irregularities in the process of handing over responsibilities from Districts to RSSB in Gatsibo, Nyagatare and Kirehe Districts, where funds are still not properly handed over.

3.2.2. Poor Bookkeeping

Weaknesses of the category of poor bookkeeping amount to 56.77 billion RWF in the FY 2016-17 (see al statements in all Districts.

Table 1 (Table 11). Large parts of this amount are related to revenue collection, budget management, disclosure of NBA balances and VUP Financial Services:

- In revenue collection, poor bookkeeping practices identified by the auditors consist in the absence of data on tax and fee debtors, unexplained differences between the amount of revenue collected according to different sources such as district financial statements, annual activity reports, monthly collection reports from RRA. Districts were often unable to disclose taxes and fees collected by RRA in their financial statements because they did not receive the transfers in time.

Table 11: Amount related to poor bookkeeping per District

No	District	Amount FY 2016-17 (RWF)	Amount FY 2015-16 (RWF)
1	Nyamagabe	119,696,986	335,271,001
2	Rulindo	127,212,768	916,683,585
3	Nyamasheke	203,666,312	2,304,115,876
4	Ruhango	206,638,120	0
5	Kayonza	343,670,436	4,449,540,254
6	Ngoma	353,954,086	732,565,513



7	Karongi	534,027,970	2,263,839,871
8	Huye	670,579,464	266,379,731
9	Muhanga	694,671,906	286,911,264
10	Ngororero	832,327,222	1,645,374,421
11	Gisagara	936,868,597	424,736,615
12	Nyaruguru	949,448,896	576,655,677
13	Gatsibo	958,214,076	1,153,551,742
14	Nyarugenge	986,193,422	2,327,279,619
15	Kirehe	1,003,555,678	2,760,231,035
16	Burera	1,149,953,745	1,138,685,979
17	Nyanza	1,211,512,192	440,249,259
18	Musanze	1,267,797,100	231,941,657
19	Kamonyi	1,366,312,337	1,736,717,435
20	Nyabihu	1,540,243,477	53,115,285
21	Rubavu	1,721,960,856	244,025,403
22	Gasabo	1,801,635,437	6,109,538,483
23	Rutsiro	2,105,690,982	563,679,961
24	Nyagatare	2,139,719,048	886,728,871
25	Bugesera	2,176,877,417	1,752,148,729
26	Rusizi	2,605,496,350	2,254,342,801
27	Rwamagana	3,013,579,176	0
28	Gicumbi	3,300,859,093	1,076,883,793
29	Kicukiro	8,000,202,894	478,731,258
30	Gakenke	14,452,185,878	659,254,581
Total		56,774,751,921	38,069,179,699

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

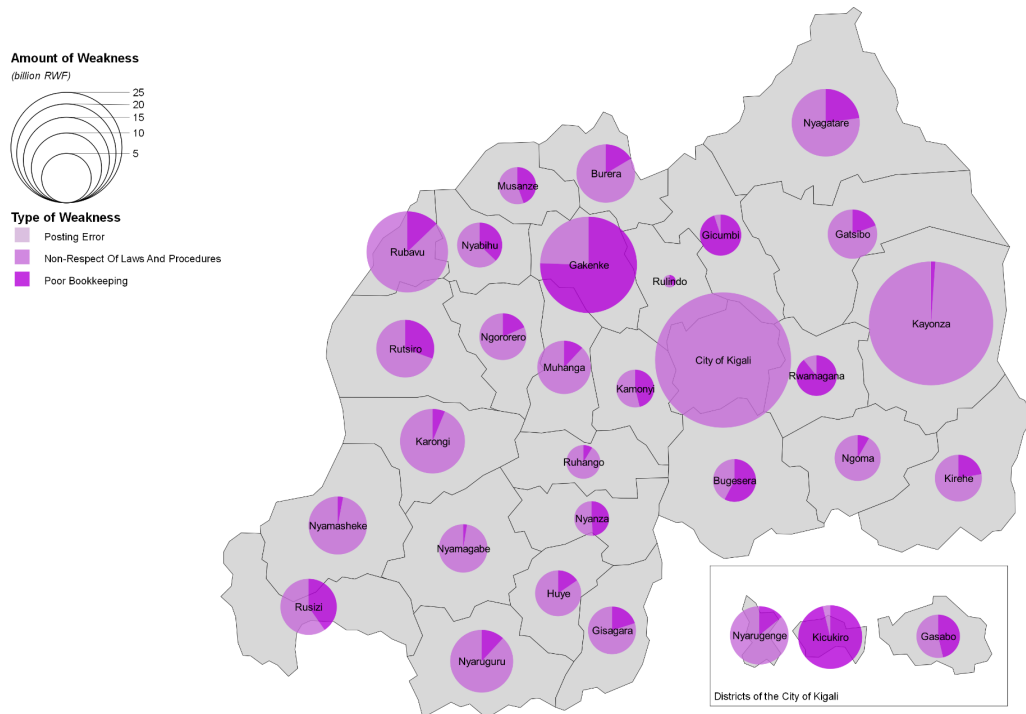
- Nyagatare, Nyabihu and Kicukiro Districts were unable to explain the difference between the approved and the executed budget of a total amount of 5.6 billion RWF.
- Nine Districts did not disclose VUP Financial Services funds (4.68 billion RWF) in their financial statements, so that auditors lacked information on amounts transferred, loans granted, unutilized funds, unrecovered loans, etc.
- Unexplained differences in the balances and transfers disclosed in the District financial statements and in the subsidiary entities' reports were observed in a number of Districts (see 1.2).

3.2.3. Posting Errors

Posting errors are limited to a single and recurring complaint in Kayonza where returned salaries and returned payments amounting to RWF 11,171,580 appeared in the District books of accounting as outstanding payments despite having already been settled four years ago.



Figure 8: Overview of the volume of non-expenditure-related weakness per District



3.2.4. Idle Funds and Assets

Idle funds and assets were included as separate categories in last year's edition of this analysis for the first time. Since then, the overall amount of idle funds and assets has increased from 7.6 billion RWF to 9.4 billion RWF.

3.2.5. Idle Assets

Idle assets may be the result of the absence or the poor quality of feasibility studies, of a lack of capacities, of poor maintenance or of poor quality of construction or equipment. In the FY 2016-17, auditors of the OAG noted idle assets worth a total amount of 4.7 billion RWF in the Districts (see Table 12). This is a sharp increase from 2.7 billion RWF in the previous FY.



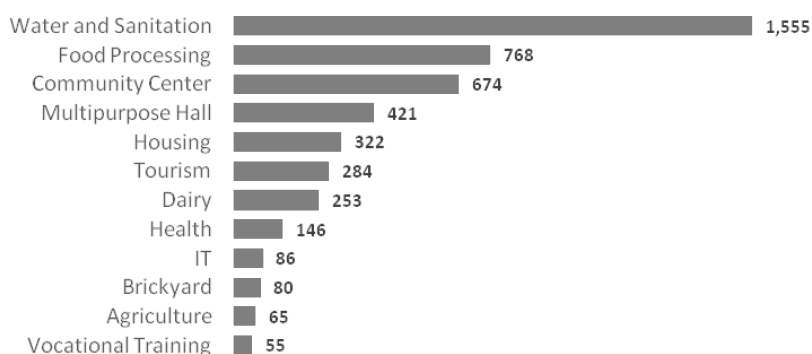
Table 12: Amount of idle assets per District

No	District	Amount FY 2016-17 (RWF)	Amount FY 2015-16 (RWF)
1	City of Kigali	0	222,116,624
2	Gicumbi	0	78,700,500
3	Muhanga	0	402,516,321
4	Musanze	0	111,728,605
5	Nyabihu	0	27,484,155
6	Nyagatare	0	59,120,298
7	Nyamasheke	0	64,599,307
8	Nyarugenge	0	149,485,020
9	Rutsiro	0	12,758,340
10	Gakenke	8,500,000	0
11	Kamonyi	122,324,790	1,827,586
12	Rulindo	134,693,894	0
13	Nyamagabe	173,354,723	244,249,489
14	Ruhango	218,851,858	12,100,000
15	Nyaruguru	300,658,539	0
16	Rusizi	337,848,574	168,583,919
17	Gatsibo	420,818,254	0
18	Kirehe	509,455,506	0
19	Ngororero	1,052,071,098	778,546,830
20	Nyanza	1,430,816,345	89,848,638
Total		4,709,393,581	2,423,665,632

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Ultimately, the impact of idle assets is a lack of clean water delivered to citizens, a lack of income generation and economic development through production or tourism, of provision of affordable housing, health services or better education, as the categorization of idle assets clearly shows (see Figure 9).

Figure 9: Amount of idle assets per type (in million RWF)



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Some of the most notable idle assets are the following:



- A faecal sludge treatment plant and a modern landfill constructed with funding (almost 1.3 billion RWF) from the Lake Victoria Water and Sanitation programme (Africa Development Bank, UN Habitat), non-operational at the time of audit in Nyanza District;
- A cassava factory (758 million RWF) idle for four years due to inappropriate machinery in Ngororero District;
- The “Community Center for Innovation” (509.5 million RWF) non-operational in Kirehe District;
- The Multipurpose Hall of Gatsibo District and other projects not used (421 million RWF);
- The Umukore touristic site in Ngororero non-operational (284 million RWF);
- A milk collection center idle for almost four years in Nyaruguru (229.5 million RWF);
- Water supply infrastructure not used in Ruhango and Rulindo Districts;
- Tablets provided by the Rwanda Land Management and Use Authority (RLMUA) to Sectors of Rusizi and Nyaruguru Districts not used or not functioning.

3.2.6. Idle Funds

The amount of idle funds has remained at roughly the same amount as in the previous FY, with an amount of 4.67 billion RWF available funds that were not properly disbursed (see Table 13) by 18 Districts. As in the previous FY, a large proportion (77%) of this amount is related to funds intended for VUP Financial Services that Umurenge SACCOs were unable to disburse to target beneficiaries. Thus, a total amount of almost 3.6 billion RWF has remained on SACCO accounts instead of being utilized for the economic development of the eligible citizens from the bottom two Ubudehe categories.



Table 13: Amount of idle funds per District

No	District	Amount FY 2016-17 (RWF)	Amount FY 2015-16 (RWF)
1	Bugesera	0	33,130,001
2	Gicumbi	0	87,582,992
3	Kirehe	0	425,085,431
4	Ngoma	0	208,862,370
5	Nyabihu	0	71,947,591
6	Nyamasheke	0	381,389,125
7	Rubavu	0	18,600,000
8	Rutsiro	0	910,086,967
9	Gakenke	3,900,720	0
10	Huye	19,721,136	0
11	Nyanza	27,866,925	0
12	Nyamagabe	45,974,446	269,700,595
13	Gisagara	60,000,000	0
14	Nyarugenge	112,229,971	20,000,000
15	Kicukiro	130,521,023	50,737,225
16	Musanze	143,231,309	0
17	Nyagatare	229,596,532	30,502,933
18	Rulindo	260,353,483	0
19	Kayonza	310,118,007	68,608,314
20	Rusizi	335,761,703	0
21	Ruhango	366,558,604	510,672,573
22	Gatsibo	369,008,622	62,777,600
23	Nyaruguru	501,220,177	514,779,055
24	Muhanga	520,685,580	501,722,083
25	Kamonyi	592,174,202	1,666,530
26	Karongi	645,414,519	319,523,070
	Total	4,674,336,959	4,487,374,455

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

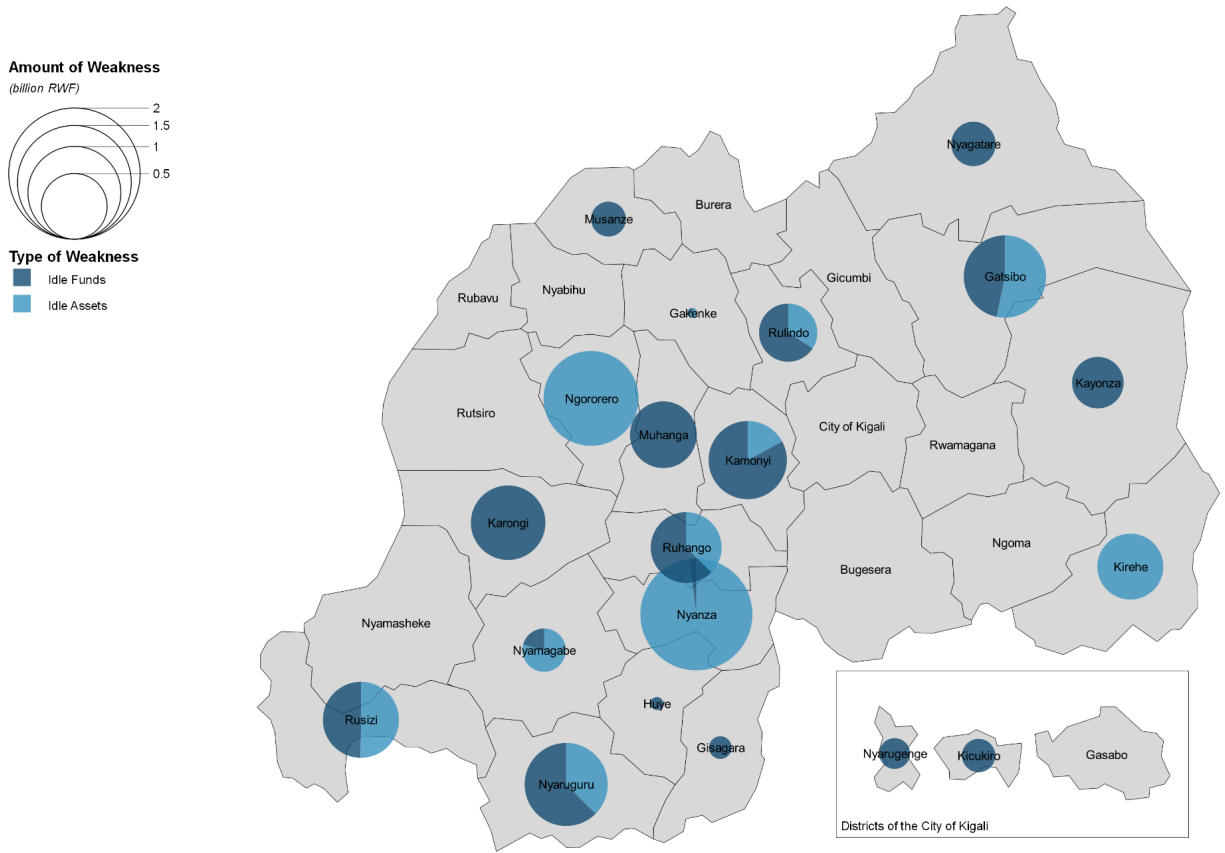
The OAG attributes the difficulties in disbursement to the steep increase in interest (from 2% up to 11%) rates and penalties that took effect with the circulation of new VUP guidelines in April 2015 (OAG, 2018, p. 117).

Other notable unutilized financial means are the following:

- Low absorption rate of funds from the National Climate and Environment Fund (FONERWA) in Kamonyi District (RWF 592,174,202),
- Funds intended for the development of local Biogas facilities (RWF 107,110,000) left unutilized in Kayonza and Nyaruguru Districts,
- Grants from a local NGO for the social reintegration of orphans and vulnerable children (RWF 133,714,623) left unutilized by Kayonza District,
- 95% of funds from MINAGRI for Small Scale Irrigation Technology (RWF 60,000,000) left unutilized by Gisagara District.



Figure 10: Overview of the volume of idle funds and assets per District





3.3. Cross-Cutting Issues

Recurrent and possibly very impactful issues such as irregularities in public procurement, delays in execution of contracts, complaints regarding Districts' investments and delayed payments and transfers are related to weaknesses in different categories and can thus be considered as cross-cutting. The following sections give an overview over the most important cross-cutting issues.

3.3.1. Public Procurement and Delays in Execution of Contracts

Weaknesses identified by the auditors amounting to around 100 billion RWF can be related to issues in the domain of public procurement, idle assets not included. The largest part of this amount refers to non-compliance to laws and procedure. Public procurement law and procedures are put in place in order to prevent corruption and ensure transparency. Non-compliance with procedure may be due to negligence or ignorance, but it may also well be a red flag for corrupt practices.

With this background in mind, it seems even more worrisome that auditors noted various irregularities at different stages of a single procurement project in 12 projects of a total amount of more than 9.5 billion RWF. Eight of these projects amount to more than 250 million RWF each:

- The construction of cobblestone roads in Karongi District (4.1 billion RWF) with a change of substance of the contract without non-objection, a tender award without proper survey of the availability of cobblestone, the signing of a contract addendum without revision of the bill of quantities, and delays in contract;
- The cross-border market, also in Karongi District (1.57 billion RWF), with an inappropriate feasibility study, the lack of evidence of involving the District in the site selection, unnecessary expropriation costs, delayed construction works and increased supervision costs;
- The Gatega-Bushyoni road in Ngororero District (978 million RWF), where the District failed to charge penalties for construction delays, even though parts of the road were destroyed by a landslide and not operational at the time of physical verification;
- The installation of public lights on urban roads of the City of Kigali (751 million RWF) with lack of supervision and failure of extension of the performance guarantee validity period when the contract execution delayed;
- The Burera Beach Resort (554 million RWF) with serious delays in construction works, additional works identified after handover, two contracts signed for one tender, defects identified during provisional reception that were not corrected;
- The rehabilitation of four Health Centres (526 million RWF), also in Burera District, with a final reception delayed by more than 36 months, serious defects, payments



for non-executed works and for works of a quality that differs from the provisions of the bill of quantities;

- The construction of Rugerero Health Center in Rubavu District (387 million RWF), with irregularities in the tender award, contract execution delays, expiration of the performance guarantee, and the lack of a supervising company;
- The rehabilitation of the Nkungu-Cyamugongo-Mataba road (282 million RWF) in Rusizi District with a failure to conduct a final handover, the failure to seize the performance guarantee, lack of maintenance during the liability period, poor quality of works, changes in the bill of quantities.

The highest amount of an audit complaint refers to contracts signed by the City of Kigali without seeking the legal opinion of the Minister of Justice (15.5 billion RWF). According to Article 43 of the Ministerial Instruction No 612/08.11 of 16/04/2014, public institution has to seek legal opinion for each contract valued 500 million RWF and above.

Other notable weaknesses are related to

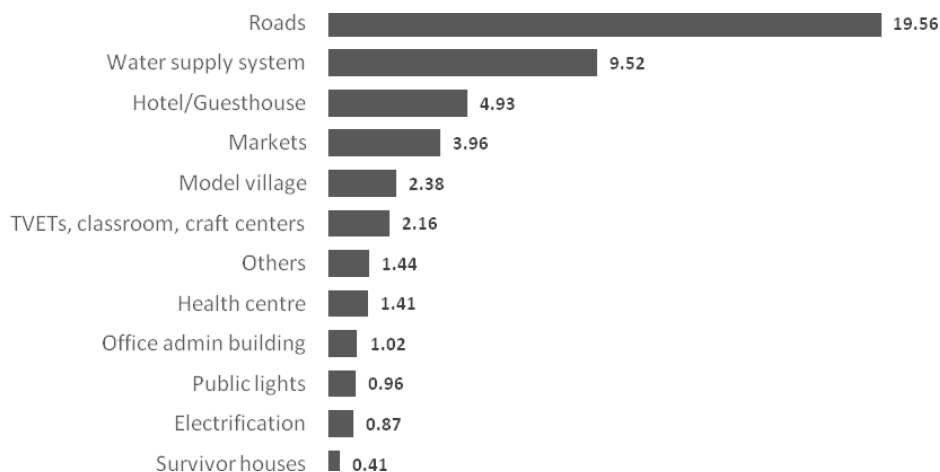
- The poor quality of works, e.g. defects caused by the among others by the lack of drainage in the construction of the Nyundo Model Village in Gakenke District (1.5 billion RWF), various defects in the construction of the Rutsiro District guesthouse (1.5 billion RWF);
- The inability of the City of Kigali to award seven tenders included and approved in the procurement plan for no documented reasons (7.9 billion RWF);
- The award of tenders valued at 6.1 billion RWF outside of the procurement plan in six Districts;
- The lack of supervision of the project execution;
- Irregular addenda;
- The lack of feasibility studies;
- Irregularities in tender award procedures, e.g. tenders awarded to non-eligible bidders, the lack of documentation of the tender award, the lack of involving a tender committee or the award of a tender to a bidder with abnormally low prices;
- Serious conflicts of interest, such as the award of a tender for supply of food for a youth camp and supply of materials for Gitega Model Village in Rutsiro District, where the Director General of the winning company was a member of the District Council and the president of the Audit Committee.

The lack of feasibility studies or inappropriate feasibility studies have further implications, as they pose a risk to the sustainability of projects and may lead to idle assets (see 3.2.5). District officials emphasized this during the focus group discussion sessions conducted as part of this analysis and urged LODA to strongly support adequate and realistic feasibility studies for all District projects.

Delays in contract execution are a very important additional aspect to issues in public procurement. In the annual report of state finances for the FY 2016-17 (OAG, 2018, p. 118f.), the OAG identifies projects amounting to 48.6 billion RWF that were seriously delayed (see Figure 11).



Figure 11: Delayed contract execution by project type (in billion RWF)



Source: Data from OAG's Report of State Finances (Financial Year 2016-17)

Given their relative importance in local development, it is not surprising to see roads lead the list of delayed projects. Some notable examples of delayed road construction works are:

- FR11 and FR12 feeder roads in Nyamasheke District at 40.7% completion status as of March 31, 2018, with a planned completion date of June 1st, 2018;
- Road construction in Ngororero District delayed by more than one year;
- The Gisozi-Karuruma tarmac road in Gasabo District (project of the City of Kigali);
- Road construction projects entirely abandoned by the contractors, such as the Nyagatare-Rwampasha-Kizinga road, access roads to the agro-pastoral region of Gishwati and the Runyiniro-Mubayo road (phase II) in Nyabihu District, the rehabilitation of the Mubuga-Rusoro feeder road in Gakenke District, the Ryakiyange-Kanyamizo road in Muhanga District or a road under VUP Public Works support in Musanze District.

Projects in the domain of water supply systems such as projects in Ruhashya-Ntyazo of Nyanza District, Ruli of Muhanga District, Higiro-Kigembe-Mukindo in Gisagara District or Murama in Kayonza District, account for the second highest total value of projects delayed. Among the delayed projects of construction of guesthouses are the Gisagara Guesthouse (874 million RWF) and the Ngoma District Hotel (2.9 billion RWF), which even fails to realise the projected income after its seriously delayed completion.

During focus group discussions, District staff mentioned that delays in project implementation often lead to increased costs, e.g. due to extended supervision periods and the loss of value of money. They see one of the reasons for serious delays in the inability of some contractors to honour their contracts despite sufficient evidence for their capacities provided during the bidding process.



3.3.2. Investments

Irregularities in Districts' investments were identified as a cross-cutting issue in last year's edition of this analysis, with a total amount of almost 8.2 billion RWF of investments that were deemed unsupported, non-compliant with laws and procedures or lacking proper documentation by the auditors in FY 2015-16. The total amount of investment related weaknesses has even drastically increased to 42 billion RWF in FY 2016-17 (see Table 14). Not only did the total amount increase, but investment-related weaknesses also spread over an increasing number of Districts (Figure 12).

The largest proportion of these irregularities are related to Districts' investments in Provincial investment corporations such as the Eastern Province Investment Corporation (EPIC), the Southern Province Investment Corporation (SPIC) and the Western Province Investment Corporation (WESPIC).

Table 14: Investment-related weaknesses per corporation and District

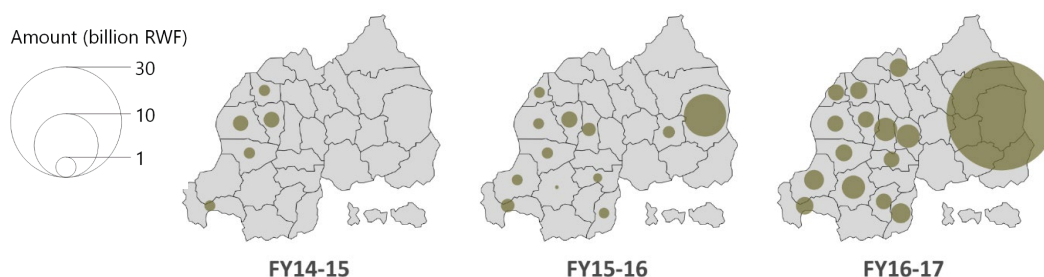
Corporation/District	Amount (RWF)
EPIC	24,934,703,304
Kayonza	24,934,703,304
SPIC	5,316,773,682
Huye	622,886,841
Kamonyi	1,357,000,000
Muhanga	1,357,000,000
Nyamagabe	1,357,000,000
Ruhango	622,886,841
WESPIC	5,191,428,572
Karongi	697,857,143
Ngororero	665,000,000
Nyabihu	760,000,000
Nyamasheke	992,857,143
Rubavu	650,000,000
Rusizi	782,857,143
Rutsiro	642,857,143
Mount Meru Soyco Ltd	4,168,246,774
Kayonza	4,168,246,774
GABI	970,635,840
Gisagara	970,635,840
Kayonza Taxi Park Management	630,084,899
Kayonza	630,084,899
Burera Beach Resort	500,000,000
Burera	500,000,000
Noguchi Holdings	341,477,074
Burera	341,477,074
Total	42,053,350,145

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The weaknesses related to EPIC consist in long delays of project execution, lack of loan security, the absence of financial statements for the investment to be provided by the District as well as an unrealistic project business plan. EPIC's most notable project of recent years is the construction of the City Blue Epic Hotel in Nyagatare District.

Auditors noted an unexplained difference between the share capital of Ruhango and Huye Districts in SPIC according to the RDB certificate and according to the corporation's memorandum and articles of association. The construction of the projected Ikigage factory by SPIC remains so far unrealised and may lead to the loss of the investment, according to OAG. SPIC also failed to provide contracts for acquired equipment. Said equipment remains idle, as the factory for which it was intended is very far from being operational.

Figure 12: Investment-related weaknesses per District and FY



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Just as in the previous FY, Districts in Western Province were still unable to provide essential supporting documentation for their investments in WESPIC, such as Memorandum of Understanding, articles of association, a business plan, audited financial statements, projected cash flows and profits, investment returns, or minutes of Board of Directors meetings. There were also discrepancies in data on the number of WESPIC shares held by Districts and lacking information on the value of shares.

Auditors did not only notice irregularities in Kayonza District's investment in EPIC, but also in the Kayonza Taxi Park Management and in Mount Meru Soyco Limited. Burera District lacked due diligence in the investment in the Burera Beach Resort, as the District's full ownership of the project is not properly reflected in the registration certificate. Disagreements in a projected joint venture between Burera District and Noguchi Holdings to establish a garment manufacturing plant caused the project to come to a halt. Gisagara District has decreased its shares in Gisagara Agro-Business Industries (GABI) without proper documentation and failed to comply with the partnership agreement.

3.3.3. Delayed Payments and Transfers

According to the OAG report of state finances (OAG, 2018, p. 118), 23 Districts were unable to make VUP support payments of a total amount of almost 3.9 billion RWF in time, with delays of up to 337 days (see Table 15). Cash transfers in the framework of VUP Direct Support are provided to extremely poor households with no adult labour capacity and are



intended to provide “regular and predictable support of those living in poverty and vulnerable to falling into poverty” (MINALOC, 2011, p. 2). Delays in these transfers may thus be very harmful to the most vulnerable citizens and seriously put their livelihood security at risk.

Table 15: Delayed social protection cash transfers per District

District	Delay (days)	Amount (RWF)
Ruhango	11 -277	432,571,500
Gicumbi	14 -261	431,542,000
Nyamagabe	28-285	402,624,000
Nyanza	20-66	336,620,500
Huye	14-236	319,080,600
Kayonza	27-337	286,786,000
Ngororero	300	251,925,756
Gakenke	40-205	235,483,700
Gatsibo	28-83	225,893,300
Burera	43-240	211,056,452
Gisagara	37-68	142,964,700
Bugesera	36-66	131,233,300
Ngoma	16-258	101,540,400
Kamonyi	43-83	73,110,850
Kicukiro	15-263	59,247,200
Gasabo	27-68	57,185,800
Rwamagana	10-55	42,308,300
Rusizi	311	35,895,500
Rulindo	22-82	27,796,000
Musanze	21-268	23,365,450
Rutsiro	286	19,176,000
Nyaruguru	114	13,818,000
Nyarugenge	46	2,599,000
Total		3,863,824,308

Data from OAG's Report of State Finances (Financial Year 2016-17)

According to the Social protection and VUP report based on the Rwanda Integrated Household Living Conditions Survey 2013-14 (EICV-4), Direct Support transfers are most commonly used by the beneficiaries for basic needs such as food and clothing (NISR, 2015, p. 27).

The findings from the District audits correspond to the finding of EICV-4 that 86% of beneficiaries receive VUP Direct Support typically with more than a month delay. Direct Support payments should be made at the beginning of every month. The amount of payment depends on household size. As the average value of payment per household stands at RWF 13,100, one can estimate that the delays concerned almost 300,000 monthly household payments. In focus group discussions, District staff attributed delayed payments to issues in the late disbursement of funds from MINECOFIN and other stakeholders.



Districts also failed to timely disburse grants for capitation and for school feeding to schools. These transfers are supposed to be made every quarter, ensure school operations and provide feeding to students with the goal of fighting malnutrition among children. According to the OAG report of state finances, nine Districts failed entirely to make a transfer for the last quarter of FY 2016-17 (see Table 16).

Table 16: Districts failing to transfer capitation grant and school feeding grants in Q4 of FY 2016-17

District	Amount (RWF)
Gatsibo	246,933,789
Nyamasheke	227,754,475
Nyamagabe	219,789,435
Rusizi	211,584,242
Gicumbi	208,255,605
Nyaruguru	169,590,907
Rutsiro	126,380,215
Gakenke	117,933,393
Huye	23,540,805
Total	1,551,762,866

Data from OAG's Report of State Finances (Financial Year 2016-17)

In eleven cases, transfers to schools were made with delays of up to 463 days (see Table 17). Such delays put the proper operation of schools at risk and may cause poor educational outcomes.

In focus group discussions, District staff recognized the fact that students suffered from this delay in their daily life. They attributed the delayed transfers to the tardy approval of students lists by the Ministry of Education (MINEDUC).

Table 17: Delays in transfer of capitation and school feeding grants per District

District	Delay (days)	Amount (RWF)
Nyamasheke	30-83	404,531,820
Gakenke	44-174	350,155,795
Gatsibo	79-100	324,838,575
Gicumbi	44-164	305,913,919
Kicukiro	55-141	32,287,040
Gasabo	16-48	25,173,612
Rutsiro	49-128	23,768,405
Rulindo	11-92	23,042,085
Kamonyi	463	13,637,160
Rubavu	66-129	8,073,545
Kayanza	52-111	7,766,280
Total		1,519,188,236

Data from OAG's Report of State Finances (Financial Year 2016-17)



Lastly, the City of Kigali as well as Nyaruguru, Ngororero, Rubavu and Rwamagana Districts failed to make timely settlements of suppliers' invoices of a total amount of more than 1.5 billion RWF. Kicukiro District failed to make expropriation compensation payments of more than 67 million RWF.



4. Monitoring of Audit Recommendations

In the audit reports of the FY 2016-17, a total number of 1,427 recommendations were issued by the auditors to the Districts and the City of Kigali. This is an increase of almost 29% compared to the FY 2015-16 (1,101 recommendations) which reflects the further increase of the total amount of weaknesses.

Table 18: Implementation of FY 2015-16 audit recommendations per District

No	District	FY 2015-16	FY 2016-17
1	Rwamagana	81%	72%
2	Gasabo	66%	68%
3	Bugesera	62%	67%
4	Gisagara	57%	67%
5	Kayonza	53%	67%
6	Nyamagabe	54%	65%
7	Ngoma	55%	63%
8	Nyarugenge	42%	61%
9	Nyaruguru	71%	60%
10	Gakenke	60%	59%
11	Kirche	68%	59%
12	Rulindo	51%	57%
13	Ruhango	45%	57%
14	Karongi	44%	56%
15	Gatsibo	41%	56%
16	Huye	74%	56%
17	City of Kigali	63%	53%
18	Nyanza	41%	52%
19	Musanze	44%	52%
20	Ngororero	21%	51%
21	Rutsiro	43%	50%
22	Rusizi	42%	49%
23	Kamonyi	44%	49%
24	Gicumbi	42%	46%
25	Nyabihu	41%	43%
26	Rubavu	50%	42%
27	Kicukiro	45%	41%
28	Burera	60%	39%
29	Nyamasheke	23%	39%
30	Nyagatare	43%	39%
31	Muhanga	28%	38%

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

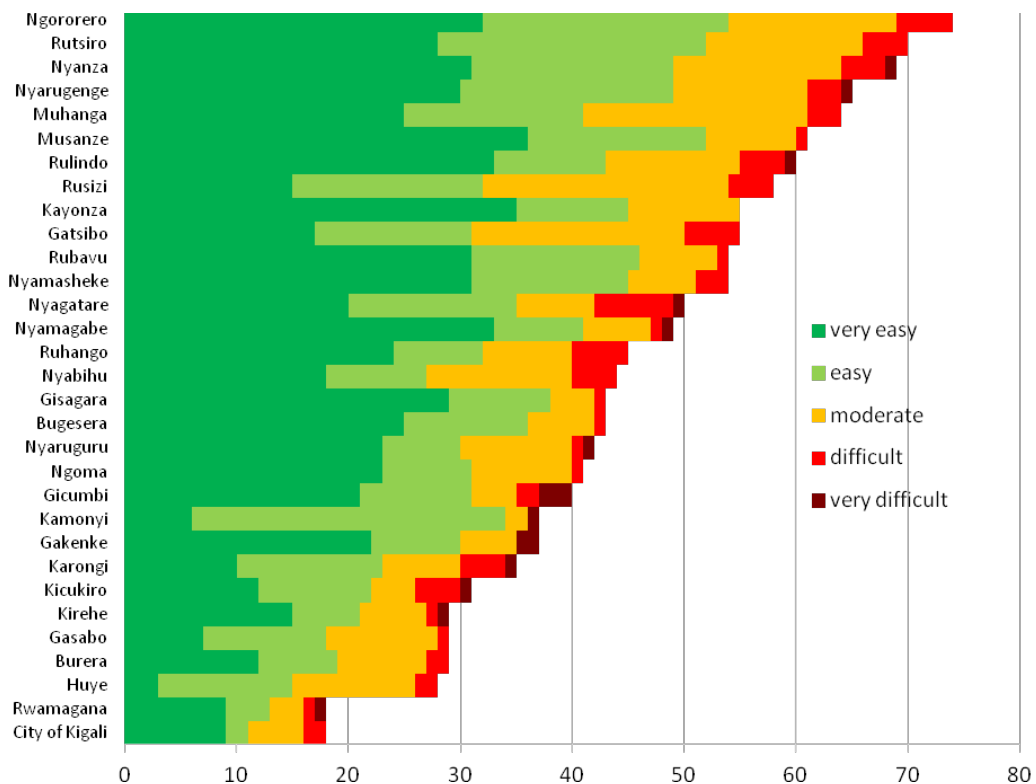
By the end of the FY, 743 (52%) recommendations were fully implemented (see Table 18). This is an increase in absolute numbers and a slight increase in the proportion of fully implemented recommendations compared to the previous FY. After the range of implementation levels had widened in the previous FY with a minimum of 21% and a



maximum of 81%, the maximum implementation has now decreased to 72% (Rwamagana District) and the minimum strongly increased to 38% (Muhanga District).

The achievement of Districts regarding the implementation of audit recommendations cannot be measured by the proportion of fully implemented recommendations alone. This is because of two reasons: 1) the number of recommendations issued by the auditors differs significantly between the Districts, 2) the quality of the recommendations issued varies strongly in regard of how difficult they are to be implemented. Figure 13 shows the total number of recommendations issued per decentralized entity and their difficulty level.

Figure 13: Number and difficulty of audit recommendation per District



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

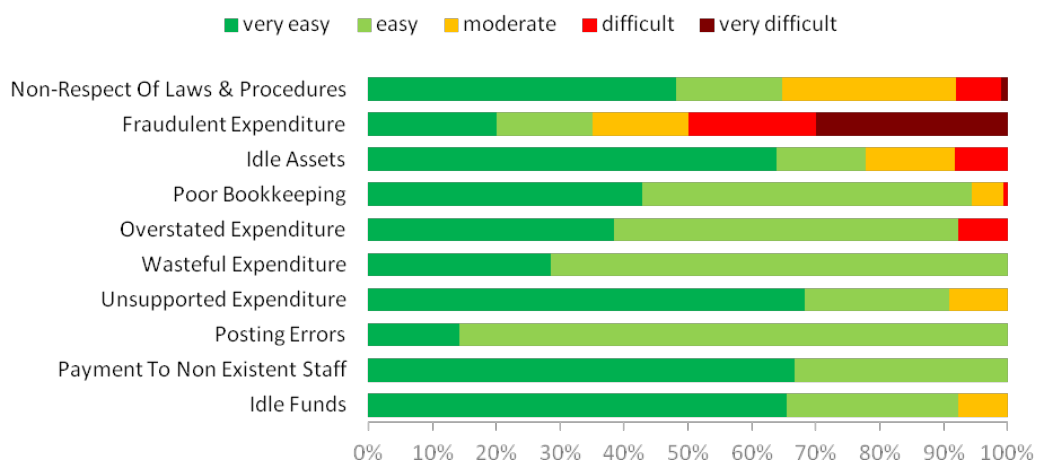
The number of recommendations per District varies from 18 to 74 (18 to 80 in FY 2014-15) and is also very different in difficulty levels. Figure 13 shows that the District of Ngororero had the highest number of Auditor General recommendations in the previous fiscal year followed by Rutsiro and Nyanza Districts. Ngororero District managed to implement 51% of these recommendations.

Rwamagana is ranked for the second consecutive time as the best performer in the implementation of recommendations. After it had to implement a high number of recommendations with 18% of them considered as difficult in the previous FY, auditors issued the lowest number of recommendations to the District in last year's audit reports.



Difficulty differs also for different weakness categories (see Figure 14), although the picture is less clear than in previous FY's analyses. The reason for this is the much lower proportion of difficult and very difficult recommendations (6.5%) compared to the previous FY (16.5%).

Figure 14: Difficulty of recommendations by weakness category



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The clear majority (66%) of all recommendations issued in FY 2015-16 concerned the category of non-respect of laws and procedures, followed by poor bookkeeping (see Table 19). The highest level of implementation was achieved for idle assets, the lowest for wasteful expenditure and idle funds. Idle funds are related mostly to the non-disbursement of funds of VUP Financial Services. This is a persisting problem that may be rooted in causes that are well beyond the Districts' influence, and therefore, it is hard to tackle.

Table 19: Number of recommendations and Implementation level per weakness category

Category	Fully implemented	Partially implemented	Not implemented	Total	% impl.
Non-Respect of Laws & Procedures	495	183	263	941	53%
Poor Bookkeeping	163	36	81	280	58%
Idle Assets	26	6	4	36	72%
Posting Errors	19	2	7	28	68%
Wasteful Expenditure	6	3	18	27	22%
Idle Funds	7	7	12	26	27%
Unsupported Expenditure	11	3	8	22	50%
Fraudulent Expenditure	9	8	1	18	50%
Overstated Expenditure	6	5	2	13	46%
Payment to Non-Existent Staff	1	5	0	6	17%

Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The implementation of audit recommendations is expected to improve the Districts' PFM performance. In our analysis of the OAG district audit reports, we conducted a regression and correlation analysis between the level of implementation of recommendations and change in the amount of weakness to find out whether there is evidence that this expectation is fulfilled in reality.

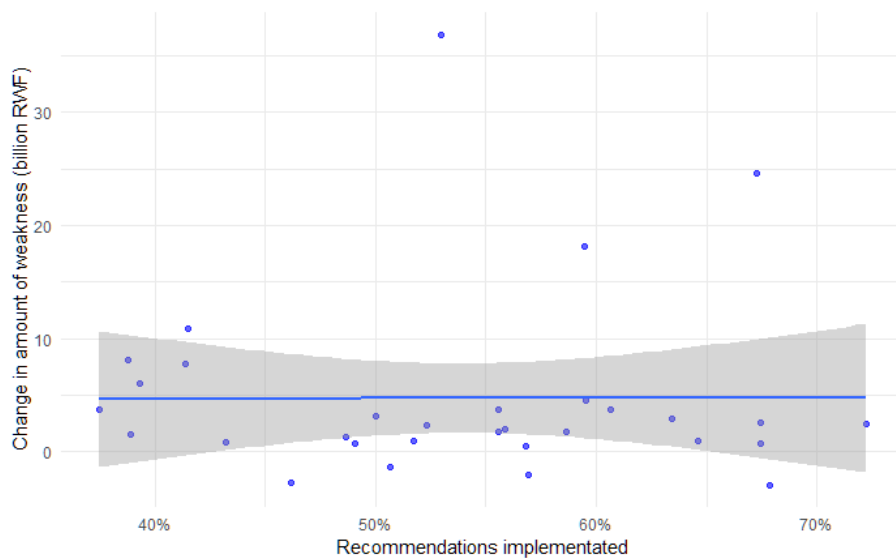


R squared shows how strong a correlation is: Simply put, an r squared value of 0.1 means that 10% of the effect in the dependent variable (change in amount of weakness) can be explained by the value of the independent variable (recommendations implementation).

The p-value is an indicator of the statistical significance of the correlation. It indicates the probability that the observed correlation is by pure chance. By convention, an observed correlation is usually seen as significant when there is a chance of less than 5% that it is by pure chance (p-value lower than 0.05).

This year, the analysis of correlation is based on three datasets. The FY 2016-17 data was primarily used, but also combined with data from the previous analyses in FY 2014-15 and FY 2015-16 in order to have more data points and to have a larger basis of information. Looking at this year's data alone, no significant correlation could be found at all (see Figure 15).

Figure 15: Proportion of recommendations implemented and change in amount of weakness for FY 2016-17



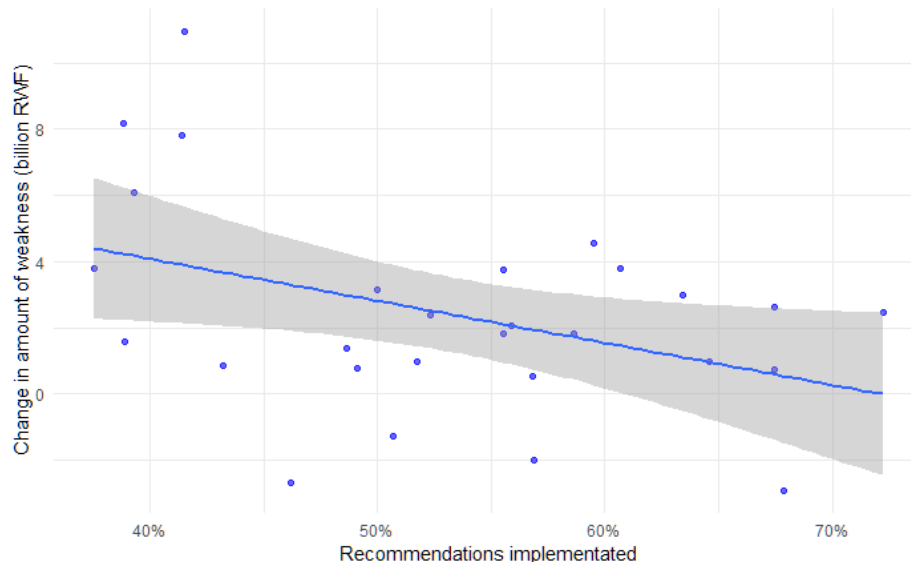
Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

The picture changes, however, when the three outliers with more than 15 billion RWF in change of amount of weakness compared to last FY are removed from the analysis (see

Figure 16). There is now the expected negative correlation between the implementation of recommendations and the change in amount of weakness with a p-value below 5%.



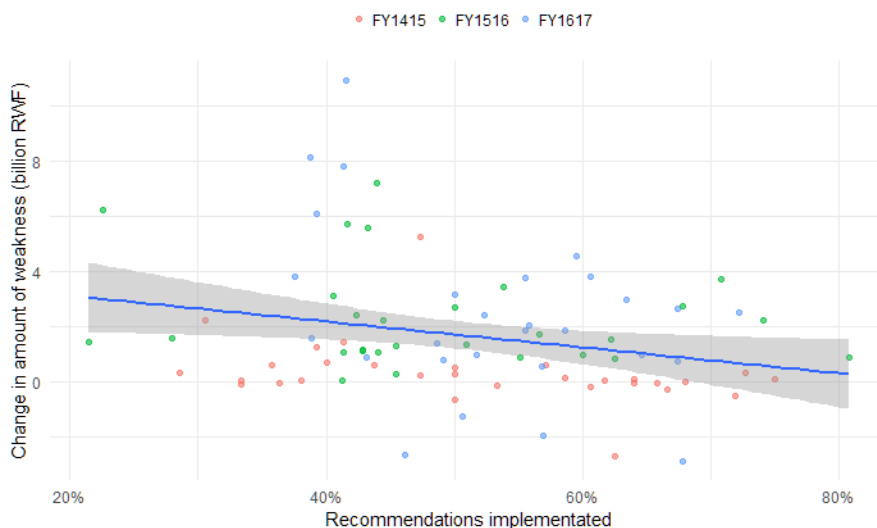
Figure 16: Implementation level and change in amount of weakness (FY 2016-17, without outliers)



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Looking at the data for all three FY and with outliers removed (City of Kigali, Kayonza and Gakenke in FY 2016-17 and Gasabo in FY 2014-15, this relation between implementation level and change in amount of weakness remains valid (see Figure 17).

Figure 17: Implementation level and change in amount of weakness (3 FY, without outliers)



Source: Data compiled from OAG audit reports of the 30 Districts and the City of Kigali (2016-17)

Taking data from all three financial years into account, there is some evidence that suggests a correlation particularly for recommendations regarding non-expenditure-related weaknesses.



In all cases, however, the R squared value is very low, indicating that only a small part of the change in amount of weakness can be explained by the Districts' efforts in implementing audit recommendations (see Table 20).

Table 20: Correlation statistics

Data	Category	R ²	p-value	Sigma
FY 2016-17	All weaknesses	0.0000	0.9892	8,359,394,685
FY 2016-17	All weaknesses (without outliers)	0.1654	0.0317	2,915,647,949
3 FY	All weaknesses (without outliers)	0.0643	0.0185	2,319,148,116
FY 2016-17	Expenditure-related	0.1621	0.0303	359,674,863
3 FY	Expenditure-related	0.0386	0.0698	288,502,371
FY 2016-17	Non-expenditure-related (without outliers)	0.1585	0.0359	2,950,697,286
3 FY	Non-expenditure-related (without outliers)	0.0674	0.0146	2,245,582,054



5. Recommended Actions to Improve PFM at Local Level

In order to address the identified issues and based on the findings from the analysis of primary and secondary data, TI-RW recommends the following actions:

To the District Management:

1. In order to avoid serious harm to the most vulnerable citizens, Districts need to make regular and predictable cash transfers in accordance with Rwanda's Social Protection Strategy (VUP Direct Support: at the beginning of each month).
2. In order to ensure the proper operation of schools and not to undermine the fight against malnutrition, Districts need to timely disburse capitation and school feeding grants.
3. Districts must refrain from making investments that are not entirely supported by documents such as MoU, articles of Association, a clear and realistic business plan.
4. Districts must systematically seize performance guarantee and charge penalties for delays in execution of contracts and upon delivery of poor quality.
5. Districts need to comply with tax law and regulations by correctly charging and remitting withholding tax.

To Districts and RRA:

6. Districts and RRA should strengthen their cooperation and provide each other with access to information regarding revenue collection.

To MINALOC, MINECOFIN, LODA, RALGA

7. MINECOFIN and other stakeholders should ensure that funds are provided to the Districts on time, so that they are able to make cash transfers to vulnerable citizens, transfers of capitation and school feeding grants to school and other payments without delay.
8. MINALOC and LODA should strongly support Districts in carrying out high quality in-depth feasibility studies for any projects in order to properly evaluate the need and financial sustainability of projects.
9. MINALOC and RALGA should further strengthen peer review and peer learning between Districts, particularly in the domain of public procurement.
10. LODA should consider a decrease in the interest rate on VUP Financial Services in order to ensure the services' affordability to eligible beneficiaries and avoid the non-utilization of available funds.
11. MINECOFIN should further strengthen the capacities of staff of subsidiary entities and bring professional training closer to staff in remote rural areas.

As part of anti-corruption efforts:

12. Cases of procurement irregularities at various stages in the same project should be examined in order to close any possible loopholes for corruption. Independent monitoring of public procurement should be scaled up.



References

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