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FIDUCIARY ASSESSMENT

ON A

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IN THE AMOUNT SDR 65.9 MILLION

(US$100.00 MILLION EQUIVALENT)

TO THE

REPUBLIC OF RWANDA

FOR A

PUBLIC SECTOR GOVERNANCE PROGRAM-FOR-RESULTS

September 14, 2014

Macroeconomics and Fiscal Management, and Governance Global Practices

Africa Region

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ACRONYMS AND ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
ACL	Audit Command Language
AON	Africa Olleh Network
API	Application Program Interface
BCC	Budget Call Circular
BCM	Business Continuity Management
BNR	Bank of Rwanda
CAATs	Computer Aided Audit Techniques
CAT-R	Certified Accounting Technicians of Rwanda
CD	Conceptual Design
CID	Criminal Investigation Department
CISA	Certified Information Systems Auditor
COFOG	Classification of Functions of Government
COPM	Comprehensive Operating Procedures Manuals
CPA	Certified Professional Accountant
CPA-R	Certified Professional Accountants of Rwanda
CSO	Civil Society Organizations
DC	Direct Contracting
DDPs	District Development Plans
DLI	Disbursement Linked Indicators
DPSC	Decentralisation Program Steering Committee
EAMU	East African Monetary Union
EDPRS	Economic Development and Poverty Reduction Strategy
ERM	Enterprise Risk Management
F&C	Fraud and Corruption
FM	Financial management
FMIS	Financial Management Information Systems
GAC	Governance and Anticorruption
GBS	General Budget Support
GCIA	Government Chief Internal Auditor
GoR	Government of Rwanda
IA-CM	Internal Audit Capability Model
ICB	International Competitive Bidding
ICPAR	Institute of Certified Accountants of Rwanda
IES	International Education Standards
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information System
IGFR	Intergovernmental Fiscal Relations Unit
IIA	Institute of Internal Audit
IMF	International Monetary Fund
IMF-GFSM	IMF Government Finance Statistics Manual
INTOSAI	International Organization of Supreme Audit Institutions
INTOSAI-IDI	INTOSAI Development Initiative
IPSAS	International Public Sector Accounting Standard
ISAE	International Standards on Assurance Engagements

ISSA	International Standards of Supreme Audit Institutions
JADF	Joint Action Development Forum
MDA	Ministries, Districts and Agencies
MDG	Millennium Development Goals
MIFOTRA	Ministry of Public Service and Labor
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MTEF	Medium Term Expenditure Framework
NADA	National Open Data Archive
NBAs	Non-Budget Agencies
NCB	National Committee Bidding
NISR	National Institute of Statistics Rwanda
NPPA	National Public Prosecution Authority
NSDS	National Strategy for Development of Statistics
NSS	National Statistical System
OAG	Office of Auditor General
OBL	Organic Budget Law
ODA	Overseas Development Assistance
PAP	Program Action Plan
PBB	Program Based Budgeting
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program-for-Results
PP	Procurement Plan
QAG	Quality Assurance Group
RGB	Rwanda Governance Board
RPPA	Rwanda Public Procurement Authority
RRA	Rwanda Revenue Authority
RT	Restricted Tendering
SACCO	Savings and Credit Cooperative
SEAS	Subsidiary Entities Accounting System
SSP	Sector Strategic Plan
SWG	Sector Working Group
TC	International Tender Committee
TSA	Treasury Single Account
TWGS	Technical Working Groups
UCS	Use of Country Systems
UNCITRAL	United Nations Commission on International Trade Law
XBRL	eXtensible Business Reporting Language

OVERVIEW

1. A fiduciary assessment for the Rwanda Public Sector Governance PforR was carried out, taking into account recent PFM diagnostic reports and meetings and discussions with key officials in the proposed implementing agencies and other stakeholders. The assessment followed the Draft Guidance Notes on PforR Operations and requirements of OP/BP 9.00, Program for Results. The assessment used the four pillars approach of the Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC) to define the inherent risks in the procurement environment. In line with the Sector Board's practices manual, the potential FM risks for the various PFM elements are rated as low (L), modest (M), substantial (S), or high (H). The assessment is also mindful of the gaps that may exist between form (policies, laws, structures, instructions/manuals) and actual functionality or practices of the PFM system. Mitigation measures are proposed to reinforce the government's PFM reform efforts. Critical measures are included in the PAP.

2. The assessment covered the institutions directly responsible for implementing the Program (MINECOFIN, RRA, OAG, RPPA, NISR) and one district council from each of the four provinces and Kigali City based on the size of budget transfers and population.[1] It also included meetings and discussions with key governance and anticorruption oversight institutions, including the Office of the Ombudsman and the National Prosecution Authority. In addition, it solicited the views of nonstate actors, such as Transparency International Rwanda and members of the Private Sector Federation.

3. The Program contributes to EDPRS 2 in general and the fourth thematic area (on accountable governance) in particular to improve service delivery and increase citizen participation in and satisfaction with delivery of development. In order to implement EDPRS 2, the Government developed 14 sector strategic plans.

4. The fiduciary assessment entailed a review of the capacity of a sample of the implementing agencies on their ability to (a) record, control, and manage all program resources and produce timely, understandable, relevant, and reliable information for the borrower and the Bank; (b) follow procurement rules and procedures, capacity, and performance, focusing on procurement performance indicators and the extent to which the capacity and performance support the program development objectives and risks associated with the Program and the implementing agency; and (c) ensure that implementation arrangements are adequate and risks reasonably mitigated by the existing framework, including arrangements for mitigating and resolving governance and corruptions issues if they occur.

5. Rwanda's financial management systems and processes have both strengths and challenges, as recent PFM diagnostic reports show.[2] The strengths of the Program's financial management systems include (a) the simplified public financial guidelines for chief budget managers, which provide clear descriptions of the various PFM processes;[3](b) the orderly,

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[1] Gasabo, Nyamagabe, Rusizi, Gatsibo, and Gacumbi.

[2] Examples includes the 2007 and 2010 PEFA assessments, sector public expenditure review reports, public expenditure tracking survey reports, and independent midterm and end-term evaluations of the Public Financial Management Reform Strategy (2008–12).

[3] http://www.minecofin.gov.rw/fileadmin/documents/MINICOFIN-PFM-Guidelines-July-2011.pdf.

participatory, and transparent planning and budget preparation process; and (c) a strong financial management legal framework. A number of challenges still remain, however, with regard to (a) the dearth of suitably qualified officials to handle PFM functions, especially at the district level, where there are serious concerns about high turnover of few trained staff; (b) failure to consolidate transactions for subsidiary entities and resulting weak annual financial statements quality; (c) internal control weaknesses (for example, poor records management, over expenditure on budget lines); and (d) submission of annual audit reports to Parliament 10 months after the end of the fiscal year.

6. Assessment of the systems and processes for dealing with fraud and corruption issues shows that Rwanda has strong institutional, organization, and legal frameworks for controlling fraud and corruption. Rwanda strengthened the legal frameworks in 2013 with the amendment of the law to allow the Office of the Ombudsman to prosecute cases of corruption, it will take time before the office take over prosecution of corruption cases from the National Public Prosecution Authority (NPPA). The NPPA and OM have reasonable capacity in terms of staffing and other resources to investigate fraud and corruption, though staff turnover is high and takes time to replace them. Rwanda also passed the Whistle Blowers Protection Act, 2013 and its too early to assess its impact on giving security and protection to whistle blowers. The Public Accounts Committee (PAC) of Parliament has also been effective in its oversight role in public financial management in follow up to the Auditor General's report and regularly calling financial managers to account. The oversight agencies (Ombudsman, NPPA, and RPPA) and implementing agencies have a reasonably well-functioning system for receiving, recording, and responding to complaints and grievances from the public and corporate bodies. Multiple media—including telephone hotlines, dedicated email accounts, and complaint boxes in public offices and places—are used to lodge complaints and these existing systems will used for the Program. The implementing agencies are obliged to respond to such complaints and are monitored by the OM, NPPA and RPPA depending on the complaints and grievances to be addressed. The NPPA and OM also carries spot checks on these agencies and districts to ensure compliance.

7. Some challenges identified include (a) inadequate arrangements to deal with fraud and corruption at the subnational level, where the Office of the Ombudsman is not decentralized and there is a shortage of suitably qualified PFM professionals (all districts have qualified audits); (b) difficulty retaining qualified staff, especially investigators (as of March 2014, two of the six investigators at the Office of the Ombudsman had left and not been replaced); (c) difficulty obtaining evidence and lack of information to prosecute allegations of corruption and (d) weaknesses in contract management, including suspicious delays in payment for contracts, including suspicious delays in payments of contractors and anecdotal evidence of budget administrators/executive secretaries in districts who try to informally influence decisions of procurement committees with the aim of favoring friends or influential individuals.[4]

8. Overall, most stakeholders agree that Rwanda has strong institutional arrangements for controlling and prosecuting fraud and corruption, but there is agreement that there is soft corruption in the ways things are done and difficulty getting information and evidence because of fear. Although the Rwanda Bribery Index shows strong public trust in institutions, almost 20

[4] Transparency International Rwanda. 2012.*Contract Monitoring in Infrastructure at the District Level.*

percent of victims or witnesses of corruption do not report, and private businesses are even more reluctant to report for fear of not getting government contracts.

Summary Findings

9. The main fiduciary risks to the Program are (a) the dearth of suitably qualified and experienced staff, especially at the district level; (b) the inability to properly budget and report at the targeted SSP program/subprogram level within the responsible MDAs; (c) a largely undeveloped internal audit function at both the national and subnational levels; (d) improper/incomplete books of accounts, leading to qualified audited financial statements; (e) the absence of a specialist on e-procurement to provide technical support and guidance during the procurement process and the operationalization of e-procurement; (f) the absence of a civil engineering department within NISR to provide technical support on the design and construction of a training center; (g) inadequate arrangements to deal with fraud and corruption issues at the district level in the context of weak internal controls; and (h) weak contract management.

10. **Human resources**: There is a dearth of suitably qualified personnel to handle PFM functions, especially at the district level, where there are serious concerns about high turnover of few trained staff. More than half of the total number (1,065) of accountants and auditors (internal and external) has a first degree, but there are only 16 fully qualified professional accountants in the government (2 percent). Even in the Internal Audit Department in MINECOFIN, there were five unfilled positions as of February 2014.

11. **Planning and budget preparation**: The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar. MDAs plan their expenditure allocations by programs and subprograms based on their strategic priorities and the national MTEF that is communicated to them in the budget call circular. It is important to track budget for the reform activities from the budget for day-to-day. PFM functions. For example, the PFM program budget under MINECOFIN depicts the subprograms shown in the expenditure framework (table 10), which are only manually aligned with the PFM-SSP pillars/themes. This system undermines proper conceptualization of program-based budgeting. MINECOFIN is resorting to matching tables prepared outside the budget classification to cross-reference the budget with the SSPs. Despite these efforts, specific reports are not prepared showing allocation to and spending on the SSPs.

12. **Treasury management and funds flow**: Predictability of available funds to undertake planned activities to meet the program objectives is hampered by the inadequacy of cash releases (total shortfall of 23 percent in FY2012/13). A good TSA system is well functioning, especially for ministry and agency operations through quarterly allocations to subaccounts within the central bank, from which all payments are made. However, time lags between revenue collection and banking at the district and sector level need to be reduced, as noted in the Auditor General's report.

13. **Accounting and financial reporting**: In-year and annual financial statements are timely and of reasonably good quality. A cash flow statement is not included in the consolidated financial statements.[5] The Auditor General qualifies the district council annual financial statements, largely because of failure to consolidate sectors and other nonbudgeting agencies

[5] Based on the review of the consolidated financial statement during the assessment mission in March 2014.

transactions and balances. District councils expense transfers to sectors and nonbudgeting agencies at the point of transfer. Accountability occurs subsequently but outside the district financial statements. The authorities have agreed to undertake an IPSAS gap analysis and develop a roadmap toward compliance over time. The gap analysis will help with the format, content, and frequency of reporting by public entities to be prescribed in the financial regulations. The Government's intention to embark on accrual basis accounting will need to be carefully reconsidered as part of the IPSAS (cash basis) gap analysis.

14. **Integrated Financial Management Information System (IFMIS)**: IFMIS has three core modules in active use: general ledger, accounts payable, and revenue management. It is operational in 131 of 156 budget agencies (84 percent) and covers 83 percent of government payments. It has improved timeliness of reporting. IFMIS should be seen as a tool and not a silver bullet that will address the PFM challenges, however. A multi-prong approach that ensures sustained progress in the other reform areas will be essential. Internal audit information systems audit capability through the use of computer-aided audit techniques (CAATs) and audit command language will help detect the fraud inherent in an IT environment. There is a need to develop a robust business continuity management and disaster recovery plan as part of the information security policy for IFMIS.

15. To ensure real-time management of information and decision making, the Government is developing and implementing a modern IFMIS. MINECOFIN management has decided to upgrade the existing bespoke system to meet all the Government's financial management needs across all qualifying entities. The review identified areas of IFMIS linkage with e-procurement, including (a) linkage of procurement plan functions of e-procurement with budget function of IFMIS, where the procurement plan is linked to an approved budget of IFMIS; (b) linkage of contract award of e-procurement to government commitment to budget expenditure; (c) linkage of inspection and delivery of supplies of e-procurement to inventory of IFMIS; (d) invoice by supplier in e-procurement to payment of IFMIS; and (e) acknowledgement of receipt of goods by e-procurement. With this modality, MINECOFIN is convinced that there is no duplication and the two systems stand alone.

16. **Internal controls (including internal audit)**: The main internal controls are in place and documented in the government financial management and procedural manuals.[6] The main internal control issues identified in the management letters for external audits and internal audit reports include (a) noncompliance with procurement policy and guidelines; (b) poor documentation and filing of accounting records; (c) irregular and unauthorized expenditure; (d) weak controls over the management of fixed assets, cash collections, and bank transactions; and (e) over expenditure on budget lines, despite the IFMIS in-built budget controls. Article 19 7º of the 2013 Organic Law on State Finances and Property (commonly called the OBL) requires the chief budget manager "to establish and maintain effective, efficient and transparent systems of internal controls and risk management." With the 2013 OBL and regulations in place, business processes will need to be reengineered to strengthen existing processes, such as budget controls, requisitioning, purchase orders, invoicing, payment authorization and approval, accounting, and

[6] The most important internal controls may be remembered by the mnemonic SOAPMAPS: segregation of duties, organization, authorization and approval, physical, management, arithmetical and accounting, personnel, and supervision.

reporting. The emerging business processes together with functionalities in the future IFMIS will lead to the development of a Comprehensive Operating Procedures Manual (COPM).

17. **Internal audit**: The internal audit function is in its early stages of development. Starting from a level of 1–2 of the public sector internal audit capability model (IA-CM) in 2010, the Office of the Government Chief Internal Auditor targets achieving level 4 by 2017. An internal audit service has been established in all government institutions. It is estimated that there are currently 200 internal auditors in Rwanda but only 2 qualified certified professional accountants (CPAs) on the job. The internal audit structure is flat; it does not specify a head of unit, which poses a challenge in terms of leadership of the internal audit function at the MDA level.

18. **Audit committee**: Since 2001, 68 of the 94 MDAs have had audit committees and submitted reports either to the district councils (83 percent by December 2013) or to heads of entities. In July 2012, MINECOFIN published a model audit committee charter. In 2013 it published a handbook that provides broad guidelines that audit committees in ministries, districts, agencies and government business enterprises can use. At the central government, 14 out of 21 ministries and agencies have established audit committees, but very few have held meetings. About 30 budgeting agencies are yet to establish the required internal audit committees.

19. **External audit**: For FY2011/12, 72 percent of the MDA audit reports (97 reports) were qualified, mainly because of avoidable and easily addressable factors. For FY2012/13, 68 percent of the MDA audit reports (94 reports) were qualified. The number of entities that obtained reports with unqualified (clean) audit opinion increased from 37 (28 percent) in FY2011/12fiscal 2012 to 45 (32 percent) in FY2012/13. All 30 districts received qualified audit reports. The districts that the Bank team visited during the identification and preparation missions (Gasabo, Bugesera, Kamonyi and Rulindo districts) all received adverse audit opinions.

20. **Public Accounts Committee (PAC)**: There has been notable improvement in the implementation of audit recommendations: 60 percent of all recommendations were fully implemented in FY2012/13, up from 49 percent in FY2011/12. The PAC conducts public hearings on the audit reports;[7] this oversight includes the audit reports for the district councils. There is no PAC similar to the one in the Chamber of Deputies at the district level. District council audit committees are yet to start conducting public hearings.

21. **Procurement**: The Government has an acceptable public procurement legal framework that is based on the United Nations Commission on International Trade Law (UNCITRAL) model. The legal framework is quite robust and covers all aspects of public procurement at all levels of government. To further improve compliance, efficiency, transparency, fair competition, and value for money and controls in public procurement, the Government is moving toward modernizing its procurement function by introducing e-procurement. The planned introduction of e-procurement is reflected in the RPPA medium-term strategic plan for FY2012/13 to FY2014. With the assistance of the Bank, Crown Agents conducted a feasibility study on e-procurement and prepared a conceptual design that has been submitted to the Government. The study proposed a competitive open bid to select an e-procurement solution. At the same time, the Government asked Korea Tel-Com to submit both technical and financial proposals to implement a solution based on the Korean e-procurement. As of September 2014, the

[7] Members of Parliament applaud public funds management - http://www.newtimes.co.rw/news/index.php?i=15401&a=68177.

Government is reviewing the technical and financial proposals. Direct contracting would require MINECOFIN to invoke Article 17 (impossibility to meet conditions for use of given method) of the Public Procurement Law to justify the direct contracting. On construction of a statistics training center, NISR will select a consultant to conduct the design review related to existing office renovation and designing of a training center. As NISR does not have a civil engineering department, it will receive technical support from the Rwanda Housing Authority, which will provide approval as a custodian of the Government asset.

22. **Governance and anticorruption issues**: The assessment also covered the capacity of the governance systems and arrangements to handle risks of F&C, including capacity and commitment to use the Bank's Anti-Corruption Guidelines (ACGs) in PforR financing, the use of complaints mechanisms and how such risks are managed and mitigated. From the Bank's assessment, Rwanda has relatively sound institutional and legal frameworks to deal with fraud and corruption cases. There is clear division of responsibilities between the Offices of the Ombudsman which deal with cases of corruption and the Criminal Investigation Department (CID), which deals with cases of fraud. The NPPA prosecutes cases on F&C after investigations. The legal provisions are strong for investigation, prosecution and prevention of fraud corruption; corruption is comprehensively defined in the Organic Law of the Penal Code[8] and complemented by several other laws to help fight, prevent, investigate and punish fraud and corruption[9]. Organic Law nº61/2008 of 10/09/2008 on the Leadership Code of Conduct is also in place to promote integrity in the public sector. Implementation and enforcement of these laws are quite robust both in the PforR implementing agencies specifically and the public sector in general. Severe sanctions are applied to those found guilty of fraud and corruption, including imprisonment, dismal from office and publications of names of those convicted in the media and website of the OM. The anti-corruption agencies have improved over the years are effective with reasonable capacity to do their job, including covering this PforR operation. Analysis of data provided by the office of the Ombudsman shows that 307 of 453 cases (68 percent) in 2009-2013 were investigated with only 9 sent to prosecution and 18 transmitted to other institutions, including the police. Many of the complaints received are related to maladministration, followed by local entities, procurement and justice sector.

23. The Public Accounts Committee of Parliament, established in April 2011, has nine members and has proven to be a robust oversight of financial management. It conducts public hearings on the report of the OAG with chief budget managers, accountants and other officers being regularly called to account. Reports submitted by the Office of the Auditor General to the PAC are analyzed and used to access how well public funds have been spent. Where there is evidence of abuse and misuse of funds, the PAC refers such cases to the NPPA for prosecution and recovery of funds. These are having a positive impact in enhancing the accountability of public institutions and officials. Assessment of the implementing agencies ((MINECOFIN and NISR) also suggest the processes and systems for handling and reporting fraud and corruption are in place and functioning reasonably well, though in the case of districts more need to be done

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[8] Article 633 of Organic Law No. 01/2012/OL of 02/05/2012

[9] The laws include Organic Law Nº 61/2008/0L of 10/9/2008 o leadership code of conduct, Organic Law Nº23/2003 of 7/8/2003 Concerning Prevention, Organic Law Nº12/2007 of 27/3/2007 on national procurement; Organic Law Nº12/2013/OL of 12/09/2013 on government property and assets; Organic Law Nº76/2013 of 11/9/2013 which is amended law defining powers and mandate of the ombudsman, including the power to prosecute cases of corruption; Ministerial Order Nº001/08/10/Min of 16 on national procurement.

to improve oversight and internal controls due to capacity constraints. In addition, the OM carries out surprise checks on these agencies. The agencies are obliged to report for investigation allegations of fraud and corruption and these are reasonably enforced within the agencies assessed.

24. **Application of World Bank Anti-Corruption Guidelines: The assessment also reviewed the capacity and commitment of the Government to apply the World Bank's Anti-**Corruption Guidelines in the PforR program in the relevant government institutions including MINECOFIN and NISR, the oversight bodies (OM, NPPA, and RPPA). There is commitment on the part of the Government to apply the ACGs and this will be reflected in the legal agreement for the PforR and includes: Specifically these includes (a) commitment that firms or individuals on the World Bank's debarment or suspended lists shall not be allowed to bid for contracts or benefit from a contract or proceeds of the program and the responsibility of MINECOFIN (the lead implementing agency) to ensure that all implementing and procuring entities have the updated list; (b) commitment that the NPPA and OM and implementing agencies will share information on fraud and corruption in the program with the World Bank; and (c) commitment to undertake investigations of any allegations of fraud and corruption by OM and NPPA and that the World Bank's Institutional Integrity Vice Presidency may directly investigate any fraud and corruption allegations made against the entire Program or part of the Program.

25. In 2013 the Ombudsman was given the powers to prosecute cases of corruption in order to speed up the process of prosecution, though there is a transition period that will enable the OM to fully set up and staff a Prosecution Directorate. The NPPA has a team of 12 prosecutors to handle corruption cases and each district has one prosecutor to handle corruption cases. During this transition period the NPPA will continue to prosecute cases of corruption.

26. **The Auditor General's report provides pointers to potential cases of fraud and corruption, in addition to the public providing information through hot lines and other media[10].** One concern in sharing of information on F&C is that while OAG is required by Article 184 of the Constitution to provide copy of the Auditor General's report to the Prosecutor-General, the Auditor General is not required to give a copy to the Ombudsman which is responsible for investigation of cases of corruption. This is a gap that can be bridged administratively rather than an amendment to the law.

27. **Handling of Complaints and Grievances:** There is a reasonably good citizen's engagement and multiple sources for lodging and recording complaints on fraud and corruption in procurement and FM through the RPPA, Ombudsman and NPPA. The NPPA and Ombudsman have multiple sources of receiving complaints, including hotlines, secure complaints boxes in most public organizations and in each of the 30 districts, via email and letters etc. The OM also has informers all over the country, including districts that provide information on possible fraud and corruption to the HQ in Kigali. In addition, the OM carries out surprise checks on these agencies and deploys teams agencies and districts when required. The implementing agencies for the Program also follow the complaints mechanisms for procurement and fraud and corruption cases. The assessment within MINECOFIN, RRA and NISR suggests that complaints and grievance handling mechanisms are functioning reasonably

[10] The hotline to report suspected cases of fraud and corruption to NPPA is 3677.

well. The multiple channels of complaints (procurement via RPPA, corruption through OM and fraud through NPPA) raise questions of coordination of the different channels to ensure all complaints would be captured and responded to in the PforR program. The PAP will need to strengthen mechanisms for capturing feedback and complaints from citizens and key stakeholders such as private contractors.

28. Concerns that emerged from the assessment of risks of F&C for the Program are capacity gaps in staffing at the district level, concerns about internal controls, and all 30 districts having qualified audits. There are also concerns in contract management, including suspicious delays in payments not always due to cash flow problems but rent seeking behavior by those responsible for processing payments. One mitigating factor is the multiple audits that districts and central government agencies are subjected to, including by the Ombudsman, OAG, NPPA and RPPA.

29. Some of the weaknesses identified in procurement and FM pose potential risks in fraud and corruption in the PforR program, including use of non-open competitive methods in awarding contracts and not publishing contract awards in media that is widely accessible to the public. Recommended actions in the PAP will help to mitigate these risks.

30. **The Auditor General's report provides pointers to potential cases of F&C, in addition to the public providing information through hot lines and other media[11].** One concern in sharing of information on fraud and corruption is that while the Office of the Auditor General is required to provide copy of his report to the Prosecutor-General[12], he is not required to give a copy to the Ombudsman which is responsible for investigation of cases of corruption. This is a gap that can be bridged administratively rather than an amendment to the law.

31. **The overall risk for the Program was assessed as substantial.**[13] The agreed mitigation measures will be adequate to support the operation. Key mitigation measures are suggested in PAP Table 6-1, which the implementing agencies discussed and agreed on. Technical assistance from the PFM Basket Fund (DFID, the European Union, KfW, and a dedicated subfund for the OAG to protect its financial independence) and the IMF-AFRITAC-e TA in the areas of revenue administration, PFM, and macro-fiscal analysis will help Rwanda progressively address the challenges in order to meet the related DLIs.

[11] The hotline to report suspected cases of fraud and corruption to NPPA is 3677

[12] Article 184 of the Rwandan Constitution

[13] See appendix A in the fiduciary assessment for risk concepts.

I. INTRODUCTION AND CONTEXT

A. Country context

1. **Rwanda's development performance over the past decade has been one of the best in the world.** A highly strategic approach to development, which has galvanized domestic and external resources around nationally defined medium- and long-term goals, has delivered strong economic growth (7–8 percent per year), a significant decline in poverty, and a modest reduction in inequality. Nonmaterial measures of well-being have also improved, with impressive progress across the Millennium Development Goals (MDGs).

2. **Reductions in both poverty and inequality—from high starting levels—have been impressive**. The poverty headcount dropped, with the share of the population living below the national poverty line falling from 59 percent in the early 2000s to 45 percent in 2011. In Kigali, home to 10 percent of Rwanda's population, the incidence of poverty decreased by six percentage points, from 22.7 percent in 2001 to 16.8 percent in 2011. Starting from a much higher base, the rest of the country experienced a 15 percentage point drop in poverty. The poverty gap ratio, which takes into account the distance separating the poor from the poverty line, dropped by almost 10 percentage points, from 24.4 percent in 2001 to 14.8 percent in 2011, indicating that people living below the poverty line are now closer to it than they were in 2001, an indicator that bodes well for future poverty reduction. Inequality, as measured by the Gini coefficient, fell from 0.52 in 2001 to 0.49 in 2011.

3. **Rwanda performed extremely well in the past decade. It is now time to focus on the challenging second-generation reforms that underpin the country's goal of reaching middle-income status by 2020.** [14] These challenges include (a) transforming the economy from one led by the public sector to one led by the private sector, (b) enhancing shared prosperity, (c) financing the development strategy, and (d) ensuring that institutions and capacity keep pace with growth. To a large extent, the Government's vision describes the policies and reforms needed to address these development challenges.

4. **The Government's medium-term vision and targets are set out in a series of sectoral, locality-specific, and overarching strategic development plans**. The clearest aggregation of medium-term goals is set out in the second Economic Development and Poverty Reduction Strategy (EDPRS 2), which aims to accelerate private sector–led growth and further reduce poverty, including extreme poverty, while reducing aid dependency, thus increasing self-reliance. The four thematic areas of EDPRS 2 are (a) economic transformation, to achieve high and sustained growth and restructure the economy toward services and industry; (b) rural development, to bring the national poverty rate below 30 percent; (c) productivity and youth employment, to ensure that growth and transformation are supported by appropriate skills; and (d) accountable governance, to improve service delivery and increase citizen participation in and satisfaction with the delivery of development. Eight foundational issues support these thematic

[14] Section IV of the Country Partnership Strategy (CPS) for FY2014–18 describes development challenges in more detail.

areas.[15] EDPRS 1 saw substantial progress on these ongoing long-term priorities as well as on seven cross-cutting issues.[16]

5. EDPRS 2 defines the role of public financial management (PFM) as the platform for the efficient management of nation's resources to achieve the EDPRS 2 goals of accelerating private sector–led growth and further reducing poverty, including extreme poverty.[17] EDPRS 2 highlights the following PFM priorities in the next five years: (a) increase resource mobilization from domestic and alternative sources of finance, with the objective of meeting increased public expenditure and making Rwanda progressively self-reliant; (b) scale up implementation of the Integrated Financial Management Information System (IFMIS); (c) strengthen PFM systems at the subnational level, including in districts and subsidiary units (sectors, schools, health facilities), to support fiscal decentralization and service delivery; and (d) enhance training, professionalization, and capacity building across all PFM disciplines, to sustain the reforms in the long run.

B. Institutional Setting for Accountability for Public Funds

6. The Constitution established three organs of the Republic of Rwanda[18]: (i) Legislature; (ii) Executive; and (iii) Judiciary as separate and independent but complementary institutions of the state. The Constitution also established a bi-cameral parliament (the Chamber of the Deputies and the Senate) to carry out legislative function, oversight function, and representation function. The Government structure was restructured in 2005, and sub national administrations were thus reduced to 4 provinces, 30 districts, 416 sectors, 21,480 cells and 14,975 Imidugudu (villages).

7. The Chamber of Deputies is responsible for receiving and debating the annual Finance Bill before it becomes a Finance Law with the concurrence of the Senate[19]. The Executive is responsible for the formulation, preparation and submission of finance bill to the Chamber of Deputies and once passed into a Finance Law is also responsible for budget execution by abiding by (i) the 2013 Organic Law on State finances and property[20] (commonly referred to as Organic Budget Law (OBL)) describes principles and modalities for sound management of State finances and property and relate to public financial management of Central Government, local administration, public institutions and parastatal organizations; and (ii) Public Procurement Law 2007 and the decree of associated Regulations. The simplified public financial guidelines for chief budget managers[21] provide clear descriptions for the various PFM processes.

8. Article 184 of the Constitution completes the accountability cycle through the law on the mission, organization and functioning of the Office of the Auditor General of State finances[22]. The Auditor General is required to submit annual audited financial statements to Parliament

[15] The foundational issue areas are macroeconomic stability, demographics, food security, basic education, primary health care, rule of law, public financial management, and decentralization.
[16] The cross-cutting issue areas are capacity building, environment, gender, regional integration, HIV/AIDS and noncommunicable diseases, disaster management, and social inclusion.
[17] The government defines the foundational issues as strategic areas that constitute the bedrock of Rwanda's sustainable development over the long term.
[18] Article 60 of the 2003 Rwanda Constitution
[19] Article 79 of the Constitution,
[20] N° 12/2013/OL of 12/09/2013 (Official Gazette n° Special of 05/11/2013)
[21] http://www.minecofin.gov.rw/fileadmin/documents/MINICOFIN-PFM-Guidelines-July-2011.pdf
[22] N° 79/2013 of 11/9/2013 (Official Gazette nº 45 of 11/11/2013)

indicating the manner in which the budget was utilized including instances of unnecessary expenses which were incurred or expenses which were contrary to the law and whether there was misappropriation or general misuse of public funds. The Auditor General submits a copy of the report to the President of the Republic, Cabinet, the President of the Supreme Court and the Prosecutor General of the Republic. The Auditor General of State Finances shall ensure that the annual audit reports are published. The Parliament as part of its oversight functions; reviews and debates the audit report and takes appropriate decisions within a period not exceeding six months. Sanctions for non-compliance with extant PFM legal framework include disciplinary action[23]. NPPA and OM also report to Parliament and the President and submit quarterly reports on fraud and corruption, including those convicted for fraud and corruption.

C. Program background

9. **Rwanda has made remarkable progress in rebuilding core public sector institutions since the 1994 genocide.** Its leadership has demonstrated strong commitment and resilience despite a difficult environment. It has made significant progress in achieving peaceful political settlement and national security, with dividends to citizens in terms of increased access to services and poverty reduction. The Government has established its legitimacy and authority and maintained the rule of law. Rwanda has very robust anticorruption laws and oversight institutions for controlling corruption, and its leadership is committed to the fight against corruption. The Government's efforts have been so effective that Rwanda has remained a low corruption country.

10. **These achievements are extraordinary, but Rwanda still faces significant capacity weaknesses and shortages in core skills and competencies needed to meet its ambitious development objectives under EDPRS 2.** The Government believes that it must implement ambitious public sector reforms to deliver results. It radically restructured the administration early on in the recovery phase in 1998–99, through a downsizing that dismissed more than 6,000 unqualified civil servants and removed more than 6,500 ghost workers from the payroll. To eliminate the incentive to supplement income through petty corruption and moonlighting, it then raised salaries for the much smaller number of staff by 40 percent. In 2012 the Government supported these civil service reforms by implementing the pay and retention policy,[24] following the prime minister's order to establish a performance appraisal and promotion process for public servants in 2010.[25] Introduction of an Integrated Personnel and Payroll System (IPPIS) in 2010 has also supported implementation of the civil service reforms.[26] Beginning in 2000, in tandem with significant fiscal, political, and administrative decentralization reforms, central government ministries have been unbundled to create flatter and smaller structures and bring service delivery closer to the grassroots, in order to improve performance and accountability.

11. **Public sector reforms have improved governance.** Rwanda's performance significantly improved in all six dimensions of the Worldwide Governance Indicators (WGI) between 1996

[23] Law No. 22/2002 of 9/7/2002 on General Statutes for the Rwanda Public Service

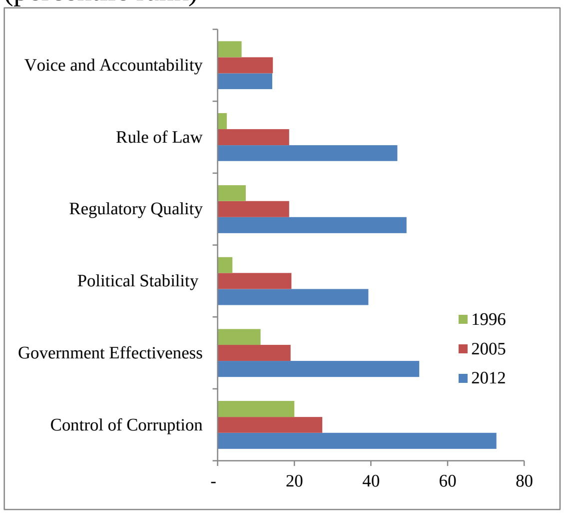
[24] See http://www.mifotra.gov.rw/fileadmin/templates/downloads/IMPLIMENTATION.pdf.

[25] See http://www.mifotra.gov.rw/fileadmin/user_upload/Prime_Minister_s_orders/ITEKA_RYA_MINISITIRI_W_INTEBE_RIKORESHWA_MU_ISUZUMABUSHOBOZI_N_IZAMURWA_MU_NTERA_RY_ABAKOZI_BA_LETA.pdf.

[26] The World Bank supported the IPPIS through the Eighth Poverty Reduction Support Financing in 2011.

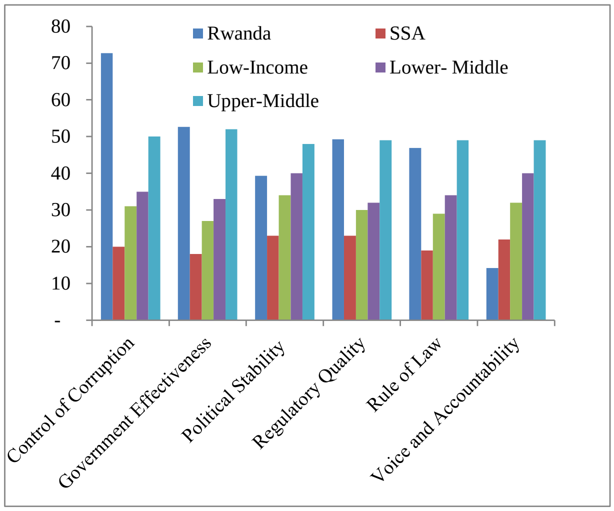
and 2012 (**Error! Reference source not found.**).[27] It rose from the 20th percentile rank on control of corruption in 1996 to the 27th percentile in 2005 and the 73rd percentile in 2012. Government effectiveness rose from the 11th percentile in 1996 to the 53rd percentile in 2012. For some dimensions, Rwanda's rankings are now close to the average for middle-income countries (**Error! Reference source not found.**). Three dimensions—government effectiveness, regulatory quality, and rule of law—are almost at the middle-income country averages, and the ranking for control of corruption is much higher than the middle-income country average. In contrast, the percentile rank on voice and accountability is lower than other country groups (including Sub-Saharan Africa).

Figure 1: Measures of Governance in Rwanda, 1996–2012
(percentile rank)



Source: Worldwide Governance Indicators.

Figure 2: Measures of Governance in Rwanda and Selected Country Groups, 2012



Source: Worldwide Governance Indicators.

12. **Among the range of actions needed to improve accountability, better PFM is particularly central.** The literature confirms a positive relationship between PFM and accountability. Effective PFM systems can help strengthen democratic influence, oversight, and accountability in the decision-making processes related to the state budget. It can greatly enhance transparency, by making well-structured information available on the ways in which public resources have been used and the results that have been achieved, significantly strengthening the accountability process in parliament and public audit institutions.[28]

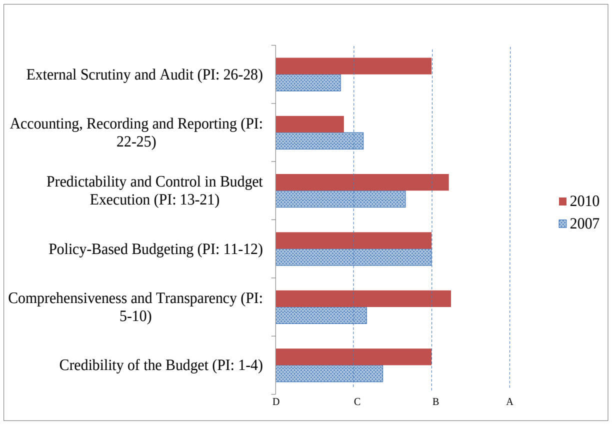
13. **The Government regards PFM systems and processes as key to the effective and efficient functioning of the public sector,** because they underpin the performance of all sectors and different levels of government.[29] The Government has defined the main objective of PFM reforms as "to ensure efficient, effective, and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery". It first embarked on comprehensive PFM reforms in 2008, with the comprehensive Public Financial

[27] See http://info.worldbank.org/governance/wgi/index.aspx#home.
[28] Sida (2007) *Public Finance Management in Development Co-operation: A Handbook for Sida Staff.*
[29] For example, EDPRS 2 states that "Rwanda's public finance management system is the platform for the efficient management of the nation's resources. Its reporting, audit and oversight functions are essential elements in providing effective Accountable Governance" (Para 6.27).

Management Reform Strategy (PFMRS) for 2008–12. Building on progress under the PFMRS, in 2013 it formulated the PFM Sector Strategic Plan (SSP) 2013–18.

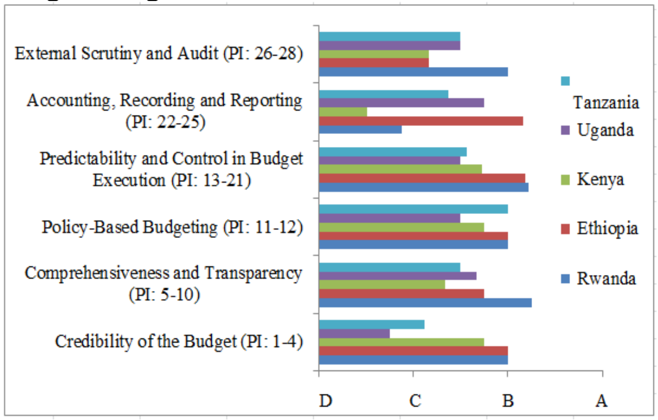
14. **Rwanda has made significant progress in PFM reforms.** The Public Expenditure and Financial Accountability (PEFA) report documents this improvement at the national level. Scores in all but one category improved between 2007 and 2010 (**Error! Reference source not found.**). Other assessments, such as an independent evaluation of the PFMRS, also show improvement. At the subnational level, the 2010 PEFA report assessed four districts. It found the nature and scope of external scrutiny of subnational governments to be satisfactory. Rwanda's performance is as good as or better than that of neighboring countries in all categories except accounting, recording, and reporting (**Error! Reference source not found.**).

Figure 3: Rwanda's PEFA Performance, 2007 and 2010



Source: PEFA and World Bank staff calculations.

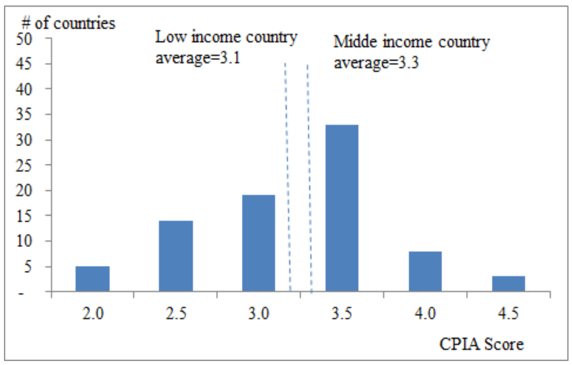
Figure 4: PEFA Performance of Rwanda and Neighboring Countries



Source: PEFA and World Bank staff calculations.
Note: Data are from various years between 2010 and 2013.

15. Among 82 countries for which country data on the Country Policy and Institutional Assessment (CPIA) Indicator 13 (quality of budgetary and financial management rating) were available, Rwanda ranked 4th in 2013, with a score of 4.0. Its score exceeds the average score of middle-income countries (3.3) (Figure 5). Among 73 countries for which data were available for 2005 and 2013, only a third improved their score; another third deteriorated, and the remaining third remained the same. Rwanda showed improvement—a remarkable achievement given the absence of a functioning PFM system immediately after the 1994 genocide.

Figure 5: Quality of Budgetary and Financial Management in Rwanda, 2013



Source: World Bank WDI.

Note: Figure shows scores on Country Policy and Institutional Assessment (CPIA) Indicator 13.

16. **There is a need to consolidate the achievements made and to address other challenges.** Effective PFM is very important in Rwanda, because the central government budget represents a large share of GDP (29 percent), a share similar to that in Kenya and Tanzania (Table 1). Rwanda's tax revenue to GDP ratio (14.2 percent) is slightly lower than the average

for East African countries. The combination of high expenditures and low tax revenues has made Rwanda more aid dependent than its neighbors.

Table 1: Expenditures, Revenues, and Foreign Grants in Rwanda and Neighboring Countries, FY2012/13

Item	*Rwanda*	*Ethiopia*	*Kenya*	*Tanzania*	*Uganda*	*Average*
Total expenditures (percent of GDP)	29.0	18.0	30.5	28.0	18.9	24.9
Tax revenues (percent of GDP)	14.2	11.4	19.2	16.0	12.6	14.7
Foreign grants (percent of total expenditures)	27.3	11.1	1.9	12.8	8.9	12.4

Source: IMF reports.

17. **In addition to addressing these challenges, PFM systems in Rwanda have to keep up with the country's rapid development as well as changes in technology.** Nominal GDP almost tripled between 2006 and 2013, and the national budget almost doubled between FY2009/10 and FY2013/14. As part of decentralization, subnational governments were completely restructured in 2005. The availability of new technology offers an opportunity to enhance PFM systems and procedures. Advancing and implementing PFM reforms, including capacity building and institution strengthening, is an important component of Rwanda's development agenda, as reflected in the importance given to this area in both the country's medium-term plan and the Bank's Country Partnership Strategy (CPS).

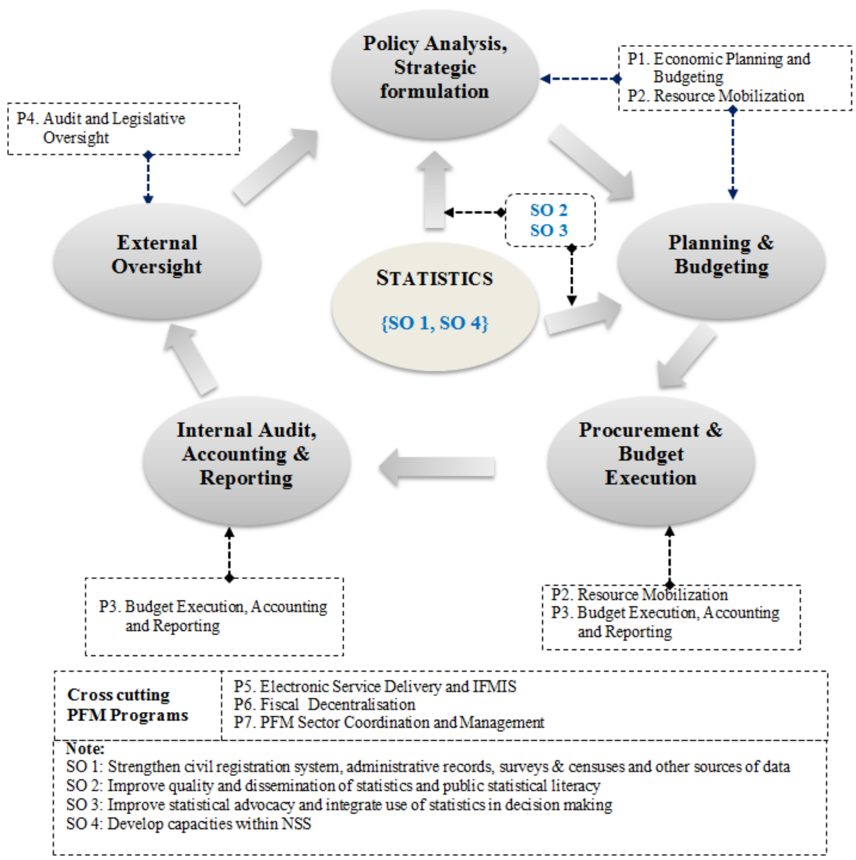
18. **Statistics are critical for supporting Rwanda's development agenda. They facilitate evidence-based policy making and support more efficient and effective use of public resources.** A regular flow of good-quality, comparable data on Rwanda's evolving social and economic conditions is fundamental for continuously improving the understanding of the country's development challenges, informing the design of well-targeted interventions to address them, measuring their impact on national poverty and social goals, and using that information to calibrate policy design and further improve the allocation of scarce public resources. Statistics arguably play a foundational role in PFM, particularly by informing policy analysis and strategy formulation and supporting adjustments in planning and budgeting in light of information on the development results achieved through public sector programs**.**

19. Rwanda's first National Strategy for Development of Statistics (NSDS 1), covering 2009–14, helped establish a foundation for the development of the statistics sector. Building on successful implementation of the NSDS 1, the Government formulated NSDS 2, which covers 2014–19. Recognizing the important roles of statistics in the PFM cycle, NSDS 2 seeks to improve statistical advocacy and integrate the use of statistics in decision making.

20. **This Program for Results (PforR) operation (henceforth referred to as "the Program") intersects with Government programs in many ways (**Error! Reference source not found.**).** For example, the Government program on economic planning and budgeting (P1) and resource mobilization (P2) contribute to policy analysis, strategic formulation, and planning and budgeting elements of the PFM cycle. The government program on electronic service delivery and IFMIS (P5) cuts across all elements of the PFM cycle. The strategic objectives on strengthening civil registration system, administrative records, surveys, censuses, and other sources of data (Strategic Objective [SO] 1) and developing capacities within the National Statistical System (NSS) (SO4) contribute to creating good-quality and timely statistics that can inform policy and strategy formulation and evaluation. The programs to improve the quality and dissemination of statistics and public statistical literacy (SO3) and improve statistical advocacy

and integrate the use of statistics in decision making (SO4) are also expected to contribute to improved policy analysis and planning/budgeting.

Figure 6: PFM Cycle and Government Programs Supported by the Program



21. **The Government has made progress on gender issues in both PFM and statistics reforms**. It introduced gender-responsive budgeting in five ministries in 2003, and fully operationalized it in 2008. Currently, all ministries and districts are required to submit gender budget statements and the gender distribution of employment during budget formulation. The National Institute of Statistics of Rwanda (NISR) started producing gender statistics in 2011; it currently covers both national and subnational levels. The Program will support government efforts to further enhance the mainstreaming of gender issues in both PFM and statistics programs.

22. **Enhancing PFM will contribute to poverty reduction and shared prosperity.** EDPRS 2 defines PFM as the platform for the efficient management of the nation's resources to achieve the EDPRS 2 goal of accelerating private sector–led growth and further reducing poverty, including extreme poverty. This idea mirrors the Bank's view that poverty reduction is not merely a question of spending more but also of using resources more effectively. Key to doing so are effective PFM systems.[30] Further enhancing PFM will allow the government to better

[30] See "The Role of Public Financial Management for PRS Implementation," on the World Bank website (http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:21629917~menuPK:384207~pagePK:148956~piPK:216618~theSitePK:384201~isCURL:Y,00.html).

allocate its scarce financial resources to achieve national development goals. It will also enable the government to become more accountable to Rwanda citizens on how public expenditures are executed in accordance with development goals.

23. **Good-quality statistics are key for making more effective use of existing resources.** NSDS 2 focuses on producing good-quality statistics relevant to poverty reduction and shared prosperity, such as household surveys, labor statistics, and agriculture survey. The systematic production and dissemination of economic and social statistics is fundamental for assessing the impact of expenditures on national poverty and social goals and informing adjustments in planning, budgeting, or both that improve the allocation of public funds.

24. **The Ministry of Finance and Economic Planning (MINECOFIN) is leading PFM reforms.** Several ministries and agencies are engaged in PFM as a foundational issue (**Error! Reference source not found.**). MINECOFIN, the Rwanda Revenue Authority (RRA), the Rwanda Public Procurement Authority (RPPA), and the Office of the Auditor General (OAG) are the implementing agencies for this Program.

Table 2: Roles of Government Ministries and Agencies in PFM Reforms

Name	*Roles*
Program implementing agencies	
Ministry of Finance and Economic Planning (MINECOFIN)	• Lead ministry on PFM • Planning and budgeting, including gender-responsive budgeting • Resource mobilization, especially tax policy • Budget execution, internal control, accounting, and reporting • Electronic service delivery and IFMIS • Fiscal decentralization, including subnational PFM • PFM sector coordination and management, including capacity building
Office of Auditor General (OAG)	External oversight
Rwanda Public Procurement Agency (RPPA)	Public procurement
Rwanda Revenue Authority (RRA)	Tax administration
Other agencies	
Ministry of Local Government (MINALOC)	Working with MINECOFIN on PFM reforms at the subnational level
Ministry of Public Service and Labor (MIFOTRA)	Integrated Personnel and Payroll System (IPPIS)
Parliament (especially the Public Accounts Committee)	External oversight
Rwanda Governance Board	Working with MINECOFIN on PFM reforms at the subnational level

25. Progress and key issues on PFM reforms have been discussed under the PFM Coordination Forum, which the Bank co-chairs. The Forum includes relevant ministries and agencies as well as key development partners supporting PFM reforms, including the Bank; the Government of Belgium; the Department for International Development (DFID); the European Union (EU); the International Monetary Fund (IMF); and Kreditanstalt für Wiederaufbau (KfW), the German development bank.

26. **NISR is leading the statistics agenda.** It plays a coordination role in the NSS and is the implementing agency of the Program. NSS stakeholders include other data producers (for example, line ministries) and users. The Statistics Steering Committee is made up of government stakeholders and development partners (the European Union, DFID, and the Bank). It functions

as a discussion forum for key statistics issues. Although there is currently no formal institutional mechanism to discuss PFM and statistics reforms jointly, preparation of the Program has stimulated coordination between the two areas.

National and Subnational PFM

27. **Remaining challenges and proposed solutions:** Despite the progress described in the previous section, there are remaining challenges. The PFM SSP has identified key challenges and proposed solutions in each program, which are translated into a foundation for defining sector priorities and outcomes until FY2017/18 (Annex Table 2.1 in the PAD). For example, in the second program on resource mobilization, key challenges are inadequate resource mobilization resulting in aid dependency at the national level and lack of discretionary revenues at the subnational level[31]. Also, improving the coherence between the national strategies, the MTEF and the annual budget process has been identified as an area for improvement under the first program on economic planning and budgeting. Across the PFM sector, and more specifically under program 7 on PFM sector and coordination, capacity and skill shortages are identified as key bottleneck. The issue of capacity and skill shortages is more pronounced at the subnational level, especially on core PFM areas such as accounting, auditing, budgeting, and reporting.

Statistics

28. The NSDS 2 for 2014-19 is in the final stages of elaboration. The two overarching objectives of the NSDS 2 are to produce relevant, reliable and timely statistics to monitor the progress of the EDPRS 2 and to strengthen and prepare the National Statistical System (NSS). The NSDS 2 will support the changing requirements in terms of nature and periodicity of data as Rwanda approaches middle-income status by 2020. The expected outcome of the NSDS 2 is a strengthened and well-coordinated NSS that is able to constantly monitor development outcomes and spur effective decision-making and public accountability.

29. **Progress to Date and remaining challenges**: During the first NSDS (2009-2014), the NISR made significant progress in the quality, timeliness and dissemination of data, mainly in the social and demographic domain. NISR consistently implemented the main social surveys and the 2012 Population and Housing Census according to a pre-published timetable. In addition, solid progress was made on data access and dissemination through the creation of a National Open Data Archive (NADA), where survey microdata can be readily downloaded for further analysis, and the establishment of an Open Data Portal, which has greatly improved citizens' access to statistical information. During the NSDS 1 period, Rwanda moved up 20 places on the World Bank's Statistical Capacity ranking, from 73rd (out of 149 countries with valid data) at the end of 2008 to 53rd at the end of 2013[32]. Focusing on Sub-Sahara Africa, Rwanda ranked sixth in 2013[33], up from 10th place in 2008. There remain however important gaps to be addressed by NSDS 2. These gaps relate in particular to the relative lack of economic statistics (data on

[31] The fiscal and financial decentralization program in the Governance and Decentralization SSP has also identified revenue mobilization challenges at the local level.

[32] http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/EXTWBDEBTSTA/0,,contentMDK:22284270~menuPK:9248396~pagePK:64168445~piPK:64168309~theSitePK:3561370,00.html; accessed in February 2014

[33] Fifth when excluding South Africa.

agriculture, businesses, and labor market activity are scarce) and the low capacity within the National Statistical System. In addition, efforts to improve the frequency and quality of certain types of statistics need to be accompanied by improved access to data for users of statistics. The Bank's Open Data Readiness Assessment[34] found that there is room to improve data dissemination, which will result in better and more use of data through an expansion of NISR's ongoing Open Data agenda.

30. The Program Development Objective (PDO) of this Program is enhancing Public Financial Management and statistics systems to improve transparency and accountability in the use of public funds, revenue mobilization and the quality and accessibility of development data for decision making. The Program aims to achieve the following results:

- Increased efficiency in national and subnational revenue collection;
- Improved national and subnational transparency and accountability in the use of public funds; and
- Improved use of development data for decision-making.

31. **Government programs to be supported by the Program are a subset of Government's own programs.** National and subnational PFM and statistics to support effective PFM cut across three sectors strategies. The Program will support selected programs and strategic areas essential to achieve the program development objective of the Program through the results areas (table 3).

[34] Rwanda Open Data Readiness Assessment prepared for the Government of Rwanda in July 2013.

Table 3: Boundaries of the program supported by the Program

Government Programs		World Bank PforR	
Strategy	Program, Sub-Program / Strategic Areas	Of which supported by the Program	Main Implementing Ministries and Agencies
PFM SSP	**1. Economic Planning and Budgeting**		
	(1) National Development Planning	☒	MINECOFIN (Planning Dept.)
	(2) Economic Policy Formulation	☒	MINECOFIN (Chief Economist)
	(3) Public Investment Programming	☒	MINECOFIN (Planning Dept.)
	(4) Policy Based Budgeting	☒	MINECOFIN (Budget Dept.)
	2. **Resource Mobilization**		
	(1) Tax Policy Formulation	☒	MINECOFIN (Chief Economist)
	(2) Tax Administration	☒	RRA
	(3) External Finance	☒	MINECOFIN (Planning Dept.)
	3. **Budget Execution, Internal Control, Accounting & Reporting**		
	(1) Budget Execution	☒	MINECOFIN (Accountant General)
	(2) Treasury Management	☒	MINECOFIN (Accountant General)
	(3) Internal Audit	☒	MINECOFIN (Chief Internal Auditor)
	(4) Accounting & Reporting	☒	MINECOFIN (Accountant General)
	(5) Public Procurement	☒	RPPA
	(6) Fiscal Risk Management in Public Enterprises	☒	MINECOFIN (Accountant General)
	4. **External Oversight and Accountability**		
	(1) External Audit	☒	OAG
	(2) Legislative Oversight	☐	
	5. **Electronic Service Delivery and IFMIS**		
	(1) IFMIS	☒	
	(2) Integrated Personnel & Payroll Systems (IPPS)	☐	MINECOFIN (Accountant General)
	6. **Fiscal Decentralization**		
	(1) Resource Mobilisation by Local Administrative Entities	☒	RRA
	(2) Facilitation of Fiscal Transfers	☒	MINECOFIN (Budget Dept.)
	(3) Strengthening PFM Systems and Capacity at subsidiary Level	☒	MINECOFIN (Budget, Accountant General)
	7. Coordination of PFM Sector Activities Management		
	(1) PFM Coordination and Management	☒	MINECOFIN (SPIU)
	(2) Coordination of HR Training & Capacity Building	☒	MINECOFIN (SPIU)
	(3) Monitoring & Evaluation	☒	MINECOFIN (SPIU)
NSDS 2	1. Strengthen civil registration system, administrative records, surveys and other sources of data.	☒	NISR
	2. Improve quality and dissemination of statistics and public statistical literacy.	☒	NISR
	3. Improve statistical advocacy and integrate use of statistics in decision making.	☒	NISR
	4. Develop capacity within NSS.	☒	NISR
	5. Consolidate coordination within NSS.	☐	
	6. Improve resource mobilization and build strategic partnerships	☐	

32. **Program expenditure framework:** The proposed operation will finance government expenditures related to national and subnational PFM as well as statistics (including capacity building). They are included in specific program codes in the MTEF (table 4).

Table 4: Program Expenditure Framework
(US$ millions)

	Government fiscal year					*Expenditure category*			
Component/expenditure type	*2014/15*	*2015/16*	*2016/17*	*2017/18*[a]	*Total*	*Capacity building*	*Wage and salaries*	*Goods and services*	*Fixed capital*
PFM	38	33	24	19	113	31	2	71	40
P1 Economic planning and budgeting	3	3	2	2	10	2	0	9	1
P2 Resource mobilization	11	5	3	1	20	1	0	14	6
P3 Budget execution, internal control, accounting, and reporting	7	13	7	4	30	12	0	21	9
P4 External oversight and accountability	2	2	2	2	7	5	0	6	1
P5 Electronic service delivery and IFMIS	8	5	5	5	23	1	0	3	20
P6 Fiscal decentralization	4	4	4	3	15	6	0	13	2
P7 PFM sector coordination and management	2	2	2	3	8	4	2	6	0
Statistics	17	15	13	15	59	6	0	51	8
Strengthen civil registration system, administrative records, surveys, and other sources of data	9	4	8	9	30	0	0	30	0
Improve quality and dissemination of statistics and public statistical literacy	0	0	0	0	1	0	0	1	0
Improve statistical advocacy and integrate use of statistics in decision making	0	0	0	0	0	0	0	0	0
Develop capacity within NSS	7	10	5	6	28	6	0	20	8
Total (PFM + Statistics)	54	47	37	34	172	38	2	122	48
Sources of funding									
Government	14	3	2	23	41	n.a.	n.a.	n.a.	n.a.
World Bank PforR	30	35	32	3	100	n.a.	n.a.	n.a.	n.a.
Other development partners	10	103	3	8	30	n.a.	n.a.	n.a.	n.a.
Total	54	47	37	34	172	n.a.	n.a.	n.a.	n.a.
Share of PforR in total (percent)	56	74	87	9	58	n.a.	n.a.	n.a.	n.a.

Source: MINECOFIN.
Note: n.a. = Not applicable.
a. Extrapolated based on ratio of FY2017/18 to FY2016/17.

II. METHODOLOGY AND SCOPE

33. Fiduciary management under Programs is predicated on an integrated approach of technical, project management, financial management, procurement, related governance aspects, and disbursements inputs provided by the respective task team members and coordinated by the designated TTL. This assessment followed the DRAFT Guidance Notes on Program-for-Results Operations. The assessment from a FM point of view supports the fiduciary aspects within a government program in a manner consistent with the OP/BP 9.00, PforR. The OECD-DAC "four pillars" approach was also used in order to define the inherent risks in the procurement environment. Recent PEFA reports were also used to assess how the overall PFM performance would affect the program.

34. A donor fiduciary risk assessment of the General Budget Support (GBS[35]) was carried out by DFID Rwanda in 2011 in close cooperation with the African Development Bank, the European Union Delegation to Rwanda, the Royal Netherlands Embassy and USAID. **The overall level of fiduciary risk was assessed as moderate**. The assessment noted that "there has been a general strengthening of PFM performance across five of the six major components of the PFM system with some robust improvements in performance in a number of specific PFM components. **The overall trajectory of change since time of the 2008 Fiduciary Risk Assessment (FRA) is positive**. General improvements in PFM performance, coupled with ongoing implementation of the PFM Reform Strategy, demonstrate a serious and credible commitment to reform from the government".

35. This fiduciary assessment focuses on identifying the key strengths and weaknesses of the PFM and procurement systems and measures that are in place to tackle F&C in the achieving the program development objectives. It also helps the Bank identify fiduciary related risks that will feed into the overall risk assessment for the program, and selected fiduciary areas that may be considered as Disbursement Linked Indicators (DLIs). The assessment covers the following critical elements of an open and orderly program FM system.

(i) **Planning and Budget Preparation:** The program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.

(ii) **Accounting and Financial Reporting:** Adequate program records are maintained and financial reports produced and disseminated for decision-making, management, and program reporting.

(iii) **Treasury Management and Funds Flow:** Adequate and timely funds are available to finance program implementation.

(iv) **Internal Controls (including Internal Audit):** There are satisfactory arrangements to (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds.

(v) **Program Audit:** Adequate independent audit and verification arrangements are in place, taking.

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[35] DFID also conducted sector FRAs for Health (September 2011); Education (September 2011); and Agriculture (March 2012);

36. In line with the FM Sector Board's FM Practices Manual, the potential FM risks for the various PFM elements are rated as Low (L), Modest (M), Substantial (S) or High (H) after the tabular analysis in Section 3. The assessment is also mindful of the gaps that may exist between form (policies, laws, structures, instructions/manuals) and actual functionality or practices of the PFM system. Mitigation measures are also proposed to reinforce the government's PFM reform efforts and the critical measures are included in the Program Action Plan (PAP).

37. The first draft of the report was shared through the Government PFM Reform Manager to obtain feedback for the various PFM actors. Feedback received was discussed and updates made to report where appropriate. The report was further discussed during the appraisal mission and agreement was reached on the proposed mitigation measures and program action plan.

III. FINANCIAL MANAGEMENT RISK CONSIDERATIONS

38. This section assesses the critical FM elements necessary to record, control, and manages all program resources and produce timely, understandable, relevant, and reliable financial information for stakeholders and for audit purposes for the Program.

A. Planning and budget preparation

Overall FM element objective: The program budget is realistic, prepared with due regard to government policy, and implemented in an orderly and predictable manner.

39. **Consultation with spending ministries in budget formulation:** The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar (OBL Article 26). MDAs plan their expenditure allocations to their programs and sub-programs based on their strategic priorities and the MTEF that is communicated to them BCC. The main issue for reform and modernization efforts of RRA[36] relates to the availability of sufficient funding on a timely basis. There is no separate investment budget and no funding commitment or predictability beyond the one year. Additional budgets are sourced by RRA from Development Partners (DPs) and currently these funds are available from the following: PFM Basket Fund; bilateral agreements such as Trademark East Africa and its support to the implementation of the Customs Single Window; various funders including EC, AfDB and World Bank for the construction of One Stop Border Posts; Netherlands' Revenue Administration's support to the training of tax auditors; and AfDB for the design of a district based revenue collection[37].

40. The capacity for budget formulation and preparation in MDAs remains weak particularly regarding challenges in linking the budget to policy priorities and costing of programs and strategies. It is important to identify/track budget for the reform activities from the budget for day-to-day functions of the implementing entities. For example, the PFM program budget under

[36] The Rwanda Revenue Authority (RRA) was established in 1997 as a semi-autonomous agency (SAA), charged with administering the collection of taxes and customs and excise duties. RRA's annual budget is subject to scrutiny by MINECOFIN and subject to approval by Parliament. MINECOFIN provide RRA with annual revenue collection targets and RRA prepares its spending budget within the ceiling of 3% to 3.5% of the collection targets. Within this resource 'envelope' RRA has full administrative and operational autonomy including implementing human resource management policies that are delinked from the public service terms and conditions of employment. RRA is able to pay market related salaries and when revenue collection performance exceeds target then a performance bonus is paid to all staff.

[37] GIZ report para 3.24 – 3.25

MINECOFIN depicts the sub-programs shown in Table 5 which are only manually aligned with the PFM-SSP pillars/themes as expected; this raises questions about the extent of proper conceptualization of Program Based Budgeting (PBB)[38]. With 30% of program activities for development externally funded[39], this makes it even more difficult to ascertain how spending contributes to project development objectives.

Table 5: PFM Program budget not aligned with PFM-SSP

PFM SSP Programme/Sub Programme		Budget Inst./Programme/Sub Programme (Chart of Account)	
Code	Description	Code	Description
P1	Economic Planning and Budgeting		
SP 1.1	National Development Planning	120701	National Development Coordination and Monitoring - MINECOFIN
SP 1.2	Economic Policy Formulation	120703	Macro-Economic Policy - Minecofin
SP 1.3	Public Investment Programming	120705	Public Investment - Minecofin
SP 1.4	Policy-based Budgeting	120901	National Budget Management - Minecofin
P2	Resource Mobilization		
SP 2.1	Tax Policy (Macro)	120703	Macro-Economic Policy - Minecofin
SP 2.2	Tax Administration (RRA)	1203	Rwanda Revenue Authority (RRA)
SP 2.3	External Finance (EFU)	120801	Resource Mobilization - Minecofin
P3	Budget Execution, Internal Control, Accounting & Reporting		
SP 3.1	Budget Execution	120901	National Budget Management - Minecofin
SP 3.2	Treasury Management	120902	Treasury Management - Minecofin
SP 3.3	Internal Audit	120904	Internal Audit of Public Institutions - Minecofin
SP 3.4	Accounting & Reporting	120903	Public Accounts Management - Minecofin
SP 3.5	Public Procurement	1204	Rwanda Public Procurement Authority (RPPA)
SP 3.6	Fiscal Risk Management in PEs	120905	Government Portfolio Management - Minecofin
P4	External Oversight and Accountability		
SP 4.1	External Audit	0301	Office of the Auditor General (OAG)
SP 4.2	Legislative Oversight	030901	Government Oversight - Chamber of Deputies
P5	Electronic Service Delivery & IFMIS		
SP 5.1	Integrated Financial Management System (IFMIS)	120903	Public Accounts Management - Minecofin
P6	Fiscal Decentralisation		
SP 6.1	Resource Mobilization by Decentralized Entities	120901	National Budget Management - Minecofin
SP 6.2	Facilitation of fiscal transfers	120901	National Budget Management - Minecofin
SP 6.3	Strengthening PFM systems and capacity at Sub-National level	120901	National Budget Management - Minecofin
P7	PFM Sector Coordination and Management		
SP 7.1	Sector Coordination & Management	120901	National Budget Management - Minecofin
SP 7.2	Coordination of PFM Training & Capacity Building	120901	National Budget Management - Minecofin
SP 7.3	Monitoring & Evaluation	120901	National Budget Management - Minecofin

[38] http://minecofin.gov.rw/uploads/media/ANNEX_II-9_01.pdf, http://minecofin.gov.rw/uploads/media/ANNEX_II-2_01.pdf and http://minecofin.gov.rw/uploads/media/ANNEX_II-5_01.pdf
[39] http://minecofin.gov.rw/uploads/media/ANNEX_II-2_01.pdf page 50

Source: MINECOFIN

41. **Citizen's Guide to the National Budget improves transparency for public finance information.** When the draft budget of a decentralized entity is approved by the Council, it is made public through appropriate media including publication on the entity website[40] as required under Article 40 of the OBL.

Table 6: Planning and budget preparation risk analysis

Key potential risks	Summary Analysis
(i) Inadequate appropriation for the program in the annual budget	**The SSPs are not clearly visible as programs/sub-programs in the budgets of the responsible MDAs.** The EDPRS 2 informs the process of prioritizing budget allocations towards specific programs and projects. Limited use of the MTEF in outer years as a basis for the annual budget preparation breeds cynicism in the MTEF process and could affect medium-term strategic planning for the Program to meet its objectives.
(ii) Delays in approving the annual budget.	According to OBL Article 35: the Minister normally submits the Finance Bill to the Parliament not later than 15th June of each year and the **Chamber of Deputies adopts the Finance Law before 30th June of each year.**
(iii) Budget appropriations being diverted to other activities/programs during the year.	According to OBL Article 42, authorization to incur expenditure based on approved budget and procurement plan is issued on a quarterly basis and **on each budget item**.
(iv) Lack of transparency in the budget process.	**The budget is formulated through systematic consultations with spending ministries and the legislature, adhering to a fixed budget calendar.** The Citizens Guide to the Budget and uploads of detailed budget annexes provides public information about the budget.
(v) Cursory scrutiny of budget proposals by the legislature.	The legislature reviews the budget proposals using procedures that are firmly established and respected and the review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.
Conclusion: Planning and budget preparation risk is assessed as modest. The program budget being supported by this operation is not properly aligned with the SSPs as disclosed in the budget books but the authorities were able to extract the eligible program expenditure. The SSPs are being implemented in an orderly and predictable manner as shown in the analysis for treasury management and funds flow.	

Mitigation Measures

42. Mapping of EDPRS 2 initiatives by Classification Of Functions Of Government (COFOG) is commended, and the mapping would be more useful if mapping is deepened to the MDA level to allow for better attribution of the EDPRS2 outcomes to the SSP and to demonstrate the extent of linkage between policy, planning and budget preparation and execution and hence contribute to the overall performance management system.

[40] http://www.gasabo.gov.rw/index.php?id=537

B. Treasury Management and Funds Flow

Overall FM objective: adequate and timely funds are available to finance program implementation.

43. **A Treasury Single Account (TSA) concept is in place whereby all entities and autonomous agencies operate sub-accounts of the main TSA.** There is a zero-cash handling policy. RRA uses commercial banks as collection agents with requirement to transfer collections to the central bank within 3 days. Each day a notional amount equal to the commitment ceiling would be associated with a sub account and are modified daily according to expenditure and revenue flows. All cash balances, therefore, are calculated daily and consolidated.

44. Large district payments are directly made by the Central Government Treasury. Similarly, the Districts prepare and make large payments for the subsidiary organs through the treasury to improve cash management. However subnational entities (sectors, pharmacies, schools etc.) receive transfers as grants, which are expensed at the point of issue. Consequently the actual expenditure which takes place is not captured by the Government's accounting system.

45. **Predictability of availability of funds to undertake planned activities to meet the program objectives is hampered by the variability of cash releases as shown in Table** 7 **(total shortfall of 23% in FY2012/13).** RRA receives its cash directly from BNR (estimated at 2.6% of all revenue collected) daily before loading the net revenue collected to the Treasury main account and as a result RRA is not part of the treasury main cash flow plan. How far timeliness affects actual expenditure cannot be assessed at this stage due to unavailable information on dates of actual approval of cash plans.

Table 7: Program expenditure cash plan vs. releases for 2012/13 and 2013/14

		FY2012/2013		Shortfall/Surplus		FY2013/2014		Shortfall/Surplus
Implementing Agencies	**Total Request**	**Total Release**	**Shortfall/Surplus**	**%**	**Total Request**	**Total Release**	**Shortfall/Surplus**	**%**
1. Ministry of Finance (MINECOFIN)	374,941,200,736	287,025,351,177	**(87,915,849,559)**	**-23%**	297,748,247,303	250,657,534,832	**(47,090,712,471)**	**-16%**
2. National Institute of Statistics Rwanda (NISR)	3,216,399,645	3,496,417,589	**280,017,944**	**9%**	2,345,562,442	1,496,747,110	**(848,815,332)**	**-36%**
3. Ministry of Local Government (MINALOC)	4,156,905,074	3,267,283,820	**(889,621,254)**	**-21%**	3,170,450,841	2,361,133,448	**(809,317,393)**	**-26%**
4. Rwanda Public Procurement Authority (RPPA)	1,139,232,596	1,139,232,596	**0**	**0%**	1,167,080,311	970,020,611	**(197,059,700)**	**-17%**
5. Office of Auditor General (OAG)	2,062,313,328	2,038,574,577	**(23,738,751)**	**-1%**	2,121,361,253	1,994,264,609	**(127,096,644)**	**-6%**
	385,516,051,379	**296,966,859,759**	**(88,549,191,620)**		**306,552,702,150**	**257,479,700,610**	**(49,073,001,540)**	
Performance		*77%*	*-23%*			*84%*	*-16%*	

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Performance		*77%*	*-23%*			*84%*	*-16%*	

Table 8: Treasury management and funds flow risk analysis

Key potential risks	Summary Analysis
(i) Inadequate funds will be made available for program implementation.	Predictability of availability of funds to undertake planned activities to meet the program objectives may be affected by the variability of cash releases as shown in Table 7 (total shortfall of

Key potential risks	Summary Analysis
	23% in FY2012/13).
(ii) Diversion of program funds despite the availability of budget appropriation and budget allocation.	Authorization to incur expenditure is issued on a quarterly basis and on each budget item and this can 'ring-fence' program funds. The only acceptable mode of committing expenditure is a duly issued "purchase order" generated by the SmartFMS thus triggering a "commitments" indicating that the allocated budget has been 'ring-fenced' by that amount. After the delivery of the goods/services and supplier invoice, the commitments convert into actual charge to government expenditure, and therefore a liability if not yet paid. Unused budgets at the end of year lapse according to the OBL have to be re-voted.
Conclusion: Treasury management and funds flow risk is assessed as modest. The quarterly allocation process complimented by the TSA provides predictability in the availability of funds for commitment of program expenditures.	

Mitigation Measures

46. For the program-based budgeting concept to allow budget holders some level of discretion over inputs and be held accountable for program results; authorization at each budget item level is too detailed and needs to be re-considered at a higher level of program objective and sub-chapter level of the economic code adhering to the applicable reallocation rules in Article 46 and other virement rules.

47. Prompt banking of district revenue collection at nearest commercial bank with service level agreement to sweep to main district treasury bank account.

C. Accounting and Financial Reporting

Overall FM objective: adequate program records are maintained and financial reports produced and disseminated for decision-making, management, and program reporting.

48. **The budget classification (Appendix 4) system is comprehensive and consistent with international standards.** The budget is prepared in compliance with the IMF's Government Finance Statistics Manual (IMF-GFSM 2001). The Chart of Accounts is also comprehensive to allow for preparation of full set of financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). Budget programs and sub-programs[41] have been mapped to the Classification of Functions of Government (COFOG) standards.

49. **A cash flow statement is not included in the consolidated financial statements made available to the Bank team during the preparation of the Program.** The financial statements accounting policies note that the financial statements are prepared on a "modified cash basis" whilst the budget is prepared on cash basis. An adverse opinion was given by the Auditor General on the consolidated financial statements for FY2012 citing persistent weaknesses in preparation of financial statements including: errors in books of accounts; unexplained balances

[41] OBL Article 34 "Expenditure estimates of each public entity shall be organized in a programmatic, economic and functional classification, in line with international accepted classification standards of expenditures".

reported in state consolidated financial statements; and lack of proper accounting records especially for embassies.

a. Financial Management Information Systems (FMIS)

50. The SmartFMS currently has three core modules in active use namely: (i) General Ledger; (ii) Accounts Payable; and (iii) Revenue management. The SmartFMS is operational in 131 out of 156 Budget Agencies (i.e. 84%) and covering 83% of government payments as shown in Table 9.

Table 9: IFMIS coverage of the 2013/2014 revised budget

IFMIS coverage of the 2013/2014 revised budget						
Functional coverage	**Budgeting Agencies**		**On Treasury**	**Off Treasury**	**Total**	**Share**
	No	**Share**	**Rwf**	**Rwf**	**Rwf**	**%**
IFMIS Accounting and reporting	131	*84%*	1,125,961,228,349	84,078,385,273	**1,210,039,613,622**	**72%**
Non IFMIS Accounting and reporting	25	*16%*	177,322,956,424	290,331,013,352	**467,653,969,776**	**28%**
Totals	**156**	***100%***	**1,303,284,184,773**	**374,409,398,625**	**1,677,693,583,398**	**100%**

* IFMIS sites are ones using all core modules including Financial accounting, otherwise the Budgeting modules cover the whole approved budget 100% plus districts own revenues while the payment module cover all treasury operations or on-tresury budget plus off-treasury IFMIS operations making coverage of 83% (Rwf 1 303 284 184 773 + Rwf 84 078 385 273)

IFMIS coverage of the 2013/2014 revised budget						
Functional coverage	**Budgeting Agencies**		**On Treasury**	**Off Treasury**	**Total**	**Share**
	No	**Share**	**Rwf**	**Rwf**	**Rwf**	**%**
IFMIS Accounting and reporting	131	*84%*	1,125,961,228,349	84,078,385,273	**1,210,039,613,622**	**72%**
Non IFMIS Accounting and reporting	25	*16%*	177,322,956,424	290,331,013,352	**467,653,969,776**	**28%**
Totals	**156**	***100%***	**1,303,284,184,773**	**374,409,398,625**	**1,677,693,583,398**	**100%**

* IFMIS sites are ones using all core modules including Financial accounting, otherwise the Budgeting modules cover the whole approved budget 100% plus districts own revenues while the payment module cover all treasury operations or on-tresury budget plus off-treasury IFMIS operations making coverage of 83% (Rwf 1 303 284 184 773 + Rwf 84 078 385 273)

51. **The Government has declared that it wishes to embark on the implementation of future IFMIS that is expected to lead to the further strengthening of its financial management systems.** Key challenges in the existing system include high turnover of users requiring constant re-training, type of transactions and expectations have evolved and increased requirement for more functionality and integration; and technology revolution poses stress on user capacity and this is compounded by connectivity issues at the District level. The future IFMIS is seen as an opportunity for modernizing and making the management of Rwanda's PFM more effective and efficient. The system shall be comprehensive, i.e. it shall cover all levels of government, all institutions that are part of general government regardless of size and complexity,[42] and all sources and types of funding. The required infrastructural platform has to a large extent already been created as part of the development and roll-out of the present SmartFMS, which is also a centralized system accessed by thin web-based clients.

52. The status of implementation of the 2011 Quality Assurance Group (QAG) report is as follows: 'Quick-wins' and stabilization – timely reports are now produced and qualified audit reports are reducing; pre-requisites infrastructure for connectivity improved; plan for future

[42] Including all universities and hospitals if it is concluded that, based on the criteria defined in GFS manual, they should be considered to be part of the general government sector.

IFMIS has progressed with the completion of the Conceptual Design (CD) prepared by Ernst and Young (E&Y). Preparation of technical and functional requirements were completed in May 2014 and a Quality Assurance Group (QAG) is being sought to evaluate the requirement to determine the path for the future IFMIS.

53. **The reporting structure for subsidiary entities (4,869 as of December 2013) is not clearly defined.** Expenditure at subsidiary entities level is not captured and included in the financial reports (general ledger) of the respective district. In order to address District level accounting and reporting challenges, MINECOFIN is pursuing to strengthen the financial management function of the subsidiary entities through a number of initiatives, among them, the implementation of an accounting and financial reporting system. The SEAS has been implemented as a pilot in three Districts in Kigali and one each in the other four provinces and is being used for recording after completing all manual transactions and issuing of checks. SEAS is an easy to use computer based accounting information system focusing on key expenditure management functionalities to assist the subsidiary entities to: (i) processes payments; (ii) process receipts and manage Accounts receivables for institutional clients; (iii) produce management and statutory financial reports; (iv) deliver services to the public more efficiently, effectively and economically through increased accountability and transparency.

54. MINECOFIN intends to roll-out the SEAS to most of the 416 sectors by June 2017 (DLI 7). Where SEAS has been rolled-out, it has helped the sectors to meet the deadline of reporting to the District by the 5th of each month at the budget line-item level. Rollout to the Non-Budget Agencies (NBAs) could adopt a phased approach that focuses first on the district hospitals (41 in number), pharmacies (30 in number) and Mutuelle De Sante-District[43] (30 in number) in order to cover the strategic NBAs. Other NBAs (health centers and primary and secondary schools) could be provided with Excel templates with pre-defined chart of accounts so that transcripts can be sent online from where internet services are available or other storage devices used to transmit the transcript to sectors for loading to SEAS.

55. **Project Accounting and Reporting:** The Program will be resident in the MINECOFIN Single Project Implementation Units (SPIU). Rwanda has taken a positive step following Cabinet resolution of 11th February 2011 regarding the formation of the SPIU[44] across Line Ministries and Public Agencies, with overall objective of creating an effective institutional framework that will guide the process of designing and implementing projects that are earmarked to fast track realization of development targets envisaged in the various sector strategic plans. However, there are challenges of multiplicity of processes, procedures and information systems (Appendix 6) resulting from the requirements of individual donors. It is therefore important for the efficiency of the SPIU to harmonize and have a single system applicable to all projects under the SPIU irrespective of the donor**.**

[43] A social health insurance program

[44] http://www.minecofin.gov.rw/index.php?id=58

Table 10: Accounting and financial reporting risk analysis

Key potential risks	Summary Analysis
(i) Delays in recording transactions in the accounting system.	The Treasury cash book records all receipts and expenses to and from the TSA. Information on expenditures processed centrally (at least 80% of the expenditure) is input into the cash book from records of completed payment orders passed on to the National Bank of Rwanda (BNR) for payment. Staff in the Treasury receive daily bank statements from the BNR (each relating to transactions from two days prior) and reconcile the transactions therein with transactions recorded in the cashbook each day. This information is summarized on a monthly basis and a monthly reconciliation statement is prepared.
(ii) Rigidity in the chart of accounts (CoA) prevents the addition of new codes to keep track of program related transactions.	The CoA is flexible enough to slice and dice program information. The national budget is approved by Parliament by EDPRS2 priorities, programmatic classification, by ministry and budget agency and by economic classification. However, budget presentation does not clearly show how specific SSP pillars link to the EDPRS 2 at the implementing agency level. Furthermore, the summary financial information in the audit report does not provide detailed actual expenditure in the same format as the approved budget to allow direct comparison of budget out-turns vis-à-vis original policy intent.
(iii) Inability to keep track of resource transfers and expenditures of service delivery units.	**The SmartFMS functionalities support extensive budget monitoring in terms of administrative, economic, and program classifications.** In the case of sectors for example, the Districts are expected to ensure that funds transferred to them are properly accounted for, and any bank balances not utilized should be accounted for in the district books of account at year end. Budget implementation is monitored through the Quarterly Budget Execution Reports and strict control systems.
(iv) Inability of the accounting system to prepare timely and reliable financial reports (both management reports and the annual program financial statements).	The public accounts are prepared within 3 months of the end of the fiscal year but Districts do not reflect bank balances held by sectors in their financial statements and also do not include transactions of other non-budget agencies (schools, health centers and hospitals) thus rendering District financial statements incomplete and also giving rise to disclaimer audit opinion on the consolidated government statement by the Auditor General. Also, **a cash flow statement is not included in the annual financial statement. The consolidated annual financial statement is not available to the public and not included in the audit report published.** In-year budget execution reports (**for recurrent and domestic capital only**) are prepared quarterly with reasonably accurate data, broken down to at least program or functional level. Currently, budget execution reports are prepared and published[45] within 45 days after the end of each quarter and addresses issues of revenue collection and budgetary grants, outlays, arrears, financing and areas of priority expenditure. Classification of data allows comparison with the original budget, **but expenditure at commitment stage is not captured in the report**.
Conclusion: the accounting and financial reporting risk is assessed as <u>substantial especially at the district level.</u> The full consolidated annual financial statements are not made public. Internal audit reports show serious concerns about poor records management and this limits the scope of ascertaining the credibility of financial reports for decision making and accountability.	

45 http://www.minecofin.gov.rw/fileadmin/user_upload/Budget_Execution_Report_July-December_2013.pdf , http://www.minecofin.gov.rw/fileadmin/user_upload/July_-Dec_2013_Budget__Execution_Report_Tables.xls

Mitigation Measures

56. The Minister of Finance to determine the accounting standards and policies applicable to all public entities (Article 62 of the OBL) and the Accountant General to set and promote compliance with the accounting and financial reporting standards applicable to public entities (OBL Article 63). Therefore, it will be useful to conduct an IPSAS gap analysis[46] with the specific objectives to: (a) provide the country's accounting authorities and other interested stakeholders with a common well-based knowledge as to where local practices stand in comparison with the internationally developed standards of financial reporting; (b) assess the prevailing variances; (c) chart paths to reduce the variances; and (d) provide a continuing basis for measuring improvements.

57. Update and make good use of the administrative segment of the chart of accounts to capture the Sectors and NBAs as cost centers and create sub-funds [that will roll-up to the district fund] that could be used to manage allocations/transfers. Upon receipt of electronic reports from Sectors and transcripts from NBAs; the actual expenses can be charged to the full transaction strings and the fund and sub-fund dimensions of the Fund Segment can then be used to prepare individual or consolidated financial statements. An Application Program Interface (API) will provide an efficient mechanism for updating district financial statements with transactions undertaken by sectors and NBAs. Also develop standard templates for in-year budget execution reports to capture commitments and obligations as shown in the illustrative report in annex 5; this will help in properly accounting for pending bills.

58. There is over-reliance on vendors for maintaining the current system and this need to be addressed for the future IFMIS and the SEAS by particularly having in place key staff with the suggested profile in Appendix 7 in each District but a Hub approach could also be considered to provide the much needed support.

D. Internal Controls (including Internal Audit)

Overall FM element objective: There are satisfactory arrangements to (a) monitor, evaluate, and validate program results; and (b) exercise control and stewardship of program funds.

a. Internal Controls

59. There are a range of different types of internal controls. The most important may be remembered by the mnemonic SOAPMAPS (Appendix 8) which are in place but with the new OBL and regulations, current manuals will need to be updated. The OBL Article 19 7º requires the Chief Budget Manager "to establish and maintain effective, efficient and transparent systems of internal controls and risk management". The government manual lay out the processes and procedures to be followed by the budget agencies to ensure that there is adequate monitoring and safeguard of assets. The main internal control weaknesses as identified in internal audit reports include: (i) non-compliance with procurement policy and guidelines; (ii) poor documentation and filing of accounting records; and (iii) over-expenditure on budget lines despite the IFMIS in-built

[46]The South Asia Region of the World Bank has developed a 'Public Sector Accounting and Auditing: a framework for comparison to International Standards'. The diagnostic questionnaires used to gather information on the prevalent practices for accounting incorporate the principles contained in the public sector accounting and auditing standards promulgated by the International Federation of Accountants (IFAC).

budget controls; (iv) irregular and unauthorized expenditures; (v) non-compliance to tax rules and regulations among others. Strengthening of the internal audit and updating of the government financial management manual would ensure that the internal control system is strengthened to ensure that government overarching objectives are achieved.

b. Internal Audit (IA)

60. **Internal audit is an essential component of a well-functioning internal control system. The capacity and independence of the internal audit function is critical in ascertaining the efficacy of internal controls that are critical in determining the effective and efficient use of public funds.** The public sector internal audit capability model (IA-CM[47]) an internationally accepted benchmark developed by the Institute of Internal auditors (IIA) prescribes six key elements of the internal audit activity for determining the capability level. Starting from a level of between 1-2 in 2010, the Office of Chief Internal Auditor (OCIA) targets to achieve level 4 by 2017 and at this level, internal auditors in various government entities will have fully complied with the internal audit regulations and implemented the International Standards for the Professional Practice of Internal Auditing (IPPF[48]) and will be a driver of change in Government. Through the PFM Basket Fund internal audit has improved to the level of 2-3 of the IA-CM and expects to be at level 4 by 2017.

61. An internal audit service has been established in all government institutions. It is estimated that there are currently 200 internal auditors all over the country but only two qualified Certified Professional Accountants (CPA) are in post. The current internal audit structure does not specify a Head of Unit which poses a challenge in terms of leadership of the internal audit function at the MDA level.

62. An extensive internal audit training program has been put in place which saw 49 internal auditors sitting ACCA examinations in 2011/12, and plans for a further 45 to sit the exams in the following year. There have also been many courses for special audit skills (IT, PFM, risk-based audit, procurement, payroll, etc.). TEAMMATE training has been conducted for about 50 staff and use of the tool is being piloted.

c. Audit Committee

63. **In July 2012, MINECOFIN published a model Audit Committee Charter and followed by a Handbook that provides broad guidelines that can be used in by Audit Committees in MDAs and Government Businesses**. Of the 94 Ministries, Districts, and Agencies, 68 have Audit Committees since 2011 and submit reports to Council (83% by December 2013) or entity heads. Fourteen out of 21 ministries have established Internal Audit Committees but very few have held meetings. 30 budgeting agencies are yet to establish the required internal audit committees. MINECOFIN vets the composition of audit committee

[47] IA-CM capability elements: (i) Services and Role of Internal Auditing; (ii) People Management; (iii) Professional Practices; (iv) Performance Management and Accountability; (v) Organizational Relationships and Culture; (vi) Governance Structures; and (vii) Use of Information Technology.

[48] The components of the IPPF are: the definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practices of Internal Auditing (Standards), Position Papers, Practice Advisories, and Practice Guides.

membership[49] to ensure compliance. Membership of district internal audit committees is comprised of elected councilors (politicians). The current challenge is that they mostly lack the required financial background to perform their duties adequately.

64. Internal Audit reports are submitted quarterly to Audit Committees including status of implementation of audit recommendations (external and internal) and the Internal Audit Department in MINECOFIN consolidates and reports to the Minister of Finance on a quarterly basis, who then reports to Cabinet starting in December 2013.

Table 11: Internal controls (including internal audit) risk analysis

	Key potential risks	Summary Analysis
(i)	Internal control system is unable to prevent or detect serious irregularities, misuse, and inefficient use of program funds.	Authorization of transactions and signing checks are clearly delineated to provide adequate segregation of duties. Main internal audit findings are (i) non-compliance with procurement policy and guidelines; (ii) poor documentation and filing of accounting records; and (iii) over-expenditure on budget lines.
(ii)	Weak IT security and back-up arrangements.	An IFMIS Disaster Recovery and Business Continuity Plan Document was produced in 2013. However, evidence of testing the plan is not available.
(iii)	Internal audit is unable to provide assurance on the robustness of and compliance with internal controls.	Internal audit staff number is inadequate at MDAs with most ministries having only one audit staff. Also, with only 2 internal auditors per district with about 200 subsidiary entities capacity is constrained.
(iv)	Leakages in payroll.	The OAG audit report on the integrity, accuracy and completeness of data processed through IPPIS as at July 2012 revealed the following: lack of formalized processes to register IPPIS users; weak password controls; lack of disaster recovery plans and mechanisms; lack of segregation of IPPIS duties; missing social security numbers, bank details and birth dates. Payroll controls need strengthening considering the high proportion of cost of compensation of employees for the program.
(v)	Delayed and irregular accounts reconciliation.	Reconciliation of cashbook records with the bank statements for the TSA is carried out on a monthly basis. Staff in the Treasury receive daily bank statements from the Bank of Rwanda (BNR) (each relating to transactions from two days prior) and reconcile the transactions therein with transactions recorded in the cashbook each day. This information is summarized on a monthly basis and a monthly reconciliation statement is prepared.
(vi)	Program lacks capacity to effectively monitor, evaluate, and validate program results.	Internal Audit Service is still in its infancy. Sustained capacity building is necessary to create expertise in specialist areas such as IT, value for money, Risk Management, System Audit, Procurement, Payroll, There are still serious concerns on the actual independence of Internal auditors.

[49] Composition of Audit Committee: Three (3) but not more than five (5) members. One of the audit committee members shall have significant and recent experience in accounting and financial management. Some members of audit committees shall have relevant experience in public administration.

Key potential risks	Summary Analysis
Conclusion: the internal controls (including internal audit) risk is assessed as substantial. Established controls are not fully complied with and the internal audit function is understaffed and also lacks adequately qualified staff.	

Mitigation Measures

65. With the new OBL and regulations in place, business processes will need to be re-engineered to strengthen existing processes such as budget controls, requisitioning, purchase orders, invoicing, payment authorization/approval, accounting and reporting. The emerging business processes together with functionalities in the future IFMIS will lead to the development of a Comprehensive Operating Procedures Manuals (COPM[50]).

66. A review of the internal audit structure should be considered to establish the right staff number for internal auditors at each of the public sector institutions in the country. Also, an **Internal Audit Cadre** with clear progression path and commensurate compensation package will help in addressing the attraction and retention of internal auditors. Support staff towards Certified Internal Auditors of the Institute of Internal Audit (IIA) and other specializations such as Certified Information Systems Auditor (CISA).

67. Consolidated **risk profiling** to be undertaken for GoR programs, institutions and the various PFM processes. Internal Audit should shift from pre-payment audit to adoption of risk-based audit using the COSO[51] framework and concentrating on systemic issues covering the **Enterprise Risk Management (ERM[52])** objectives of ensuring (i) conformity to the Government's strategy; (ii) effectiveness and efficiency of operations; (iii) reliability of financial reporting; and (iv) compliance with applicable laws and regulations. The effectiveness of internal audit further depends on how management reacts to its reports.

68. Need to establish a robust **Business Continuity Management (BCM[53])** plan by following the guidelines for the Management of IT Security published by the International Organization for Standardization (ISO) to develop an information security policy, strategy and procedures for business continuity and disaster recovery based on incident and impact analysis to determine the required detective, preventive and corrective controls. This will require classification of systems as critical, vital, sensitive and non-sensitive and undertake a business impact analysis to assign crisis levels. Thereafter, Treasury's recovery capability risk assessment

[50] **Standards & Law -** define mandatory requirements. **Guidelines** - provide guidance in applying standards and should be considered in determining how to achieve implementation of the standards for which professional judgment is required in its application with justification for any departure. ***Procedures Manual*** provide further information on ***how* to** comply with set standards in performing certain tasks in day-to-day work.

[51] Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) has established a common definition of internal controls, standards, and criteria against which companies and organizations can assess their control systems.

[52] **Enterprise risk management** is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

[53] BCM is a holistic management process that identifies potential threats to an organization, the impacts to business operations that those threats may cause, and provides a framework for building organizational resilience to safeguard the interests of its key stakeholders, reputation and lines of business.

can be determined by its (i) Recovery Time Objective (RTO): the acceptable downtime in case of disruption to IFMIS operations; and (ii) Recovery Point Objective (RPO): determined based on the acceptable data loss in case of disruption to IFMIS operations.

69. The membership of district council internal audit committee cannot be easily controlled since they are elected politicians. This can be addressed by co-opting competent members based on an agreed sitting fee.

E. Program External Audit

Overall FM element objective: Adequate independent audit and verification arrangements are in place, taking into account the country context and the nature and overall risk assessment of the program.

70. **Under the Rwanda Constitution, the Auditor General of state finances in Rwanda has the mandate to audit all public expenditures[54].** Operating within the core principles of Supreme Audit Institution (SAI) independence (Box 1), the Office of the Auditor General of State Finances' audit objectives of legality, regularity, economy, efficiency and effectiveness of financial management in the public sector are achieved by the Auditor General reporting directly to Parliament. Reports prepared by the Auditor General are submitted to the Parliament and considered by the Committee in charge of public accounts. The Auditor General and Deputy Auditor General are appointed by a Presidential Order and tenure of office is secured by the Auditor General and Deputy Auditor General being appointed for a five (5)-year term renewable only once.

Box 1: The core principles on SAI Independence[55]

i. The existence of an appropriate and effective constitutional/statutory/legal framework and the de facto application provisions of this framework
ii. The independence of SAI heads and members of collegial institutions, including security of tenure and legal immunity in the normal discharge of their duties
iii. A sufficiently broad mandate and full discretion, in the discharge of SAI functions
iv. Unrestricted access to information
v. The rights and obligation to report on their work
vi. The freedom to decide the content and timing of audit reports and to publish and disseminate them
vii. The existence of effective follow-up mechanisms on SAI recommendations
viii. Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources

The principles are supported by application provisions to illustrate the principles and are considered to be ideal for an independent SAI

71. **The Public Accounts Committee (PAC[56]) conducts public hearings on the audit reports[57] and this oversight includes the audit reports for the District Councils.** All 30

[54] Law N° 79/2013 of 11/9/2013 determining the mission, organization and functioning of the Office of the Auditor General of State finances Official Gazette nº 45 of 11/11/2013

[55] http://www.intosai.org/issai-executive-summaries/view/article/issai-10-the-mexico-declaration-on-sai-independence-eger.html

[56] Article 4 of Law N° 79/2013 of 11/9/2013. Reports prepared by the Auditor General shall be submitted to the Parliament and considered by the Committee in charge of public accounts.

districts have qualified audit reports with those visited by the team (Gasabo, Bugesera, Kamonyi and Rulindo districts) having an adverse audit opinion. There is no PAC similar to the one in the Chamber of Deputies at the District level. District Council Audit Committees are yet to start conducting public hearings.

Table 12: External audit risk analysis

Key potential risks	Summary Analysis
(i) SAI is unable to prepare and submit an audit report within a reasonable period after the close of the financial year.	In accordance with Article 184 of the Constitution of the Republic of Rwanda of 04 June 2003 as amended to date, the Office of the Auditor General of State Finances shall submit to both Chambers of Parliament in joint session prior to the commencement of the session devoted to the examination of budget of the following year. The consolidated OAG **Audit reports for the past three years were submitted 10 months after the financial year-end as opposed to the good practice of within 6 months.** The audit report that is normally posted on the OAG website does not include the consolidated annual financial statements[58].
(ii) SAI lacks independence, capacity, resources, and skills to perform PFS audits.	The Auditor General and Deputy Auditor General are appointed by a Presidential Order and tenure of office is secured by the Auditor General and Deputy Auditor General being appointed for a five (5)-year term renewable only once. The salary and other benefits given to members of the Office shall be determined by a Presidential Order. The statute governing the staff of the Office shall be laid down by a Presidential Order. **Removal from office is by a Presidential Order with notification to both Chambers of the Parliament as opposed to empowering Parliament to pass majority vote to remove the Auditor General is inconsistent with the chief aim of ISSAI 10; Mexico Declaration on SAI independence which calls for independent government auditing by a SAI.** Currently OAG has only 4 professionally qualified auditors with an expectation that this number will increase to about 15 by staff who are taking professional examinations.
(iii) Lack of response to, or follow-up on, audit findings and recommendations.	Article 69 of the OBL requires that "Parliament, after receiving the report of the Auditor General referred to in this Article, shall examine it and take appropriate decisions within a period not exceeding six (6) months". There is notable improvement in the implementation of prior year audit recommendations where 60% of all recommendations were fully implemented in 2012 and 2013 respectively, compared to 49% in 2011. Despite the above improvements, 68% of the audit reports (94 reports) were qualified mainly due to avoidable and easily addressable factors. The number of entities that obtained reports with unqualified (clean) audit opinion increased from 37 reports (28%) in the previous year to 45 reports (32%) in 2013.
Conclusion: the external audit risk is assessed as substantial given the still high number of qualified audit reports.	

Mitigation Measures

[57] Members of Parliament applaud public funds management - http://www.newtimes.co.rw/news/index.php?i=15401&a=68177
[58] http://oag.gov.rw/IMG/pdf/Annual_Report_2012.pd

72. OAG will conduct the annual audit of the financial statement of the implementing agencies including MINECOFIN, RRA, RPPA, NISR and OAG (by an independent audit firm acceptable to the Bank), in accordance with terms of reference agreed upon by the bank following INTOSAI international standards. The resultant audit reports and management letters will be submitted to the World Bank within 6 months after the end of the fiscal year. Similarly the Bank will follow up on the consolidated Auditor General's report on the government consolidated financial statements on an annual basis as part of the Program Implementation Support Plan to ensure that progress on the agreed upon parameters is being achieved.

73. Failure to act on audit queries breeds cynicism in the whole audit process. To further strengthen accountability at the sub-national level, District level PACs should be strengthened to help in bringing accountability much closer to the electorate.

74. The Auditor General's report on consolidated government financial statements is submitted 10 months after the year-end. Efforts should be made on a gradual basis to shorten the time to no more than 7 - 8 months after the year-end by FY 2016. This will provide ample time to the Legislature to hold Chief Budget Managers accountable for the use of the current years' budget before considering requests for the following year.

75. With the introduction of PBB, OAG in consultation with other stakeholders can put in place the policy and regulatory framework to be followed by sustained capacity building for auditing of performance information (AOPI) using the International Standards on Assurance Engagements (ISAEs): Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information (3000) issued by the International Auditing and Assurance Standards Board (IAASB). The AOPI will be beneficial by reviewing and providing an opinion or conclusion on implementing entity's performance against predetermined objectives (performance information) of the SSPs supported by the operation in particular and the EDPRS in general and ultimately reinforce the importance of PBB.

76. Publication of district council audit reports at their notice board, on either their website or at Rwanda Governance Board (RGB) would push the boundaries of transparency. The following provision could be considered for inclusion in the revised regulation for the new OBL to improve fiscal transparency as a first step to accountability.

(1) District Councils shall post on a notice board in a conspicuous place on the premises of the Council and on a notice board in each Sector/Ward for specified period: (a) monthly statements of financial accounts; (b) annual income and expenditure statements; (c) inventories of assets of the District Councils; (d) bye-laws and notices relating to tax rates and fees; (e) minutes of council meetings; and (f) development plans.
(2) Copies of the reports, notices and statements shall be made available on official websites and hard copies on request on payment of a fee to be fixed by the District Council.

F. PFM Human Resource and Capacity Building

77. Through support from the Institutional Development Fund (IDF), the Institute of Certified Public Accountants of Rwanda (ICPAR) has established its own examination that complies with the International Education Standards (IESs) published by the International Accounting and Education Standards Board (IAESB) of the International Federation of Accountants (IFAC). IFAC also seeks to reinforce professional accountants' adherence to these values through the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

78. One of the PFM sector priorities is "Human Resources and Capacity Building in PFM Disciplines". The Institute of Certified Accountants of Rwanda (ICPAR) has launched its own professional courses - the Certified Public Accountants of Rwanda (CPA-R) and the Certified Accounting Technicians of Rwanda (CAT-R); both benchmarked against the International Education Standards (IES[59]). To further support ICPAR, PFM education and training could be strengthened by appropriately updating the technical content of the curriculum in accordance with IES2 by introducing public sector specific professional values, ethics and attitudes; coaching and mentorship to acquire practical public sector experience; and leadership skills for improving capabilities and competence for PFM tasks.

79. There is dearth of suitably qualified officials to handle PFM functions especially at the district level where there are serious concerns about high turnover of the few trained staff. It is instructive to note that as at September 2014, only the Internal Audit Department had vacant posts of five. More than half of the total number (1,073) of accountants and auditors (internal and external) have a first degree but there are only 20 (i.e., 2%) fully qualified professionals.

Table 13: Staff profile for External Auditors, Internal Auditors and Accountants as at September 2014

Category	Established positions	Filled/ In post	Full Professional	Intermediate level	Foundation level	IPSAS Certificate	Masters	1st Degree
External Auditors	118	118	6	83	22		4	3
Internal Auditors (CG)	148	148	3	24	35		2	84
Internal Auditors (SNG)	67	62	-	6	18		-	38
Accountants (CG)	439	439		49	8	26	36	320
Accountants (SNG)	100	100	1	12	3	11	6	67
Director of Administration and Finance (CG)	165	165	1	8	6	6	28	116
Director of Administration and Finance (SNG)	31	31		-	-	7	4	20
Directors/Director Generals/ Heads of institutions	10	10	9	-	-	1	-	-
Total	1,078	1,073	20	182	92	51	80	648

For those in post but not taking any professional exam; indicate whether 1st Degree only or Masters
Professional exams could be ACCA, CPA, ICAEW, ICPAR, CIMA etc

Mitigation Measures

80. MINECOFIN to take a policy position to fund staff for the ICPAR examination since the examination is IES compliant rather than paying for other international examination. Also, a scheme of service should be developed to specify the qualification and experience requirements for the PFM Job Family. An attraction and retention policy and strategy to enhance the capability of the PFM Job Family or cadre is required.

81. Officials in charge of PFM functions in the District Councils are mostly unqualified despite handling substantial amounts of public funds. Having in place Chief Finance Officers (CFO) and Internal Auditors who are bearers of a professional certificate in Accounting and Auditing should at least have Accounting Technician as a minimum, depending on the budget size, complexity of the environment and risk profile together with knowledgeable and

[59] http://www.ifac.org/sites/default/files/publications/files/handbook-of-international-e-2.pdf

experienced Budget Officers and Procurement Officers will help in improving PFM performance and support service delivery.

82. Engage with Ministry of Public Service and Labor (MIFOTRA) to explore how continuous training on PFM (as rare skills) can be addressed with lessons from the Strategic Capacity Building Initiative (SCBI).

IV. PROCUREMENT MANAGEMENT RISK CONSIDERATIONS

83. **Public procurement is listed as one of the sector priorities under Pillar 3 in the PFM SSP** with the objective of improving compliance, efficiency, transparency, fair competition, value for money and controls in public procurement. E-procurement is a tool that can help achieve this objective. Rwanda has an annual procurement turn-over of about US$800 million. With typical savings of around 10% resulting from the use of e-Procurement, this would be a huge potential for savings. Although not mentioned in the PFM strategy, the implementation of e-procurement is one of 8 e-Gov projects planned in the National ICT Strategy to improve the operational efficiency and service delivery of the Government. Reference to e-Procurement is also made in the medium-term strategic plan of the RPPA for FY2012/13-2014/15. The Government is aware of the potential benefits of e-Procurement and there is a general desire and commitment to adopt e-Procurement sooner than later. To this end, e-Procurement qualifies as a possible PFM component in the Program.

84. With the assistance of the World Bank, Crown Agents conducted a feasibility study on e-procurement and prepared a Conceptual Design that has already been submitted to the Government. The study proposes a competitive open bid to select an e-procurement solution (p.35). At the same time, the Government has requested the Korea Tel-Com to submit both technical and financial proposals prior to making a decision either to go by a competitive process or the Korean solution through direct contracting procedures. The Government is under discussion on either to procure the Korean solution through the direct contracting procedures or other procurement methods. In the meantime, the mission learned that Korean Telecom is in partnership with the Government and formed a company called Africa Olleh Network Services (AOS) to manage information technology services, install optic fiber and to upgrade Rwandan communication information networks systems.

85. Direct contracting will require MINECOFIN to invoke Article 17 complemented by Article 23 (Impossibility to meet conditions for use of given method) of the Public Procurement Law to justify the direct contracting of e-procurement. According to Article 23 of the Law, "When prevailing circumstances make it impossible to meet the conditions for use of given method and a procuring entity finds it necessary to **use a less competitive method** under this Law in order to effect procurement, it shall seek authorization from the Rwanda Public Procurement Authority". The RPPA shall give the authorization after receiving a reasonable justification from the procuring entity accompanied by a confirmation from the supervising Minister that such procurement is in public interest." In this specific case, justifications to use less competitive procurement method should be supported by the Minister of MINECOFIN and submitted to the Director General, RPPA for approval.

86. Procurement management of e-procurement would be critical to the proposed program achieving results to ensure transparent, effective, efficiency and monitor the public procurement function so to achieving Government's desire to modernize the procurement system. Further, procurement management of the statistics training center and selection of consultants to improve

the function of NISR also will contribute to meeting the strategic objective of this program. Based on the foregoing, the procurement team conducted procurement capacity assessment of the following entities: (i) Department of Corporate Services of MINECOFIN. This department will be responsible for procurement management of e-procurement and (ii) Department of Corporate Services of NISR that will be responsible for procurement management of the statistics training center and selection of various consultants for statistics. The Bank carried procurement capacity assessment and found out that both procuring entities have reasonable capacity save for a few challenges discussed herein. In FY2012/13, the Department of Corporate Services of MINECOFIN processed a total 75 contracts while that of NISR processed a total of 65 in all procurement categories of works, goods and consulting services. Procurement of Goods contract takes major share in terms of number of contracts while in terms of single contract value procurement of works takes the lion's share.

Table 14: Annual number of Contracts and Contract Values handled by the MINECOFIN and NISR

No	Agency	Number of Contracts				Annual Procurement Expenditure (US$ million)	Maximum Contract Amount (US$ million)
		Goods	Works	Services	Total		
1	MINECOFIN	35	1	39	75	5.9	2.4
2	NISR	55	1	9	65	3.8	0.7
Total`		**90**	**2**	**48**	**140**	**9.7**	**3.0**

87. Maximum value of IT procurement, so far, handled by the procurement office of MINECOFIN is Rwf 244 million (equivalent to $360,000). The cost estimate of e-procurement solution is about US$4 million. This is 10 times of the single contract the procurement unit of MINECOFIN has ever handled. Given that procurement of e-procurement solution would be complex and of large value, the procurement unit of MINECOFIN would need a technical support of the e-procurement expert.

88. NISR will select a consultant to conduct the design review related to existing office renovation and designing of a training center. Since NISR establishment does not have a civil engineering department, they will receive technical support from Rwanda Housing Authority, which will provide approval as a custodian of the Government Asset.

89. Challenges and risks would include: (a) rejection of the direct contracting justifications by the Director General of RPPA to procure the Korean solution if found insufficient and revert to competitive method; (b) a perceived conflict of interest in terms of invoking Article 17 of the Public Procurement given that the Director General of RPPA is the interested party of e-procurement and may be unable to review justifications forwarded by MINECOFIN objectively with independent mind; (c) absence of a specialist of e-procurement to provide technical support and guide during procurement process and operationalization of e-procurement; and (d) absence of a civil engineering department within NISR to provide technical support related to design and construction of a training center.

90. These risks may be mitigated by following measures: (a) in the case of direct contracting, decision may be done by the Board of Directors instead of the Director General of RPPA; (b) The Government will recruit a consultant to assist implementation of e-procurement; and (c) NISR will receive technical support from Rwanda Housing Authority, which will provide approval as a custodian of the Government Asset.

A. Pillar I: Legislative and Regulatory Framework

91. The Government has acceptable public procurement legal framework that is based on the UNCITRAL model, and it is quite robust and covers all aspects of public procurement at all levels of Government. The RPPA is a Public body that was established on February 20, 2008 by the Law No. 63/2007 of December 30, 2007. It was created to replace the National Tender Board during a reform process in Public financial management launched by the Government, in which Public procurement reform was one of the most important components. The Government revised the Law in 2012 to incorporate comments, which were issued during Phase II of the Use of Country System (UCS) exercise conducted by the Bank. The revised Law was gazzetted in April 2013 to become a Law.

92. The Bank reviewed the Procurement Law and found it acceptable save for the Rwanda Law requirement of payment after goods have been received even under CIP (Article 86).

B. Pillar II: Institutional Framework and Management Capacity

93. Under the Law, RPPA is responsible for procurement oversight function of the public procurement both at the central and local government. It is therefore responsible for setting procurement standards, guidelines and procedures to ensure transparent, effective, efficiency and monitor the public procurement function. The Law also provides for establishment of the Independent Review Panels, both at the central and district level. Further, the Law also establishes the institutional arrangement at a procuring entity level, including; (i) Procurement Unit (PU); (ii) Tender Committee (TC); and (iii) Accounting Officer (Chief Budget Manager). The PU is responsible for carrying out the procurement process from the planning process to the completion of the contract execution. The TC is responsible for conducting bids opening, evaluation and recommendation for award of contracts. Accounting Officer approves reports of the TC and signs the contract on behalf of the procuring entity.

94. The Public Procurement Law requires procuring entities to prepare annual procurement plans and submit to the MINECOFIN together with their work plans as part of the budgeting process. Equally, the Public Procurement Law requires that all budget entities publish an annual procurement plan. RPPA monitors this process and majority of plans are now prepared and published on the *DgMarket* website[60] in addition to RPPA's web site. Normally procurement plans are approved in June, and both MINECOFIN and NISR revise their procurement plans once at mid-fiscal year in line with budget revision by the government. It is a requirement that submission of the procurement plan must accompany the budget request.

95. The Procurement tools prepared by RPPA has detailed parameters to be included in the Procurement Planning Template and accordingly consists: - Description of contract, Procurement Method, Source of Funds, Lead Time for No Objection to DBD (from RPPA where required), Publication Lead Time, No Objection Lead Time to Contract Award and Contract Management (delivery Period).

96. Both MINECOFIN and NISR have Internal Tender Committee (TC) comprising of 7 members. The TC is vested with responsibility of bid opening, evaluation and recommends contract awards to be approved by the Chief Budget Officer. The TC normally serves as standing

[60] http://www.market.gov.rw/

committee for duration of two years. The quorum for the TC to make a decision is two third and it meets regularly when there is need.

C. Pillar III: Procurement Operations and Market Practices

97. **Open competition is a default approach in line with the procurement law and the ministerial orders**. National Competitive Bidding (NCB), International Competitive Bidding (ICB), Shopping, Direct Contracting (DC) and Restricted Tendering (RT) are the common methods practiced based on the thresholds. The predominant procurement methods used by the assessed agencies are NCB and Shopping. A clear and applicable guideline for procurement method selection and process is elaborated in User Guide. Besides, Standard bidding documents; Standard template for bid opening report; and Standard template for bid evaluation are provided by the RPPA. The SBDs used for open domestic bidding are comprehensive in nature and contain all the relevant information which should enable bidders to prepare responsive bids. The evaluation criteria are generally non-discriminatory and encourage competition.

98. According to the manuals the average business standard time to prepare a bidding document for Goods is 5 days and to finalize evaluation 21 days. The assessment revealed that in practice the average time to prepare bidding document is between 5-7 days and for evaluation is between 1-4 days for relatively small contracts. Bid evaluation must not take more than 21 days. At the MINECOFIN, contract awards are approved and signed by the Director General of Department of Corporate Service (on behalf of the Permanent Secretary) while at the NISR it is the Budget Corporate Manager, who is the Deputy Director General.

99. Registration of suppliers' list is a requirement and is done at Rwanda Development Board, with a link to RRA and Rwanda Social Security Board (RSSB). But the registration is not restrictive and can simply be undertaken on line. It is a practice that RPPA provides price references on regular basis for use by procuring entities has contributed a lot to ensuring fairness of the prices.

100. Standard Bidding Documents, Standard Request for Proposal, and standard templates issued by RPPA are consistently used by implementing agencies. The standard bidding documents are modelled from the World Bank Standard Bidding Document. The standard bidding documents are accompanied by user guides to assist the entities in completing them.

101. Procurement arrangements provide for wide advertising of bidding opportunities, through local print and online media, such as, DgMarket, PPS, Client connection, UNDB online, etc., and the implementing agencies have practiced accordingly.

D. Pillar IV: Integrity and Transparency of the Public Procurement System.

102. Rwanda has a two tier for the administrative review process. A complainant is required to lodge a complaint with the Chief Budget Officer at the procuring entity as the first level. In this case, they are the Director of Corporate Services Department of MINECOFIN and the Deputy Director General of NISR. The second level is the Independent Panel Review. The Law also gives RPPA mandate to debar firms. Since its establishment in 2008, RPPA has so far debarred 29 firms and are publicized on the RPPA website.

103. The Rwanda Procurement Law has established an Independent Review Panel at the National level and Independent Review panels at the District level for the purpose of conducting independent reviews of complaints and rebuttal of the public procurement process. It has seven

(7) members composed of Government, civil society and private sector representation. The proportion from the Government is less than 50%. The tenure is 3 years renewed once.

104. The Law provides 7 days grace period of Provisional Notification to allow bidders to lodge complaints. Bid result is notified to all bidders including non-qualifying bidders. Likewise, response to the complaints should be given within seven days from the date of filing of the complaint. Procedure for contractual disputes resolution is in place, by the procurement law. Disputes are resolved by agreement of the parties involved. Where no agreement is reached, arbitration is encouraged and used. Judicial reviews come as a last resort when arbitration has failed.

105. At both agencies, there is a system of accountability with defined responsibilities and delegation of authority for contract procurement processing, evaluation, approval and signing of contracts. RPPA normally conducts procurement audit on sample basis. The Authority has a total of 54. With the existing manpower, the Authority is in short of carrying out audit every year for all procuring entities. Based on the audit statistics, the prone risk area, which has been identified by RPPA is forgery of the bid documents such as bid securities.

106. RPPA plays a key role in procurement oversight, being part of the control systems for public procurement. RPPA conducts annual audits of 30-50% of the procuring entities. These are comprehensive audits that cover the whole procurement cycle, i.e. procurement planning, procurement process and contract management. Other oversight entities involved in procurement audits include: (i) OAG was established in 1998 to carry out external audits; (ii) the Chief Internal Auditor was appointed in 2006; (iii) MINALOC; and (iv) Ombudsman Office. RPPA uses the report of the Auditor General to help them to focus its training for a particular implementing agency in those areas of weakness. RPPA communicates corruption cases to the Ombudsman Office and Fraud cases to the Public Prosecutor/CID for further investigation and prosecution. Procurement audits are the primary responsibility of RPPA while the OAG will in most cases conduct procurement audits as a means to ascertain whether internal controls are working. Harmonization and coordination on this front is required to avoid double effort of these oversight institutions.

107. This assessment revealed both strengths and weakness in the procurement environment, which have been summarized as follows:

108. **Findings on the strengths of the procurement systems and practices:** (i) MINECOFIN and NISR procurements are generally sound and consistent with the budget, and completion reports are prepared; (ii) Both implementing agencies have an established institutional setup for implementation of procurement activities; (iii) There are adequate suppliers of goods, works and services at national and district level; (iv) Reasonable oversight and accountability exists. Procurements and/or contracts are monitored regularly, by RPPA on sample basis. All procuring entities are required to provide a monthly report to RPPA on the implementation of the procurement plan. RPPA has the overall responsibility to train all new comer's procurement officers as well as new internal tender committees in national procurement procedures as outlined in the Procurement Law. In addition to that, RPPA provide training to all procurement officers to refresh their knowledge on regular basis. Besides, the OAG undertakes compliance auditing, in addition to the established financial auditing. OM is also conduct procurement audits as part of its investigation upon receipt of such information. Also, both procuring entities have internal auditors who review financial and procurement operations on regular basis sometimes; (v) The public procurement Directives provides that implementing

agencies are required to comply with the well-defined complaints handling mechanism and is implemented through National Independent Review Panel mechanism; (vi) Good number of works and goods contracts are awarded based on the lowest evaluated responsive bidder; (vii) Good number of contracts are awarded based on criteria provided in bidding documents; (viii) Good number of consultancy services contracts are awarded through Quality and Cost Based Selection (QCBS) procedures.

109. **Findings on the weaknesses for implementation of procurement:** (i) There are irregularities in implementing the procurement legal framework and systems, (prolonged period for bids preparation than that prescribed in the legal documents)[61]; (ii) High turnover of procurement officers; (iii) Rwanda Public Procurement Authority (RPPA) Procurement procedures require agencies to publish contract awards on media accessible to the public, in principle on similar media used for bid advertisement. The assessment revealed that this is not implemented by both agencies; (iv) Capacity of RPPA to carry out comprehensive procurement audits on annual basis as part of its regulatory mandate is low. At the national level, most agencies are audited only once in two years; (v) Lack of coordination of procurement auditing by RPPA and OAG; (vi) Sometimes selection of consultants is conducted based on "Open Competitive" like procurement of goods and works, in contrary to the procurement law.

110. The overall procurement risk in implementing the Program is moderate, and all identified risks can be mitigated for the successful implementation of the Program.

V. GOVERNANCE AND ANTI-CORRUPTION (GAC) CONSIDERATIONS

111. **The assessment also covered the capacity of the governance systems and arrangements to handle risks of fraud and corruption, including commitment to use the Bank's Anti-Corruption Guidelines (ACGs)** in PforR financing, the use of complaints handling mechanisms and how such risks are managed and mitigated. The assessment also covered views from non-state actors (including members of TI Rwanda, the PSF). Discussions with non-state actors focused on how well they perceive the government fiduciary and complaints/grievance handling systems to be working and risks for fraud and corruption. The section provides more details on assessment of the legal and institutional arrangements for investigating and prosecuting F&C cases, the assessment of ability to apply the ACGs and assessment of the complaints/grievance handling mechanisms for the Program.

Assessment of Legal and Institutional Arrangements for fighting Fraud and Corruption

112. This assessment shows that Rwanda has relatively strong institutional and legal frameworks to deal with F&C cases and also prevention and public education. There are relatively strong institutions of accountability, integrity and oversight, including the Public Accounts Committee (PAC) of Parliament, the OM and OAG. The assessment also shows that the legal and institutional arrangements have improved over the years with clear political will at the highest level and achieving very good results. There is division of responsibilities between the OM which deal with cases of corruption and the NPPA/CID, which deals with cases of fraud,

[61] RPPA Report of April, 2012 on "Assessment of Public Procuring Entities on Compliance/Performance with Procurement Law, Regulations and Procedures."

while the NPPA prosecutes cases on fraud and corruption after investigations. The NPPA has 10 prosecutors who worked on fraud and corruption and each one prosecutor for each of the 30 districts. The prevention directorate of the OM assists both public and private organizations and non-profit organizations in reviewing their business processes to identify and address gaps that might create opportunities for corruption. It also has the mandate to review the systems and procedures and make recommendations on corruption prevention measures. There seems to be good working relationships and understanding among the agencies with a common purpose of minimizing opportunities for fraud and corruption and dealing decisively with it when it occurs through investigation and prosecution.

113. **The legal provisions for investigation, prosecution and prevention of fraud corruption and enforcement are quite strong.** Corruption is comprehensively defined in the Organic Law of the Penal Code[62] and there are several other laws to help fight, prevent, investigate and punish fraud and corruption[63]. The Law establishing the Office of the Ombudsman was amended in 2013 (Law No. 76/2013) to enable the OM to prosecute cases of corruption in order to speed up the process of prosecution. At the time of the assessment, the OM was in the process of setting up a prosecution unit and thus the NPPA will still be responsible for prosecution of both fraud and corruption cases until the OM is ready to take on this responsibility. Also a Whistle Blowers' Protection Act was passed in 2013 to give reasonable assurance and incentives to report cases of fraud and corruption. One key innovation for deterrence is a naming and shaming policy for persons convicted of corruption whose names and offences are published in newspapers and at the website[64] of the OM. On public procurement, the Procurement Law is complemented by two ministerial orders, (a) ministerial order no. 002/10/10/TC of 25/06/2010 which governs public procurement and tender and tender document issues and (b) Ministerial order no. 001/11/10/TC24/01/2011 which establishes professional codes of code of ethics governing state employees involved in procurement, including annual declaration of their assets. Together, these three documents aim to limit the opportunities for fraud and corruption in public procurement. Overall, the legal and institutional frameworks give reasonable assurance of the capacity to deal with cases on fraud and corruption in the Program. However, staffing capacity in investigation in OM is a concern. There were two vacancies yet to be filled at the time of the assessment due to delays from the Ministry of Public Service and Labour. It will be important for the OM to complete the process of setting up the prosecution unit and appropriately staffing the unit as well training new and young prosecutors of the NPPA.

114. **The independence of the OM is key for effectiveness.** The OM has operational independence. The Chief Ombudsman is appointed for a five year term, renewable once, and two deputies are appointed for four year term each, renewable once. The OM reports to Parliament and the Office of the President and has independence in its operations. The Steering Committee of the OM includes representatives of the private sector and civil society who provide

[62] Article 633 of Organic Law No. 01/2012/OL of the Penal Code

[63] The laws include Organic Law Nº 61/2008/0L of 10/9/2008 o leadership code of conduct, Organic Law Nº23/2003 of 7/8/2003 Concerning Prevention, Organic Law Nº12/2007 of 27/3/2007 on national procurement; Organic Law Nº12/2013/OL of 12/09/2013 on government property and assets; Organic Law Nº76/2013 of 11/9/2013 which is amended law defining powers and mandate of the ombudsman, including the power to prosecute cases of corruption; Ministerial Order Nº001/08/10/Min of 16 on national procurement.

[64] http://www.ombudsman.gov.rw

guidance and advice to the OM on issues and areas to focus on and helps to institutionalize third party voice and participation in the fight against corruption.

115. **The Auditor General's report provides pointers to potential cases of fraud and corruption, in addition to the public providing information through hot lines and other media**. The OAG produces an annual report on the use of public funds in Governmental organs and institutions. The annual report is sent to Parliament (Public Accounts Committee) and a copy is provided to the Prosecutor-General as provided for by Article 184 of the Rwandan Constitution as revised to date. The NPPA then appoints a team to analyze the report and investigate persons suspected of complicity in mismanagement of public funds in general, where necessary. However, the law does not require a copy of the report to be provided to the OM which is responsible for investigation of cases of corruption. With the amendment of the law to enable the OM to prosecute cases of corruption, it would be important to officially require a copy of the report of the Auditor General to be sent to the OM and this can be included in the PAPs.

116. **The Parliamentary Public Accounts Committee provides effective oversight and check on public finances.** Even though it is relatively new (established in April 2011), it has proven to be capable and effective in providing oversight of financial management. Its nine members have regularly called Chief Budget managers and other public officers to account in public hearings on their scrutiny and analysis of the report of the OAG. The PAC refers cases of misuse of funds to the prosecutor general for prosecution and requires report on how their finding and recommendations have been followed. They also monitor the implementation of the report of the AOG and agencies who do not achieve more than 60 percent implementation are sanctioned. These measures have positive impact in enhancing the accountability of public institutions and officials, including MINECONFIN, RRA and NISR. This has contributed to the relatively low levels of corruption. The systems in place both at the national and in the PforR implementing agencies provide reasonable assurance that the resources from the program will be used for the intended purposes with economy and efficiency.

Assessment of Complaints and Grievance Handling Systems for Fraud and Corruption

117. **There are multiple channels of making and recording complaints and grievances on F&C, including on procurement**: There is a reasonably good citizen's engagement and sensitization on issues of fraud and corruption and channels to report or complain. Both the OM and NPPA have regular press conferences aimed at sensitizing the public at large on fraud and corruption in order to prevent the public from engaging in this and related crimes since persons found guilty are harshly punished.

118. **Complaints and grievances related to fraud** are reported or redirected to NPPA and the Police, while corruption cases are reported to the OM. On fraud, Chief Prosecutors at all Prosecution Levels are duty bound to receive complaints from the public every day on allegations of fraud. This enables issues to be handled in a timely manner and prevents complainants from seeking to use corrupt means to solve their concerns. The Chief Prosecutors write monthly reports to the Prosecutor-General informing him of all complaints received and how they were resolved. Prosecutors also have timelines within which they must have taken a decision on each case, failure of which reasonable cause must be given.

119. Complaints on fraud come from multiple sources, including the public, private bidders, newspaper reports and the organized private sector and civil society. In terms of systems for making complaints on fraud related to FM or procurement both national level and in the districts, the NPPA has the following systems including (a) dedicated free hotline[65] that enables anyone with information on corruption or has a complaint can easily communicate to NPPA; (b) secured complaints boxes in public offices and at the districts maintained by the OM; (c) dedicated email accounts (d) newspaper reports/allegations (d) letters – official or anonymous and (e) third party sources such complaints made through TI Rwanda or the PSF, where members of the public feel more confident and protected to report in some cases.

120. In the case of corruption, there also similar multiple sources of receiving complaints and grievances, including hotlines, secure complaints boxes in most public organizations and an in each of the 30 districts, via email and letters and through third parties such as TI Rwanda and the PSF offices. The assessment suggests that these complaint mechanisms work reasonably well. The TI Rwanda, for example, has offices in five districts and has a toll free number (2641) for receiving complaints on corruption and fraud which it consolidates at its head office, review and pass on to the appropriate authorities (OM, NPPA or CID) for investigations. TI Rwanda also has a web based tool for the public to report corruption cases. It has signed an MOU with the OM to share such information for further investigation. These existing systems will be used for handling complaints and grievances under the Program.

121. These are already requirements in the procurement law, anti-corruption provisions and service chatters in public institutions which are reasonably enforced. These mechanisms and tools include the use of complaints boxes, emails and letters. However, for the Program, in order to strengthen transparency during implementation there will need to improve records keeping and maintaining a database of complaints received in each implementing agency (MINECOFIN, RRA, NISR). As already required by Rwanda's law, the implementing agencies will report any fraud and corruption allegations to NPPA and OM, respectively. In agreement with the Government, these agencies will report such allegations to the World Bank and share such information with the World Bank in real time according to the ACGs.

122. In the specific case of districts, the Program will use existing channels for complaints and grievances (see Figure 7). For corruption, there are secured complaints boxes in all districts manned the OM and checked quarterly. Complaints and grievances can also be made through phone, emails and letters directly to the Office of the Ombudsman. The OM also has informants all over the country, including districts who provide information on possible fraud and corruption to the HQ in Kigali. In the case of procurement, complaints normally go to the Chief Budget Manager in the first instance, but could also be made directly to the OM or NPPA when fraud and corruption are suspected. In addition, the OM carries out surprise checks on these agencies. However, more needs to be done to improve internal controls due to capacity constraints in the districts and this is part of the PAP for PFM in this operation and will be expected to have positive impact on mitigating the risk of fraud and corruption.

123. Procedures related to complaints on public procurement are stipulated in the procurement law and can come from bidders who have seven days to lodge a complaint or request a review. The reporting system for procurement complaints is adequate for this operation. There is also an

[65] The number is 3677

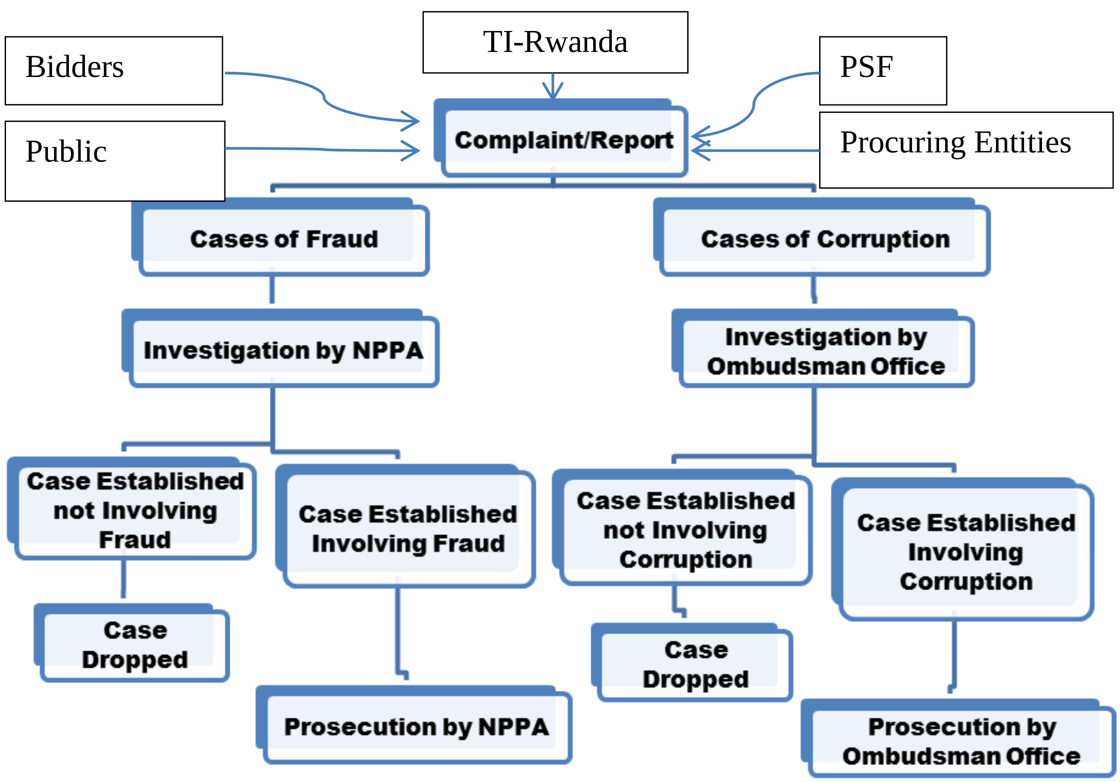
appeal mechanism for bidders to appeal if not satisfied; first to the Chief Budget Manager, then to the District Review Committee (in the case of districts) and finally to the national appeal committee Complaints related to suspected cases of fraud and corruption in procurement are referred to the OM and NPPA by the NPPA for investigation and possible prosecution. Complaints from citizens on suspected cases of fraud and corruption are also lodged with the RPA or directly to the OM or NPPA. Figure 7 below summarizes the system for receiving and handling complaints and grievances related to fraud and corruption.

124. Table 15 below summarizes number of complaints received on corruption by the OM since 2009/10. It shows that 307 of 453 cases (68 percent) were investigated with only 9 sent to prosecution and 18 transmitted to other institutions, including the police. Many of the complaints received are related to maladministration, followed by local entities, procurement and justice sector. A major challenge noted is the lack of evidence or information to prosecute allegations of corruption. Almost all cases prosecuted have been petty corruption rather than grand corruption.

Table 15: Complaints Received on Corruption by the Office of Ombudsman

Fiscal Year	Cases received	Cases investigated and concluded	Cases transmitted to prosecution	Cases transmitted to police and other institutions.	Pending cases
2009-2010	225	187	3	12	23
2010-2011	65	24	1	0	40
2011-2012	117	72	3	5	37
2012-2013	46	24	2	1	19
Total	**453**	**307**	**9**	**18**	**119**

Figure 7: Fraud and Corruption Related Complaints/Reports



A. Program specific assessments of risks of Fraud and corruption

125. **Application of World Bank Anti-Corruption Guidelines**: The assessment also examined the capacity and commitment of the Government institutions to implement the Bank's ACGs which provide measures that will mitigate the risks of fraud and corruption in the Program. The application of the ACGs to the Program is summarized below.

(i) **Sharing of debarment list of firms and individuals:** MINECOFIN-SPIU will share with the procuring entities the list of firms or individuals on the World Bank's debarment or suspended list and ensure that these are not allowed to bid for contracts or benefit from a contract under the operation during the period of debarment or suspension. Though Rwanda procurement law does not automatically debar firms on the World Bank list from participating in public procurement, the application of the ACGs agreed to by the Government will require the use of the World Bank list of debarred and suspended firms and individuals. The Office of the Auditor General and RPPA will check compliance and report to the World Bank every six months as part of the reporting requirement of the PforR operation.

(ii) **Sharing of information with the World Bank on fraud and corruption allegations:** All program managers are required by law to forward any allegations of fraud and corruption to the OM and NPPA respectively. The OM and NPPA will share such information with the World Bank in real time on all allegations of fraud and corruption received from the public and the complaints system. This is necessary to demonstrate commitment to transparency and openness in the program to the ACGs and take immediate remedial action in the program.

(iii) **Investigation of fraud and corruption allegations**: The OM and NPPA have the legal mandate to investigate any allegations of fraud and corruption and prosecute such cases. As a result, all allegations of fraud and corruption will be investigated by the OM and the NPPA and those found to be credible will be prosecuted by NPPA and OM. The World Bank's Institutional Integrity Vice Presidency (INT) may also investigate any fraud and corruption allegations made against the entire program or part of the program. Thus there are two possible tracks to investigation, depending on the circumstances: (i) The OM and NPPA may undertake their own independent investigations of fraud and corruption allegations that may arise from complaints or sharing of information under the above paragraph; (ii) INT may undertake its own corruption fraud investigations related to the PforR operation. In such cases the Program and OM and NPPA will collaborate with INT to acquire all records and documentation that INT may reasonably request from the operation regarding the use of the Program.

126. The table below summarizes F&C risks in FM including procurement and mitigation measures:

Table 16: Fraud and corruption risks in PFM including procurement and mitigation measures

Program Results	Assessment of F&C Risks
Improving Multiyear Fiscal Management	No significant F&C risks identified at this stage of assessment. The risks are largely technical.

Program Results	Assessment of F&C Risks
Enhancing national and sub-national revenue mobilization.	Direct payment of taxes to the transit bank accounts of the RRA and districts minimizes the opportunities for F&C as it removes the handing of cash by revenue collectors. The RRA has a Tax Investigations and Surveillance Dept. which investigates allegations and suspicions of fraud, working closely with the police and prosecution. The policy to broaden the tax base and improve includes the roll out of VAT. One key challenge in the roll out of EBM to enhance VAT implementation and compliance is the low level of take up on EBM machines by businesses. All businesses were expected to have EBM installed by December 2013. Out of the target of 8000 EBM machines only 3000 have been installed and not all 3000 machines are used. The F&C risks are in the non-usage of the machines and under declaration of revenues from VAT. Other F&C risks in revenue include weak tax administration at district level also poses F&C risks but this will be mitigated by the RRA taking on revenue collection responsibilities on behalf of districts.
E- Procurement	The main risks assessed is the potential for conflict of interests as the RPPA is an interested party and at the same time will be required to provide an opinion when the Government decides on using direct contracting/single sourcing with a Korean provider. The potential for non-transparency of the process will be a concern in that case. It is worth noting however that the Government is yet to make a decision. The Auditor General's report has also raised the concern for the excessive use of single sourcing in public procurement; this has potential F&C risks.
Auditing and internal controls	With capacity gaps in staffing at the district level, concerns about internal controls, and all districts having qualified audits, the risks of fraud and corruption in the program remain a concern mainly at the district level.
Statistics	No significant F&C risks were identified at this stage, but the NISR has to manage procurement of works and services under the program by beefing up the staffing of procurement. The NISR has unqualified audits and seems to have the capacity to implement the Program in a transparent and accountable manner with the oversight of its board.

In conclusion, F&C risks for implementing the Program is moderate in the program areas selected. Rwanda has the institutional and organizational capacity to handle issues of fraud and corruption in the program but will have to take action to address the risks areas identified, including adequate staffing in investigations and PFM at district level. Otherwise, the ex-post detection and ex-ante prevention of corruption are quite sound and give reasonable assurance that issues of fraud and corruption will be handled and the existing systems will respond adequately.

VI. PROGRAM ACTION PLAN

127. To address the key challenges and constraints revealed by this assessment, the time-bound Program Action Plan was formulated (see Annex I on Program Action Plan in the PAD). The fiduciary team will engage closely with the authorities as part of the overall Implementation Support Plan.

APPENDICES

1. Interpretation of risk ratings

Risk level	Detail
Low	Represents a situation where the structure of the PFM system broadly **reflects good international practice and there is routine compliance** with the majority of controls within the system. Any remaining weaknesses are being addressed.
Modest	Represents a situation where the structure of the PFM system broadly reflects **good international practice, although there may be some gaps or inefficiencies**. There is basic compliance with controls within the system but regular exceptions occur. There is a credible commitment to addressing key weaknesses.
Substantial	Represents a situation where the structure of the PFM system falls short of good international practice in a number of areas and/or there are **numerous and/or material weaknesses in compliance with many of the controls** within the system. Reform plans may need to be strengthened and prioritized.
High	Represents a situation where the structure of the PFM system shows a **significant divergence from good international practice** and/or there is **widespread lack of compliance with many of the controls** within the system. Commitment to a credible reform program is required.

2. Donor Fiduciary Risk Assessment of General Budget Support (GBS) in Rwanda, prepared by United Kingdom Department for International Development (DFID Rwanda) – February 2012

Summary of overall risk

PEFA dimension	Risk level 2008	Risk level 2011	Trajectory of change
1. Credibility of the budget (Indicators 1- 4)	Moderate	Moderate	↔
2. Comprehensiveness and transparency (Indicators 5-10)	Moderate	Moderate	↑
3. Policy based budgeting (Indicators 11-12)	Moderate	Moderate	↑
4. Predictability and control in budget execution (Indicators 13-21)	Moderate	Low	↑
5. Accounting recording and reporting (Indicators 22-25)	Substantial	Substantial	↑
6. External scrutiny and audit (Indicators 26-28)	Substantial	Substantial	↑

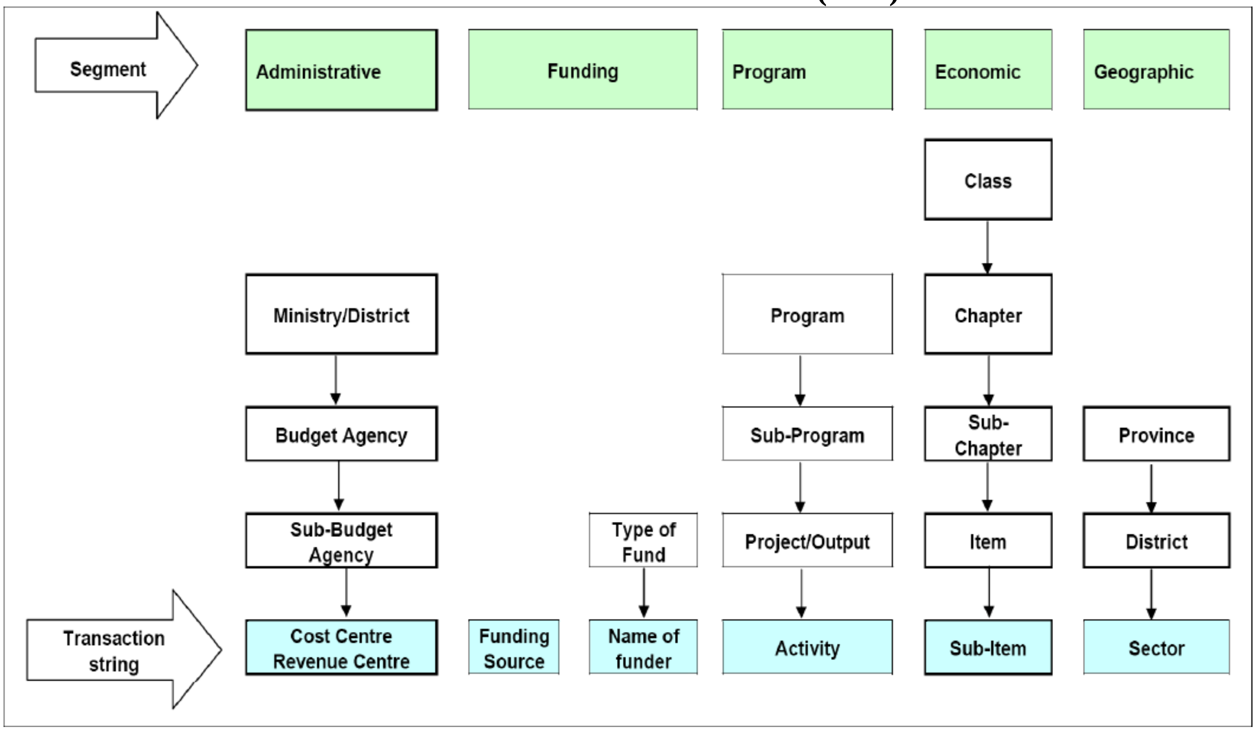
3. Rwanda's 2007 and 2010 PEFA

PEFA Scores		November 2007	November 2010
A. PFM-OUT-TURNS: Credibility of the budget			
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A
PI-4	Stock and monitoring of expenditure payment arrears	D+	B
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	A	A
PI-6	Comprehensiveness of information included in budget documentation	D	A
PI-7	Extent of unreported government operations	D+	D+
PI-8	Transparency of inter-governmental fiscal relations	B	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	C
PI-10	Public access to key fiscal information	C	A
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	A	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B+	A
PI-15	Effectiveness in collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	B+
PI-17	Recording and management of cash balances, debt and guarantees	B	B
PI-18	Effectiveness of payroll controls	D+	B+
PI-19	Competition, value for money and controls in procurement	B	A
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	B+
PI-21	Effectiveness of internal audit	C+	C
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	B+	B
PI-23	Availability of information on resources received by service delivery units	D	D
PI-24	Quality and timeliness of in-year budget reports	D+	D+
PI-25	Quality and timeliness of annual financial statements	C+	D+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	D+	B+
PI-27	Legislative scrutiny of the annual budget law	C+	C+
PI-28	Legislative scrutiny of external audit reports	D+	B
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	B+	A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D+
D-3	Proportion of aid that is managed by use of national procedures	D	D

Sub-National (SN) indicator overview (PEFA 2010)

Indicator	Districts: Kicukiro (1); Rulindo (2); Bugesera (3); Nyamagabe (4)	1	2	3	4
A	**PFM-OUT-TURNS: Credibility of the budget**				
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	B	D	D
PI-2	Composition of expenditure out-turn compared to original approved budget	B	B	A	B
HLG-1	Predictability of transfers from higher levels of Government	B+	B+	B+	A
B	**Key Cross-Cutting Issues: Comprehensiveness and Transparency**				
PI-8	Transparency of inter-governmental fiscal relations (Not applicable (N/A))[4]	N/A	N/A	N/A	N/A
PI-10	Public access to key fiscal information	A	A	A	A
C	**Budget Cycle**				
C (i)	**Policy-Based Budgeting**				
PI-11	Orderliness and participation in the annual budget process	D+	D+	D+	D+
C (ii)	**Predictability and Control in Budget Execution**				
PI-16	Predictability in the availability of funds for commitment of expenditures	B+	B+	B+	B+
PI-18	Effectiveness of payroll controls	B+	B+	B+	B+
PI-20	Effectiveness of internal controls for non-salary expenditure	B+	B+	B+	B+
C (iii)	**Accounting, Recording and Reporting**				
PI-22	Timeliness and regularity of accounts reconciliation	B+	B+	B+	B+
PI-24	Quality and timeliness of in-year budget reports	B+	B+	B+	B+
C (iv)	**External Scrutiny and Audit**				
PI-26	Scope, nature and follow-up of external audit	B+	B+	B+	B+

4. Hierarchical structure of the Rwanda Chart of Accounts (CoA)



4. Illustrative budget performance report showing commitments and obligations

				Illustrative budget performance report				
	A	B	A-B	C	C/A	D	E	A-(C+D+E)
Functions or Programs or Sectors or MDAs	**Approved budget**	**Allocations**	**Un-released Budget**	**Actual to date** *(from GL)*	**% budget utilized**	**Commitments** *(outstanding POs)*	**Obligations** *(unpaid invoices)*	**Available budget**
Program 1								
Program 2								
Program 3								
Program 4								
Program 5								
Program 6								
Totals								
							[print date stamp]	

This report can also be designed to present information in aggregate or detailed by the various CoA segments and to produce IMF-GFS reports

5. Analysis of different software in use across government budgeting entities

Analysis of different software in use								
	IFMIS	SAGE PASTEL	TOMPRO	FIT	OTHERS SOFTWARE	EXCEL	TOTAL	COA IMPLEMENTATION
								97
CENTRAL GOVERNMENTS	66	37	2		5	15	125	78%
								31
LOCAL GOVERNMENTS	31						31	100%
								6
		29	51	7	2	27	116	5%
PROJECTS								
TOTAL	97	66	53	7	7	42	272	
COA IMPLEMENTATION	97	27	6	0	1	0	131	48%

6. SEAS IT Support Team Profile

Technical support

- Strong database management experience especially MySQL, MS SQL Server and Oracle
- Data center management experience
- Understanding of Networking and TCP/IP protocols
- Extensive knowledge and experience supporting the software products used
- A thorough knowledge of software packaging and deployment.
- Infrastructure Management (responsible for the maintenance of the infrastructure across the network).
  - Application Packaging and Deployment
  - Enterprise anti-virus software
- Knowledge and experience with the management of network
- Experience with virtualization and storage - desirable
- Strong verbal and written communication skills – essential
- Relevant bachelor degree qualification in an IT related discipline such as Computer Science, Statistics, Mathematics, Physics, and Business Administration. Specialized Database Administration training and qualifications for common large RDBMSs e.g. Oracle, SQL are a must. Possession of a relevant post graduate qualification will be an added advantage.
- At least 2 years' working experience directly related to the duties and responsibilities as specified is essential. Preferably in the Public Sector.
- Knowledgeable about IT and web applications,
- Knowledgeable about Java j2ee technology and object oriented programing,
- Interested in keeping up to date with changing technology.
- Understand the laws regarding privacy and data storage
- Prior experience in the successful management of application build, testing, implementation and quality assurance activities of automated financial management systems will be an advantage.
- Dynamic and proactive individual with the ability to produce technical work plans and monitor performance against them
- Strong track record in performance management is vital (setting targets, monitoring delivery, planning)

- A sound, operating knowledge of computers is essential.

Functional support

- Strong experience and knowledge about the Government's PFM processes:
  - Planning and budget preparation
  - Budget execution and control
  - Revenue forecasting and administration
  - Expenditure control
  - Accounting and financial reporting
- Knowledge about IMF-GFSM 2001
- Good knowledge of using computer desktop applications preferably Microsoft Office products and internet
- Strong verbal and written communication skills
- Ability to provide training and supervision to end users
- Ability to travel across the country
- Self-motivated and willingness to learn
- Relevant graduate qualification in public finance, business or economics from a recognized university. Possession of a relevant post graduate qualification will be an advantage.
- At least 2 years' working experience in Financial Management preferably in the Public Sector.
- Possession of Membership to a professional accountancy body which is a full member of the International Federation of Accountants [IFAC] will be an advantage.
- Prior experience in the successful management of application build, testing, implementation and quality assurance activities of automated financial management systems will be an advantage.
- Dynamic and proactive individual with the ability to produce technical work plans and monitor performance against them
- Strong track record in performance management is vital (setting targets, monitoring delivery, planning)
- A sound, operating knowledge of computers is essential.
- Applicants must be Rwandese nationals.

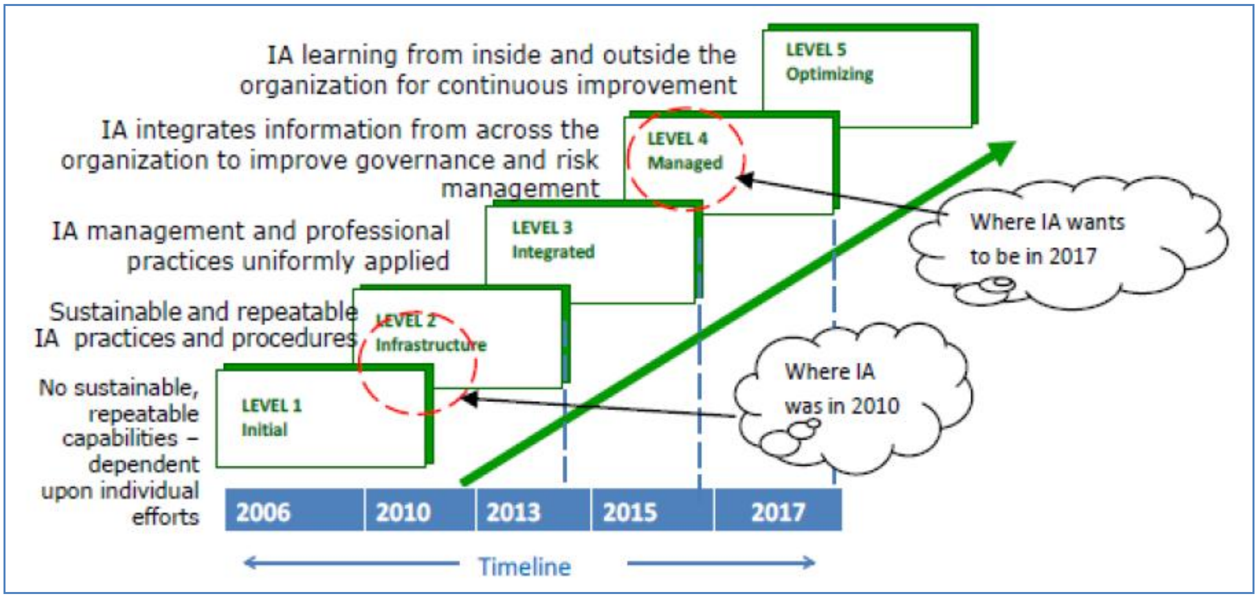
7. Different types on Internal Controls

There are a range of different types of internal controls. The most important may be remembered by the mnemonic SOAPMAPS.

- ***S****egregation of duties*: the functions of authorizing transactions; recording the transactions; and custody of the associated assets should be undertaken by separate staff
- ***O****rganization*: there should be a clear organization chart and all staff should have up to date job descriptions that clearly indicate their responsibilities
- ***A****uthorization and approval*: all transactions and decisions should be formally authorized by nominated staff
- ***P****hysical*: there should be suitable controls over access to offices, assets, controlled stationery and computer systems

- ***M**anagement*: production of suitable financial and operational management information; use of exception reports; critical review and enquiry by management
- ***A**rithmetical and* accounting: checking / re-performing tasks carried out by others; costing (adding up) orders, invoices, payroll etc; reconciliation between the bank and accounting records; control accounts
- ***P**ersonnel*: appointment of staff should be adequately controlled; all staff should be suitably trained for their post and appraised regularly
- ***S**upervision*: all staff and activities should be adequately supervised by someone who understands the process and will detect deviations from accepted practice.

8. Rwanda Internal Audit Maturity Path



9. Selection of districts

Provinces	Districts	Population size per district	Annual Budget	Execution	Execution rate %
Kigali City	Nyarugenge	284,860	4,914,671,206	4,681,009,084	95%
	Gasabo	530,907	6,123,820,912	5,906,389,586	96%
	Kucikio	319,661	4,699,670,044	4,570,255,231	97%
	City of Kigali		3,630,780,541	3,585,414,171	99%
		1,135,428	**19,368,942,703**	**18,743,068,072**	97%
Southern Province	Nyanza	323,388	7,214,214,790	6,595,986,573	91%
	Gasagara	322,803	7,194,507,920	6,723,683,454	93%
	Nyaruguru	293,424	8,300,142,005	7,404,634,864	89%
	Huye	328,605	7,530,543,975	7,201,413,994	96%
	Nyamagabe	342,112	8,426,974,469	8,079,647,408	96%
	Ruhango	322,021	7,806,432,440	7,298,142,061	93%
	Muhanga	318,965	7,107,573,763	6,530,196,023	92%
	Kamonyi	342,792	6,604,213,749	6,282,968,608	95%
		2,594,110	**60,184,603,111**	**56,116,672,985**	93%
Western Province	Karongi	331,571	8,549,675,556	7,951,654,485	93%
	Rutsiro	323,251	6,899,470,503	6,521,485,113	95%
	Rubavu	404,278	7,138,381,547	6,693,902,598	94%
	Nyabihu	295,580	6,252,903,354	5,899,012,275	94%
	Ngororero	334,413	7,629,999,410	7,131,431,467	93%
	Rusizi	404,712	8,978,042,210	8,609,964,900	96%
	Nyamasheke	383,138	8,986,014,085	8,397,422,447	93%
		2,476,943	**54,434,486,665**	**51,204,873,285**	94%
Nothern Province	Rulindo	288,452	6,734,140,449	6,396,590,135	95%
	Gakenke	338,586	7,727,584,280	7,366,112,811	95%
	Musanze	368,563	7,672,689,468	6,770,236,594	88%
	Burera	336,455	7,072,182,258	6,473,138,660	92%
	Gicumbi	397,871	8,350,977,908	7,687,213,846	92%
		1,729,927	**37,557,574,363**	**34,693,292,046**	92%
Eastern Province	Rwamagana	310,238	6,281,428,500	6,002,052,424	96%
	Nyagatare	466,944	7,432,958,602	6,921,382,400	93%
	Gatsibo	433,997	7,544,715,283	6,808,103,909	90%
	Kayonza	346,751	6,819,265,480	6,738,788,103	99%
	Kirehe	338,562	5,819,176,152	5,510,639,802	95%
	Ngoma	340,983	6,997,773,838	6,402,056,006	91%
	Bugesera	363,339	7,196,939,622	6,904,287,010	96%
		2,600,814	**48,092,257,477**	**45,287,309,654**	94%
	Total	**10,537,222**	**219,637,864,319**	**206,045,216,042**	94%

10. References

Donor Fiduciary Risk Assessment of General Budget Support (GBS) in Rwanda, prepared by United Kingdom Department for International Development (DFID Rwanda) – February 2012
Public Expenditure and Financial Accountability (PEFA) Assessment reports 2007 and 2010
Simplified public financial guidelines for chief budget managers_July-2011