



TRANSPARENCY
INTERNATIONAL
RWANDA



Supported by

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Analysis of the Office of Auditor General's Reports of Decentralized Entities

Financial Year 2015-16

Analysis of the Office of Auditor General's Reports of Decentralized
Entities (Financial Year 2015-16)

BACKGROUND & METHODOLOGY



Background



The Office of the Auditor General (**OAG**) conducts **annual audits of all Districts and the City of Kigali**. Audit reports are open to the public.

The reports provide information on:

- Public financial management (**PFM**) **weaknesses** identified by the auditors
- **Recommendations** issued based on identified weaknesses
- **Status of implementation** of previous year's recommendations

Since 2008 Transparency International Rwanda (TI-RW) routinely analyzes the OAG's audit reports of the decentralized entities.

This year's analysis focusses on audit reports of the financial year (**FY**) **2015-16**.

The objectives of the analysis are:

- Creating a basis to **increase the understandability and transparency** of OAG's reports towards the general public and local government officials
- Providing **evidence-based information** for the steering of local PFM activities of all stakeholders
- Preparing **policy discussions** with relevant stakeholders



Secondary data

OAG's audit reports of all 30 Districts and the City of Kigali of FY 2015-16

Primary data

- Five focus group discussions with District staff involved in PFM activities
- Key informant interviews with officials at national level

Data analysis

- Categorization of audit complaints according to type of financial management weakness
- Tabulation of volume per weakness category and per entity
- Categorization of recommendations issued in the previous financial year according to difficulty of implementation and related weakness category
- Tabulation of previous year's recommendations per implementation status, difficulty, weakness category and entity
- Regression and correlation analysis of recommendations implementation and Districts' PFM performance



Categorization of audit complaints



Expenditure related weaknesses:

Unsupported expenditure

Wasteful expenditure

Fraudulent expenditure

Overstated expenditure

Payment to non-existing staff

Idle funds/assets

Non-expenditure related weaknesses:

Poor bookkeeping

Non respect of laws & procedures

Posting errors



Categorization of recommendations based on difficulty



No	Difficulty level	Criteria
1	Very easy	Implementation requires only commitment. No additional staff, skills, or resources needed. Implementation is totally under the District's control.
2	Easy	Implementation of the recommendation needs some input of staff, skills, or resources . It is totally under the District's control
3	Moderate	Implementation needs moderate inputs of staff, technical skills, resources. It is totally under the District's control
4	Difficult	Implementation needs significant input of staff, skills and resources. It is partially under the District's control.
5	Very difficult	Implementation needs very significant inputs of staff, skills and resources. It is totally beyond to the District's control or cannot realistically be implemented within one year.

Analysis of the Office of Auditor General's Reports of Decentralized Entities (Financial Year 2014-15)

DISTRICT TRANSFERS TO NON-BUDGETARY ENTITIES



Unrecorded transactions of Non-Budgetary entities



According to the Ministerial Order n° 001/16/10/TC of 26/01/2016 especially in its Art.113, the Chief Budget Manager of a decentralized entity shall ensure that the reports of all subsidiary entities 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.

Once the district receives these financial report signed by the head of subsidiary entities, an internal review should be done by the accountant who is in charge of NBAs at district level.

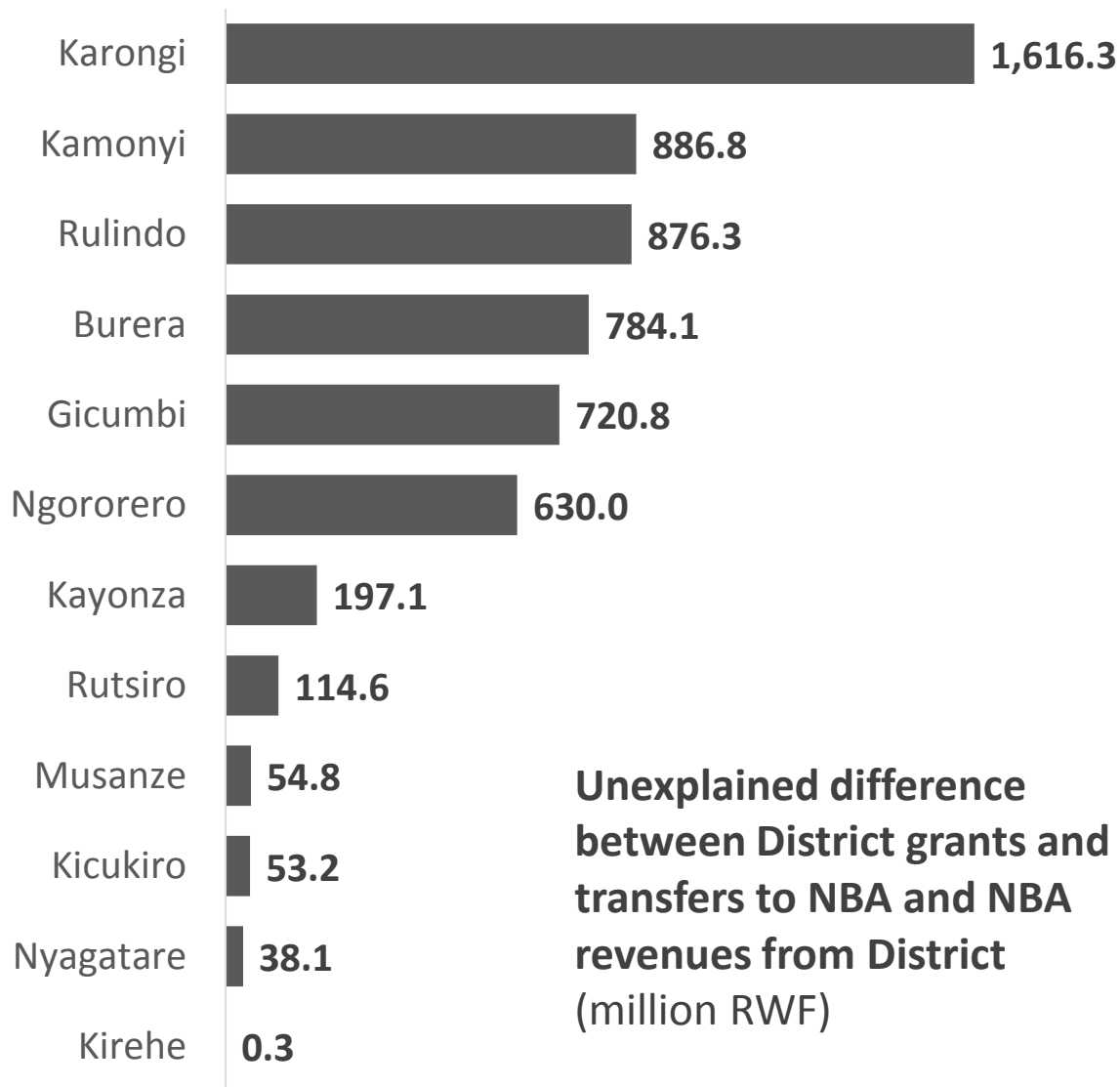
However, the 2015-2016 OAG district audit reports show that there are discrepancies between grants and transfers from Districts to Subsidiary Entities as indicated by the District and those stated in the NBA disclosure notes (see figure next slide).



Discrepancy between District transfers to NBAs and NBA revenue from Districts



Overall, OAG auditors found an unexplained difference of **5.97 million RWF** between District grants and transfers to NBAs according to District expenditure and according to NBA revenue.



Analysis of the Office of Auditor General's Reports of Decentralized Entities (Financial Year 2015-16)

ANALYSIS OF WEAKNESSES



There is a massive increase in the amount of weaknesses identified by OAG.

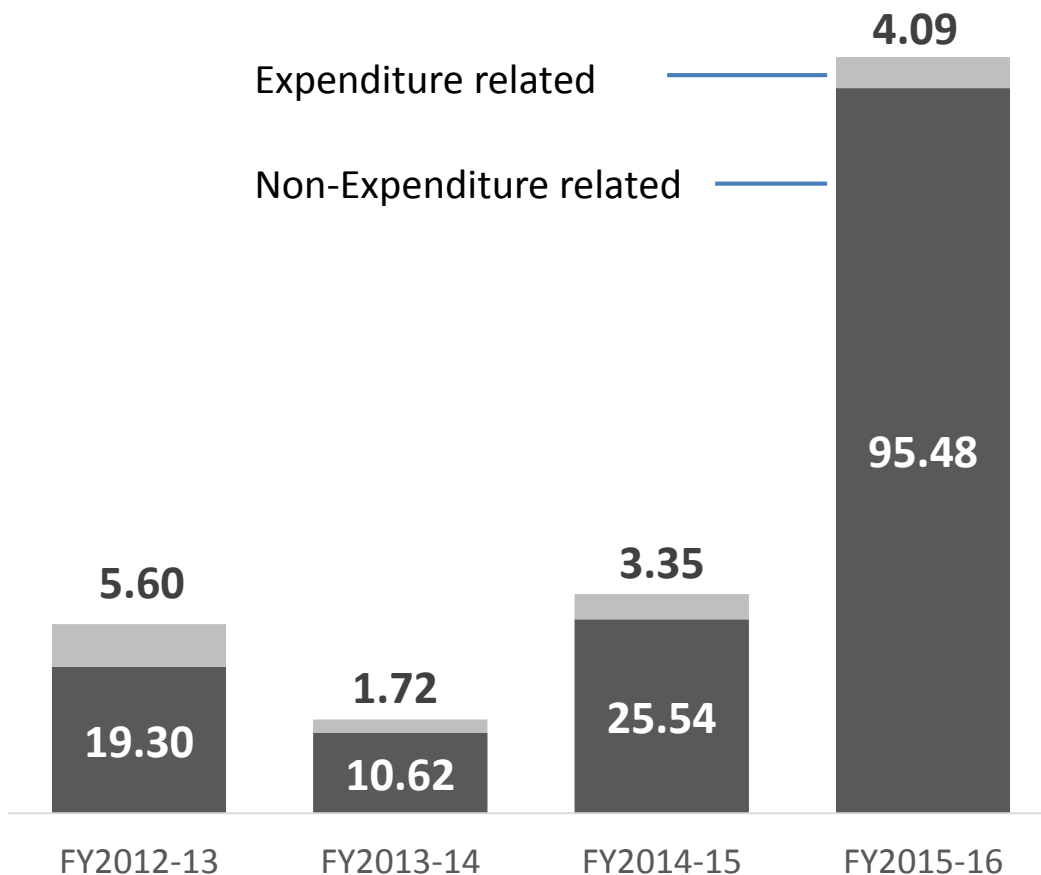


Amount of weakness (billion RWF)

Compared to last year, the **total amount of weaknesses** increased from 28.9* to **99.6 billion RWF**. That is a staggering increase of 245%. In the same period, the Districts' expenditure increased by 12.4%.

- Expenditure-related weaknesses increased by 30%,
- non-expenditure related weaknesses by 274%.

Only **1.07% of expenditures were queried** (0.93% last year).



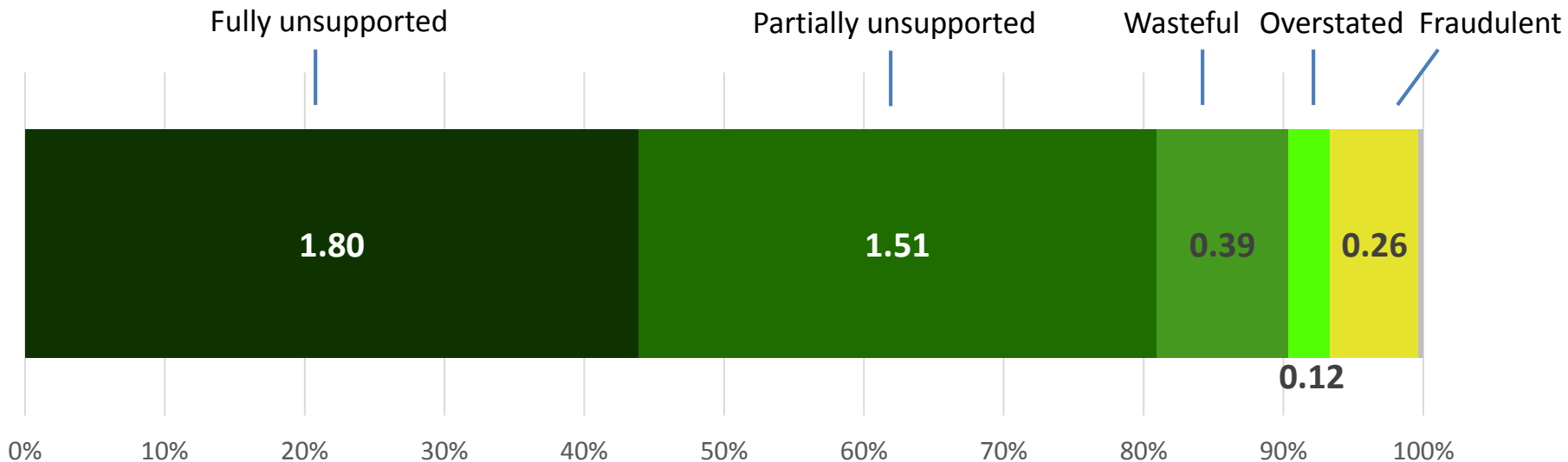
* Inflation-adjusted: values converted to June 2016 RWF



Expenditure related weaknesses increased, but their proportion of the total weaknesses diminished.



Amount of expenditure related weaknesses (billion RWF)



Total exp. related weakness:

4.09

billion RWF

Proportion of total amount of all weakness (excl. NBA):

4.1%

Last year: 11.6%

Proportion of total District expenditure queried:

1.07%

Last year: 0.93%



The increase in expenditure related weaknesses is due to unsupported expenditure.



While the amount in all other expenditure weaknesses decreased, unsupported expenditure almost doubled.

This is mainly due to fully or partially unsupported expenditure in **public procurement** and in **investments made by Districts**.

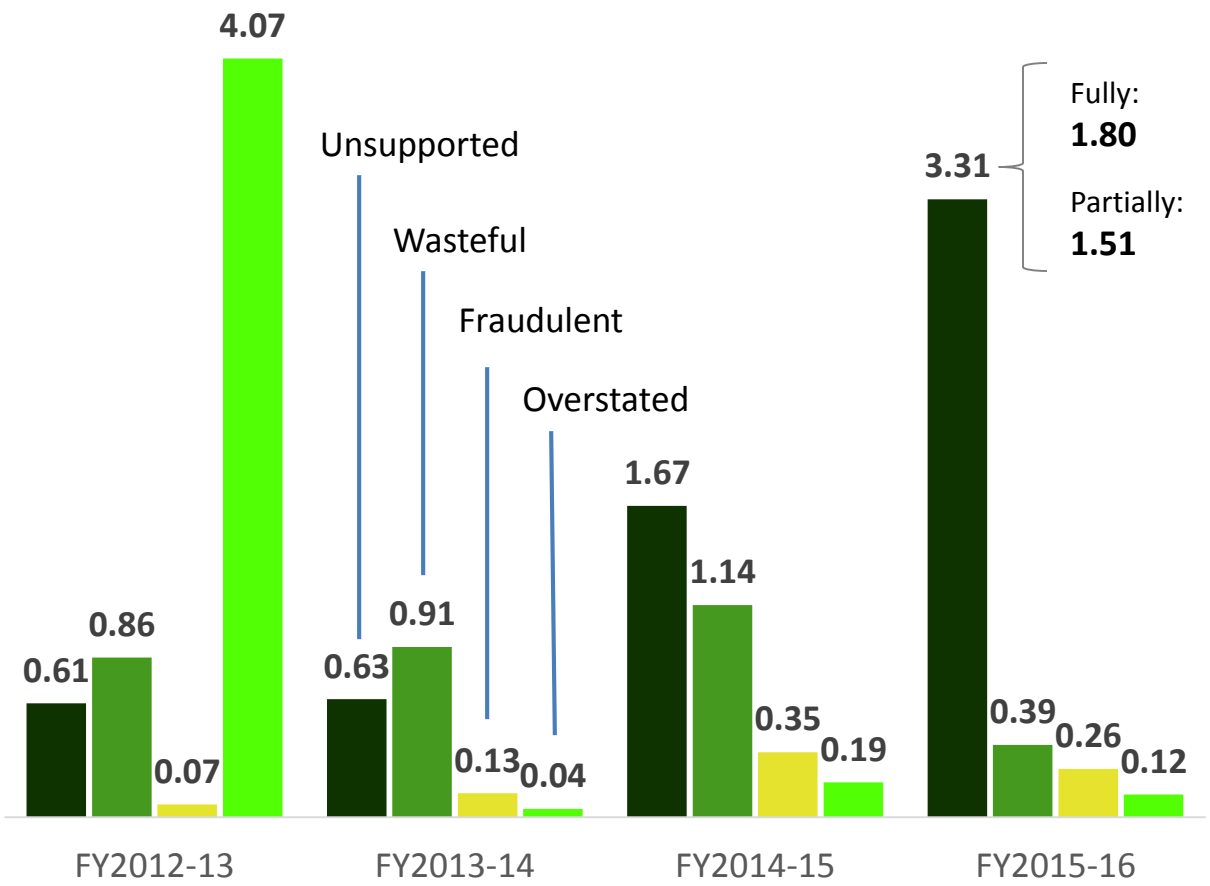
The issue of procurement:

Contracts for the technical assistance in various construction project were signed without any approved document

The issue of investment :

issue of harmony between investment led by provinces and the planning of districts which makes challenging for councillors to approve and sign the MoU and related documents (FGDs).

Amount of expenditure related weaknesses (billion RWF)



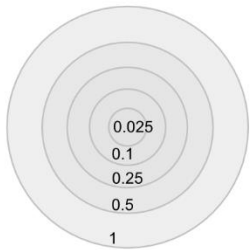
* Inflation-adjusted: values converted to June 2016 RWF



Expenditure related weaknesses per District

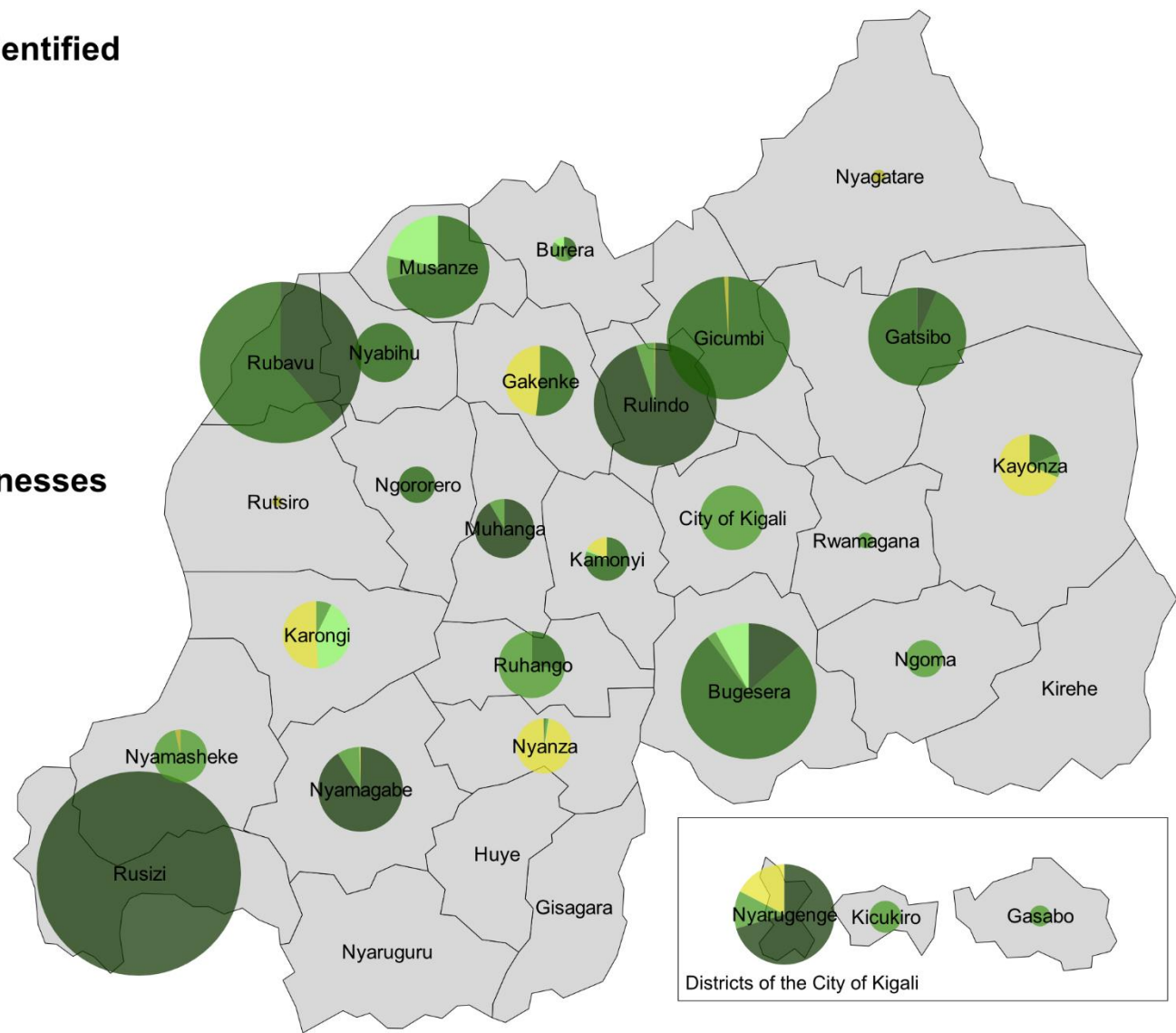


**Amount of weaknesses identified
(in billion RWF):**



Expenditure related weaknesses

- Fully unsupported
- Partially unsupported
- Wasteful
- Overstated
- Fraudulent



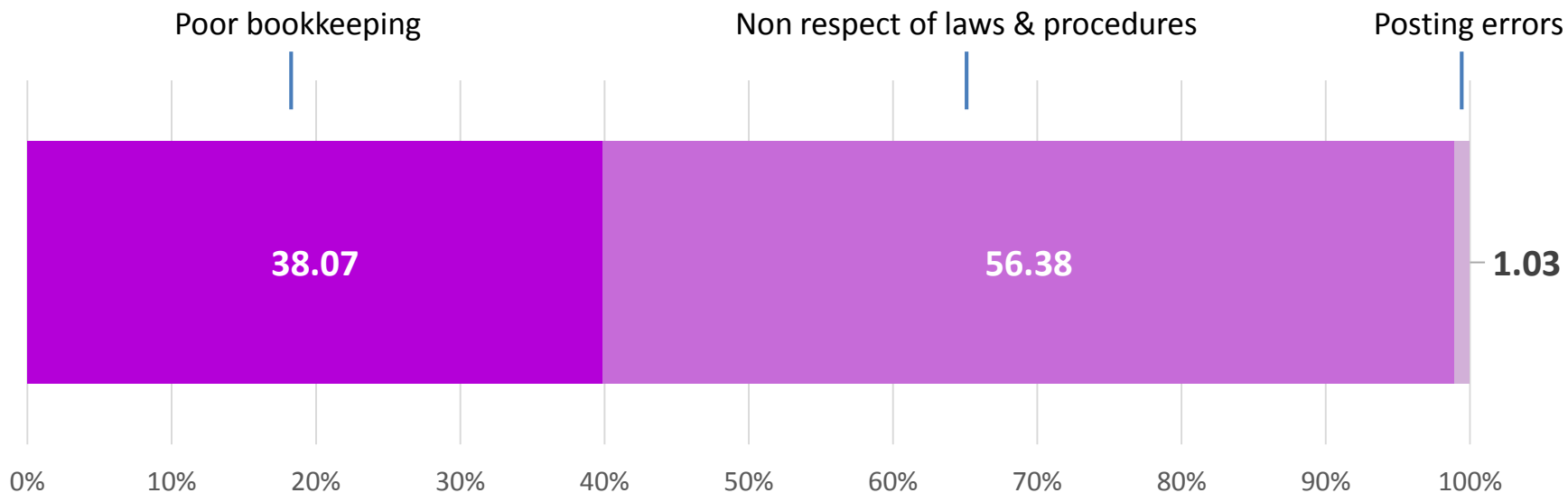
Source: Data from OAG's audit reports of Districts and the City of Kigali (Financial Year 2015-16), compiled by TI-RW



Non-expenditure related weaknesses



Amount of non-expenditure related weaknesses (billion RWF)



Total non-exp. related weakness (excl. NBA):

95.48 billion RWF
(25% of total expenditures)



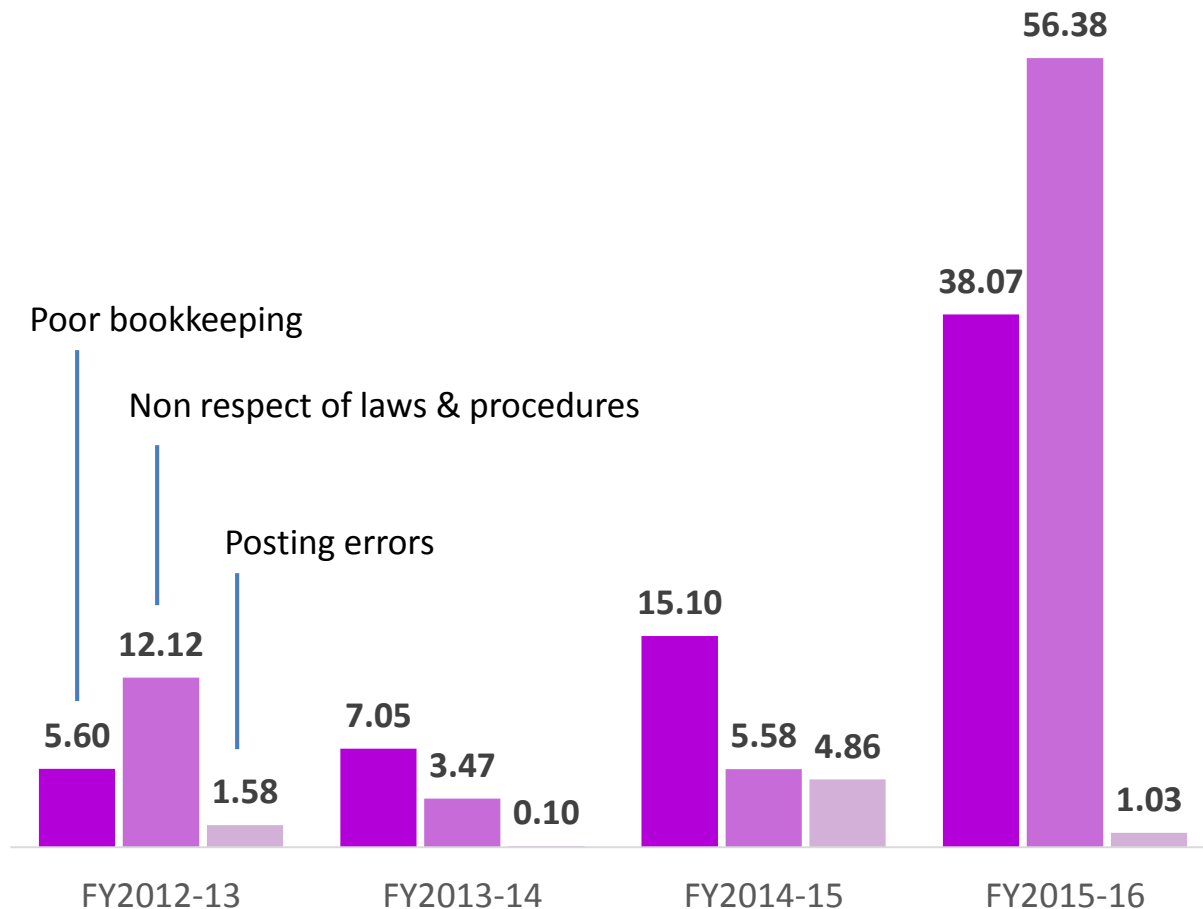
Non-respect of laws and procedures and poor bookkeeping increased drastically.



Main areas of weaknesses that contribute to the drastic increase:

- Public procurement
- Delayed construction
- Unrecovered VUP loans
- Discrepancy between District transfers to NBAs and NBA revenues from Districts
- MoU between RRA and Districts on tax collection
- Handover of Mutual Health Insurance to RSSB
- District investments
- LODA transfers

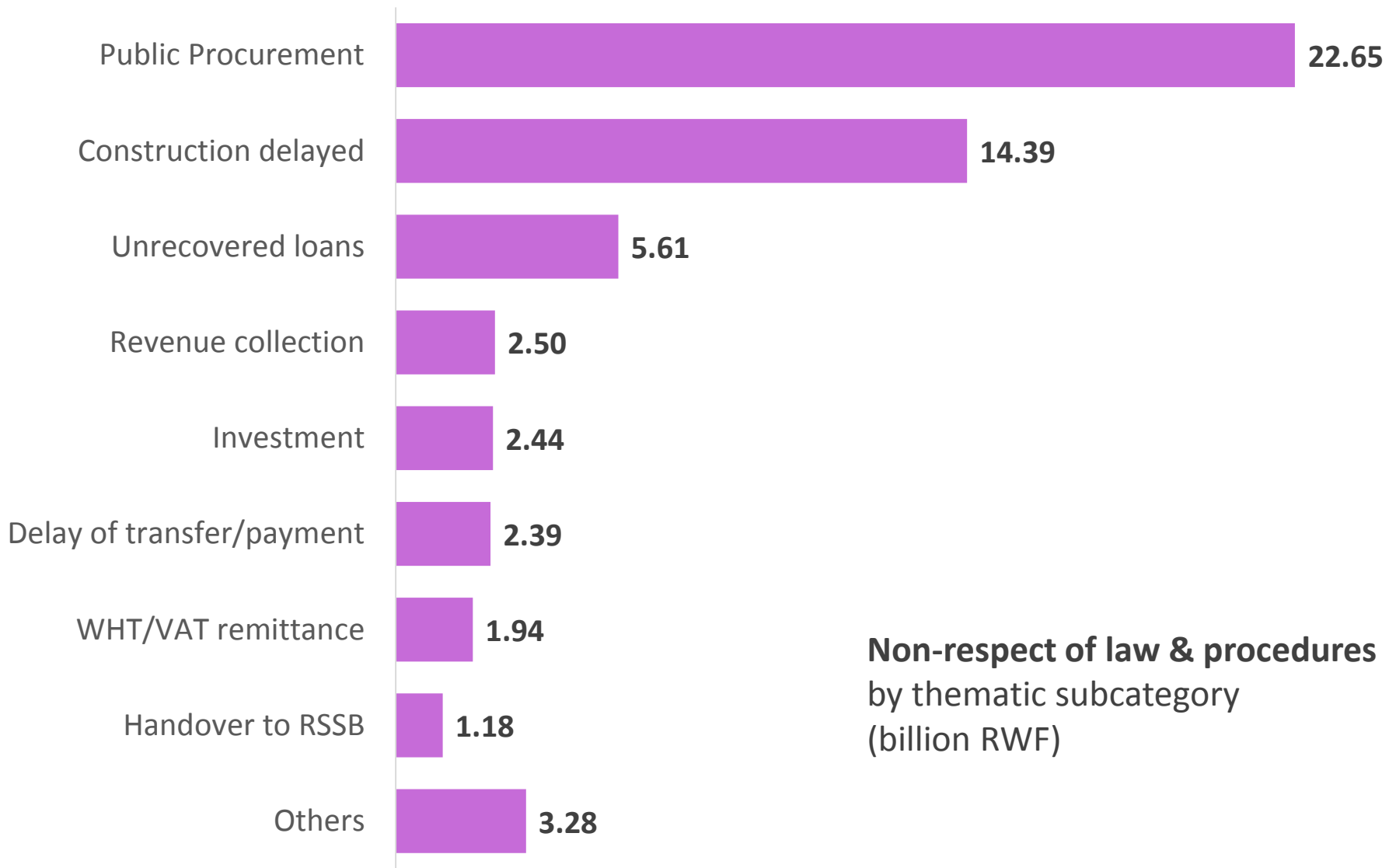
Amount of non-expenditure related weaknesses (billion RWF)



* Inflation-adjusted: values converted to June 2016 RWF



Irregularities in public procurement and delayed construction works have strongly contributed to more weaknesses.



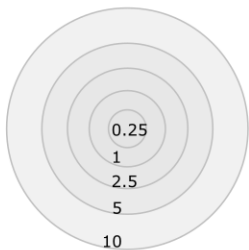
Source: Data from OAG's audit reports of Districts and the City of Kigali (Financial Year 2015-16), compiled by TI-RW



Non-expenditure related weaknesses per District

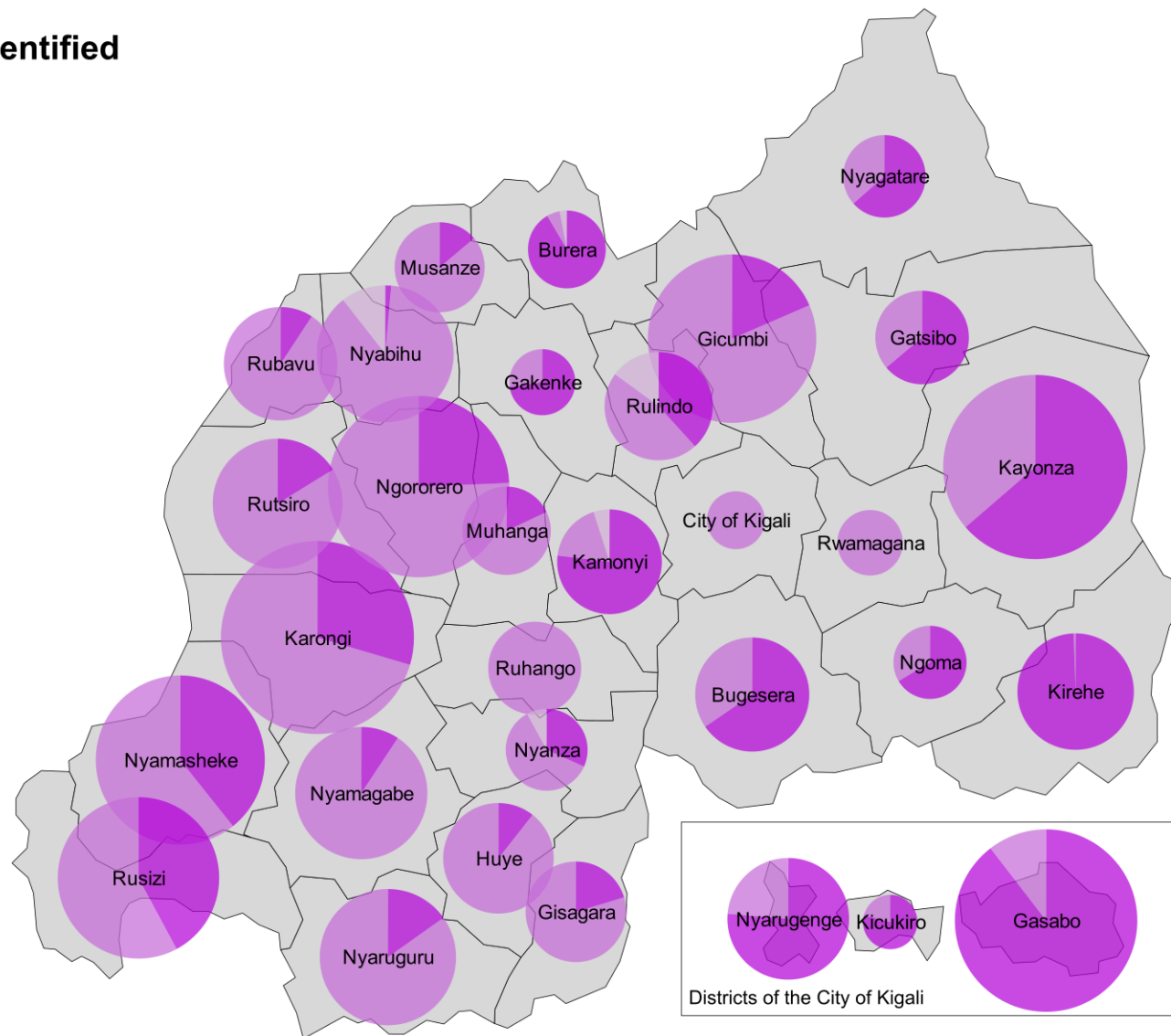


**Amount of weaknesses identified
(in billion RWF):**



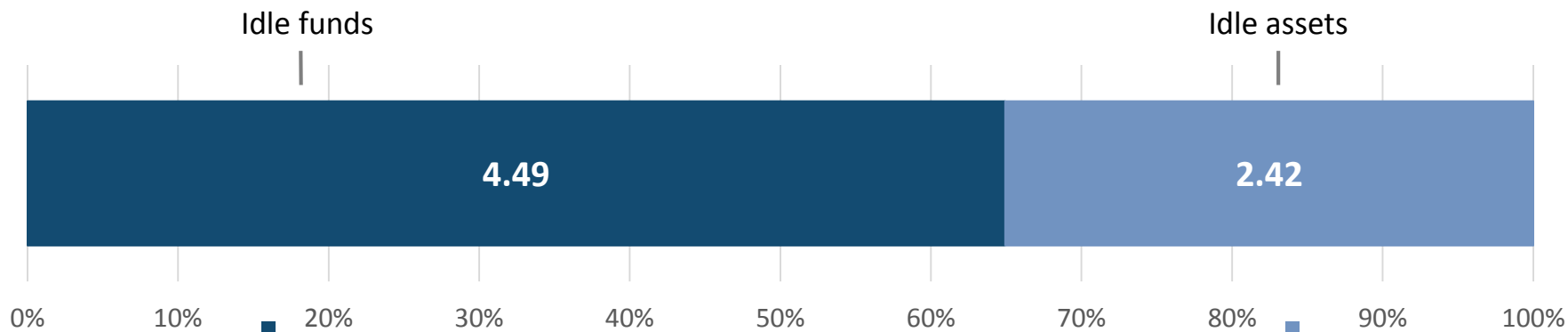
Non-expenditure related weaknesses

- Poor bookkeeping
- Non-respect of laws & procedures
- Posting errors



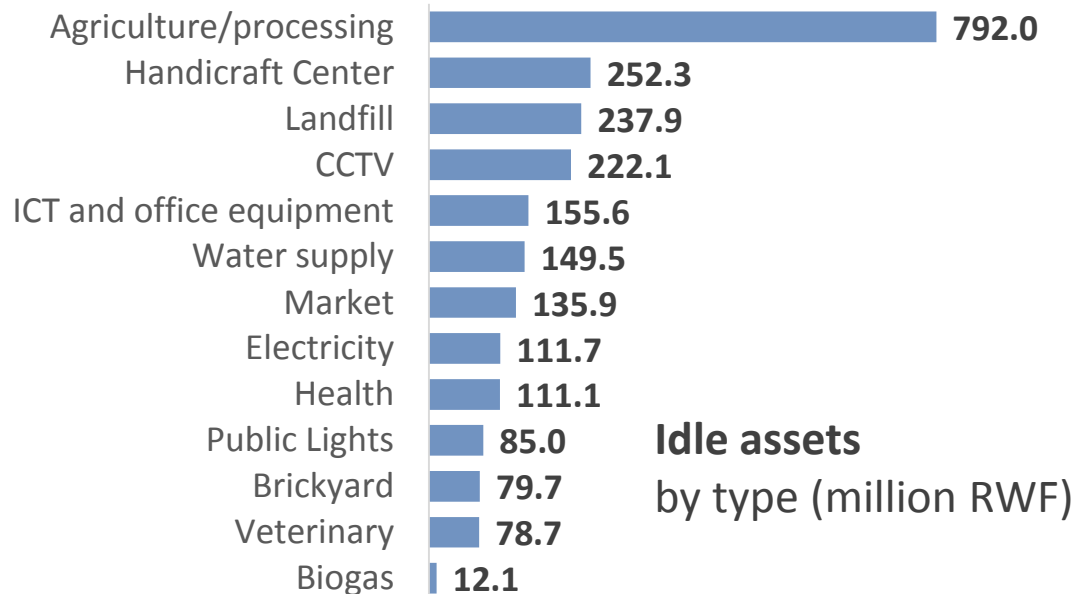


Amount of idle funds and idle assets (billion RWF)



85% of idle funds are VUP funds:

- 2.48 billion RWF of unutilized VUP funds
- 1.33 billion RWF of unrecovered VUP loans



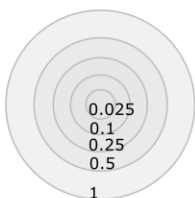
Idle assets
by type (million RWF)



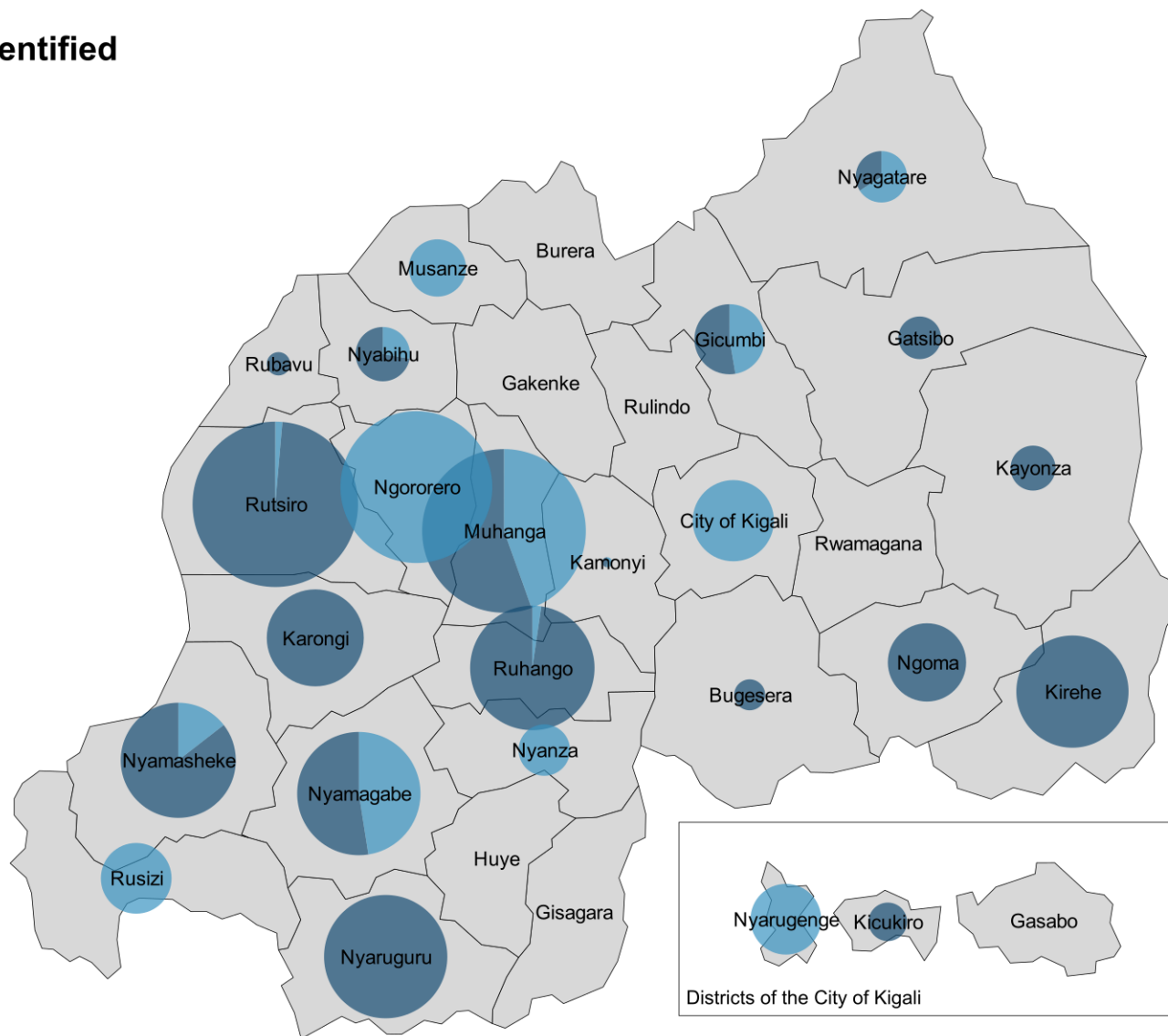
Idle assets/funds per District



**Amount of weaknesses identified
(in billion RWF):**



■ Idle funds
■ Idle assets



Analysis of the Office of Auditor General's Reports of Decentralized Entities (Financial Year 2015-16)

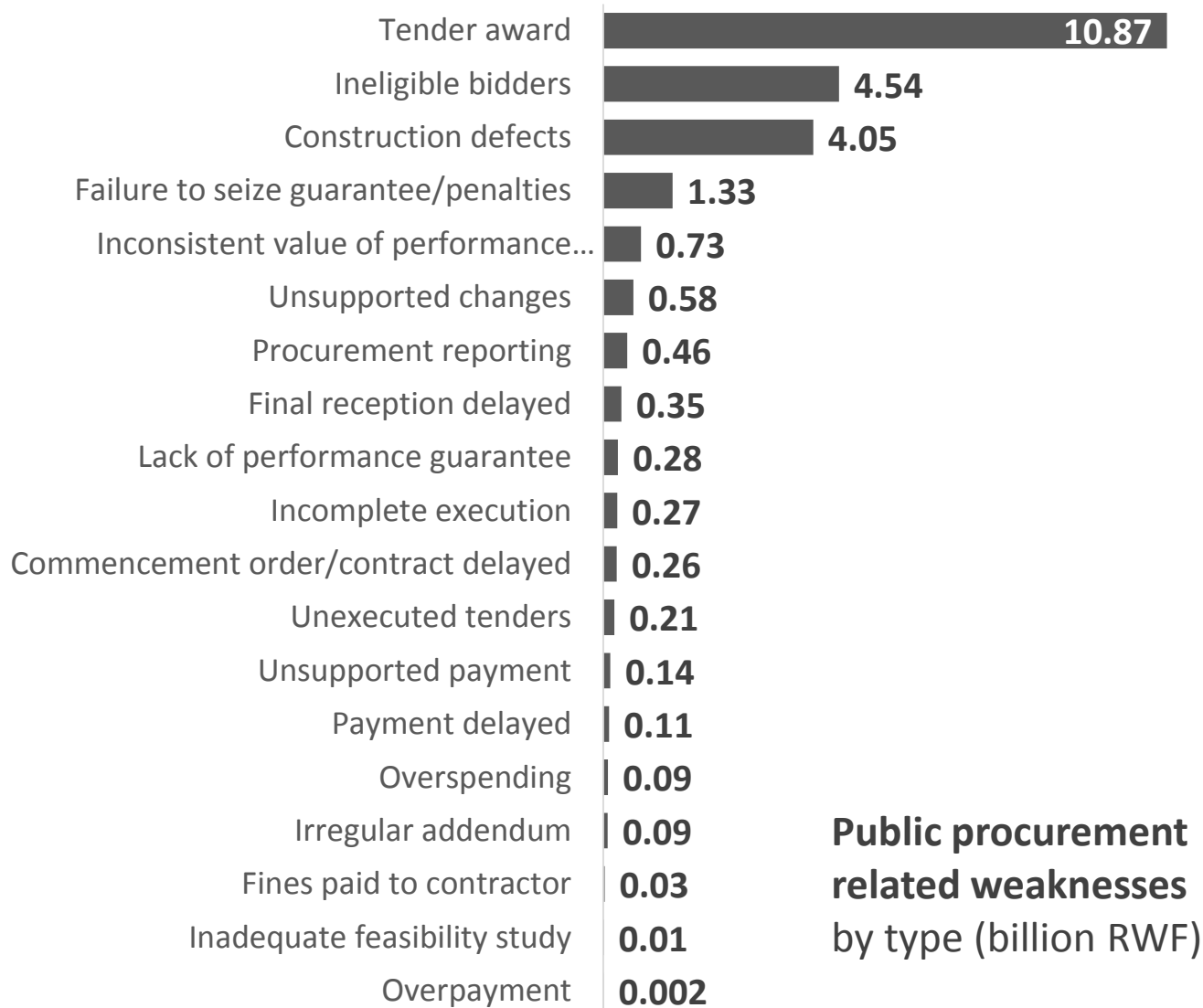
CROSS-CUTTING ISSUES



24% of all weaknesses are related to local public procurement



24.4 billion RWF of weaknesses are related to **public procurement** issues. This is almost six times as much as in the previous FY (4.2 billion RWF)



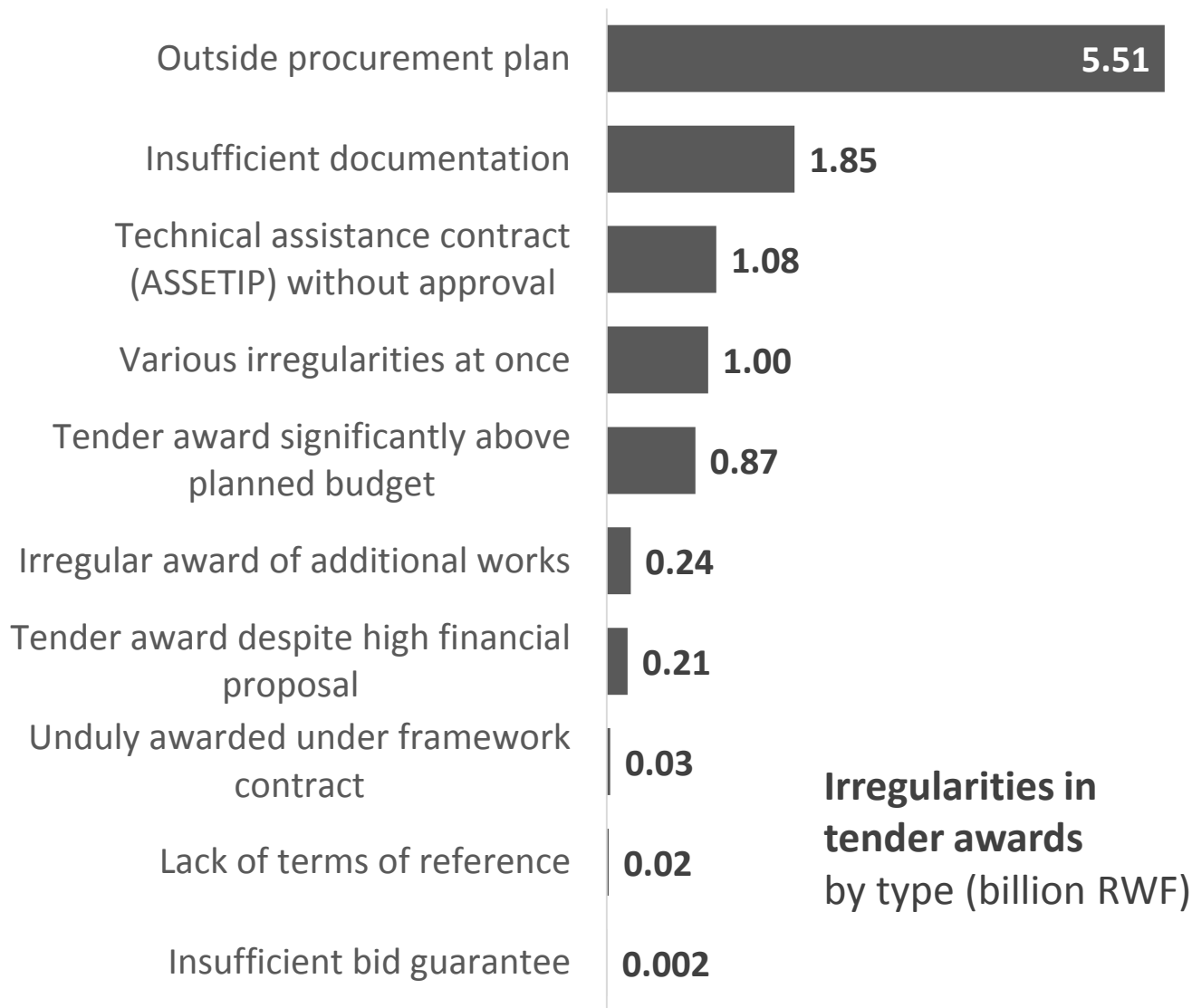


Weaknesses in tender awards



Almost 45% (**10.87 billion RWF**) of the total amount of procurement related weaknesses are due to irregularities in **Tender awards**.

More than half of irregularities (**5.51 billion RWF**) in tender awards are due to tenders awarded outside of the District procurement plan.



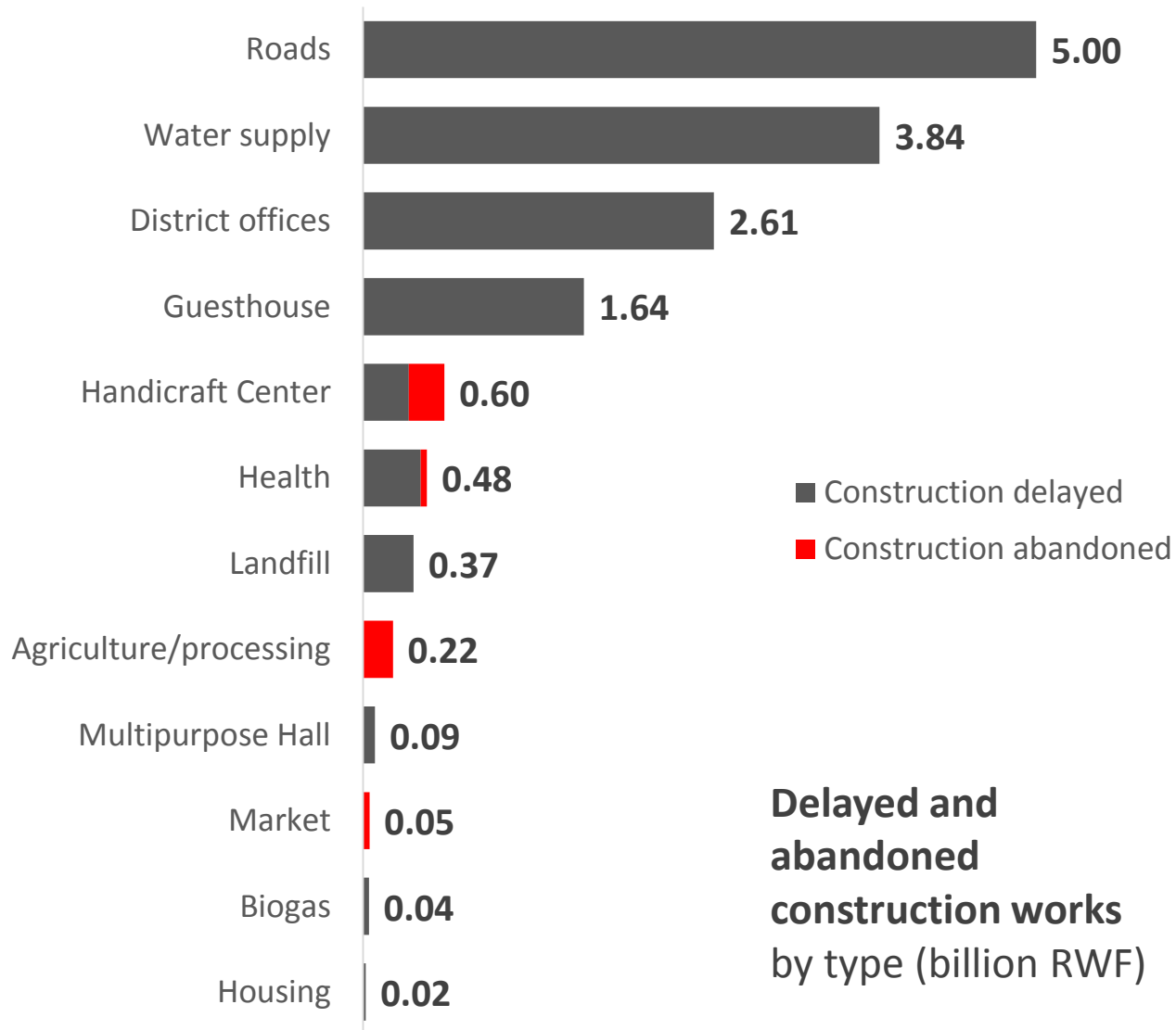


Another 15% of all weaknesses are related to (serious) delays in construction of local public infrastructure



Infrastructure construction works amounting to **14.39 billion RWF** are seriously delayed.

Projects amounting to **582 million RWF** have been entirely abandoned.



Delayed and abandoned construction works by type (billion RWF)

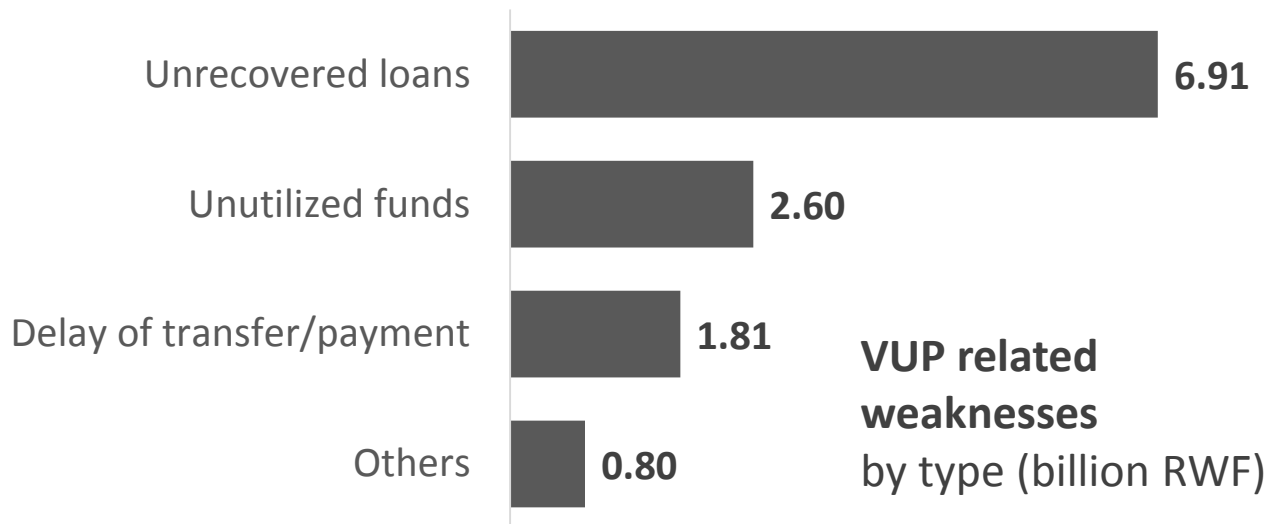


Weaknesses related to the Vision 2020 Umurenge programme

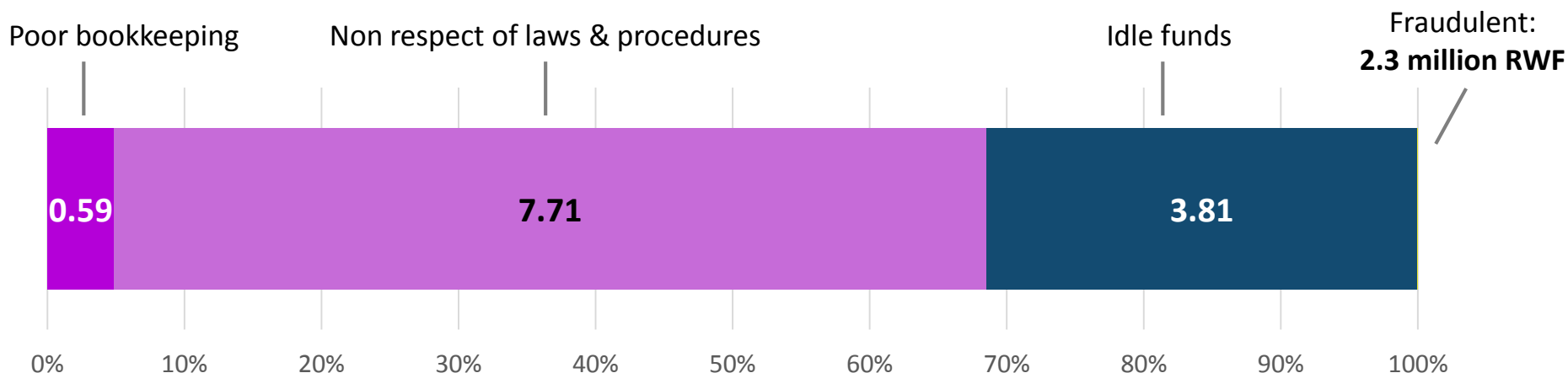


A total amount of **12.12 billion RWF** of weaknesses are related to VUP.

Districts have failed to recover **6.92 billion RWF** in VUP loans.



VUP related weaknesses by category (billion RWF)





The reason of non-utilization of VUP funds kept by SACCO, was discussed during Focus Group Discussions with District staff.

The latter suggested that the increase of interest rate from 2% to 11% for VUP financial services and request of collateral to beneficiaries remain the main cause of not using SACCO VUP financial services.

Analysis of the Office of Auditor General's Reports of Decentralized Entities (Financial Year 2014-15)

MONITORING OF AUDIT RECOMMENDATIONS



Level of implementation of FY 2014-15 audit recommendations by District



Rank	District	% of fully implemented previous years' audit recommendations		
		FY2013-14	FY2014-15	FY2015-16
1	Rwamagana	38.0%	53.3%	80.8%
2	Huye	62.0%	50.0%	74.1%
3	Nyaruguru	68.0%	65.8%	70.8%
4	Kirehe	69.0%	64.0%	67.9%
5	Gasabo	61.0%	45.5%	65.6%
6	City of Kigali	60.0%	64.3%	62.5%
7	Bugesera	63.0%	50.0%	62.2%
8	Burera	75.0%	68.0%	60.0%
9	Gakenke	83.0%	33.3%	60.0%
10	Gisagara	70.0%	72.7%	56.7%
11	Ngoma	76.0%	60.6%	55.1%
12	Nyamagabe	79.0%	28.6%	53.8%
13	Kayonza	65.0%	34.3%	53.2%
14	Rulindo	56.0%	39.3%	50.9%



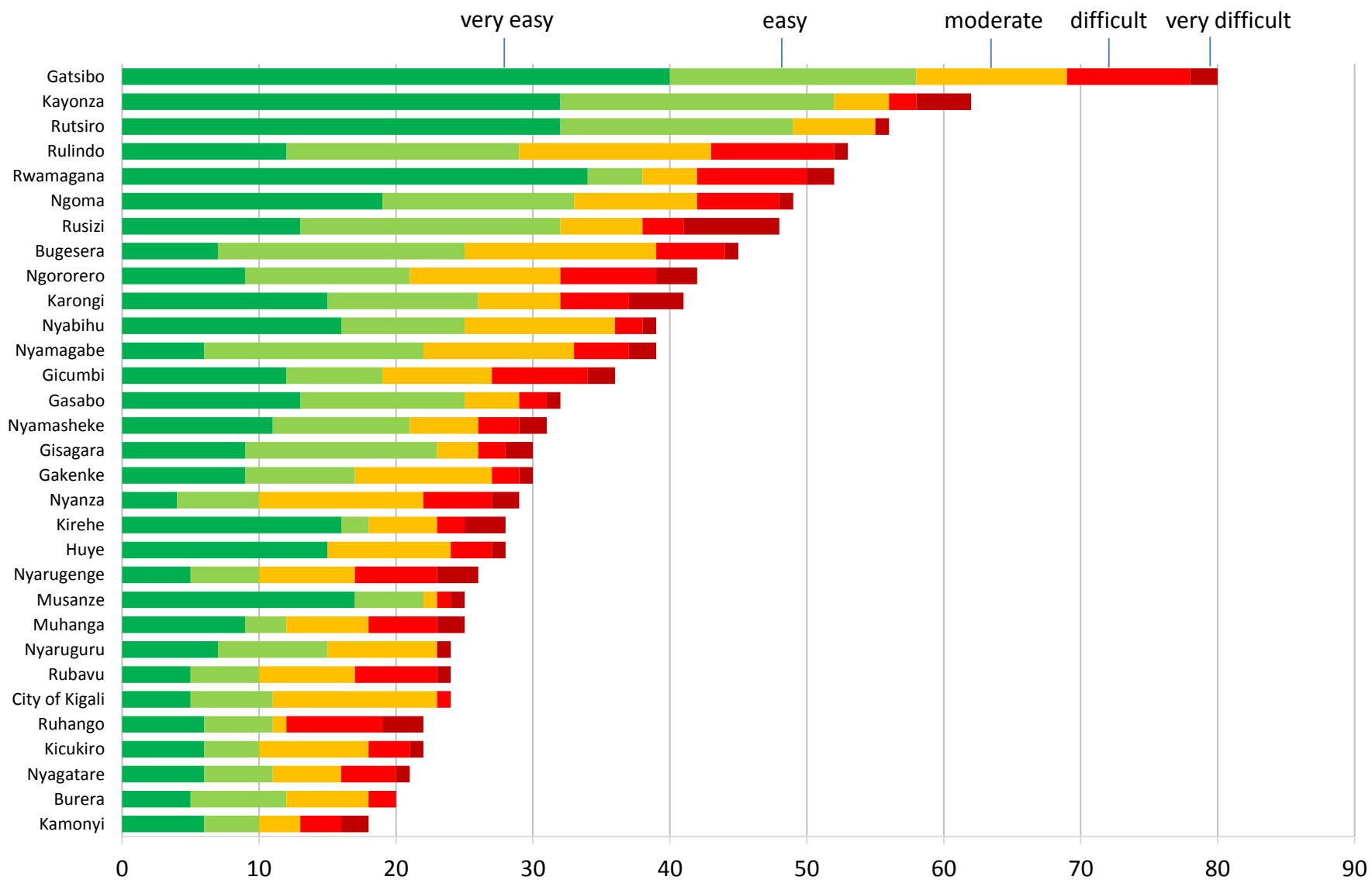
Level of implementation of FY 2014-15 audit recommendations by District



Rank	District	% of fully implemented previous years' audit recommendations		
		FY2013-14	FY2014-15	FY2015-16
16	Ruhango	71.0%	71.9%	45.5%
17	Kicukiro	67.0%	62.5%	45.5%
18	Kamonyi	85.0%	33.3%	44.4%
19	Musanze	70.0%	57.1%	44.0%
20	Karongi	75.0%	47.4%	43.9%
21	Nyagatare	71.0%	75.0%	42.9%
22	Rutsiro	58.0%	31.4%	42.9%
23	Nyarugenge	72.0%	50.0%	42.3%
24	Rusizi	37.0%	35.7%	41.7%
25	Gicumbi	75.0%	33.3%	41.7%
26	Nyanza	72.0%	64.0%	41.4%
27	Gatsibo	66.0%	41.3%	41.3%
28	Nyabihu	62.0%	43.8%	40.5%
29	Muhanga	70.0%	38.1%	28.0%
30	Nyamasheke	56.0%	58.6%	22.6%



Number and difficulty of recommendations issued by District



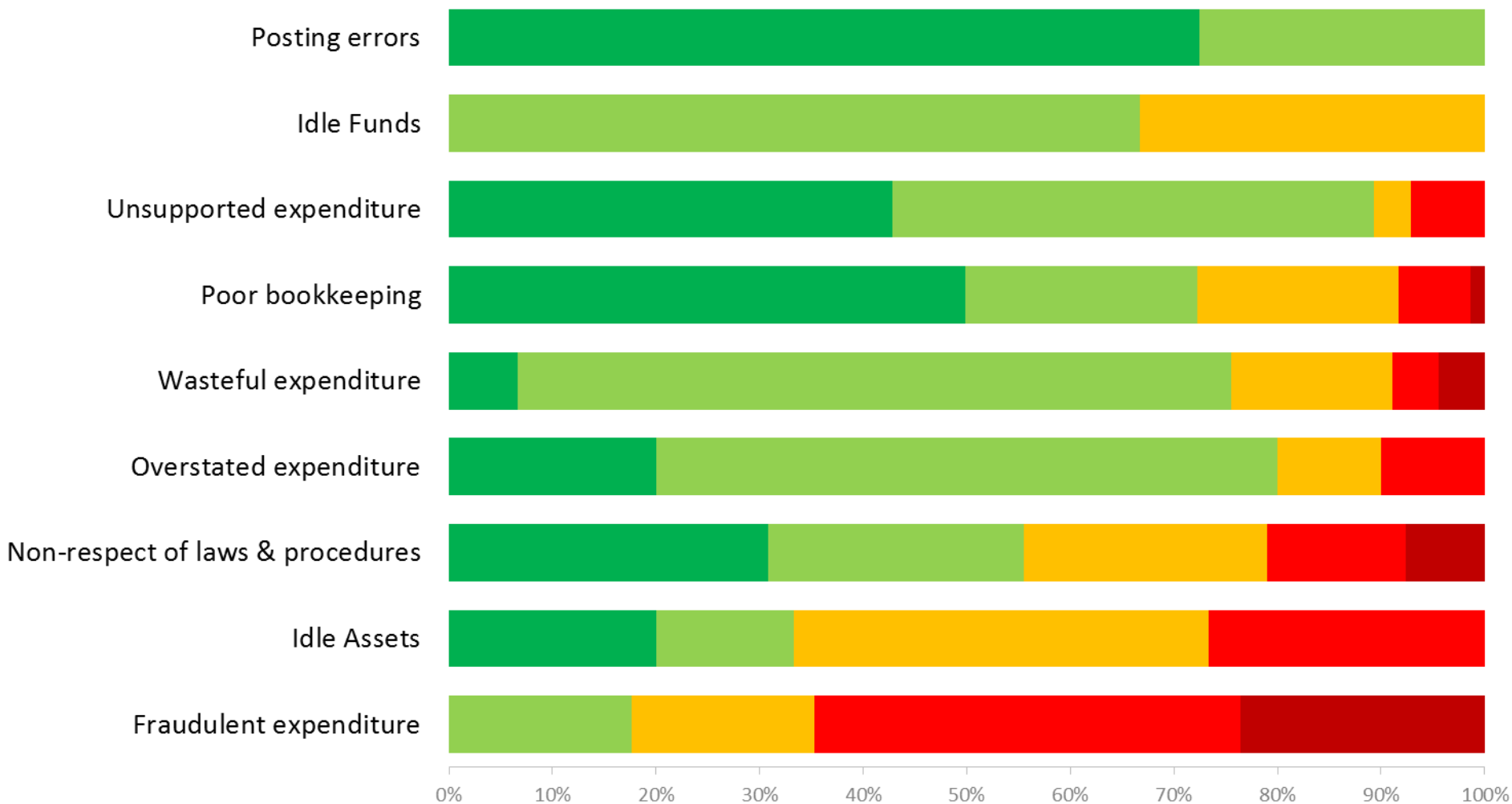
Source: Data from OAG's audit reports of Districts and the City of Kigali (Financial Year 2015-16), compiled by TI-RW



Difficulty of recommendations by weakness category



■ very easy ■ easy ■ moderate ■ difficult ■ very difficult



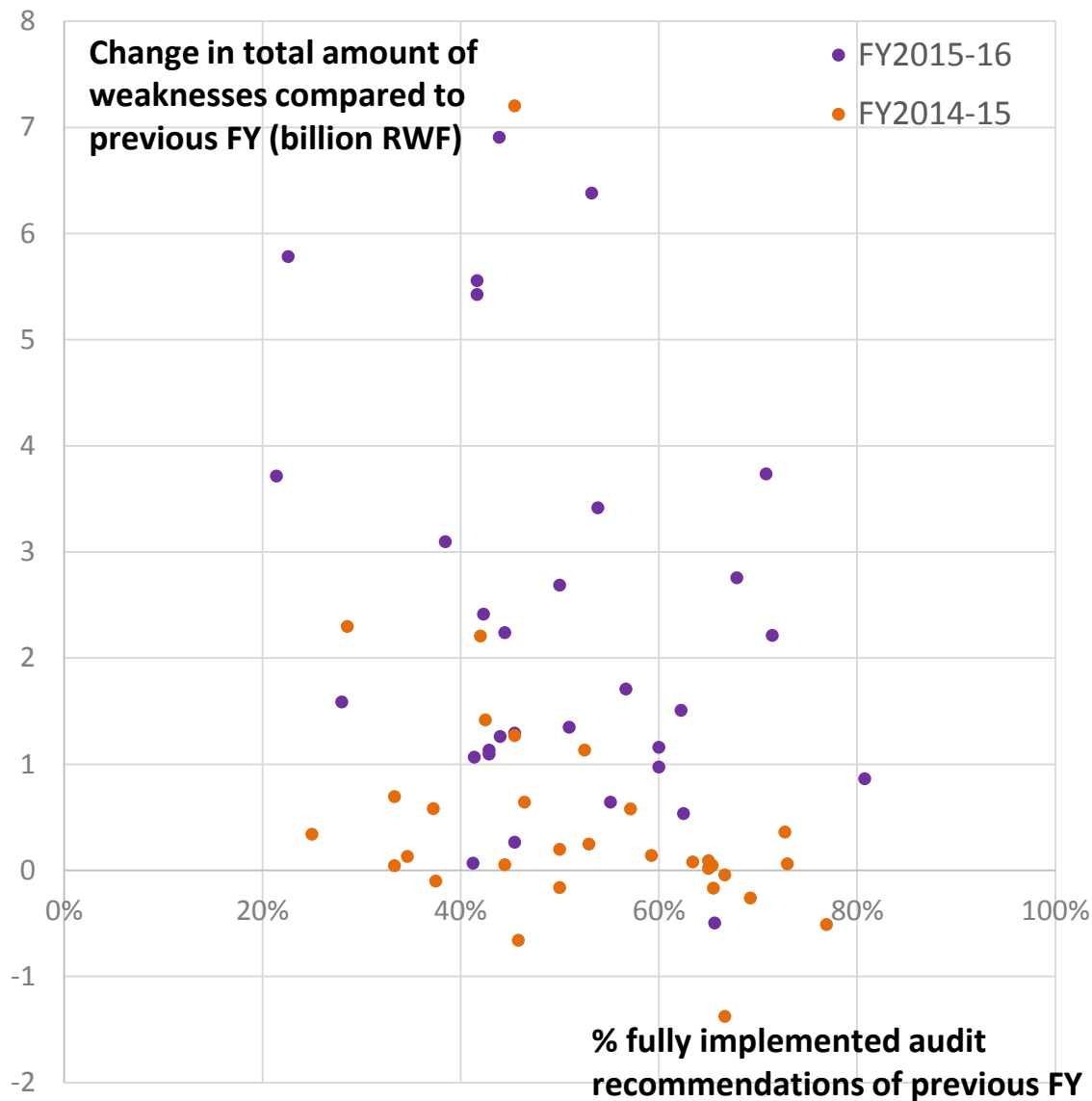


Implementation of audit recommendations does not necessarily lead to better PFM performance



Based on data on the implementation of recommendations from the last two FY, there is only a very weak correlation between the proportion of implementation of recommendations and better PFM performance (less increase of amount of weaknesses).

The correlation is entirely due to recommendations and performance in the category of non-respect of laws and procedures and poor bookkeeping. There is no evidence that implementation of other recommendations leads to improvement.

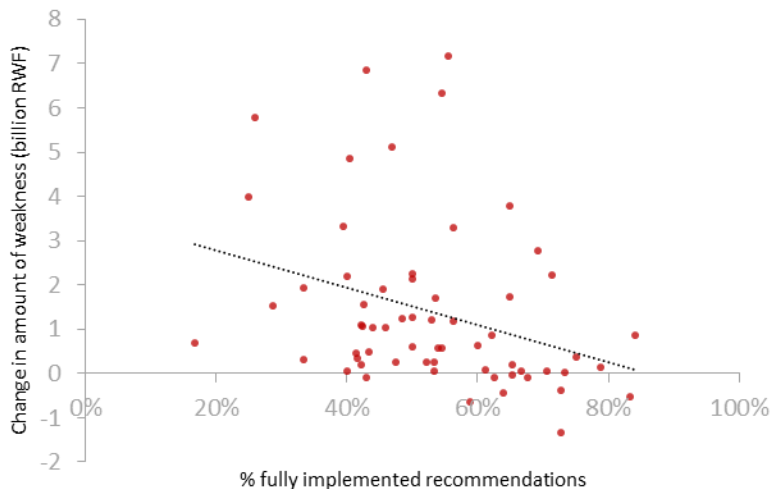




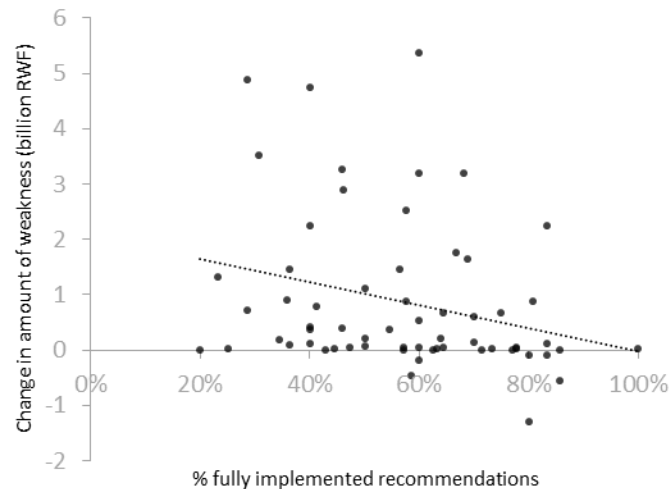
Implementation of audit recommendations does not necessarily lead to better PFM performance



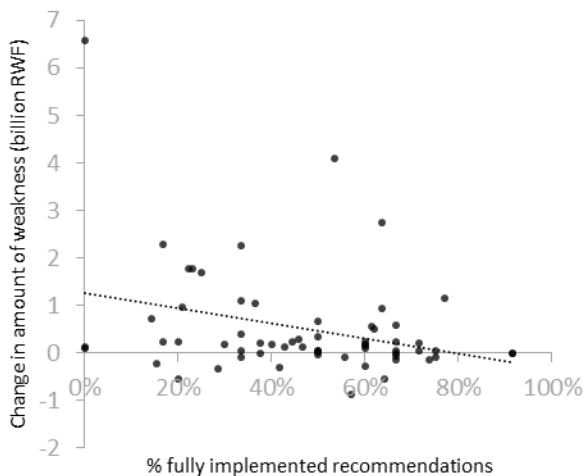
Non-expenditure related weaknesses



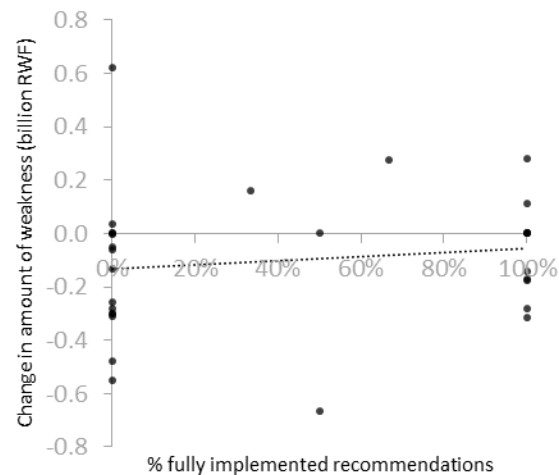
Non-respect of laws & procedures



Poor bookkeeping



Posting errors



Analysis of the Office of Auditor General's Reports of Decentralized Entities (Financial Year 2014-15)

RECOMMENDATIONS



Recommendations



1. NBAs and Districts should work closely and reconcile the discrepancies between the grant and transfers from District to Subsidiary Entités
2. Unsupported expenditure almost doubled mainly due to unsupported expenditure in public procurement and in investments made by Districts. MINALOC , MINECOFIN , RALGA and other PFM stakeholders should strengthen the capacity of district's financial staff in PFM specifically in revenue management, Contract management, Tax laws and financial reporting.
3. e-procurement, e-filing should be highly supported by various actors of PFM to reduce procurement related weaknesses
- 4 . Districts councilors should find an avenue of resolving the issue of shares subscribed for commitment to the Province Investment Corporation which is among the important contributors of unsupported expenditure



Recommendations



5. A cooperation between districts and RRA is crucial to enable districts the access to the database of its taxpayers and thus reduce the weaknesses in revenue collection, mostly originating from insufficient information on local tax collection
6. The issue of handover of Mutual Health Insurance from the Districts to RSSB should also be addressed to reduce weaknesses related to poor bookkeeping (some bank accounts were not handed over to RSSB and are still managed by districts. Furthermore, some payables and receivables were handed over to RSSB but without any documentation) .
7. The idle assets/funds have become a big issue for the FY under review, districts should make every effort to improve their planning and ensure that feasibility study is available before any tender especially for public works.



TRANSPARENCY
INTERNATIONAL
RWANDA



Murakoze



german
cooperation

DEUTSCHE ZUSAMMENARBEIT

Supported by

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH