Government of Rwanda (GoR)

2015 Local Government PEFA PFM Performance Assessment

Gakenke District

Final Report

Prepared by AECOM International Team

of

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Basic Information

Currency	Rwanda Franc = 100 cents
Official Exchange Rate ((US $, June 2015)	765 RwF (Average)
Fiscal/Budget Year	1 July – 30 June
Weights and Measures	Metric System

Gakenke District

Location	Northern Province, Rwanda
Government	Elected Mayor (Chief Executive) and District Council
Political arrangement	Administrative decentralization
HQs	Gakenke
Industrial/Commercial Cities	None, Rural based district
Population	338,234 (2012 census)
Area	704 km^2
Population Density	510 persons/km^2 (2012 census)
Official Languages	Kinyarwanda, English, & French

Government of Rwanda – 2015 Local Government PEFA PFM Performance Assessment – Gakenke District – Final Report – 31 July 2017

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the ‘**PEFA CHECK’**.

PEFA Secretariat
August 28, 2017

Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA assessment report for the District of Gakenke, Rwanda, and final report dated July 31, 2017.

1. *Review of Concept Note*

- Draft concept note and/or terms of reference dated November 2014 was submitted for review on November 4, 2014 to the following reviewers:
  - 1) District of Gakenke
  - 2) Government of Rwanda
  - 3) World Bank
  - 4) Kreditanstalt für Wiederaufbau (KFW)
  - 5) Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
  - 6) UK Department for International Development (DFID)
  - 7) EU Delegation
  - 8) Agence Belge de Développement (BTC)
  - 9) PEFA Secretariat

  Final concept note dated February 25, 2015 was forwarded to reviewers.

2. *Review of draft report*

- Draft report dated January 2016 was submitted for review on April 22, 2016 to the following reviewers:
  - 1) District of Gakenke
  - 2) Government of Rwanda
  - 3) World Bank
  - 4) Kreditanstalt für Wiederaufbau (KFW)
  - 5) Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
  - 6) UK Department for International Development (DFID)
  - 7) EU Delegation
  - 8) Agence Belge de Développement (BTC)
  - 9) PEFA Secretariat

3. *Review of final draft report*

A revised final draft assessment was forwarded to reviewers on May 2, 2017 and included a table showing the response to all comments raised by all reviewers.

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Acronyms and Abbreviations

AC – Audit Committee of a district council
BFP - Budget Framework Paper
CBM – Chief Budget Manager
CG – Central Government
DC – District Council
DDP – District Development Plan
DoA – Director of Administration
DSA – Debt Sustainability Analysis
EC – Economic Commission (of District Council) / Executive Committee (of the District)
EDPRS – Economic Development & Poverty Reduction Strategy
ES – Executive Secretary
FY – Fiscal/Financial Year; usually signifies the year in which a 12-calendar month fiscal system ends
GDP – Gross Domestic Product
GoR – Government of Rwanda
HR(M) – Human Resource (Management)
IA – Internal Audit
IIA – Institute of Internal Auditors
INTOSAI – International organization of Supreme Audit Institutions
IPPS – Integrated Personnel & Payroll System
IPSAS – International Public Sector Accounting Standards
ISPPIA – International Standards for Public Practice in Internal Audit
JDF – Joint Action Development Forum
LODA – Local Administrative Entities Development Agency
MDA – Ministries, Departments, and Agencies
MDGs – Millennium Development Goals
MIFOTRA – Ministry of Public Service and Labour
MINALOC – Ministry of Local Government
MINECOFIN – Ministry of Finance & Economic Planning
MINISANTE – Ministry of Health
MoU(s) – Memorandum(s) of Understanding
NA – not applicable
NBA – Non-budget agency
NISR - Rwanda National Institute for Statistical Research
NR – not rated
OAG – Office of the Auditor General of State Finances
OBL – Organic Budget Law
PAC - Public Accounts Committee
PEFA – Public Expenditure and Financial Accountability
PS – Permanent Secretary of a ministry
PSF – Public Sector Forum
RRA – Rwanda Revenue Authority
SAI- Supreme Audit Institution
SEAS – Subsidiary Entities Accounting System
TAC – Tax Advisory Committee
TMC – Treasury Management Committee
TR – Total Revenue
TSA - Treasury single account

Acknowledgements

The consultants are grateful to all who made this work possible, including officials of the Ministry of Finance & Economic Planning and the District Administration.

Chinedum Nwoko
Team Leader

Summary Assessment

0.1 This section is a synopsis of the detailed assessment in Section 3. It provides a high level overview of the status of the public financial management system in 2015, telling the main emerging story of the assessment. It discusses performances along the six core dimensions of the PEFA PFM Performance Measurement Framework and highlights the implications of identified weaknesses and their potential impact on the attainment of the three key budgetary goals of aggregate fiscal discipline, strategic allocation of resources, and effective service delivery. Finally, it evaluates the impact of factors predisposing to continuing reforms as well as factors inhibiting reform success and sustainability.

Story Line

0.2 *The Gakenke District PFM system posts an impressive picture of performance with top scores in 10 indicators cutting across the six core dimensions (Table 0.1).* However, several dimensions of some of these and other indicators do not apply at the district level, because the CG retains responsibility for them. For instance, the CG regulates public procurement and external audit and scrutiny. Districts' roles in them are to apply the regulations as made and to rectify audit findings that are within their powers to do. Notwithstanding this strong showing, several areas need reform attention. Performance is uneven within the same core dimension, with the relatively poor showing of some indicators and dimensions capable of impeding the strong performance of the others and constituting overall risks to entire PFM system. This is the main message of this assessment that the integrated assessment below elaborates on.

Table 0.1: Summary of Performance of the PFM System

S/No	Score	Performance Indicators	Total
1	A	PIs 1, 4, 5, 7, 11, 13, 28	7
2	B+	PI 19, 25, 26	2
3	B	PI 12, 23	1
4	C+	HLG-1, PI 2, 21, 27	4
5	C	PI 9, 10, 17, 22	4
6	D+	PI 24	1
7	D	PI 3, 6, 15, 20	4
8	NA	PI 8, 14	2
9	NR	PI 16, 18	2
	Total		**29**

Integrated Assessment of PFM Performance and Their Impacts

0.3 *The foregoing main message of strong, but uneven performance has implications for the overall performance of the PFM system.* The PFM system operates as an integrated unit with the different aspects being links of the same chain that can attain optimality only with the efficient and effective performance of all components. This subsection unpacks the main message above by providing some more details. It also briefly analyzes the potential contribution of the performances of the different aspects of thee PFM system to the attainment of the three budgetary outcomes of aggregate fiscal discipline, strategic prioritization of resources, and efficient delivery of services. The analysis emphasizes the integrated nature of the PFM system by showing how weaknesses in one area can affect other areas and / or also be the consequence of weaknesses in other areas. The discussion centres around the six core dimensions of the assessment framework: (i) credibility of the budget, (ii) comprehensiveness and transparency,

(iii) policy-based budgeting, (iv) predictability and control in budget execution, (v) accounting, recording, and reporting, and (vi) external audit and scrutiny.

Credibility of the Budget

0.4 *Credibility of the budget posted a partial success story.* Aggregate expenditure deviation was low, but composition variance was high, potentially undermining fiscal discipline, although CG regulations guide the annual midyear budget review, which is the main cause of the variance. Own revenue performance also assessed poorly, but monitoring of expenditure payment arrears assessed very well.

0.5 *Lack of budget credibility can erode fiscal discipline, upset the policy basis of the budget, reduce value for money, mask weaknesses in other areas, and undermine public trust in the budget.* For instance, high composition variances immediately distort originally intended budgetary outcomes. Midyear budget review is an admission of planning failures, inability to make accurate and reliable short term (one year) prediction of revenue and expenditure. This inability complicates budgetary control and management, affects achievement of targets, and undermines accountability for resources, which in turn makes the budget less credible. Annual budget review adversely affects development of planning capacity by providing an escape route (excuses) for poor programming, rather than compelling improvements by drawing attention to the failures. Low budget credibility affects public trust in the budget as a true expression of government policy intentions. When the government consistently fails to implement the budget as originally made, citizens come to “know and accept (?)” that the government will not implement budgets. Accountability suffers a consequence.

Table 0.2: A. PFM Outturns: Credibility of the Budget

Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
1. Aggregate expenditure out-turn compared to original approved budget	A				**A**	Actual expenditure deviated from budget expenditure by more than 5 percent only in FY 2013. Expenditure deviation was 3.6% in FY 2012 and FY 2014 and 8.3% in FY 2013.
2. Composition of expenditure out-turn compared to original approved budget	C	A			**C+**	Composition variance exceeded 15% in only one of the last three years: 17.5% in 2011/2012, 14.9% in 2012/2013, and 6.4% in 2013/2014. The district did not use contingency votes in any of the last three years.
3. Aggregate revenue out-turn compared to original approved budget	D				**D**	Actual own revenue collected was either below 92% or above 116 percent of the budget every year from FY 2013 to 2014, i.e., 78.3% in FY 2012, 547.8% in FY 2013, and 86.0% in FY 2014
4. Stock and monitoring of expenditure payment arrears	A	A			**A**	Accounts payable was 1.8% of aggregate expenditure in FY 2014, down 52 percent from the level in FY 2013. Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made after formal closure of the books at yearend, and paid immediately at the beginning of the new year.

Comprehensiveness and Transparency

0.6 *Comprehensiveness and transparency also presents a mixed performance picture (Table 0.3).* The areas that assessed very highly are those areas where the CG guidance and oversight are most prominent, i.e., through the existence of clear legislation or template for districts to implement. These include classification of the budget, reporting on operations of NBAs, and transferring funds to sectors. The district was unable to resolve weaknesses in other areas, including in budget documentation to the District Council and monitoring of NBAs. Public access to fiscal information also needs, notwithstanding the apparent high performance. For instance, the audit report rated available only because of the summarized version posted by the OAG on its website. The district did not post the detailed report on its own website, as it did not also the audited financial statements and budget documentation.

0.7 *Lack of comprehensiveness and transparency of the PFM system can conceal waste and contribute to the perception of public corruption.* The importance of transparency is that it cuts across the entire PFM system, affecting and affected by other core dimensions from credibility of the budget to accounting and record keeping. The link with legislative scrutiny of the budget is particularly clear – inadequate budget documentation is a result and source of deficient transparency. In addition, failure to grant public access to fiscal outcomes prevents the public from making valuable facts-based inputs and suggestions that could improve governance. The public bases reactions on perceptions and rumours, rather than facts. Lack of facts-based reaction reduces opportunities for effective corrective intervention. Incomplete information also limits fair and transparent allocation of resources during budget preparation. Finally, lack of comprehensive and transparent information increases the chances of wastes in the use of resources and hinders efficient and effective service delivery and value for money.

Table 0.3: Key Crosscutting Issues: Comprehensiveness and Transparency

Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	A				**A**	Budget classification uses administrative, economic, and functional categories; the program category fits into functional classification at the sub functional level. The general ledger records budget execution on the IFMIS using the same categories as in formulation, but actual reporting is only by economic category.
6. Comprehensiveness of information included in the budget	D				**D**	The district provides none of the applicable four items provided to the District Council.
7. Extent of unreported government operations	A	NA			**A**	Monthly and annual financial reports disclose key fiscal information of the district's government in the main accounts and of the 184 subsidiary entities (AGAs, i.e., schools, health institutions, and administrative sectors), excluding PTA collections, in the notes. In line with PEFA Secretariat's guidance, dimension (ii) does not apply to districts, since districts do not directly contract loans/grants. The CG does
8. Transparency of inter-governmental fiscal relations	NA	NA	NA		**NA**	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.
9. Oversight of aggregate fiscal risk from other public sector entities	C				**C**	The 184 NBAs do not audit their accounts, but they submit unaudited monthly financial reports to the District, which the Finance Unit consolidates into an overall report and includes in the notes to its monthly, quarterly, and annual financial statements. The large number of NBAs, and the limited number of internal auditors (only one at the time of assessment) and

Table 0.3: Key Crosscutting Issues: Comprehensiveness and Transparency						
Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
						accounting personnel makes effective review of financial statements submitted by the NBAs difficult.
10. Public access to key fiscal information	C				**C**	Four out of eight applicable elements are accessible to the public, through various means, including website and noticeboards: audit reports, awards, user charges and fees, and service delivery information.

Policy-Based Budgeting

0.8 *The mixed picture of performance continues in policy based budgeting, although several dimensions of the indicators do not apply at the district level.* Adherence to the budget calendar was good, leading to approval of the budget before the commencement of the budget year, as provided in the law. However, recurrent and investment budgeting processes remain different; districts follow CG guidelines and procedures in formulating the budget.

0.9 *Discussing the potential impact of weaknesses in this area is difficult, because the CG makes the budget policies that districts implement. However, weaknesses in policy directly affect credibility of the budget and transparency.* Weaknesses in policy planning are a major cause of the regular midyear budget review that distorts the original budget and undermines its credibility. The "delink" of recurrent and investment budgeting affects optimal resource programming and use.

Table 0.4: Policy-Based Budgeting						
Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
11. Orderliness and participation in the annual budget process	A	A	A		**A**	The Ministry of Finance (not the district) is responsible for issuing budget calendars and budget call circulars to all budget entities, including the district. The CG (MINECOFIN) issues two call circulars to all budget entities, including the district. The first announces commencement of the budget season and provides planning guidelines; the second conveys firm and clear expenditure ceilings. Budget approved before the commencement of the fiscal year on July 1: June 30, 2015 for FY 2016, on June 20, 2014 for FY 2014/2015, and June 28, 2013 for FY 2013/2014.
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. The District's Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not recurrent costs) for all sectors and has links with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF and budget. However, the link between investment and recurrent expenditure costing is weak as the two are separate activities.

Predictability and Control in Budget Execution

0.10 *Many areas of this core dimension assessed well, the key drawbacks being certain dimensions in the areas of tax collections, internal controls, and internal audit (Table 0.5), although several dimensions of the indicators do not apply at the district level*. Complete reconciliation of tax collections is lacking, as is payroll audit, especially in schools that have a large number of teachers. Capacity issues in NBAs undermine the effectiveness of internal controls, as they also do internal audit. However, NBAs were not the focus of this assessment as explained in the section on Introduction below.

0.11 *Ineffective tax reconciliation can hide weaknesses and waste in the tax collection process.* Weak payroll controls can also be an indication of poor planning; they can also lead to suboptimal resource use. Weaknesses in internal controls can mask weaknesses in the PFM system, lead to inefficient use of resources, reduce value for money in service delivery, diminish reliability of accounting records and reports, and particularly undermine external audit and scrutiny. These weaknesses also constitute a transparency issue and complicates budget management.

Table 0.5: Predictability and Control in Budget Execution

Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY2014, collects them on behalf of district governments. Prior to this takeover, the appeal process was not independent, as it required recourse to the same assessment authority and to the court. However, the district government publicizes the taxes and procedures through a variety of means: website, public noticeboards, tax enlightenment campaigns, meetings and seminars in localities, and a helpdesk.
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NA**	This indicator is not applicable in its entirety with the takeover of tax registration and collection responsibilities by the RRA in FY 15.
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 73.6%, i.e., collection of Frw 2,134,235.00 in FY 2014 out of a beginning balance of Frw 2,901,445.00, although it is not exactly clear whether the arrears are all of taxes or whether they include of fees, etc. The district does not have complete control over effectiveness of transfers of collection to its coffers, following the RRA takeover of tax collection. Audit evidence demonstrate the district's inability to reconcile tax assessment with collections
16. Predictability in the availability of funds commitment of expenditures	NR	NA	A		**NR**	The district does not have its own independent treasury and cannot forecast cash inflows, except for its own resources, which was only 4.9% of total revenues in FY 2014. The district prepares and submits expenditure plans as input into the MoF's overall cash forecasts; however, the district did not provide documentary evidence for review. The district is a budget entity and is user, not provider of, advance information on cash availability. The CBM does not reallocate the budget during implementation, but the District reviews the budget in line with regulatory provisions in December, especially Arts. 41 of the OBL.
17. Recording and management of cash	NA	C	C		**C**	Debt comprise only accounts payables, incurred in routine course of business; the district does not borrow. The finance unit of the

Table 0.5: Predictability and Control in Budget Execution						
Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
balances, debt, and guarantees						districts maintains good record of these payables. The district's operational (expenditure) accounts balances consolidate daily on the TSA; in addition, all cash district consolidates all balances (revenue and expenditure accounts) monthly in the financial reports. The district also consolidates most NBA balances separately in the monthly financial reports. The district does not have regulatory powers; the Minister of Finance does and must also approve district's borrowings (Arts 50 – 54); the Minister had not made any such regulations, as at the time of the assessment.
18. Effectiveness of payroll controls	A	A	B	NR	**NR**	Personnel records and the payroll are the same, creating potential integrity issues. Changes to personnel records and the payroll happen simultaneously, occasioning no delays, because the two are the same. The HR must receive documentary authorization from the mayor, in addition to other relevant documentary notifications before effecting changes to the payroll. A system of periodic ex post review of the payroll is in place, involving the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general. The District did not provide evidence to confirm assertions of recent payroll audit conducted by the Public Service Commission.
19. Transparency, competition, and complaints mechanisms in procurement	B	A	C	A	**B+**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. The District has used noncompetitive bidding only in once in recent times and at the instance of the CG to meet an urgent school procurement. The public has access to procurement plans and bidding opportunities, but not contract awards and outcomes of conflicts resolution. An independent appeals panel of 2 state and three non-state actors with powers to issue binding decisions exists.
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	Expenditure commitment controls are in place, but they do not cover all expenditure lead to overdrawing of accounts in FY 2014. Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; some rules and procedures are excessive and contradictory, at times. The District complies with many processing and recording rules, but audit reports cases of noncompliance both at the district headquarters and especially at the NBA level.
21. Effectiveness of internal audit	C	B	B		**C+**	Internal audit does not involve accounting work; it focuses on expenditures, revenues, transactions, and some system work, but the limited capacity adversely affects its scope and effectiveness. Internal auditors prepare reports for the auditee, and quarterly reports for the DC, with copies to MINECOFIN, MINALOC, and the Province, but not the auditor general, except on request. The auditee, internal auditor, economic commission, and the sector PFM committee all engage with follow up of audit findings; however, capacity shortages in primary schools affect their ability to implement audit findings effectively.

Accounting, Recording, and Reporting

0.12 *Much of this area assessed well, including accounts reconciliation, quality and completeness of financial statements, and remarkably, information on resources available to service delivery units.* In-year budget reporting is the only poorly assessing indicator here. The weakness in budget reporting is due to the use of a template provided by the CG, which does not show budget commitment, although the information is available on the IFMIS.

0.13 *Weaknesses in this area can affect resource planning and use, and undermine, transparency and comprehensiveness, and auditing.* Insufficient knowledge or accounting of resources available to service delivery units indicates inadequacies in transparency and comprehensive of fiscal information flow. Such inadequacy can undermine overall resource programming, allocation, and use. Failure of in year budget reports to indicate commitments levels is also a transparency issues, which can also affect resource planning.

Table 0.6: Accounting, Recording, and Reporting

Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
22. Timeliness and regularity of accounts reconciliation	C	NA			**C**	Regular bank reconciliation takes place at district level and NBA levels within two weeks of the month end, but the quality of district reconciliation is poor.
23. Availability of information on resources received by service delivery units	B				**B**	The district collates data on cash resources available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually. It also separately compiles physical (not monetary) data on in-kind gifts to schools annually to the Ministry of Education.
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports capture expenditure at the payment stage only and comparison between budget and outturns is possible only by economic categories. Monthly budget execution reports are part of the financial reports issued by the middle of the next month. There are no material concerns affecting accuracy of the IFMIS-based budget execution reports.
25. Quality and timeliness of annual financial statements	B	B	A		**B+**	Financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, and both detailed and consolidated information of its subsidiaries as notes. The disclosure by way of notes, rather than full integration into the main accounts of the district is a major reason for the auditor general issuing a qualified audit report. FY 2014 financial statements submitted to the for audit on February 15, 2015. The modified cash standard used is broadly compatible with IPSAS reporting requirements.

External Scrutiny and Audit

0.14 This is probably the strongest area of the PFM system at district level, going by the results posted. The only apparent weakness is the scope of legislative scrutiny of the budget, which currently does not cover budget policy. Other dimensions of the legislative budget scrutiny follow the provisions of the law, as do the other indicators. The high level of audit performance merely indicates that the district implements audit recommendations. It does not say that the quality of audit is good, since audit is a CG function.

0.15 The poor performance of internal audit can affect the quality of external audit, which relies on the internal audit reports to form an initial opinion on the adequacy of internal controls. Internal audit is particularly useful in the Rwanda decentralization environment with the high number of subsidiary entities (non-budget agencies) that districts oversee and report and the large proportion of public expenditures at their disposal.

0.16 *Generally, weak audit oversight and reporting can affect all aspects of the PFM system.* It distorts the performance of the PFM system and thus limits ability to hold public officers to account. This undermines public confidence in the budgeting process. It also affects reliability of data for budget formulation and budget management. Besides, it also hides weaknesses in internal controls and accounting, recording, and reporting, instead of flagging them for correction. In addition, it conceals wastes and other inefficiencies, undermining the effectiveness of service delivery.

Table 0.7: External Scrutiny and Audit

Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
26. Scope, nature, and follow-up of external audit	A	B	A		**B+**	Audit covers 100 percent of the operations (revenues, expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards. The SAI submitted the 2013/2014 audit report to the district council on March 20, , 2015, i.e., about six months after receiving the financial statements. The level of implementation of previous audit findings has been rising in recent years, from 55.6% in FY 2012 to 73.7% in FY 2013, and 83 in FY 2014
27. Legislative scrutiny of annual budget law	C	B	A	A	**C+**	The DC reviews details of revenue and expenditures, but it cannot change policy decisions already made the CG, which finances up to 90% of the budget. Simple procedures for review exist, requiring the economic committee of the DC to review details of proposals (usually in a 2 or 3-day retreat) and present to the DC for approval. Presentation to the DC is by PPT presentation and approval does not involve serious debate and is usually a formality. The budget approval process begins with the retreat after receipt of the first budget call circular from MINECOFIN; the retreat for 2015/16 budget held on Feb. 19 – 21, 2015 and it involved the entire DC, four months to the commencement of the budget year. Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.
28. Legislative scrutiny of external audit reports	A	A	A		**A**	Completion of examination of audit reports takes about three months from date of its receipt by the DC; the district is not in not in arrears of review of audit report. The AC interviews indicated persons in serious cases such as the fraud case of 2011, but the executive committee satisfactorily investigates and agrees corrective measures, even before its meeting with the AC. The AC proposes recommendations, which the DC ratifies, and the CBM follows up on implementation.

Prospects for Reform Planning and Implementation

0.17 Important note – the following is a generic discussion of issues relating commonly to all the districts, since the issues do not vary tangibly among them. Districts face similar challenges and constraints and they apply common solutions, usually as directed by the CG. The difference among the districts is only about the degree, not the nature, of the issues. For example, the urban district of Kicukiro had less vacancies in its establishment staff quota at the time of the assessment than the rural districts.

0.18 *Factors favourably predisposing to reform planning and implementation in local governments include the existence and clarity of a wide range of PFM laws, regulations, and templates to guide districts.* The CG has enacted laws on virtually every aspect of the PFM system, with some of the most important being the Organic Law on State Finances, the Public Procurement Act, the Law on the finances of decentralized entities, and the Decentralization

Law. The CG has also made a host of presidential and ministerial orders, regulations, and guidelines providing further clarification and guidance on many issues.

0.19 *Another favourable factor is the uniform applicability of PFM laws, orders, regulations, and templates across all of government, i.e., to both the CG and decentralized entities, whenever possible.* The exception is where the nature of the issue applies to one level of government, but not the other. For example, the Integrated Financial Management Information System (IFMIS) hosted by the Ministry of Finance and Economic Planning (MINECOFIN) is accessible to all government entities for their planning, accounting, recording, and reporting operations. The Ministry has also successfully produced and deployed harmonized recording and reporting templates for use by the CG and decentralized entities. This harmonized approach makes it easier to extend CG reforms to districts and eases control, supervision, and monitoring of decentralized operations.

0.20 *However, capacity shortages in several areas of districts'' PFM operations impose important constraints on the speed, depth, and sustainability of reforms.* Capacity shortages are most evident in the spheres of finance and internal audit. For example, established personnel quotas for the finance and internal audit units are too few to deal with the task of monitoring the many non-budget entities and effectively coordinate their procurement, record keeping, and accounting responsibilities. In addition, vacancies often exist in the already limited establishment quotas. For instance, only one of the eight districts assessed had the complete number of established internal auditors, i.e., three, at the time of the field visit. At least, one district had none at all. At least, one other district did not have any accountant of the two established, while several others did not have the full complement.

0.21 *Capacity shortages facing NBAs is even more acute than that facing districts.* NBA uses a different accounting system from those used by the CG and decentralized entities. Many of the weaknesses identified in audit reports as affecting districts emanate from the activities of their subsidiary entities. Dearth of skilled capacity is the main cause of the problem. For example, schools use teachers to do their regular procurement, accounting, and monthly financial reporting duties. The limited training afforded them by the district is not usually nearly sufficient to perform these highly professional and technical duties. The CG is developing and deploying a simplified *Subsidiary Entities Accounting System (SEAS)* to address the problem and it is not possible to guess how effective the solution will prove.

0.22 *The uniformity of processes and templates may be facilitating CG control of activities, but it may also be having the non-salutary effect of robbing decentralized entities of the initiative to deal with problems.* For instance, audit reports complain of the failure of districts to review and verify the accuracy and authenticity of the monthly financial reports submitted by NBAs. They appear content merely to consolidate the reports and fill out the reporting template provide by the CG, without bothering about the reliability of the figures. Further, most of the districts did not bother to monitor and gather information on the noncash gifts to NBAs by donors, simply because the CG does not expressly require it. Yet, audit holds them accountable for losses affecting such gifts, e.g., the case of some missing computers donated to a school in Ruhango district. Failure to incentivize districts to seek original solutions to problems not covered by CG rules is a potential threat to the depth and sustainability of reforms.

0.23 *Finally, the deployment of uniform process has another drawback* – not all processes will be as effective in districts as in the CG. The Integrated Personnel and Payroll System (IPPS) provides a good example for CG systems that may not produce the same results in districts, without modification. While different personnel perform the human resource and payroll functions in the CG, the same person combines the two tasks in decentralized entities, thereby undermining inherent controls in the system. Thus, while the IPPS appears to be effective in the CG, audit has reported manipulation of the control feature to fraudulent ends in at least to decentralized entities - the Rwanda Revenue Authority and Karongi district. Incidentally, the CG attributes this problem to ineffective supervision in decentralized entities, without realizing the need to adapt the process to decentralized entities. Nondiscriminatory uniform application of processes can threaten reform effectiveness.

Section 1: Introduction

1.1 This introduction briefly explains why the Government of Rwanda is undertaking this assessment, defines the scope of the assessment, describes the assessment and reporting process, outlines the role of donor sponsors and government partners, and explains its methodology, sources of information, and reliance placed on them. The report was commissioned by GoR, and funded from a MDTF under the control of GoR.

1.2 This assessment is the baseline assessment for Gakenke district. The district did not participate in the 2010 joint assessment of the Government of Rwanda (GoR) and four of its districts; the district did also not participate in the earlier 2007 assessment of the Government of Rwanda. This assessment is sequel to a Memorandum of Understanding (MoU) signed in June 2014 by the GoR and its contributing development partners in support to the implementation of the PFM SSP 2013-2018. The context is as follows.

1.3 Public financial management reforms aimed at modernizing and strengthening institutions for accountability have been part of Rwanda's socio-economic reforms that have yielded remarkable results in GDP growth, poverty reduction, the MDGs, etc. Decentralization of political, administrative, and service delivery powers has also been an integral part of these reforms pursued since the early 2000s. The GoR has already implemented and assessed the performance of the Public Financial Management Reform Strategy (PFMRS) 2008 – 2012. Subsequently, the GoR has "developed a 5-year PFM Sector Strategic Plan (PFM SSP) and its accompanying Sector Implementation Plan (SIP) in consultation with relevant stakeholders including Development Partners".[1] The primary objective of the plan is "ensuring efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery."[2] The GoR and its development partners agreed to carry out a "Public Expenditure and Financial Accountability (PEFA) … in the fourth quarter of 2014/15 … that … will serve as a basis for dialogue on Public Financial Management agenda".[3]

1.4 The Government of Rwanda consequently commissioned concomitant assessments of the central government (CG) and local government (LG). The LG assessment involved a sample of eight districts, out of 30, selected to encompass the four provinces and the City of Kigali, and to include at least, one urban district. The selection also includes the four districts that participated in the earlier 2010 assessment, to track performance.

1.5 This LG assessment applied extant PEFA guidelines. These are the 2011 revised edition of the *Public Financial Management Performance Measurement Framework*, the *Supplementary Guidelines for the Application of the PEFA Framework to Subnational Governments* published by the PEFA Secretariat in January 2013, and *Good Practice when Undertaking a Repeat Assessment: Guidance for Assessment Planners and Assessors* issued in 2010.

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[1] See the ToRs
[2] See the ToRs
[3] See the "Terms of Reference for Local Governments Public Expenditure and Financial Accountability Assessment in Rwanda" accompanying this report as an Annex

1.6 The assessment commenced at the end of the first week of June 2015 with review of documents provided by the Ministry of Finance and Economic Planning and a week of series of preliminary meetings at key organs of the Government of Rwanda jointly attended by the CG and LG teams. These organs include the Offices of the Accountant General, Chief Internal Auditor, IFMIS Coordinator, Rwanda Revenue Authority, Auditor General, Rwanda Public Procurement Authority. Chief Economist, National Development Planning & Research, Ministry of Labour & Employment, DG Budget, Treasury, Ministry of Local Government, and Fiscal Decentralization Unit. The preliminary activities also included a one-day joint inception and training workshop for CG and districts' officials on the PEFA methodology.

1.7 The field visits involved, at least, a two-day mission to each of the eight districts. The missions followed the same format, i.e., interactive sessions with the district management lead by the executive secretary and including heads and representatives of departments responsible for finance, administration, human resource management, public procurement, internal audit, liaison with the district council, etc. (the full list of participants is in the appendix). The pattern followed was to go through the *Fieldguide* and require the district to answer the key questions and provide document evidence supporting their positions. The exercises covered all applicable 29 indicators, i.e., including HLG-1, but excluding the donor indicators.

1.8 The assessors next prepared and sent the draft assessment report to the GoR for review. The GoR also exposed the report to developments partners for review. The assessors evaluated and reflected the comments received, as appropriate and returned this to the Ministry of Finance & Economic planning that is coordinating the exercise. The comments received and the response of the assessors are as in the appendix.

1.9 The assessment covered the entire PFM system of the district, i.e., the district's central administration, sectors, cells, and villages, but excluding subsidiary entities, except to the extent that the district makes allocations to them. Subsidiary entities are non-budget agencies (NBAs) supervised by districts. NBAs submit monthly financial reports to the district, which the district summarizes and includes as annex in its monthly financial reports to the Ministry of Finance & Economic Planning. *Table 1.8* reflects the scope of the assignment.

Table 1.8: Scope of the Assessment

Institutions	Number of entities	Total public expenditures (FY 2014) - Frw	Percent
District government	1	9,990,235,509	100.0%
Non- budget agencies (NBA[1]	184	8,018,268,211	80.3%
[1]NBA spending not consolidated into district public expenditures, but reported separately in the annex to the financial statements.			
Source of Data: District's audited Financial Statements for Year Ended 30 June, 2014			

1.10 Finally, the assessment faced very difficult challenges, the most important of which is the gross under-resourcing for the task. Two days per district was not nearly adequate for the required full application of the PEFA framework. Sessions often lasted into the night or extended to a third day (in Kigali). The consultancy days allowed was the same as usually for a single PEFA assessment, though the requirement was for nine reports – one per district plus a consolidated report. Notwithstanding this, the GoR comments on the draft demanded full PEFA reports for each district, i.e., with all the preliminary sections, in disregard of the ToR that clearly provides for "**a (i.e. one)** full LG PEFA report - including **annexes for the review of 8 districts**

…." This demand put further pressure on the already inadequate resourcing. Finally, the reviewers' comments showed their unfamiliarity with the PEFA methodology. Many comments were emotive, out of context, couched in disrespectful language, and positively insulting.

Section 2: Profile of Gakenke District

2.1 See the Annex. See also the Consolidated PEFA Report for all the eight districts.

Section 3: Assessment of the PFM Systems, Processes, and Institutions

3.1 This assessment is the second LG PEFA assessment in Rwanda, but the first involving Gakenke district. The first assessment took place in 2010 in an exercise that also involved Bugesera, Nyamagabe, Kicukiro, and Rulindo. This second assessment covers eight districts, i.e., the four districts of the 2010 exercise and an additional four districts. The additional districts are Gakenke, Kamonyi, Karongi, and Ruhango. This current assessment applied all the 29 country indicators, i.e., including Higher Level Government (HLG-1), but excluding the three donor indicators that do not apply to Rwanda's districts. The earlier 2010 assessment covered only 10 indicators. The assessment used the 2011 Framework and thus, applied three key Framework documents: *The Public Financial Management Performance Measurement Framework, revised January 2011, "Fieldguide" for undertaking an assessment using the PEFA performance measurement framework May 3, 2012, and the Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments, released in January 2013*. It also relied on *"Good Practice When Undertaking a Repeat Assessment: Guidance for Assessment Planners and Assessors, released on February 1, 2010.*

3.2 The output indicators relied on audited financial statements for FY 2012 (2011/2012) to FY 2014 (2013/2014); other indicators used more recent data, where available, as the guidelines require. The assessment (including field visits to the eight districts) took place in a two-month window between June and early August 2015. The allowance made for field visit to each district was a maximum of two work days.

Budget Credibility (HLG-1; PI-1 – PI-4)

3.3 These four indicators assess the realism and extent of implementation of the budget. The usefulness of the budget as a tool for attainment policy goals rests on the premise that the document approved by the legislature is realistic and that the government will dutifully implement it, i.e., that the budget it credible. A credible budget is therefore, a *contract* between citizens and government, expressing public policy priorities and measures to attain them. Such budget is comprehensive, affordable, sustainable, implemented as planned, and delivers on contents and objectives. Features that facilitate credible budgeting include (i) robust macro-fiscal frameworks, (ii) realistic revenue projection and collection, (iii) credible assessments of costs of government programmes (existing and new initiatives), (iv) transparent and disciplined budget planning processes, (v) dependable systems of budget execution, financial management and accountability, and (vi) availability of good information on spending and service delivery. *PI 1 – 4* below assesses the credibility of the District's budgets from 2012 – 2014.

PI-HLG 1: Predictability of Transfers from Higher Level of Government

3.4 *This indicator assesses the extent to which amount and timing of GoR transfers to its SNGs are predictable.* Poor predictability of inflows and shortfall in amounts affect the SNGs' fiscal management and ability to deliver services. The indicator covers all transfers from the GoR, including – conditional grants, and earmarked project funds, etc. *Score Box 3.1* below assesses the performance of GoR on the three dimensions of this indicator.

Score Box 3.1: Predictability of Transfers from a Higher Level of Government

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2012
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided to SN entity for inclusion in the latter's budget.	Deviation in HLG transfers fell short of estimate by more than 10 percent only in 2012/2013 (i.e., 14%).	B	(i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 10%.	Approved district's budgets and financial statements.	Not assessed	
(ii) Annual variance between actual and estimated transfers of earmarked grants	Variance in earmarked transfers did not reach 10% in any; however, it exceeded 5% every year (FY12 = 8.0%; FY13 = 8.4%; FY14 = 5.4%).	C	(iii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in no more than one of the last three years			
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year	Disbursement does not experience delay; districts access transfers through the IFMIS in accordance with a quarterly cash / disbursement plan made by the Ministry of Finance & Economic Planning and locked on the IFMIS.	A	(iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed e			
Score (Method M1)		**C+**				

Rationale for the Score

General Background

3.5 Explanation of CG transfers to districts. *Law N° 59/2011 of 31/12/2011*[4] defines CG transfers to decentralized entities. *Article 63* of the Law deals with government "subsidies". The article provides as follows,

[4] - Law establishing the sources of revenue and property of decentralized entities and governing their management

"Central Government entities shall each fiscal year plan activities to be implemented by decentralized entities and earmark related funds that shall be included in the budgets of the decentralized entities.

"Central Government entities whose activities are implemented by decentralized entities shall prepare annually a document outlining activities of those entities transferred to the local level and methods for estimating funds needed to implement such activities. The same document also includes instructions on the use of these funds and modalities for reporting on the use of such funds.

"The Minister in charge of finance shall issue every year instructions on modalities under which Central Government entities shall issue instructions relating to the activities and use of funds allocated to decentralized entities.

"Every year, the Government shall transfer to decentralized entities at least five percent (5 %) of its domestic revenue of the previous income taxable year in order to support their budgets.

"The decentralized entity must submit a report on the use of subsidies allocated by the Government in accordance with the organic law on State finance and property."

3.6 The transfers are through the following instruments

- Block Grants – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. Its helps to finance administrative expenses, including salaries, running costs, and supervision of activities in ensuring service delivery. Block grants comprise five percent of the domestic revenue of the CG in the preceding year distributed among qualifying districts. Generally, urban based districts are not eligible for block grant support, because of the expectation for them to be able to generate sufficient own revenues to fund their recurrent spending.
- Earmarked Grant Transfers – these are project-tied grants for each delegated function. The delegating line ministry regulates the transfer mechanisms, reporting requirements and the formula for allocation. This framework does not allow decentralized entities any discretion on how to use the funds. The Budget Framework Paper prepared by the Minister of Finance and approved by both the cabinet and the Parliament must include "the guidelines on earmarked transfers to decentralized entities" *(Art. 32 of the OBL 2013)*. In addition, the Ministry of Finance and Economic Planning issues an annual document titled, "Districts' Earmarked Transfers Guidelines". The document specifies the following eight items, among others
    - objectives of each earmarked program or subprogram
    - expected outputs / activities that the district should achieve or implement
    - allocation formula by subprogram / output
    - performance targets set by the transferring line ministry
    - reporting obligations of the decentralized entity and frequency
    - monitoring and evaluation mechanism, and
    - disbursement mechanism for each transfer depending on outputs or activities involved, etc.
- Capital Block Grants - intended to assist districts undertake local development projects. The grant is not from any specific line ministry. Districts have some discretion in determining the development projects to undertake with these resources.
- Common Development Fund - provided under *article 12 of Law 62/2013 of 27/08/2013* to the Local Administrative Entities Development Agency (LODA) for disbursement to districts to assist them with their development programs. The fund comprises, at least ten percent (10%) of the CG's domestic revenues (calculated based on the preceding year's budget) and funds

provided by development partners. LODA assists districts in planning the use of these funds and monitors the programs and activities.

3.7 The books show another transfer instrument, often not given prominence, but equally very important. These are interagency (inter-entity) transfers, usually listed as "transfers from other CG entities" in financial statements. They are 'informal' transfers of budgetary functions originally allocated to CG entity to a district during the budget year. In other words, interagency transfers are part of the approved budgetary allocations (earmarked or non-earmarked) from the Ministry of Finance and Economic Planning to a district. The arrangement is directly between the transferring CG entity and the affected district, to the exclusion of the ministry. The ministry only becomes aware of it through in-year budget reporting by the entities. However, this revised draft report has excluded them from the analysis, since they are part of the original budget of districts.

3.8 This revised draft also treats the item labelled extra-budgetary transfers in financial statements in the same manner. It is not clear what this item represents.

Annual deviation of actual total HLG transfers from the original total estimated amount provided to SN entity for inclusion in the latter's budget

3.9 *Deviation in HLG transfers fell short of estimate by more than 10 percent only in 2012 / 2013 (i.e., 14%); the appropriate rating is "B".* The deviations were 0.4 percent in FY 2012, 14.0 percent in FY 2013, and 9.7 percent in FY 2014 (*Table 3.9).* The sources of the data for the calculation are the originally approved budgets and audited financial statements of the district for the affected years. The original budgets are the most authentic source of information on transfers advised by the CG since both the district and Ministry of Finance & Economic Planning sign off on them, *de facto*. The District Council must adopt the budget by legal requirements *(see PI-27)*; the approved budget is also the basis of districts expenditure plan required by law to inform the Ministry's cash planning and forecasts (see *PI-16* below).

Table 3.9: Budgeted and Actual HLG Transfers, FY 2012 – FY 2014

	2011 / 2012		2012 / 2013		2013 / 2014	
Admin / functional head	Budget	Actual	Budget	Actual	Budget	Actual
Block / Non-earmarked	1,122,547,159	1,031,607,899	1,339,127,985	1,285,903,180	1,513,329,716	1,461,439,802
Admin & Support Serv	24,687,192	11,108,000	22,973,375	53,471,847	-	-
Good Gov & Justice	67,077,067	52,298,673	66,373,259	66,660,768	316,663,408	291,946,364
Education	2,562,836,057	2,745,605,231	3,634,651,395	3,119,778,789	3,480,025,314	3,607,488,662
Health	738,040,694	701,042,546	937,713,057	826,781,732	1,072,470,245	1,189,971,648
Social Protection	136,773,160	78,856,463	483,473,345	450,228,991	698,118,907	596,437,048
Youth, Sport, & Culture	10,088,489	10,078,489	20,575,502	13,257,839	33,824,738	32,292,288
Private Sector Devt	123,711,520	110,866,000	344,696,883	256,309,566	184,938,650	183,797,889
Agriculture	155,000,000	140,116,442	265,175,154	271,206,438	121,099,190	111,843,337
Environment & Nat Res	24,639,554	24,563,092	41,358,933	33,531,131	57,216,743	30,763,950
Energy	-	-	-	-	300,000,000	154,303,495
Water and Sanitation	45,675,000	44,998,402	98,819,227	93,709,695	60,752,898	51,251,589
Housing, Urban Devt, & L/ Mgt	-	-	110,677,534	55,338,767	108,000,000	51,581,000
Transport	124,925,266	124,734,220	568,020,007	292,491,841	115,666,587	65,141,960
Community Development	763,345,436	802,198,672	48,374,708	43,391,250	6,548,776,680	6,366,819,230
Total Earmarked Grants	**8,273,198,427**	**7,251,712,792**	**8,319,215,345**	**7,439,666,510**	**15,299,133,495**	**14,779,817,419**
Overall Deviation	0.4%		14.0%		9.7%	

Composition variance (on basis of (PI-2)	8.0%	8.4%	9.7%
Source of Data: Rwanda Ministry of finance & Economic Planning			

Annual variance between actual and estimated transfers of earmarked grants

3.10 Variance in earmarked transfers did not reach 10 percent in any year; however, it exceeded percent 5 % every year; which disqualifies it from a "B" rating. The excess of variances in earmarked transfers over deviations on total transfer were 8.0 percent in FY 2012, 8.4 percent in FY 2013, and 5.4 percent in FY 2014 (*Table 3.9*). The applicable score is "C"

In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year

3.11 Disbursements do not experience delays; transfers are virtual rather than physical. Access to transfers is by districts making commitments and payments on the IFMIS according to a quarterly expenditure plan approved in advance by the Ministry of Finance and Economic Planning and locked into the IFMIS. The Ministry prepares a quarterly cash plan in advance of or at the beginning of the beginning of each quarter. The approved budget is the main basis of the cash plan, but the Ministry also takes inputs from budget entities. The cash plans become binding and locked unto the IFMIS, once approved. Procurement, commitments, and payments are on the IFMIS, in accordance with the approved funds. Districts issue payment orders on their through bank accounts to the Banque Nationale du Rwanda (BNR), which maintains the country's treasury single account (TSA) system. The BNR pays, once the district has a credit balance.

PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget

3.12 This indicator measures the deviation of actual primary expenditure from the *originally* budgeted primary expenditure[5] (i.e., approved by the Legislature at the commencement of the fiscal year[6]) for the fiscal years from 2012 to 2014. The measurement of primary deviation is because the government has little control over both debt service obligations and donor commitments during the year. *Score Box 3.2* below summarizes the performance of GoR on this indicator from 2012 to 2014.

Score Box 3.2: Primary Budget Performance						
Dimension	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e.	Aggregate expenditure deviated from budgeted expenditure by 3.6% in FY 2012, 8.3% in	A	A. In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual	Not assessed in 2010	

[5] i.e., excluding debt service obligations and donor commitments, over both of which government has little control during the year.
[6] This definition excludes supplementary budgets passed midstream

Score Box 3.2: Primary Budget Performance					
excluding debt service charges, but also excluding externally financed project expenditure)	FY 2013, and 3.6% in FY 2014		amount equivalent to more than 5% of budgeted expenditure.	data from budget execution reports (unaudited)	

Rationale for the Score

3.13 *Aggregate expenditure deviation exceeded 5 percent only in one of the three years of assessment, in 2012/2013.* Expenditure deviation was 3.6 percent in both FY 2012 and FY 2014 and 8.3 percent in FY 2013. The causes of the deviation are not quite; however, the deviations are generally within internationally accepted good practice standards. Budget and actual spending data used in the analysis exist in both electronic and hard copies. The nationwide Integrated Financial Management Information System (IFMIS) holds the data in electronic form, but hard copies of the financial statements are also available in the district. The Ministry of Finance and Economic Planning (MINECOFIN) in the capital in Kigali hosts the IFMIS, but decentralized entities access from their locations and are able to do planning and other transactions on it. Hard copies of the financial statements are also available in the district. Presentation of budget formulation and financial reporting do not follow the same format. The budget presents information according to economic, administrative,[7] and functional classifications, while financial statements report information reports only economic classification as required by Ministerial Order.[8] However, the General Ledger on the IFMIS transactions using the four levels of classification of the budget, thereby enabling the IFMIS to extract the administrative breakdown, when required. It was thus not possible to get information on administrative breakdown of spending from the audited financial statements or from the district. This analysis thus used actual expenditure data in 'Budget Execution Reports' (with administrative classification) specifically generated for this exercise by the MINECOFIN.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

3.14 *PI-2* measures budget composition variance in expenditure using functional or administrative allocations, i.e., the extent to which **actual** expenditure on major budget heads respects budgeted allocations to those heads. Significant variation in the sub-aggregate composition of actual expenditure from the original budget limits the usefulness of the importance of the budget as a statement of policy intent. The calculation uses the main budgetary heads (votes) in the approved budget. In addition, dimension (i) excludes contingency vote(s) set aside for unforeseen events. Dimension (ii) recognizes the "good practice" of not

[7] The segment classified as 'program' in the budget corresponds to administrative divisions of the district; they are not 'development programs' by general description. There are currently about 13 such 'permanent' programs, each headed by a director or such other senior official. These 'programs' are (i) Admin & Support Services, (ii) Good Governance & Justice, (iii) Education, (iv) Health, (v) Social Protection, (vi) Youth, Sport, & Culture, (vi) Private Sector Development, (vii) Agriculture, (viii) Environment & Natural Resources, (ix) Energy, (x) Water & Sanitation, (xi) Housing, (xii) Urban Development & Land Management, and (xiii) Transport *(see PI-5 below)*.

[8] See Article 19 of Ministerial Order N° 002/07 of 09/02/2007 relating to Financial Regulations. The main categories of expenditure include (i) compensation of employees, (ii) use of goods and services, (iii) capital expenditures, (iv) transfers and subsidies, (v) loan and interest repayments, (vi) social benefits, (vii) transfers to reporting entities, and (viii) other expenses.

charging contingency vote(s) expenditures directly to the contingency vote, but viring them to those votes responsible for the unforeseen expenditure. The dimension assesses the volume of expenditure recorded against contingency votes, since they represent a deviation from policy intent. *Score Box 3.3* below presents the scoring. As with *PI-1*, the calculation uses primary expenditure.

Score Box 3.3: Composition of Expenditure Out-turn v Composition of Original Approved Budget						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	Composition variance was more than 15% in only one of the three years; the variance was 17.5% in FY 2012, 14.9% in FY 2013, and 6.4% in FY 2014.	C	C Variance in expenditure composition exceeded 15% in no more than one of the last three years.	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual data from budget execution reports (unaudited)	Not assessed in 2010	
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	Average expenditure to contingency was nil in the last three years.	A	**A.** Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.			
Score (Method M1)		**C+**				

Rationale for the Score

3.12 *Extent of variance in expenditure composition during the last three years, excluding contingency items* – variance in expenditure composition was 17.5 percent in 2011/2012, 14.9% in 2012/2013, and 6.4 percent in 2013/2014. The applicable rating is C. Sources of data for this indicator are the same as with *PI–1* above. This performance does not match the level of discipline evident displayed in aggregate spending. This is due to reallocations and budget revision authorized by law. The regulations permit both 'less formal' reallocation of the budget during implementation and formal budget revision. *Article 46* of the OBL permits chief budget managers of entities to reallocate "funds from one program [administrative unit] to another up to a cumulative maximum of 20 percent of the total budget for the program". However, reallocation in excess of 20 percent or between recurrent and development budgets must be with the approval of the Minister of Finance, while parliamentary approval (Chamber of Deputies) is necessary for both reallocation "from employee costs to other categories of expenditure" and from one public entity to another. In addition, *Article 41* permits decentralized entities to revise the budget once a year based on the mid-year budget execution report. Budget revision requires the approval of both the District Council and the Chamber of Deputies.

3.13 *The average amount of expenditure actually charged to the contingency vote over the last three years* – the district explained that it did not use 'contingency (or miscellaneous) votes' in the period of assessment, because of the novelty of the vote, introduced in the OBL of 2013. *Art.*

30 of the OBL authorizes budget entities "to establish a budgetary line" (emergency budget reserve) not exceeding "three percent (3%) of the entity's own revenues" to meet urgent and unexpected expenditure". The OBL requires that the "Chairperson of the Executive Committee of the decentralized entity, in consultation with other members of the relevant Executive Committee, shall authorize the use of such amount and report quarterly to the Council on its use". The district management asserted that it made provision for an unallocated miscellaneous vote of 3 percent of the budget in the just concluded FY 2015 and the ongoing FY 2016, but these years are outside the critical period/time of assessment for this indicator, which is FY 12 – FY 14

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

3.14 *PI-3* assesses the quality of domestic revenue forecasting. Accurate forecasting of domestic revenue is crucial to budget performance since budgeted revenue is the basis of budgetary allocations. The sole dimension of this indicator is "actual revenue compared to domestic revenue in the originally approved budget." This indicator deals with that portion of revenue, over which the government has control and can predict.

Score Box 3.4: Percentage Domestic Revenue Budget Performance (% Revenue Collected vs. Budget)

Dimension	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
Actual domestic revenue compared to domestic revenue in the originally approved budget	Actual domestic revenue was 78.3% of prediction in FY 2012, 547.8% in FY 2013, and 86.0% in FY 2014	D	D Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years.	District budgets, financial statements, & audit reports for FY 2012, 2013, & 2014	NA	Not assessed in 2010

Rationale for Scoring

3.15 *Actual domestic revenue was in 78.3 percent of budget revenue in 2011/2012, 547.7 percent in 2012/2013, and 86.0 percent in 2013/2014.* The applicable rating is "D", since domestic revenue performance was below the lower band limit of 92 percent in two years and above the upper band limit of 116 percent in one year. (Note: the books misclassify tax revenues collected by the RRA and transferred to the District under an MoU signed in March 2014, as transfers from the CG agencies,[9] but the analysis here has adjusted for this. *PIs-24 & 25* below highlight this cases along with other cases of misclassification).

Table 3.10: Actual and Budgeted Own Revenues, FY 2012 - FY 2014

	FY 2012	FY 2013	FY 2014
Actual own revenues	541,241,875.00	775,659,092.00	491,268,883.00
Budgeted own revenues	691,251,104.00	141,600,000.00	571,414,732.00
% Own Revenue Collection	78.3%	547.8%	86.0%

[9] See 2013/2014 audit report, p. 14

3.16 The performance illustrates inability of the district to predict domestic revenue accurately. The district did not offer explanations for the poor performance of domestic revenues, but the analysis below provides some insight. The poor prediction of domestic revenue notwithstanding, aggregate expenditure deviation remained low *(see PI-1 above)*, possibly aided by the very low proportion of domestic revenues in the district's total resources. Domestic revenue averaged 6.3 percent in the three years *(Figure 3.1)*.

Figure 3.1: Gakenke District - Analysis of Actual District Revenues, FY 12 - 14

Analysis of District Revenues				
	2011/2012	2012/2013	2013/2014	Average
Total Own Revenue	**541,241,875.00**	**775,659,092.00**	**491,268,883.00**	**602,723,283.33**
Operating Revenues, of which	*541,241,875.00*	*775,659,092.00*	*491,268,883.00*	602,723,283.33
*Tax Revenue (including tax revenue collected by the RRA in FY 2014 of 64,384,845and transferred to the District (as per FY 2014 Auditr Report, 14)	103,600.00	48,000.00	64,384,845.00	21,512,148.33
Fees, fines, penalties and licenses	541,138,275.00	775,611,092.00	426,884,038.00	581,211,135.00
Capital Receipts	-	-	-	-
Transfers from the CG & Other Sources	**8,386,951,684.00**	**8,942,051,034.00**	**9,498,966,626.00**	**8,942,656,448.00**
Total Revenue	**8,928,193,559.00**	**9,717,710,126.00**	**9,990,235,509.00**	**9,545,379,731.33**
Own Revenue % of Total Revenue	**6.1%**	**8.0%**	**4.9%**	**6.3%**

Source of Data: Gakenke District Audit Reports for 2011/2012 - 2013/2014 and Audited Financial Statements for FY 2013 & 2014

3.17 *The CG makes laws on the revenues of decentralized entities; Law N° 59/2011 establishes the sources of revenue and property of decentralized entities in Rwanda and their management arrangements* [10] *Article 4* lists 10 sources of revenue, seven of which are own revenue sources. The own revenue sources are

- taxes and fees
- funds obtained from issuance of certificates by decentralized entities and their extension
- profits from investment by decentralized entities and interests from their own shares and income-generating activities
- fines
- fees from the value of immovable property sold by auction
- funds obtained from rent and sale of land of decentralized entities
- all other fees and penalties that may be collected by decentralized entities according to any other Rwandan law[11]

3.18 The other (i.e., non-own) revenue sources listed in *Article 4* are loans, government subsidies, and donations and bequests.

3.19 *District revenues consists of taxes and fees.* Taxes comprise fixed asset tax, rental income tax, and trading license tax. Fees constitute the bulk source of own revenues by a large proportion, about 95.6 percent in the period. Analysis of the books provides useful insight on the relative behaviour and composition of the districts actual revenues. First, actual collection of domestic revenue increased tremendously following the RRA's intervention *(see PIs 13 – 15 below*; tax revenue increased by only 43. 3 percent in FY 2013, by 134035.1 percent in FY 2014,

[10] Law N° 59/2011 of 31/12/2011 - Law establishing the sources of revenue and property of decentralized entities and governing their management (Art. 1).
[11] Article 4 also provides that, "All revenue projections of decentralized entities shall be included in their annual budget"

after the RRA took over collection of taxes.[12] Second, notwithstanding RRA's intervention, taxes still constitute only an insignificant proportion of actual domestic revenue, i.e., 0.02 percent in FY 2012, 0.01 percent in FY 2013, and 13.11 percent in FY 2014. Fees, fines, penalties, and licenses are a more important source of revenue for the district. The district's 2013/2014 budget lists 19 different types of fees against only three types of taxes.

3.20 *The poor performance of taxes is a source of concern to the CG, which responded by initiating countrywide reforms in early 2014 to enhance their collection.* The CG prevailed on districts to transfer responsibility for collection of district taxes (but not fees, yet) to the Rwanda Revenue Authority (RRA) in 2014. The RRA explained that LGs could not properly enforce payment of these taxes and did not have the capacity to do tax audit. Each district signed an MOU with the RRA to this effect, but a law to formalize the arrangement is currently in the works. The RRA now collects and transfers tax proceeds to a transit account of the district at the Banque Nationale du Rwanda (BNR). The RRA currently bears the cost of collection, but plans to transfer this to districts in due course.

PI-4: Stock and Monitoring of Expenditure Payment Arrears

3.21 This indicator assesses existence and size of expenditure payment arrears (EPS) and efforts to control and address the systemic problems that occasion them. Expenditure payment arrears are outstanding payments in contractual commitments or specific legal obligations, when payment obligations to employees, suppliers, contractors, and loan creditors (interest payment) become overdue. Such arrears are a source of non-transparent financing, and they indicate a number of PFM problems: procurement difficulties, inadequate commitment controls, cash rationing, award of contracts without adequate budget cover, under-budgeting of specific items, bookkeeping defects, and sheer lack of information. The indicator has two dimensions, as *Score Box 3.5* shows.

Score Box 3.5: Stock and Monitoring of Expenditure Payment Arrears

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the	Accounts payable was 1.8% of aggregate expenditure in FY 2014.	A	A The stock of arrears is low (i.e. is below 2% of total expenditure)	Audited financial statements / audit reports - FY 2012 – FY 2014	Dimension not assessed in 2010	
Availability of data for monitoring the stock of expenditure payment arrears	Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made	A	A: Reliable and complete data on the stock of arrears is generated through routine procedures at least			

[12] It is very likely that some of the item 'transfers from central government agencies' or 'fines, fees, etc.' in FY 2014 includes tax revenue collected by the RRA and transferred to the District, but the year's financial statement do not make that distinction.

Score Box 3.5: Stock and Monitoring of Expenditure Payment Arrears					
	after formal closure of the books at yearend; the district pays off the invoices immediately at the beginning of the new year.		at the end of each fiscal year (and includes an age profile).		
Score (Method M1)		**A**			

Rationale for the Score

Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock – the stock of expenditure payment arrears (EPA) was 1.8 percent of total expenditure as at June 30, 2014, a decline of 52 percent its level at the close of business on June 30, 2013 *(Figure 3.2)*. EPAs "mainly relate to invoices for goods and services which were outstanding on the date of the closure of the fiscal year" and "recognized as liabilities for that specific fiscal year".[13] This is in line with the Modified Cash Basis of Accounting in use.

Figure 3.2: Analysis of Expenditure Payment Arrears

Gakenke District: Analysis of Expenditure Payment Arrears (Rwandan Francs, %)

Fiscal Year	Payment Arrears	Total Expenditure	% of Expenditure	% Reduction in Stocl
2011/2012	373,475,230.00	8,845,762,616.00	4.2%	
2012/2013	373,609,823.00	9,812,973,731.00	3.8%	0.0
2013/2014	179,168,850.00	10,057,508,718.00	1.8%	-52.0

Source: Audit Reports for Fiscal 2011/2012, 2012/2013, & 2013/2014

3.22 The Organic Law on State Finances and Property[14] regulates expenditure commitments and payments. Generally, the OBL disallows payments not backed with prior commitment[15] *(Art. 47)*; budget entities are to make commitment based on the approved quarterly or monthly expenditure plan *(Art. 43)*, prepared based on the approved budget *(Art. 42)*. The cutoff date for expenditure commitments is May 15,[16] but payment for committed expenditure may continue to the end of the fiscal year on June 30 *(Art. 48)*. In addition, the CBM must ensure the sufficiency of bank balances before authorizing payment *(Art. 61)*, although this rule does not really prevent the creation of payment arrears, since the arrears would have occurred at the time of authorizing or failing to authorize payments. The IFMIS gives effect to these rules, because it embeds financial policies to secure adherence. Thus, the IFMIS limits expenditure plans to the approved budget, commitments to approved expenditure plans, and payments to commitments and cash availability. The system automatically disallows override of these limits, except with due authority of the Minister as provided by the OBL.

3.23 Gakenke district abides by these rules and procedures, thereby limiting incurrence of accounts payable or EPAs to invoices received after yearend accounts closing protocols established by Ministry of Finance and BNR. These protocols usually set cut off dates for receiving invoices and processing payments within the last two weeks of the fiscal yearend, i.e., from around June 15. The IFMIS marks paid invoices as such and automatically classifies

[13] FY 2014 audit report, p. 13
[14] Law No. 12/2013/OL of 12/09/2013, generally referred to as the Organic Budget Law (2013) or OBL for short
[15] i.e., without the approval of the Minister of Finance, except for compulsory or urgent payments, and direct debits
[16] Except with the authorization of the Minister

unpaid invoices as 'accounts payable', which financial statements report. The district settles the accounts payable immediately on commencement of business in the new fiscal year.

3.24 *Availability of data for monitoring the stock of expenditure payment arrears* – audit reports include a detailed schedule of accounts payable (taken from the notes to the financial statements). These are usually invoices for small purchases made after formal closure of the books at yearend ("petty creditors"). This schedule compares values of all outstanding payment for the current and preceding year, thus affording opportunity for monitoring the age of debt. Audit reports reproduce the same schedules (see for instance, 2013/2014 audit report, *pp. 18 - 19*). However, the district does not record unpaid invoices in the general ledger (GL), because the configuration of the IFMIS is to the accounting system in use, i.e., (modified) cash basis, which does not have the functionality of accrual accounting recording.

3.2 Comprehensiveness and Transparency (PI-5 – PI-10)

3.25 These crosscutting indicators assess the comprehensiveness and transparency of the PFM system: planning, budgeting, accounting, audit, and reporting. They measure the completeness of oversight over budget and fiscal risks and public access to fiscal information. Comprehensiveness ensures that all activities and operations of governments take place within an established fiscal policy framework and are subject to adequate management and reporting arrangements. Transparency enables external scrutiny of government policies/programs and their implementation.

PI-5: Classification of the Budget

3.26 *PI-5* assesses the robustness and consistency of the budget and accounts classification and its conformity with international standards. A robust system allows the tracking of budget and reporting of expenditure data on administrative, functional/sub-functional, economic, and programme categories. The Government Finance Statistics (GFS) classification provides a recognized international framework for economic and functional classification of transactions. The GFS classifies revenues into three levels and expenditures into four. The functional classification applied in GFS is the UN-supported Classification of the Functions of Government (COFOG), which has 10 main areas at the highest level[17] (nine for subnational governments) and 69 at the second (sub-functional) level. The indicator has only one dimension, assessed in *Score Box 3.6* below.

Score Box 3.6: Classification of the Budget				
Classification	**Extent of Conformity with GFS/COFOG**		**Information Source**	**2010 Score**
	Budget Formulation	**Budget Execution**		
Administrative	Compatible - the category described as 'program' in the budget is indeed administrative/organizational classification at the district level or sub organizational when viewed from the CG	Reflected in the General Ledger (GL) kept on the IFMIS, but not in actual	MINECOFIN / District Administration: ANNEX II-1: Revised 2014/15 Detailed	Not assessed in 2010

[17] I.e., (i) general public services, (ii) defence, (iii) public order and safety, (iv) economic affairs, (v) environmental protection, (vi) housing and community amenities, (vii) health, (viii) recreation, culture, and religion, (ix) education, and (x) social protection.

	/ national perspective	reporting; the IFMIS can generate this when queried	Expenditure By Budget Agency; Budget Execution Reports, & Annual Financial Statements	
Economic	Compatible, but; employee compensation not fully attributable to administrative categories, except in Education & Health sectors. This design is useful to control of costs at the CG level, for which the district as a whole is a single administrative/budget entity. Teachers and health workers are staff of the Ministries of Education & Health respectively, which pay their salaries through earmarked transfers to the district. This explains why the budget shows their remuneration costs separately.	Compatible; default mode of reporting execution	MINECOFIN / District Administration: ANNEX II-1: Revised 2014/15 Detailed Expenditure by Budget Agency and Annex II-5: 2014/15: Budget By Economic Classification, & Annual Financial Statements	
Functional	Compatible at both main and sub functional levels	Not reflected in actual reporting, but available on the IFMIS; system can generate it upon query	MINECOFIN / District Administration: Annex II-4: 2014-2017 Expenditure by Division and Groups	
Program	The program corresponds to administrative divisions of the district, but the budget maps them to COFOG at the sub-functional level		MINECOFIN / District Administration: Annex II-6: 2014-2017 Budget By Agency, Programme and Sub-Programme	
2015 Score: Method M1		**A**		

Rationale for the Score

3.27 *Budget formulation and reporting applies the Chart of Accounts (CoA) and reporting system defined at the CG level; the district has no independent decision or control over the system.* Budget formulation is mainly according to administrative (programs) and economic classifications and but mapped to COFOG complaint functions and sub functions (divisions and subdivisions). The classification also includes fund, output, activity, and geographic or sector categories. The segment classified as ‘program’ in the budget actually corresponds to administrative divisions of the district; they are not ‘development programs’ by general description. Thus, they do not straddle functions or sub functions. There are currently about 13 such programs, each headed by a director or such other senior official. These are (i) Administrative and Support Services, (ii) Good Governance and Justice, (iii) Education, (iv) Health, (v) Social Protection, (vi) Youth, Sport, and Culture, (vi) Private Sector Development, (vii) Agriculture, (viii) Environment & Natural Resources, (ix) Energy, (x) Water and Sanitation, (xi) Housing, (xii) Urban Development and Land Management, and (xiii) Transport.

3.28 *Reporting currently pays more attention to internal management needs for decision-making), rather than the needs of external parties.* Consequently, in-year budget execution and annual financial reports use only the economic classification, although the IFMIS holds the information to report by administrative and functional categories as well. For example, the General Ledger in the IFMIS shows the administrative, economic, and sectoral classification, but the extracted data for in-year and yearend fiscal reports show only the economic category. However, the existence of the functionality to report according to these multiple means meets the requirement for a ‘A” score under this indicator, but not under *PI-24* on in-year budget reporting.

PI-6: Comprehensiveness of Information Included in Budget Documentation

3.29 This indicator assesses the completeness of documentation accompanying the budget proposal submitted to the Legislature for scrutiny. Sufficient documentation provides the legislature a complete picture of underlying fiscal assumptions and fiscal risks. The indicator lists nine essential documentations that would meet that purpose. The number of these items provided to the Legislature along with the budget proposal determines the indicator score. *Score Box 3.7* presents the assessment.

<table>
<tr><th colspan="6">Score Box 3.7: Comprehensiveness of Information Included in Budget Documentation</th></tr>
<tr><th colspan="2"></th><th colspan="2">2015 Assessment</th><th rowspan="2">2010 Score</th><th rowspan="2">Explanation of Change since 2010</th></tr>
<tr><th colspan="2">Item</th><th>Whether Provided</th><th>Source of Information</th></tr>
<tr><td>1.</td><td>Macro-economic assumptions, including state level estimates of economic growth in the SNG jurisdiction, etc.</td><td rowspan="5">Not applicable</td><td rowspan="4"></td><td rowspan="10" colspan="2">Not assessed in 2010</td></tr>
<tr><td>2.</td><td>Fiscal deficits (where relevant)</td></tr>
<tr><td>3.</td><td>Deficit financing, describing anticipated composition (where relevant)</td></tr>
<tr><td>4.</td><td>Debt stock, including details, at least for the beginning of the current year (where relevant)</td></tr>
<tr><td>5.</td><td>Financial assets, including details, at least for the beginning of the current year</td><td>The only financial assets the district has are operational cash balances; the district has no investment in financial stocks and similar instruments.</td></tr>
<tr><td>6.</td><td>Prior year’s budget out-turn, presented in the same format as budget proposal</td><td>Not provided</td><td></td></tr>
<tr><td>7.</td><td>Current year’s budget (either the revised budget or the estimated out-turn), presented in the same format as the current budget</td><td>Not Provided</td><td>This district explained it provides the information, but not in the same format, i.e., information provided is only on major items. However, it did not provide evidence to substantiate this</td></tr>
<tr><td>8.</td><td>Summarized budget data for both revenue and expenditure according to main heads of classification, including data for the current and previous year</td><td>Not provided</td><td>The district explained that information provided is on revenue and expenditure, but not according to the main heads of expenditure</td></tr>
<tr><td>9.</td><td>Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programme</td><td>Not provided</td><td></td></tr>
<tr><td></td><td>Score (Method M1)</td><td>D</td><td>Four elements applicable, none provided</td></tr>
</table>

Rationale for the Score

3.30 *Macroeconomic assumptions* – the district does not make macroeconomic assumptions, but conforms to the nationwide Budget Framework Paper (BFP) made by the Ministry of Finance & Planning (MINECOFIN) and approved by Parliament for the entire country. *Art. 34* of the OBL requires decentralized entities to base their expenditure estimates on existing national priorities as indicated in the extant medium term strategy and action plan.

3.31 *Fiscal deficits* – not applicable the district does not prepare deficit budgets; the CG and OBL do not oblige districts to project expenditures beyond available resources.

3.32 *Deficit financing* – not applicable

3.33 *Debt stock* – not applicable, the district does not borrow and thus does not have any debt stock. The law allows districts to borrow to finance development projects with the approval of the Minister of Finance *(Article 50 of the OBL)*; however, the district explained that it has not yet used this power. The district's year end debt comprises accounts payable, i.e., petty creditors, who submitted their invoices too late, after the yearend cutoff date. These invoices receive prompt and priority payment at the commencement of the new year.

3.34 *Financial assets* – not applicable. The district explained that its only financial assets comprise operational cash balances at fiscal yearend, i.e., that the district has no investment in financial stocks and similar instruments.

3.35 *Prior Year's budget outturn* – **not provided.**

3.36 *Current year's budget outturn* – **not provided.** This district explained it provides the information, but not in the same format as the budget proposal as required by the PEFA Framework. The district asserted that it provides information only on major items. The rationale is to make the information easily digestible to the councilors, several of who often lack the technical capacity to deal with sophisticated fiscal presentation. However, the district not provide evidence on what it provides to the DC to enable rating, as requested.

3.37 *Summarized budget data according to the main heads for both revenue and expenditure according to the main classifications used, including for the current and previous year* – **not provided**; the district explained that information provided is a description of revenue and expenditure, but not according to the main heads of expenditure.

3.38 *Budget implications of new government policies* – **not provided –** the district explained that it provides information on the implications new tax tariffs, comparing this with the preceding year's tariff level. However, it did not provide evidence to justify this.

PI-7: Extent of Unreported Government Operations

3.39 *PI-7* assesses the extent to which fiscal reports include all budgetary and extra budgetary[18] activities. Extra budgetary operations (EBOs) are activities of government not included in the annual budget, for example, those funded through extra budgetary funds

[18] An extra budgetary entity is one whose budget is partially or wholly financed by public funds, but managed outside the regular government budget and accounting system

(EBFs).[19] EBFs carry out specific government functions outside of the main stream, sometimes to ensure efficient and effective service delivery, e.g., state owned tertiary educational institutions. Usually, the special laws or regulations establishing EBFs, authorize them to follow different accounting rules, classification systems, or even different fiscal years. However, concern for comprehensiveness requires that annual budget estimates, in-year budget reports, year-end financial statements, etc. meant for public consumption cover all government operations (including extra budgetary revenues and expenditure) to allow a complete picture of revenue, expenditure, and financing across all categories. The coverage may be by consolidation into the fiscal report or by disclosure in the notes to the reports or other document referenced by the report. *Score Box 3.8* scores the two dimensions of this indicator.

Score Box 3.8: Extent of Unreported Government Operations						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
The level of extra budgetary expenditure (other than donor funded projects) which is unreported, i.e., not included in fiscal reports	Monthly and annual financial reports disclose key fiscal information of the district's government in the main accounts and of the 184 subsidiary entities (AGAs, i.e., schools, health institutions, and administrative sectors), excluding PTA collections, in the notes.	A	A. The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	District's monthly and annual financial statements for FY 14, 13, and 12	Dimension not assessed in 2010	
Income/expenditure information on donor-funded projects included in fiscal reports	The financial statements use a template provided by the Ministry of Finance to report receipts from donors; the budget integrates the expenditures.	NA	In line with PEFA Secretariat's guidance, this dimension does not apply to districts, since districts do not directly contract loans/grants. The CG does.	District's monthly and annual financial statements for FY 14, 13, and 12		
Score (Method M1)		**A**				

Rationale for the Score

[19] "The extra-budgetary" units / entities subsector includes a variety of units that belong to the central government, but have their own separate budgets. Most usually, these units receive transfers from the budgetary central government, but also generate some of their own revenues (grants from international organizations, sale of products and services, etc.). Examples of these units include universities and technical institutes, research centers, regulatory bodies, councils, commissions, special funds (e.g., road fund, development fund, housing fund, etc.), nonprofit institutions, hospitals, and other government agencies"; see IMF, **Government Finance Statistics: Compilation Guide for Developing Countries** September 2011, p. 80

<u>*Level of unreported extra budgetary expenditure (other than donor funded projects)*</u> –

3.40 The district has 184 extra budgetary entities, referred to in local parlance as non-budget agencies (NBAs), as at close of business on June 30, 2014.[20] These comprise of one district pharmacy, 20 mutual (health insurance) funds, 19 administrative sectors, 70 primary schools, 51 secondary schools, two district hospitals, and 21 health centres (*Table 3.11).*

Table 3.11: Summary of AGAs of Gakenke District, June 2014

Gakenke District: Summary of NBAs as at June 30, 2014

	Category	Number	Fund Balance (Frw)
1	District Pharmacy	1	367,572,631
2	Mutual Fund	20	29,940,220
3	Sectors	19	18,349,452
4	Primary Schools	70	-39,830,686
5	Secondary Schools	51	-1,156,156
6	District Hospitals	2	387,431,230
7	Health Centres	21	316,260,032
	Total	184	1,078,566,723

Source of Data: District Financial Statements 2013/2014 - Disclosure on subsidiary entities financial results

3.41 All the NBAs prepare and send monthly reports to the district headquarters in hardcopies. The reports cover all financial operations of the NBA and includes a summary of the asset register. The district extracts, summarizes, and discloses key fiscal information on these NBAs in its monthly and quarterly financial reports submitted to the Ministry of Finance by the middle of the following month *(see PI-9 below),* and the annual financial statements submitted to the Ministry and to the auditor general at fiscal yearend. The reporting takes two forms: consolidation of reports of the 19 administrative sectors into its statements and disclosure of details of the fiscal position of these sectors and the other NBAs as notes in the annex. The information disclosure is according to the following 10 headings: (i) opening bank balance, (ii) transfer from the District, (iii) other revenue, (iv) expenses, (v) fund balance at the end of the period, (vi) bank balances, (vii) cash balance, (viii) accounts receivables, (ix) accounts payables, and (x) fund balance. Fiscal reports disclose the information on each NBA. They also group the NBAs by type (i.e., primary schools, secondary schools, etc.), showing the totals under each item. Finally, fiscal reports show the grand totals under each heading.

3.42 However, the district management explained that the disclosure does not include Parents – Teachers' Associations (PTA) levies collected by schools. The district administration explained that the District's PFM committee advised school authorities to manage PTA resources outside public funds because of the confusion mixing up the two funds was causing. Consequently, PTAs evolved a system to manage the collections, with reporting is to the parents, but not also to the district. This assessment treats PTA levies as a form of 'donor' funding, assessed in *dimension (ii)* below.

3.43 *Income/expenditure information on donor-funded projects included in fiscal reports* – the template for monthly and annual financial reports/statements includes a section on (donor) grant in the notes,[21] which reporting entities must complete. The auditor reports confirm that these grants "are funds … from donors … [and] recognized as revenue when the district receives the

[20] See Section 2 of the Consolidated Report for a description of the status of NBAs.
[21] See for instance, pages 12 - 13 of the electronic version of the 2013/2014 Financial Statements

cash from the donors".[22] The District received grants of Frw 6,107,100 in FY 2013/2014 and Frw 13,878,536 in FY 2012/2013, as shown in *Figure 3.3*. The district keeps detailed information on the flow of donor funding in the General Ledger maintained on the IFMIS. In addition, the financial statements report "Transfers from Government Reporting Entities", under two subheadings: "Transfers from Central government entities" and "Transfers from Independent Development Projects", after reconciling the figures with the transferring government entities.[23] These transfers are CG funds for specific projects, sometimes co-funded by donors For instance, Transfers from Independent development projects include the following donor –assisted projects, PRICE, LVEMP II, National Domestic Biogas Programme, Single Stream Fund HIV-VCT-MINIYOUTH, and Projet MINISANTE IV. However, the GL and the financial statements do not hold information on Parents – Teachers' Associations (PTA) levies, i.e., donations from parents used to finance specific projects in schools. The PTA manages these funds directly on the instruction of the district government and does not report on it to the district.

Figure 3.3: Income from Donors

5. Grants from development partners

ID Account	Description	12 months to June 2014 Frw	12 months to June 2013 Frw
132102	Health sector support (Rwanda family health project)	4,764,100	9,246,614
132102	RALGA Rwanda	1,343,000	1,361,922
133102	Family Health International (FHI)	-	3,270,000
	Total	**6,107,100**	**13,878,536**

Source: 2013/2014 Audit Report, p. 14

PI-8: Transparency of Inter-Governmental Fiscal Relations

3.44 *PI-8 assesses the transparency of criteria for horizontal distribution of revenues due to its first line SNGs.* Transparency here requires clarity, publication, and correct application of criteria. The indicator also assesses whether the government provides its SNGs with advance information on expected allocations in the coming year to enhance SNGs' short and medium terms fiscal planning. Finally, the indicator measures the extent to which the government tracks and consolidates SNGs' expenditure information to provide accurate information on sectoral resource allocations and actual spending. This is vital given the increasing role SNGs play in the delivery of primary services, especially in education and health. *Score Box 3.9* summarizes performance on this indicator.

Score Box 3.9: Transparency of Inter-Governmental Fiscal Operations

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from the central	District transfers to administrative sectors are according to a clear and transparent rules-based distribution formula, i.e., 50% of district fees collected by the sector plus 10% of	NA	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.	District administration Art. 7, 8 of Ministerial Order No. 01/09 of 25/02/2009 Determining the	Dimension not assessed in 2010	

[22] 2013/2014 Audit Report, p. 12

[23] See for instance, page 12 of the electronic version of the 2013/2014 Financial Statements

Score Box 3.9: Transparency of Inter-Governmental Fiscal Operations					
government (both budgeted and actual allocations)	previous year's own revenues shared equally among the sectors and paid in equal monthly instalments.			Use of Funds Allocated at Sector Level	
(ii) Timeliness of reliable information to SN governments on their allocations from central governments for the coming year	The district is the lowest level of government for development planning purposes. Sectors and cells are their non-budget agencies.	NA			
(iii) Extent to which financial information (at least on revenue and expenditure) is collected and reported by the general government according to sectoral categories	The district is the lowest level of government for development planning purposes. Sectors and cells are their non-budget agencies.	NA			
Score (Method M2)		**NA**			

Rationale for the Score

3.45 *The context* - Rwanda's decentralized administrative entities comprise the City of Kigali, districts, sectors, cells, and villages; the Ministry of Local Government (MINALOC) supervises and monitors their functioning and management.[24] However, sectors, cells, and villages have very limited autonomy, being affiliates or subsidiary entities funded and supervised by districts *(Arts. 123 & 184 of Law No. 87/2013).* Subsidiary entities do not have legal personality as the City of Kigali and districts do *(Arts. 3 & 4 of Law No. 87/2013).* The OBL defines a subsidiary entity as *"a public entity without legal personality and administrative and financial autonomy supervised and funded through the Central Government or a Decentralized Entity to which it is affiliated".*[25] Sectors, cells, and villages cannot hire personnel, since they lack legal personalities; therefore, the district performs human resource management (HRM) functions on its behalf *(Art. 182 of Law No. 87/2013).* Subsidiary entities cannot discipline staff, since they do not have the HR function, instead, sectors and cells may send back personnel to the District for "degrading behavior" and inability to "carry out his/her duties properly or … fulfil his/her responsibilities."

3.46 *Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from the central government (both budgeted and actual allocations)* – from the foregoing, districts constitute the lowest tier of real subnational government in Rwanda's decentralized system; sectors, cells, and villages do not strictly qualify as SNGs. However, the legal regulations enjoin districts to allocate resources to districts to help

[24] See Art. 2 of "Law Nº 87/2013 of 11/09/2013: Law determining the organisation and functioning of decentralized administrative entities", i.e., the Decentralization Law
[25] *Art. 3 of Law N° 12/2013/OL of 12/09/2013, Organic Law on State finances and property*, i.e., the OBL.

them implement their expenditure plans. A Ministerial Order[26] details such allocations as follows

- "fifty per cent (50%) of all revenues received by the District Treasury from fines and civil registration services rendered by the Sector" *(Art. 7)*; however, this provision applies only to provincial districts and not the City of Kigali districts
- for provincial districts, "a twelfth (1/12) of ten percent (10%) of all the revenues received every year by the District on the ordinary budget ... equally distributed to Sectors"; or for districts in the City of Kigali, a twelfth (1/12) of twenty-five percent (25%) of all revenues received by the District from taxes, and other dues" *(Art. 8)*
- "districts may also allocate additional funds to sectors to supplement the funds already received, depending on the financial capacity of the District and the activity programs to be implemented by the Sector" *(Art. 8)*

3.47 By the Decentralization Law (No. 87/2013), provincial sectors must deposit all revenues *(Art. 3)*,[27] including revenue from fines and civil registration services rendered by the sector *(Art 7)* into the joint account of the district opened to receive revenues *(Art 5)* within seven days from the date of receipt *(Art 5)*. Sectors of districts in the City of Kigali deposit their collections on behalf of districts in the joint account of the District and the City of Kigali. The district and sectors keep and use records of the collections for calculating and reconciling entitlements due to sectors. Payments are with a one-year time lag, in accordance with the Ministerial Order, i.e., collections in *year n* are the basis of payment in *year n + 1*.

3.48 Gakenke District makes the following allocations to its sectors, following these provisions

- Revenues collected on behalf of the district by the sector (fees and charges) paid monthly; the sectors transfer the full collection to the district, which then pays them monthly.
- District's own revenue - 10 percent of the preceding year's collection shared equally among the 19 sectors and paid monthly

3.49 *Timeliness of reliable information to SN governments on their allocations from central governments for the coming year* – this dimension is not applicable, despite the following provision in Art 42 of the OBL.

> *"For decentralized entities, the Executive Committee Chairperson shall inform the subsidiary entities that are entitled to the budget and require them to prepare and submit a detailed annual expenditure plan. The modalities of preparation and approval of the expenditure plans in decentralized entities shall be provided for in financial regulations."*

Sectors do not do any real development planning; they are non-budget entities. Districts do the actual planning for their entire jurisdictions, including sectors, consulting sectors as necessary. A Sector is "an administrative entity responsible for the implementation of development programs, service delivery, and promotion of good governance and social welfare" *(Art. 182 of Law No. 87/2013)*. Sectors' expenditures centre on programming the recurrent costs of

[26] Ministerial Order N°.01/09 of 25/02/2009 Determining the Use of Funds Allocated at Sector Level
[27] Of the Ministerial Order requires

coordinating district programmes around those areas; fund allocations to them are mostly for running costs.

3.50 *Extent to which financial information (at least on revenue and expenditure) is collected and reported by the SG according to sectoral categories* – not applicable; sectors do not have responsibility for any development function (sector), e.g., education or health. The CG prepares consolidated fiscal reports that covers all functional areas (sectors) of government.

PI-9: Oversight of Aggregate Fiscal Risks from Other Public Sector Entities

3.51 *PI-9* measures the extent of government tracking of fiscal risk exposure of autonomous government agencies (AGAs), public enterprises (PEs), and subnational governments. Fiscal risks include debt default (with or without government guarantee), operational losses, trade debts, unfunded pension obligations, etc. The indicator underlines government's responsibility to obtain and consolidate periodic financial and other statements to monitor exposure of AGAs and PEs against preset targets. Monitoring allows proactive, transparent, and accountable measures consistent with governance arrangements and relative responsibilities of those institutions. *Score Box 3.10* presents the assessment.

Score Box 3.10: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Extent of central government monitoring of AGAs and PEs	The 184 NBAs do not audit their accounts, but they submit unaudited monthly financial reports to the District, which the Finance Unit consolidates into an overall report and includes in the notes to its monthly, quarterly, and annual financial statements. The large number of NBAs, and the limited number of internal auditors (only one at the time of assessment) and accounting personnel makes effective review of financial statements submitted by the NBAs difficult.	C	C. Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete.	District administration	Not assessed in 2010	
(ii) Extent of central government monitoring of SN governments" fiscal position	The district is the lowest tier of formal government.	NA	NA – Not applicable: in the case of a dimension, then the dimension is excluded from any further consideration i.e.			

Score Box 3.10: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities					
			the assessor proceeds as if the dimension did not exist.		
Score (Method M1)		**C**			

Rationale for the Score

Extent of the CG's monitoring of AGAs and PEs

3.52 *Art. 19 of the OBL requires the CBM "to supervise and ensure proper use of public funds at the disposal of subsidiary entities under his/her responsibility".* The district thus supervises and monitors the activities of its 184 subsidiary entities, i.e., non-budget agencies (NBAs) categorized in *PI-7* above. These NBAs comprise autonomous, quasi autonomous, and non-autonomous entities. Sectors, cells, and villages are non-autonomous administrative units of districts, while schools, health institutions, and universities are either autonomous or quasi autonomous. The agencies submit unaudited monthly financial reports with supporting documents to the District; the supporting documents include bank reconciliation statements (with supporting document - bank statements and cashbook) and assets register. However, schools find monthly reporting very difficult due to difficulties associated with capacity; hospitals find reporting easier because they have automated finance departments and they report online. The District's finance department summarizes and consolidates the NBA reports into an overall report, and includes it in the notes to its quarterly and annual financial statements to the Ministry of Finance. The summary is under the following 10 headings: (i) opening balance, (ii) transfers of funds from the District, (iii) other revenues of the NBA, (iv) expenses of the NBA, (v) Fund balance at the end of the period, (vi) bank balances, (vii) cash balance, (viii) accounts receivables, (ix) accounts payables, and (x) fund balance.

3.53 *A number of additional measures designed to improve the integrity of fiscal monitoring are in place, but the large number of NBAs and capacity shortages in the district undermine their effectiveness.* District internal auditors review NBA processes and procedures on a small sample basis *(see PI-21 below)*; even then, the task is overwhelming for the district's only auditor (at the time of assessment; the district used to have three). Similarly, the auditor general who has responsibility to audit NBAs as part of the annual audit process also only reviews a small risk-based sample. In addition, the district's finance department checks the bank balances, bank reconciliation, payables, receivables, petty cash, etc., but the effectiveness of this is in doubt, because the district's only two accountants have to combine this task with their other duties. For example, the District's assessment team explained that the District cannot effectively monitor schools, because they are many.

3.54 Several other key points illustrate the ineffectiveness of monitoring of NBAs For instance, the 2013/2014 Audit Report observe that, "There was no evidence that Gakenke District reviewed NBAs' reports and supporting documents for disclosed transactions and balances to confirm their validity, completeness and accuracy" *(p. 5, 30).*[28] In addition, 100 of

[28] The District's response was that it "met challenges in order to achieve this objective". These challenges include failure of the Ministry of Finance to provide adequate guidelines and procedures on how to achieve this and ongoing

the 184 NBAs had negative yearend funds balances totaling, RwF 220,874,753; 58 of them are primary schools, 33 are secondary schools, nine are sectors, and two are mutual funds. Negative balances are incompatible with legal provisions that require entities not to commit expenditure above the budget and cash availability *(see PI-4* and *PI-7).*

Extent of central government monitoring of SN governments" fiscal position

3.55 *The district does not have any SNG below it (see PI-8 above).* Sectors, cells, and villages are part of the district's administration and the district integrates their financial position into its fiscal reporting. They villages have very limited autonomy, being affiliates or subsidiary entities funded and supervised by districts *(Arts. 123 & 184 of Law No. 87/2013).* Subsidiary entities do not have legal personalities as the City of Kigali and districts do *(Arts. 3 & 4 of Law No. 87/2013).* The OBL defines a subsidiary entity as "a public entity without legal personality and administrative and financial autonomy supervised and funded through the Central Government or a Decentralized Entity to which it is affiliated". Sectors, cells, and villages cannot hire personnel, since they lack legal personalities; therefore, the district performs human resource management (HRM) functions on its behalf *(Art. 182 of Law No. 87/2013).* Subsidiary entities cannot discipline staff, since they do not have the HR function, instead, sectors and cells may send back personnel to the District for "degrading behaviour" and inability to "carry out his/her duties properly or … fulfil his/her responsibilities."

PI-10: Public Access to Key Fiscal Information

3.56 *PI-10* reviews the level of public access to budget documentation: in-year budget report, annual financial statements, annual audit report, major contract awards, resources available to service delivery units, service delivery fees and charges, etc. Public access is vital to promoting transparency and accountability. Access can be through official websites, official gazettes, public libraries, or even sale at cost of production to the interested persons, etc. The document should be accessible at the public's location. *Score Box 3.11* lists these items and GoR's score.

Score Box 3.11: Public Access to Key Fiscal Information

	Item	Whether Accessible	Rationale for the Score	Source of Information	2010 Score	Explanation of Change since 2010
1.	Annual budget documentation: the public can obtain a complete set of documents (including the items listed under *PI-6*) through appropriate means when it is submitted to the Approving Authority	Not accessible	Current legislation provides as follows, "When the draft budget of a decentralized entity is approved by the Council, it shall be made public through appropriate media, including public on the entity website" *(Article 40 of the OBL).*			Not assessed in 2010
2.	In-year budget execution reports: routinely made available to the public	Not accessible	The District sends copies monthly in financial reports to the MINECOFIN and MINALOC, but posts only the final report for the			

"process of building capacity of these NBAs; and continuing consultations "with MINECOFIN and find the way of implementing this …" (see pp. 30 – 31).

	through appropriate means within one month of their completion		fiscal year on its website. Thus, the latest budget execution report on the website is that for the year ended June 30, 2015. Other reports on the website are for fiscal year ends of 2012, 2013. and 2014. However, these do not meet the Framework requirements.			
3.	Year-end financial statements: available to the public through appropriate means within six months of completed audit	Not accessible	Extracts of unaudited financial statements published in the districts magazine, "Berwa Gakenke"; see for instance, editions No. 11, Kamena 2014 (which included "Statement of Revenues and Expenditures for the period ended 30 April 2014" and "Financial Assets and Liabilities as at 30 April 2014" on the inside back page) and No. 10, Mutarama 2014 (which included Statements of "Financial Assets and Liabilities as at 31 December 2013" also, on the inside back page)			
4.	External audit reports: all reports on consolidated central government operations made available to the public through appropriate means within six months if completed audit	**Yes**	Summary included in audit report published by the OAG on its website, [www.oag.gov.ng;](http://www.oag.gov.ng) immediately after presentation to the Parliament. This is usually well within six months of completion of the audit.	Auditor General's website		
5.	Contract awards: that the SG publishes award of all contracts with value above US $ 100,000 equivalent, at least quarterly through appropriate means	Not accessible[29]	The district asserted that it publishes information on contacts from 5 million Frw and above on its websites; however, no such information was available on the site at the time of assessment.	.		
6.	Resources available to primary service units: the SG publicizes information through appropriate means at least annually, or available on request, for primary service units, e.g., hospitals	**Yes**	The district provided copies of routine monthly reports on resources in cash and kind available to schools, although the district publishes only cash information in periodic financial reports	Monthly reports on resources available to schools		
7.	Fees and charges for major service organizations are posted at the service delivery site and in other appropriate locations/media	**Yes**	Disseminated through district's website, distributed in sectors and cells, markets, and collecting banks.	District administration		
8	Services provided to the community, e.g., potable water, sewage,	**Yes**	Services provided to the community detailed in service charter and posted in notice boards			

[29] Ministerial Order No. 001/08/10 of 16/01/2008 establishing regulations on public procurement and standard bidding documents, and reporting requirements, requires publication of this information.

	street lighting, etc.		on District and sector noticeboards.			
Score (Method M1)		**C**	**Four out of 8 elements accessible to the public**			

3.3 Policy Based Budgeting (PI-11 – PI-12)

3.57 A disciplined pursuit of the budgetary objectives of fiscal discipline, strategic prioritization, and efficient service delivery requires that clear policies and sectoral strategies underpin the budget. The next two indicators assess the extent to which this is the case. The two indicators are *orderliness and participation in the annual budget process* and *multi-year perspective in fiscal planning, expenditure policy, and budgeting*.

PI-11: Orderliness and Participation in Annual Budget Process

3.58 *PI-11* assesses the effectiveness and orderliness of participation in the annual budget process. Effective participation requires an integrated top-down, bottom-up budget process: budget entities should receive appropriate guidance, e.g., clear guidelines and hard budget constraints (binding medium-term priorities and sectoral ceilings) at the commencement of the budget process. Orderliness involves timely adherence to a predetermined and fixed budget formulation calendar. The calendar should afford meaningful time to budget entities to prepare their detailed proposals and to the legislature to approve the budget before the start of the fiscal year. Delay in approving the budget creates uncertainties about levels of approved expenditures and slows down operations, especially the processing of major procurements. The indicator has three dimensions, assessed in *Score Box 3.12* below.

Score Box 3.12: Orderliness and Participation in the Annual Budget Process

Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Existence and adherence to a fixed budget calendar	As a budget entity of the CG, the district does not prepare an independent budget calendar, but rather applies that issued by the MINECOFIN, as all other budget entities do.	A	A. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	MINECOFIN / District Government		
(ii) Clarity / comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	The CG (MINECOFIN) issues two call circulars to all budget entities, including the district. The first announces commencement of the budget season and provides	A	A. A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.	MINECOFIN / District administration		

Score Box 3.12: Orderliness and Participation in the Annual Budget Process					
	planning guidelines; the second conveys firm and clear expenditure ceilings.				
(iii) Timely budget approval by the District Council (within the last three years)	Budget approved before the commencement of the fiscal year on June 30, 2015 for FY 2016, on June 20, 2014 for FY 2014/2015, and June 28, 2013 for FY 2013/2014.	A	A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.	Approved District budget books	
Score (Method M2)		**A**			

Rationale for the Score

3.59 *Existence and adherence to a fixed budget calendar* – the Government of Rwanda operates a central planning and budgeting process. Decentralized entities align their process with the CG's, by legal requirements. Thus, districts do not prepare independent budget calendars; they follow budget guidelines and calendar issued by the Minister of Finance & Economic Planning in line with legal provisions. Current provisions require districts' "preparation and approval of the budget" to "follow the budget cycle on the basis of the calendar included in the instructions issued by the Minister" *(Article 26 of OBL)*. The Minister's instructions usually include the following

- modalities for preparation of annual budget and medium term expenditure framework,
- the format and contents of the finance bill,
- timeframe for the preparation and submission of the Budget Framework Paper,
- timeframes for the preparation and submission of finance law,
- roles and responsibilities of various stakeholders in the budget process, and
- other pertinent information to assist public entities to develop plans and budget

3.60 The Organic Budget Law sets boundaries for the budget calendar. These include: presentation of the Budget Framework (BFP) to Parliament by April 30, Parliament's opinion on the BFP by May 30 *(Article 32)* presentation of the Finance Bill by June 15 to Parliament and legislative adoption of the Bill by June 30, i.e. before the commencement of the fiscal year on July 1 *(Article 35)*. The calendar allows for cabinet approval of both the BFP and the finance bill before their presentation to Parliament. It also allows for inputs from budget entities (including districts) before cabinet approval. The sample budget calendar provided by MINECOFIN shows that the budget process begins in the first week of September and culminates with the adoption of the Finance Bill in the following June.

3.61 *Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions* – districts do not issue budget call circulars, but comply with circulars issued by the Minister of Finance. The current practice is to issue two budget call circulars, an early one in September detailing planning and budgeting guidelines, and a later one around April/May conveying expenditure ceilings to budget entities, including districts. The Cabinet approves the policies and guidelines ahead of the issuing of the call circulars. Cabinet's approval covers (i) medium term strategic objectives and priorities for budgetary policies set out in the BFP, (ii) the BFP itself, especially the targets for aggregate revenues, aggregate expenditures, fiscal balance, and debt repayment, (iii) the annual finance bill, (iv) formula for allocation of grants to decentralized entities, etc. *(Art 12 of the OBL).*

3.62 *Timely budget approval by the District Council (within the last three years)* – the combined effects of *Article 79 of the 2003 Constitution* as amended to date and *Article 35 of the OBL* require approval of the Finance Bill (budget) by June 30 each year. The District complies with this provision and consequently approves the budget before the commencement of the next fiscal year on July 1. Budget approval dates for the last three fiscal years is as follow: June 30, 2015 for FY 2016, on June 20, 2014 for FY 2014/2015, and June 28, 2013 for FY 2013/2014.

3.63 De jure, the CG does approve the overall district budget. De facto, however, the CG budget includes expenditures earmarked to districts and funded by CG transfers. These constitutes about 95 percent of district expenditures, on average. In practice, therefore, the CG indirectly approves district budgets, when it adopts its own budget, since the budget includes about 95 percent of districts' expenditures. The only district expenditures not approved by the CG are those funded from districts' own resources. The CG also approves its budgets before the commencement of the next fiscal year on July 1.

PI-12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

3.64 This indicator tracks the multi-year nature of economic development on fiscal planning and expenditure decisions. It examines existence of forward costing of sector strategies, including recurrent and investment expenditure of new and existing initiatives. Costed strategies help to evaluate policy alternatives/options and affordability of current and new policies, and they simplify policy choices, identification of priorities, and medium-term sector allocations. *Score Box 3.13* shows the performance of GoR on the four dimensions of measurement under this indicator.

Score Box 3.13: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Preparation of multi-year forecasts and functional allocations or programs	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. The forecasts are the basis of ceilings	A	A. Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and	MINECOFIN / District administration and budgets	Not assesses in 2010	

Score Box 3.13: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting					
	to CG ministries, which use them to prepare more detailed expenditure forecasts that include earmarked transfers to districts.		subsequent setting of annual budget ceilings are clear and differences explained.		
(ii) Scope and frequency of debt sustainability analysis (DSA)	The District has no need for a DSA; it does not borrow; its only debts are accounts payable comprising mainly of unpaid invoices caught up with by financial yearend routine.	NA	See "Supplementary Guidelines for the Application of the PEFA Framework to Subnational Governments", *p. 21*	District government / annual financial statements	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditures	The District Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not the recurrent cost component) for all sectors and links this with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF (although with some modifications) and budget.	B	A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.	District DDP 2013 - 2018	
(iv) Linkages between investment budgets and forward expenditure estimates	The link between investment and recurrent expenditure costing is weak; the two are separate activities. The budget also has provisions for staff compensation and goods and services, but not tied to specific investment or program activities. The CG budgets and funds most of the development and investment activities, and some personnel costs; district's own revenues contribute largely to their recurrent expenditures. This dichotomy introduces complications to any effort to link the investment and recurrent expenditure.	D		The District administration / district budgets / district financial statements	
Score (Method M2)		**B**			

Rationale for Score

<u>Preparation of multi-year forecasts and functional allocations or programs</u>

3.65 The district makes little realistic independent fiscal forecasts in its MTEF; it depends largely on forecasts prepared by the Ministry of Finance. Current regulations provide that,

> *"The expenditure estimates in decentralized entities, shall be based on existing and proposed expenditure policies of decentralized entities and in conformity with medium term strategies established by the State. ... The organization and documentation of the budget of decentralized entities, including the amount of the expenditures to be approved, shall follow the general principles relating to State budget, except with variations in order to reflect particular organization of the decentralized entities" (Article 36 of the OBL).*

3.66 The Minister prepares and submits a BFP to both Chambers of the Parliament (after cabinet approval) by April 30 each year, as required by *Article 32 of the OBL*. The Parliament submits comments on the Budget Framework Paper to the Cabinet by May 30. The BFP contains the following annexes as required by the law

- basic macroeconomic indicators
- fiscal projections for the relevant period
- mid-year budget execution report of the current year
- borrowing and loan servicing projections
- projections of grants by source
- guidelines on earmarked transfers to decentralized entities
- projected internally generated revenues and related expenditures of Central Government entities
- consolidated summaries of revenues and expenditures of decentralized entities
- revenues and expenditure projections of public institutions
- amount of dividends paid by companies in which the State holds shares and the part of the amount which will go to the budget
- securities issued by the Government
- gender budget statement

3.67 In summary, the CG prepares multi-year estimates for the entire country; however, districts have little control over the preparation process. First, the Ministry of Finance and Economic Planning projects generic macroeconomic and fiscal indices for the entire country. This projection is in the Budget Framework paper, and is not district by district. Based on these indices, the Ministry forecasts. Ministries of the CG prepare and control their detailed three-year expenditure forecasts, which includes the transfers that they would earmark to districts for execution. Districts cannot alter them. Below are extracts from the 2015/2016-2017/2018 BFP.

3.68 BFP fiscal projections for 2015/2016-2017/2018

Figure 3.4: Fiscal Projections from the Budget Framework Paper 2015/2016-2017/2018

The table below shows a summary of the budget for fiscal year 2015/16 to 2017/18.

Fiscal projections (2015-16 – 2017 /18, billion FRw)

(billion RwF)	2014/15 Revised Budget	2015/16 Budget	2016/17 Budget	2017/18 Budget
RESOURCES				
Domestic revenue	**997.4**	**1,038.1**	**1,176.3**	**1,273.8**
Tax revenue	894.6	938.6	1,072.1	1,173.6
Direct taxes	364.0	387.6	442.7	509.0
Taxes on goods and services	461.5	486.4	554.9	637.1
Taxes on international trade	69.1	64.6	74.5	27.5
Non-tax revenue	102.9	99.5	104.2	100.2
Domestic financing	**131.2**	**134.6**	**104.1**	**69.3**
Sale of Securities, net (Bank & non-bank T-Bills and Bonds)	54.8	30.0	34.0	36.0
Use of BNR deposit	76.4	104.6	70.1	33.3
Accumulation of arrears	0.0	0.0	0.0	0.0
Grants	**417.1**	**358.4**	**327.1**	**350.7**
Budget Support	176.1	189.9	183.6	102.9
Project Support	241.0	168.4	143.5	247.8
Loans	**212.6**	**233.2**	**271.7**	**340.4**
Budgetary Loans	107.1	121.4	95.0	170.2
Project loans	105.5	111.8	176.7	170.2
Net Lending (repayments)	**4.0**	**4.0**	**2.5**	**2.5**
Other Receipts (errors and ommissions)	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL RESOURCES	**1,762.3**	**1,768.2**	**1,881.7**	**2,036.7**
EXPENDITURES				
Recurrent Budget	**842.6**	**858.1**	**937.3**	**979.0**
Wages and salaries	207.0	222.0	248.1	279.5
Purchases of goods and services	151.2	159.8	170.1	191.6
Interest payments	42.9	54.3	60.7	70.0
Domestic	15.6	24.6	28.3	30.1
External	27.3	29.7	32.4	39.9
Amortization	48.2	48.0	54.1	58.0
Domestic (non bank)	33.0	30.0	34.0	36.0
External	15.2	18.0	20.1	22.0
Transfers	301.0	273.2	298.0	270.0
Exceptional expenditure	92.3	100.8	106.3	109.9
Development Budget	787.0	747.3	828.5	957.8
Domestically financed	440.4	467.1	508.3	539.8
Externally financed	346.6	280.2	320.2	418.0
Net Lending (lending)	122.8	132.3	84.2	86.2
Arrears Payment	10.0	11.4	13.0	13.2
Accumulation of Deposit	0.0	0.0	0.0	0.0
Other Payments	0.0	19.1	18.8	0.5
TOTAL EXPENDITURES	**1,762.3**	**1,768.2**	**1,881.7**	**2,036.7**

Source: Rwanda Ministry of Finance and Economic Planning - Budget Framework Paper 2015/2016-2017/2018, p. 34

3.69 Resource Allocation per the Economic Development and Poverty Reduction Strategy (EDPRS) clusters.

Figure 3.5: Resource Allocation in the BFP (1)

Table 14: Resource Allocation to EDPRS Clusters 2015/16 – 2017/118 (Bn RWF)

BUDGET PROJECTIONS BY EDPRS 2 INITIATIVES	REVISED 2014/2015		2015/2016		2016/2017		2017/2018	
	RWF	%	RWF	%	RWF	%	RWF	%
I. Thematic Areas	**878.0**	**50%**	**882.5**	**50%**	**1041.4**	**55%**	**1087.9**	**53%**
1. Economic Transformation	411.8	**23%**	413.6	**23%**	475.3	**25%**	500.2	**25%**
2. Rural Development	260.1	**15%**	227.9	**13%**	307.2	**16%**	302.2	**15%**
3.Productivity and Youth Employment	153.6	**9%**	152.0	**9%**	166.1	**9%**	181.9	**9%**
4. Accountable Governance	52.5	**3%**	89.0	**5%**	92.9	**5%**	103.5	**5%**
II. Foundational Sectors	**665.0**	**38%**	**645.6**	**37%**	**593.0**	**32%**	**677.9**	**33%**
1. Foundational Issues	665.0	**38%**	645.6	**37%**	593.0	**32%**	677.9	**33%**
III. Support Function	**219.4**	**12%**	**240.1**	**14%**	**247.3**	**13%**	**270.9**	**13%**
1. Support Function	219.4	**12%**	240.1	**14%**	247.3	**13%**	270.9	**13%**
TOTAL BUDGET	**1762.4**	**100%**	**1768.2**	**100%**	**1881.8**	**100%**	**2,036.7**	**100%**

46

Source: MINECOFIN

Source: Rwanda Ministry of Finance and Economic Planning - Budget Framework Paper 2015/2016-2017/2018, pp. 46 - 47

3.70 Resource Allocation in the BFP per EDPRS sectors

Figure 3.6: Resource Allocation in the BFP (2)

Table 16: Economic Transformation Resource Allocation (RWF)

THEMATIC AREA	EDPRS SECTORS	2015/2016	2016/2017	2017/2018
Economic Transformation *(Objective: Sustain rapid economic growth and facilitate the process of economic transformation by increasing the internal and external connectivity of the Rwandan economy)*	Education	3,306,824,110	6,761,815,431	7,250,571,037
	JRLOS	4,468,839,817	3,359,642,354	3,638,015,347
	Environment and Natural Resources	15,222,395,912	14,333,832,383	15,302,891,441
	Urbanization	9,100,104,831	10,127,178,312	11,058,134,871
	Decentralisation	175,016,186	138,613,137	153,747,363
	Youth	1,029,537,815	1,052,580,149	1,137,038,201
	PFM	4,176,819,344	4,621,035,097	5,123,705,330
	Financial	1,810,461,278	2,861,557,888	3,268,265,438
	Support Function	1,707,207,112	1,254,311,792	1,317,396,761
	Agriculture	27,757,647,410	21,668,415,588	3,107,638,533
	Health	4,615,026,063	4,573,146,438	4,754,943,357
	Transport	131,063,770,964	178,080,167,929	189,166,473,287
	Water and Sanitation	2,605,997,614	3,838,558,240	2,768,399,207
	Energy	132,257,724,606	166,698,247,937	190,985,700,066
	Social Protection	3,313,806,536	5,565,761,093	4,178,278,798
	PSD	59,778,083,246	37,243,651,563	42,544,465,648
	ICT	11,168,361,882	13,083,878,453	14,856,672,470
TOTAL		**413,557,624,726**	**475,262,393,784**	**500,612,337,155**

49

Source: Rwanda Ministry of Finance and Economic Planning - Budget Framework Paper 2015/2016-2017/2018, pp. 49 - 50

<u>Scope and frequency of debt sustainability analysis (DSA)</u>

3.71 The District has no need for a DSA, because it has no debt stock. Its debt comprises accounts payable, which are mainly unpaid invoices caught up in yearend financial routine. Audit reports[30] confirm that the accounts payable "mainly relate to invoices for goods and services which were outstanding on the date of the closure of the fiscal year … recognized as liabilities for that specific fiscal year". The district quickly clears this in the new fiscal year". Although districts have the power to borrow (with the approval of the Minister of Finance) for development project financing *(Article 50 of the OBL)*, the District did not exercise this option in the period leading up to this assessment.

<u>Existence of sector strategies with multi-year costing of recurrent and investment expenditures</u>

3.72 Districts do not prepare district sector strategies in Rwanda; sector ministries of the CG do that. However, districts prepare detailed District Development Plans (DDP), aligning it to the Economic Development & Poverty Reform Strategy (EDPRS). The Local Development Agency (LODA) assists districts to prepare the development plans in line with a template provided by the Ministry of Finance & Economic Development. The district's current DDP (2013 – 2018) covers the following.

- *Introduction* – a brief review of country and district's economic climate

[30] See for instance, 2013/2014 Audit Report, *p. 24*

- *District Overview* – a discussion of specific achievements, challenges, and opportunities under the following headings: employment status, agriculture, livestock, energy, water and sanitation, education, social protection, and private and financial sector
- *Strategic Framework* – "the backbone of Gakenke's DDP as it provides the campus or strategic direction of the District". The chapter explores the vision and mission of the district … the priorities of the district for the next five years and the strategies to transform the priority objectives from ideas to actions. The priorities and corresponding strategies … have been developed on the basis on the underlying challenges as well as opportunities identified in the preceding chapters. To this end, Gakenke's DDP has been informed by high level strategic planning documents that include: - Seven Year Government Programme (7YGP), Millennium Development Goals (MDGs), EDPRS II Thematic areas strategies as well as the revised Vision 2020 targets."[31]
- *Implementation Framework* – which discusses sequencing of interventions, roles and responsibilities, mechanisms for co-ordination and information sharing, and assumptions, risks and risk mitigation and management
- *Monitoring and Evaluation approaches* – description of District's monitoring and evaluation framework and indicators, data collection and reporting
- *Cost and Financing of the District Development Plan* – i.e., estimated total cost of the DDP *(see Figure 3.4)*, strategies for resources mobilization, communicating and prospecting, relationship building, transparency, and accountability; this section also includes a table summarizing costs by sectors and fiscal years from 2013 to 2018. The sectors covered are (i) agriculture private sector development, (ii) energy,(iii) urbanization, (iv) transport, (v) FSD (?), (vi) health, (vii) education, (vii) water and sanitation (WATSAN), (viii) ICT, (ix) youth, (x) social protection, (xi) public financial management (PFM), (xii) justice reconciliation and order (JRLO), decentralization, and (xiii) ENR (?). These costs are summaries taken from detailed Excel costing spreadsheet, which the district did not however provide for review.

[31] See Electronic Word version of the Gakenke District Development Plan (2013 – 2-18), provided as evidence.

Figure 3.7: Gakenke DDP - Total Cost and Source of Funds by Year
Source: Gakenke District Development Plan, 2013 – 2018 (Electronic Word Version, p. 67)

Table. 08 Cost and financing of the District Development Plan (in Rwf'000)

	EDPRS 2					
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total for EDPRS 2**
Own Funds Available						
Government block grants	8,794,008	10,159,855	11,493,955	12,988,169	14,676,631	**58,112,6**
Own taxes and fees	500,000	600,000	725,000	850,000	1,000,000	**3,675,0**
Donor projects	1,630,000	3,645,000	3,343,000	1,845,000	1,554,000	**12,017,**
Private sources	695,000	1,088,000	1,258,000	1,378,000	878,000	**5,297,0**
Other sources						
Total	11,619,008	15,492,855	16,819,955	17,061,169	18,108,631	**79,101,6**
Existing Baseline Expenditure	4,310,079	4,856,772	5,434,051	6,140,478	6,938,740	**27,680,1**
Available funds for DDP Priorities	7,308,929	10,636,083	11,385,904	10,920,691	11,169,891	**51,421,4**
Total Projected Cost of DDP Priorities	**12,762,120**	**14,537,670**	**14,223,420**	**12,205,740**	**10,554,310**	**64,283,2**
Overall Deficit/Surplus	**-5,453,191**	**-3,901,587**	**-2,837,516**	**-1,285,049**	**615,581**	**-12,861,7**
% Surplus/deficit	*-43%*	*-27%*	*-20%*	*-11%*	*6%*	*20*

3.73 The DFP is a five-year, which is difficult to cost realistically. However, the rolling three-year MTEF and annual BFP that informs the budget details both recurrent and development costs. The Ministry of Finance and CG entities are responsible for this costing, although they consult districts in the process.

<u>Linkages between investment budgets and forward expenditure estimates</u>

3.74 Link between investment and recurrent expenditure costing is weak; the two are separate activities. The budget provides for staff compensation and goods and services (running costs), but does not tie this to specific investment or development budget. The CG budgets and funds most development and investment activities, most personnel costs, and some running cost. District resources contribute largely to their running costs and some development activities. However, both the CG and the district use the dual budgeting approach that provides separately for recurrent and development costs. This dichotomy makes difficult to link investment and recurrent expenditure. For example, CG earmarked transfers budget separately for their recurrent and development components - teachers' salaries, health workers' salaries, construction of new schools and classrooms, etc. CG block grants comprise exclusively of recurrent costs - salaries of district personnel and an amount for running costs. In addition, the district provides an omnibus budget line for "public infrastructure maintenance" to cater for the upkeep of public assets.

3.4 Predictability and Control in Budget Execution (PI-13 – PI-21)

3.75 The nine indicators in this set assess the orderliness and predictability of budget implementation. They also review arrangements for exercising control and stewardship over the use of public funds.

PI-13: Transparency of Taxpayer Obligation and Liabilities

3.76 *PI-13* evaluates the ability of the tax system to communicate taxpayer responsibilities transparently. It reviews the clarity of tax legislation, ease of taxpayer access to information on tax liability, and mechanism for aggrieved taxpayers to contest administrative rulings on tax liability, etc. It also examines the comprehensiveness of tax legislation and the use of discretionary powers for individual negotiation of liability and exemptions. *Score Box 3.14* presents the rating on each of the three dimensions of this indicator, and the overall score.

Score Box 3.14: Transparency of Taxpayer Obligations and Liabilities

Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Clarity and comprehensiveness of tax liabilities	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY 2014, collects them on behalf of district governments.	NA		Law No. 59/2011 on sources of revenue and property for decentralized entities / RRA website, www.rra.gov.rw	Not assessed in 2010	
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	The district government uses a variety of means to provide taxpayers access to tax information: website, public noticeboards, tax enlightenment campaigns, meetings and seminars in localities, and a helpdesk.	A	A. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.	District administration		
(iii) Existence and functioning of a tax appeals mechanism	The RRA has taken over tax administration responsibilities. Prior to this though, the appeal process was not	NA				

Score Box 3.14: Transparency of Taxpayer Obligations and Liabilities					
	independent and it required recourse to the tax authority and to the court.				
Score (Method M2)		**A**			

Rationale for the Score

3.77 *Clarity and comprehensiveness of tax liabilities* – Law N° 59/2011 of 31/12/2011 enacted by the CG establishes the sources of revenue and property of decentralized entities and rules governing their management. The Law lists and describes 10 sources of revenue for decentralized entities (see PI-3 above), including taxes *(Art. 4)*. Taxes comprise - fixed asset tax, trading license tax, rental income tax *(Art. 5)*. Fixed asset is property tax levied on (i) the market value of parcels of land, (ii) market value of registered buildings and all improvements thereto, (iii) the value of land exploited for quarry purposes, and (iv) the market value of a usufruct with a title deed *(Art. 6)*. Trading license tax is payable "by any person who commences a profit-oriented activity in Rwanda" *(Art. 39)*. Rental income tax applies to "income generated by individuals from rented fixed assets located in Rwanda. The natural person who receives such an income shall be a taxpayer" *(Art. 48)*. The tax year is different from the financial year and runs from January 1 to December 31. The CG also fixes tax rates and regulates administration and procedures. The Rwanda Revenue Authority (RRA) makes and posts administrative procedures on its website, www.rra.gov.rw.

3.78 *Taxpayers' access to information* – The district government use various means to ensure taxpayer access to information on tax liabilities. These include enlightenment campaigns in 19 sectors of the district held in the local Kinyarwanda language, and sector notice boards. The enlightenment campaigns involve personnel of both the District and sector offices, as well as officials from the RRA. Discussions held with RRA officials[32] at its headquarters in Kigali prior to field visits to districts corroborate the evidence of tax enlightenment sessions in districts and the involvement of RRA officials in them. The district management asserted that it also distributes brochures; however, it did not provide samples in evidence. The district also has a good governance hotline (No. …) on which citizens may ask any question, including tax related questions, although the line is not a dedicated tax administration hotline. Sectors also have tax offices, which engage with and render different services to taxpayers.

3.79 *Existence of a functioning tax appeal mechanism* – aggrieved persons should appeal in writing to the district government within one month of receiving the notice of assessment and thereafter, to a competent court of law, if not satisfied with the decision of the district government.[33] However, the district government does not appear to have any more role in the matter with the takeover of tax administration duties by the RRA. Prior to this, the practice in the district was for the aggrieved party to appear first, to the official in charge of collections at

[32] On June 10, 2015 with Richard Tushabe (Commissioner General), Agnes Kanangeyo (Deputy Commissioner, Planning & Resource Development), and Augustine Mwebaze (Head of Reforms & Mobilization)

[33] *Arts. 20* and *21* of No. 59/2011 of December 31, 2011- Law establishing sources of revenue and property for decentralized entities

the sector level. Subsequent appeals lie to the official in charge of taxes at the district level, the district executive secretary, the executive committee, and to the district council in that order. ..

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

3.80 *PI-14* measures effectiveness of systems for registering taxpayers and facilitating tax administration to enhance assessment and boost tax revenue. Taxpayer registration is a compulsory civil obligation, often governed by law with penalties for non-compliance. A good registration system creates a comprehensive taxpayer database with control features, including a unique taxpayer identification number (TIN) linked to/combined with other government registration systems involving taxable turnover of assets[34] and occasional surveys of potential taxpayers, e.g., by selective, physical inspection of business premises and residences. *Score Box 3.15* summarizes performance of this indicator.

Score Box 3.15: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

Comments	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Controls in taxpayer registration system	Tax registration is a responsibility of the CG, not the district.	NA		Tax registration is a responsibility of the CG, not the district.	Not assessed in 2010	
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014	NA		This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014		
(iii) Planning and monitoring of tax audit programs	This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014	NA		This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014		
Score (Method M2)		**NA**				

Rationale for the Score

3.81 *Controls in taxpayer registration system* – this dimension does not apply at the district level; its critical period/time of assessment is "as at the time of the assessment". Taxpayer registration is the responsibility of the Rwanda Revenue Authority (RRA), which had taken over tax administration and collection from the district as at the time of this assessment, as explained in *PIs – 3* and *13* above. The district gave a mandate to the RRA in an MoU authorizing the RRA to administer/collect taxes on its behalf. This mandate was at the instance of the GoR, which is preparing legislation to back up this transfer of authority. This dimension therefore does not apply to the district.

[34] Issuance of business licenses, opening of bank accounts and pension fund accounts, etc., for instance

3.82 *Effectiveness of penalties for non-compliance with registration and tax declaration* - this dimension no longer applies to the district for the same reasons as in dimension (i) above does not apply. The RRA had taken over duties of district tax administration as at the time of the assessment. Its critical period/time of assessment are "as at the time of the assessment".

3.83 *Planning and monitoring of tax audit programs* – this dimension no longer applies to the district for the same reasons dimensions (i) and (ii) above do not apply. The RRA had taken over duties of district tax administration as at the time of the assessment. Its critical period/time of assessment are "as at the time of the assessment".

PI-15: Effectiveness in Collection of Tax Payments

3.84 *PI-15* assesses ability to collect taxes (including arrears) and taxpayers' willingness to pay voluntarily. Collection is important, because assessment does not raise revenue. Prompt payment and transfer of collections to the Treasury will enhance controls and ensure that the funds are quickly available for use. The indicator evaluates the quality of records for tracking arrears, and the extent of reconciliation of assessments record against collections and arrears. The indicator has three dimensions, assessed in *Score Box 3.16*.

Score Box 3.16: Effectiveness of Collection of Tax Payments						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at beginning of a fiscal year, which was collected during that fiscal year (average of last two fiscal years)	Collection rate of arrears in FY 2014 was 73.6%, i.e., collection of Frw 2,134,235.00 in FY 2014 out of a beginning balance of Frw 2,901,445.00, although it is not exactly clear whether the arrears are all of taxes or whether they include of fees, etc.	D	D. The debt collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	2013/2014 Financial Statements and 2013/2014 Audit Report	Not assessed in 2010	
(ii) Effectiveness of transfer of collections to the Treasury by the revenue administration	The district no longer had responsibility of tax collection as at the time of assessment; the RRA had taken over this task	NA				
(iii) Frequency of complete accounts reconciliation between tax assessments, collection, arrears records, and receipt by Treasury	Audit evidence demonstrate the district's inability to reconcile tax assessment with collections	D	D. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually OR is done with more than 3 months" delay.	2013/2014 Audit Report		
Score (Method M1)		**D**				

Rationale for the Score

Collection ratio *for* gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)

3.85 The critical time/period for this dimension is the last two financial years, during which time the district still had jurisdiction over tax administration. The Ministry of Finance provides districts with a template for financial reporting. The template reports revenue arrears as a note to the financial statements under the general heading of "accounts receivables". The note distinguishes between outstanding receipts from third parties and employees (if any) for the preceding and current years. Analysis of information in the 2013/2014 audit report *(pp. 17 – 18)* shows outstanding third party receipts[35] of Frw 2,134,235.00 on June 30, 2014 and Frw 2,901,445.00 on June 30, 2013. Adjusting for new arrears incurred in FY 2014 of Frw 1,139,140.00 leaves an uncollected balance of Frw 767,210.00 from the arrears outstanding at the beginning of the year. Total arrears collected during the year therefore, was Frw 2,134,235.00 or 73.6 percent of the Frw 2,901,445.00 outstanding at the beginning of the year. Analysis of the audit report information shows that 14 of the 19 debtors existing at the beginning of the year fully settled their accounts; one made no payment at all, another made a very small payment (Frw 5, it appears). The remaining two actually incurred additional debt. However, it is not clear whether the arrears all relate to taxes or whether they relate to other revenues as well.

3.86 The district retains responsibility for collection of arrears existing prior to the CG taking over the collection.

Effectiveness of transfer of collections to the Treasury by the revenue administration

3.87 This dimension no longer applies to the district with the takeover of tax administration and collection duties by the RRA *(see PIs 3, 13, and 14 above)*. Its critical period/time of assessment are "as at the time of the assessment".

Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury

3.88 This dimension is still relevant to the district, notwithstanding the takeover of tax collection duties by the RRA. The dimension requires the district to reconcile tax receipts from the RRA with tax assessment, RRA collections, and arrears records. Audit evidence suggests that the district did not do this during the period of assessment. For example, the 2013/2014 audit report[36] noted instances of recording of revenue collections in the district books of accounts "solely on the basis of the bank statements … without reference and reconciliation to source documents". The audit report could thus not confirm "the completeness of reported revenue". This failure on part of the district also runs contrary to financial regulations, as pointed out by the

[35] Including mostly monies owing from Saccos (i.e., credit cooperatives, which collect revenues on behalf of the district); the 2013/2014 audit report lists the third-party debtors as Mbangutse Djamar, Sacco Muzo, Sacco Busengo, Sacco Cyabingo, Sacco Mugunga, *RALGA (excluded from the analysis here)*, Rusasa Sacco, Coko Sacco, Muhondo, Mataba Sacco, Rushashi Sacco, Karambo Sacco, Kamubuga Sacco, Gakenke Sacco, Kivuruga Sacco, Muyongwe Sacco, Gashenyi Sacco, Ruli Sacco, Minazi Sacco

[36] See *p. 32* for details of the case and all the direct quotations here; emphasis on quotes added by the assessors.

audit report.[37] Audit recommendation in this regard is that, *"All revenues should be recorded with reference and after reconciliation to other supporting documents such as bank deposit slips, revenue receipt books and tax assessment forms"*. The district acknowledged this shortcoming, but explained that, *"The reason of recording amount based on bank statements was due to the fact that some tax payers do not present their bank slips either at the District or at the sector as an example"*. The District hopes to work with the courts to "try to put a mechanism in place to enforce all the people depositing money to the District account to present bank slips at the District office".

PI-16: Predictability in Availability of Funds for Commitment Expenditure

3.89 *PI-16 assesses the extent of provision of timely and reliable information to budget entities on funds available for implementation of the approved budget.* Provision of timely and reliable information is crucial to effective scheduling of commitments by spending units. The method of informing spending entities depends on local circumstance and practices. For instance, the MoF could provide information at staged and regular intervals during the budget year, e.g., quarterly. Alternatively, budget entities may have full authority to spend upon approval of the budget, with no further information on resource availability required. However, the success of this approach depends on existence of (i) a record of fiscal and budget discipline, (ii) strict commitment to achievement of budget targets, (iii) measures to forestall midstream shortfalls in revenue collection, e.g., by drawing from savings, short-term (bridging) finance, and sale of (financial) assets, and (iv) realistic, achievable budget. Even then, the MoF may still impose delays on budget entities in making new commitments in periods of temporary cash squeeze. *This indicator has three dimensions, assessed in Score Box 3.17.*

Score Box 3.17: Predictability in the Availability of funds for Commitment of Expenditures						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Extent to which cash flows are forecast and monitored	The district does not have its own independent treasury and cannot forecast cash inflows, except for its own resources, which was only 4.9% of total revenues in FY 2014. The district prepares and submits expenditure plans as input into the MoF's overall cash forecasts; however, the district did not provide documentary evidence for review.	NR			Not assessed in 2010	

[37] *The Manual of Government Policies and Procedures: Financial Management and Accounting (Volume 3), chapter 2 "Accounting framework", paragraph 2.17*, which requires that each entry in the books of account must be supported by proper accounting documents explaining at least the characteristics, nature and details of the transaction being recorded and showing the date of its occurrence *(2013/2014 audit report, p. 32)*

Score Box 3.17: Predictability in the Availability of funds for Commitment of Expenditures					
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	The district cannot provide commitment authorization information on CG funded projects to districts, being a budget entity for budget implementation; it also does not provide commitment information on own revenues, but sectors are able to calculate their expectations from the district.	NA		MINECOFIN / District / the OBL	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	The CBM does not reallocate the budget during implementation, but the District reviews the budget in line with regulatory provisions in December, especially *Arts. 41 of the OBL*.	A	A. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	District administration	
Score (Method M1)		**NR**			

Rationale for the Score

3.90 *Extent to which cash flows are forecast and monitored – districts do not have independent treasuries in Rwanda. Rwanda has only one treasury, which resides in the Ministry of Finance and Economic Planning (MINECOFIN) and serves the entire country.* The GOR uses the centralized cash planning model and the ministry prepares cashflow forecast (inflow and outflows) for the entire country. All budget entities (including districts) prepare and submit annual and quarterly expenditure plans as inputs to facilitate the Ministry's discharge of this function. Consequently, the district prepares annual expenditure or disbursement plans at the beginning of the fiscal year and revises them quarterly in line with the provisions of Organic Budget Law (OBL) and at the request of the ministry. The district therefore, does not have the mandate or capacity to prepare and monitor cash inflow projections. MINECOFIN does cashflow projections for all of public sector Rwanda centrally; these projections form the basis of its funds transfer to all budget entities, including districts.

3.91 The District prepares and submits annual and quarterly expenditure plans to assist the Ministry in the preparation of cashflow projections. The district's management meets with unit heads to establish their expenditure commitments plans for the year and the timing of cash needs, once the DC adopts the budget and the district receives the Minister's call on submission of expenditure plans. The finance and planning departments work with the unit heads to reconcile the timing of cash needs, taking into account such factors as the district's performance contract, capacity constraints, normal workflows and the need for proper sequencing, etc. This reconciled information forms the basis for the district's comprehensive annual expenditure plan, broken down into quarters.

3.92 *Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment* – this dimension enquires whether the district provides reliable period information for expenditure commitment to its sectors, schools, and health institutions. This is not relevant in the district since sectors do not need such information. The district is the lowest budget entity with responsible for implementing the budget; sectors, schools, and health institutions are non-budget agencies (NBAs). Besides, the district does not set cash commitment limits; MINECOFIN does that for the district and its NBAs, as shown above. The district only communicates information provided by MINECOFIN on the approved budget and expenditure plans in line with the OBL. The OBL provides as follows, *"For decentralized entities, the Executive Committee Chairperson shall inform the subsidiary entities that are entitled to the budget and require them to prepare and submit a detailed annual expenditure plan" (Art. 42)*.

3.93 The MINECOFIN examines and approves the annual expenditure plan after "taking into account … available resources" *(Art. 42)*. Thereafter, it issues quarterly authorization to the district to make commitments. These authorizations usually come at the beginning of the quarter and the district's management passes them on to its subsidiary entities as necessary. The district does not provide advance information to its subsidiary entities with regard to projects executed with its own resources. However, the district gives sectors 50 percent of the internal revenues (fines and fees) generated from their respective sectors and an equal share of 10 percent of the district's own revenues, excluding fines and fees. These own resources are very small for the lack of advance information to make an impact, only 6.6% total revenues in 2013/14.

3.94 *Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs* – this dimension assess the extent to which the district management reallocates the approved budget without involving its administrative units. *Arts. 46 and 49* of the OBL allow CBMs to "reallocate funds from one program to another … to a cumulative maximum of twenty percent (20%) of the total budget for the program". Reallocations in excess of 20 percent of the cost of a program and recollections between recurrent and development expenditure budget require the approval of the minister. However, reallocation from "employee costs to other expenditure categories" shall only be with approval of the Chamber of Deputies.

3.95 *In addition, Art. 41 of the OBL allows the district to revise the budget once a year, based "on the mid-year budget execution report".* The revision shall follow the same process as the original budget and the DC shall approve it. The district shall publish the revised budget in the same way as the original budget, i.e., "through appropriate media, including on the entity's website" *(Art. 40)*. The revision "shall be consistent with approved medium term strategies and the budget framework"; the district management shall notify the DC of reasons for "any deviation from the approved budget framework and MTEF". The exercise happens in December in line with the timetable established for this exercise in ministerial regulations for implementing the section.

3.96 *Budget revision has become an annual exercise and the district revises the budget for both own and transferred resources once in a year in December, using the same process used in* *passing the original budget in line with Art. 41.* Budget revision involving own resources covers both revenue and expenditure, but that involving the budget on CG transfers is only of expenditure, unless the Ministry of Finance revises the budget framework and advises as such. The district explained that it usually initiates changes involving the domestic component of earmarked transfers (i.e., the portion of earmarked transfers funded by the GoR), although the government department that owns the funds may also do so. Either the district or the Local Development Agency (LODA) can initiate changes involving development grants (LODA funds). LODA initiates based on its commitments, while the District initiates based on the progress of implementation and fund balances.

3.97 *The CBM does not use these powers to reallocate the budget during implementation.* Instead, it waits for the budget revision process that happens in December.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

3.98 *PI-17* evaluates the quality of debt management. Effective debt management helps reduce unnecessary borrowing, debt service costs, and fiscal risks. Maintenance of a Treasury Single Account (TSA), centralization of all bank accounts, or regular consolidation of cash balances does the same. Proper management of guarantees through accurate recording and reporting of guarantees issued by the government and a single entity to approve all guarantees are also useful tools of debt management. *Score Box 3.18* assesses the three dimensions of this indicator.

Score Box 3.18: Recording and Management of Cash Balances, Debt, and Guarantees						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Quality of debt data recording and reporting	The district has no debt, except for small amounts of accounts payable, caught up in yearend accounts closing formalities. The district quickly pays them off in the new fiscal year.	NA			Not assessed in 2010	
(i) Extent of consolidation of the government's cash balances	The district's operational (expenditure) accounts balances consolidate daily on the TSA; in addition, all cash district consolidates all balances (revenue and expenditure accounts) monthly in the financial reports. The district also consolidates most NBA balances separately in the	C	C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances In addition, see "Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments", *p. 23*	District administration		

Score Box 3.18: Recording and Management of Cash Balances, Debt, and Guarantees					
	monthly financial reports.				
(iii) Systems for contracting loans and issuance of guarantees	The district does not have regulatory powers; the Minister of Finance does and must also approve district's borrowings *(Arts 50 – 54);* the Minister had not made any such regulations, as at the time of the assessment.	C	C. Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.		
Score (Method M2)		**C**			

Rationale for the Score

Quality of debt data records – Debt comprises accounts payables, incurred in the routine course of business; the district does not borrow.

3.99 Although districts have the power to borrow for development project financing with the approval of the Minister of Finance, *(Article 50 of the OBL)*, the District does not exercise that power. Accounts payable "mainly relate to invoices for goods and services … outstanding on the date of the closure of the fiscal year … [and] recognized as liabilities for that specific fiscal year".[38] This is in line with the modified IPSAS cash basis of accounting the GoR uses. Accounts payable stood at Frw 179,168,850 on June 30, 2014 and Frw 373,609,823 on June 30, 2013.[39] The finance department of the district maintains records of the accounts payable. However, these records do not include those of subsidiary entities (schools and health institutions) under its supervision. Failure to integrate these into its accounts has been the subject of negative audit findings over the years. The district's response blamed difficulties in resolving this perennial finding on the Ministry of Finance, which has not provided modalities for it.[40]

Extent of consolidation of the government's cash balances

3.100 The district administration maintains four revenue and nine expense accounts. The nine expenditure accounts are at the Banque Nationale du Rwanda (BNR).[41] Three revenue accounts are at the Banque Populaire du Rwanda (BPR), while one is at the Bank of Kigali; the district is in the process of closing three of them so it will have only revenue account. The revenue accounts collect the districts' own revenues, which constitutes less than 10 percent of the total revenues of the district. Balances in the revenue accounts transfer monthly to the appropriate expenditure account in the BNR.

[38] See Audit Report for the Year Ended 30 June 2014, p. 13
[39] See Audit Report for the Year Ended 30 June 2014, p. 9
[40] See Audit Report for the Year Ended 30 June 2014, pp. 30 - 31
[41] Which is the central bank

3.101 The accounts at the BNR operate on the platform of the country's Treasury Single Account (TSA) system, which consolidates and sweeps into a single treasury balance at close of work daily. (This consolidation and sweeping affects only bank accounts holding funds sourced from the CG; it does not include accounts holding funds sourced from the District's "own" resources and held in accounts in commercial banks). The district also consolidates and reports balances on these accounts in the monthly financial reports prepared and submitted to the Ministry of Finance & Economic Planning by the middle of the following month.

3.102 In addition, subsidiary entities prepare and submit monthly financial reports, including information on their bank accounts and balances, to the District. The District summarizes and consolidates the information by type of subsidiary entity and in grand total and discloses this bi-monthly in the notes to the financial reports sent to the Ministry. Each subsidiary entity[42] maintains individual bank accounts.

3.15 In summary, the scenario is as follows; consolidation of

(i) operational balances –consolidates with all other GoR accounts daily on the IFMIS. These accounts are the allocations from the CG, which accounts for more than 90 percent of the districts' finances; excluding NBAs funds

(ii) operational balances + (own) revenue balances – monthly in the financial reports; own revenues constitute less than 10 percent of total district finances

(iii) most NBA balances separately in the notes to the monthly financial reports; NBAs have a special relationship with districts, but they are not strictly their extra-budgetary agencies.

3.103 Thus, the district's operational (expenditure) accounts balances consolidate daily on the TSA. In addition, all cash district consolidates all balances (revenue and expenditure accounts) monthly in the financial reports. The district also consolidates most NBA balances separately in the monthly financial reports.

<u>System for contracting loans and issuance of guarantees</u>

3.104 The district does not have powers to regulate debts and issue guarantees, as already explained. That power belongs to the Minister of Finance *(Arts 50 – 54 of the OBL)*. However, the district stands in *de facto* guarantor status for NBA debts, since subsidiary entities do not have legal capacities.

3.105 Districts may borrow for development project financing, with the approval of the Minister of Finance and Economic Planning *(Article 50 of the OBL), which provides as follows*

> "The Minister shall be the sole person with the authority to borrow or to permit borrowing for purpose of financing the Central Government budget deficit or to raise loans for other public entities.
>
> "The Minister shall also be the sole authority to give and approve guarantees and security for the loans granted to public institutions by financial institutions.

[42] See *PI-7* above

"For decentralized entities, the Council of each entity may borrow loans only for development projects upon authorization of the Minister. However, the Minister shall, by use of instructions, determine the maximum amount that the Council may borrow without prior authorization from the Minister.

"The members of organs of decentralized entities shall not have powers to give guarantees but may pledge securities for a debt. An Order of the Minister shall determine the procedures for giving and approving guarantees and pledging securities by decentralised entities.

"Public institutions may borrow, but with authorization of the Minister."

3.106 *Article 52 of the OBL* empowers the Chamber of Deputies to "set the overall general limit of the source of new borrowing as well as the securities that may be given by Central Government" while voting the annual budget. This limit shall include debt of third parties to be taken over by the CG. The basis of such limits shall be the recommendations of the CG. Different limits may apply to domestic borrowing (including short term overdrafts) and foreign borrowing.

3.107 The wording of the provisions of *Art. 52* shows that the limits set by the Chamber of Deputies apply to the CG only, and does not include districts. The law does not provide for the setting of such limits in the case of districts. The intention of the law, probably, is that any guideline issued by the Minister pursuant to *Art. 50* would include such limits. However, the Minister did not issue any such guidelines in the period covered by the assessment.

3.108 The minister approved the loan taken by the district; however, the guidelines for approving such borrowing is unclear, given that no clear and published guidelines existed at the time of the borrowing. The applicable score is, "C".

PI-18: Effectiveness of Payroll Controls

3.109 *PI-18* evaluates payroll controls. The wage bill is one of the largest items of government expenditure and is often susceptible to weak controls, abuse, and corruption. The indicator assesses the link between the personnel database (nominal roll) and the payroll, including procedures for amending the nominal roll. The database (computerized or not) must be verifiable and should provide the staff list for payroll. Enhanced controls would confirm the payroll against the establishment list and individual staff files. Amendments to the nominal roll in particular, require proper and timely authorization and processing to avoid accumulating unnecessary arrears, leads to the generation of change reports, and triggers an audit trail. In addition, regular personnel audits help identify ghost workers, fill data gaps, and identify control weaknesses. The indicator has four dimensions, assessed in *Score Box 3.19*.

Score Box 3.19: Effectiveness of Payroll Controls						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Degree of integration and reconciliation	Districts can only apply the Integrated Personnel and Payroll System (IPPS) as	A	A. Personnel database and payroll are directly linked to		Not assesses in 2010	

Score Box 3.19: Effectiveness of Payroll Controls					
between personnel records and payroll data	designed and given by the Ministry of Labour & Productivity (MIFOTRA) and cannot make changes to it. Personnel database and payroll are not just integrated, but are the same, creating potential integrity issues. Personnel records and payroll data are the same, maintained and processed by the same official.		ensure data consistency and monthly reconciliation.		
(ii) Timeliness of changes to personnel records and the payroll	Changes to personnel records and the payroll happen simultaneously, occasioning no delays, since the two are the same.	A	A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).	District administration	
(iii) Internal controls of changes to personnel records and the payroll	The HR must receive documentary authorization from the mayor, in addition to other relevant documentary notifications before effecting changes to the payroll. A system of periodic ex post review of the payroll is in place and involves the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general.	B	B. Authority and basis for changes to personnel records and the payroll are clear.	District administration	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	The District did not provide evidence to confirm assertions of recent payroll conducted by the Public Service Commission.	NR		District administration	
Score (Method M1)		**NR**			

Rationale for the Score

<u>Degree of integration and reconciliation between personnel records and payroll data</u>

3.110 The GoR operates a uniform Integrated Personnel and Payroll System (IPPS) for both the CG and decentralized entities, which the district cannot change. IPPS merges the human resource management (HRM) and payroll functions into one; it does not just integrate them through the process of sharing a common information database.[43] Thus, the same officer keeps personnel records in the files, maintains the staff list on the IPPS, and uses the staff list to prepare the payroll at month end. This system potentially poses serious risks to the integrity of the payroll, as was the case recently in the Rwanda Revenue Authority (RRA). The personnel in charge of HR and payroll successfully manipulated the IPPS to add and pay ghost employees over time to the tune of more than 85 million francs *(see Case 3.2)*. A similar incident has also occurred at the district level. Financial audit of the Karongi District for FY 2014 reveal a case of payroll fraud, possibly facilitated by this merging of HR and payroll functions. The district conitnued to pay a former executive secretary of a cell eight (8) months after he had left the service of the District. The payment continued even after the replacement executive secretary resumed office.[44] Separating personnel from payroll functions adds an additional layer of control that makes occurrence of such errors more difficult.

Case 3.1 Payroll Fraud in the RRA

(3) Irregularities in payment of salaries and other staff benefits

My review of payroll process and procedures noted the following irregularities:

(a) During my review of salary changes for the months of September 2013, October 2013 and April 2014 selected on sample basis, I noted that RRA prepares statement of changes in Salary but they lack important information regarding change in monetary terms for each individual and the summary of salary changes (in monetary terms) compared to the payroll of the previous months. The statement only comprises the type of changes made, without any supporting documents for the monetary value associated with those changes to facilitate comparison with previous month payroll. Ultimately, approval of these changes is inappropriately done.

(b) An internal audit report issued on 23 September 2014 highlighted a case of embezzlement of funds amounting to **Frw 56,797,855** and ineligible statutory deductions of **Frw 27,963,855** (PAYE: 19,420,919, contributions to social security: Frw 3,875,602 and contributions to medical insurance: Frw 4,667,334) from January 2012 to June 2014.

These amounts were embezzled through transfer of salaries and bonuses to fictitious bank accounts and ghost employees. The fraudulent amounts in salaries were mainly associated with payroll changes whose monetary value had not been documented during the approval process and ghost employees added on the payment list prepared for bonus outside the IPPS system.

(c) The above fraudulent transactions occurred despite various review levels and approvals in the salary payroll and bonus preparation process. This is an indicator that those review levels and approvals were not effective to detect significant alterations and manipulations included in the approved payrolls. All payrolls provided for the year ended 30 June 2014 were reviewed by Head of personnel division, Head of expenditure and accounting division, Deputy Commissioner for Human Resource, Commissioner for Finance before final approval by the Commissioner General or Deputy Commissioner General.

The above weaknesses in controls over payroll management resulted in loss of public funds and is likely to continue unless addressed. In addition, failure to indicate the monetary implication of payroll changes shows that approvals provided for these changes are not appropriate. ***See details in sub-section 5.4.2.***

Source: Rwanda Revenue Authority (RRA) - Audit Report for the Year ended 30 June 2014, p. 7

3.111 *The district operates three different payroll processes, each with its own database, but changes to personnel records in all three reflect in the payroll during payment, because the payroll draws directly from the personnel records, as explained above.* The first process is for the district's 348 core personnel, including staff of sectors and cells. The district directly payrolls and pays these personnel. The second process is for health services personnel.[45] The

[43] IPPS differs from the Integrated Personnel and Payroll Information System (IPPIS) in use in some other countries, e.g., Ghana and Nigeria. While the IPPS integrates actual personnel and payroll functions (and records) into one, operated by a single personnel/department, the functions remain separate under IPPIS, even though they share a common (integrated) database. Thus, MDAs maintain personnel files for their staff, an overarching agency say, the Office of the Head of Service (or Ministry of Public Service & Labour) maintains the nominal roll/personnel database, while the Treasury Office of the Accountant General oversees the payroll. This separation of functions imposes the need for periodic reconciliation of the three sets of records, thus imposing an important layer of control, which a merger of the three functions into one activity does not have.

[44] Audit Report 2013/2014, pp. 8 – 9

[45] The district did not provide information on the number of health services' personnel at the time of the assessment.

district does not payroll these workers; the health institutions do this directly, but the district headquarters has the information. The third process is for teachers and covers 2,395 personnel. The district prepares the teachers' payroll and sends to the MINECOFIN to pay them directly. All three payroll systems use the same software deployed by the Ministry of Public Services of the CG, i.e., the Integrated Personnel and Payroll System (IPPS).

3.112 *The Executive Secretary is responsible for staff management, but delegates the responsibility to the Human Resource (HR) department under the Director of Administration (DA).* The payroll routine for district's direct employees is as follows. The HR prepares the payroll, the DA verifies, and the ES approves, after which the Finance unit pays by e-direct payment to staff bank accounts. The routine for teachers' payroll is the same, except that actual payment is by the MINECOFIN, instead of the district's finance department. The rationale is that the Ministry of Education own, controls, and manages the fund for teacher's salaries, which it allocates to districts through the budget. The practice for health workers' salary is that the Ministry of Health makes annual commitment for the salary of health workers, divided into four quarters. The district prepares and submits quarterly disbursement proposals based on information on its database to the MINECOFIN. The ministry then transfers the (quarterly) funds to the health institution. Health institutions have independent HR, administration, and finance units, which prepare, verify, process, and pay their personnel directly through e-direct payments. Health institutions submit quarterly payroll reports to the district for control purposes. The district crosschecks, reviews, and uses the information in preparing the next quarterly request from MINECOFIN.

3.113 *In summary*, personnel and payroll records are the same, domiciled in the HR resource department. The same HR personnel maintains personnel records on the IPPS and prepares payroll from it. No reconciliation thus, takes place between personnel records and the payroll.

Timeliness of changes to personnel records and the payroll

3.114 There is no time lag between changes to personnel records and the payroll, since both are the same. The same official who maintains personnel records on the IPPS uses them to prepare the payroll. The district adopts measures put in place by the CG on payroll procedures. For instance, the district will only issue appointment letters to new entrants upon completion of all necessary processes and documentation, including medical tests. In addition, the supervisor of outpost staff confirms their resumption and being on seat, before the 15th of the month, which is the payroll cut date. Exit from service also attracts no delays. For example, relatives promptly report cases of death in order to get the death benefit for public servants provided.

Internal controls of changes to personnel records and the payroll –

3.115 The Finance Department produces a monthly "payroll changes list" detailing and explaining all changes and modifications made to the payroll in that month. The mayor authorizes changes to personnel records and the payroll (which are the same). Each change must have the necessary supporting documents. For instance, supporting documents for new recruitments include communication from the appointee's supervising officer indicating date of resumption of duties and the appointment letter with all the attachments, including CVs, copy of identity card, qualifications, criminal clearance, medical certificate, etc.

3.116 A system of periodic ex post review of the payroll is in place, carried out separately by the Ombudsman, MIFOTRA, the Western Province, internal audit, and the auditor general. It is not clear what triggers these reviews and how frequently they take place, except the review by the auditor general, done as part of the annual financial audit process. The review by internal audit is also part of routine audit work; however, it's frequency and scope are also unclear, especially given the limited internal audit personnel and the heavy internal audit workload *(see PI-21)* below.

Existence of payroll audits to identify control weaknesses and/or ghost workers

3.117 The District asserted that the Public Service Commission and Ministry of Labour conducted a recent payroll audit, but it did not provide any evidence in support. However, the district installed an electronic finger printing technology in the headquarters (but not in sector offices) to clock and record staff movement, although the records do not play any role in payroll processing and control. Records of this device would be very useful in any payroll audit exercise.

PI-19: Transparency, Competition, and Complaints Mechanism in Procurement[46]

3.118 *PI-19* assesses the quality and transparency of the public procurement process. It measures the extent of preference for open and fair competition in procurement and extent of justification for use of less competitive options. Public procurement is vital because, "Few activities create greater temptations or offer more avenues for corruption than public procurement. Damage from corruption is estimated at normally between 10% and 25%, and in some cases, as high as 40 to 50%, of the contract value."[47] The PEFA PFM Measurement Framework consequently pays close attention to the procurement process. Other indicators associated with procurement include *PI-4, 10, 12, 16, 20, 21, 26,* and *28*. The indicator *(PI-19)* has four dimensions, assessed in *Score Box 3.20*. Dimension (i) deals with the scope of the legal and regulatory framework, the other three dimensions focus on how the system operates practice.

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement

Dimension		2015 Assessment				2010 Score	Change since 2010
		Score	Items/Explanation		Information Source		
			The legal and regulatory framework for procurement should	***Tick***			
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	**B**	• be organized hierarchically and precedence is clearly established	√	See Ministerial Order on Public Procurement (Articles 23, 34)[48]	Not assessed in 2010	
			• be freely and easily accessible to the public through	√	Art. 5 of the PPA		

[46] This is the new title of the indicator following an amendment in September 2010. The old title was, "Competition, Value for Money, and Controls in Procurement"
[47] Transparency International (TI): TI Handbook on Curbing Corruption on Public Procurement (2006), www.transparency.org/content/download/12496/120034
[48] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement							
Dimension		2015 Assessment				2010 Score	Change since 2010
		Score	Items/Explanation		Information Source		
			appropriate means				
			• apply to all procurement undertaken using government funds	√	Except items for national defence & security items, or items covered by internal treaties or agreements Art 2, 3 of PPA 2007		
			• make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	√	*Art. 23* of PPA, 2007		
			• provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	x	*Art. 5* provides that, "This Law, orders, standard bidding documents, and contracts, shall be made available to the public". Arts. 3 & 60 of the Ministerial Order mandate public access to procurement plans and decisions of the independent review panel.		
			• provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature		*Art 21* of PPA		
(ii)	Use of competitive procurement methods	A	The District used noncompetitive bidding only in 2014/2015 once and at the instance of the CG to procure an urgent school item worth Frw 40,000,000.		District's annual procurement report for 2014/2015, issued on July 15, 2015		
(iii)	Public access to complete, reliable and timely procurement information	C	The district advertises procurement plans and bidding opportunities on the RPPA's website, at least, one national newspaper, and its noticeboard; however, it does not publish contract awards and outcomes of conflicts resolution		District management / RPPA website www.rppa.gov.rw		
(iv)	Existence of an independent administrative procurement complaints system	A	Are complaints reviewed by a body which				
			• is not involved in any capacity in procurement	√	District management - An independent appeal panel of 5 members exists, with		

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement						
Dimension	2015 Assessment				2010 Score	Change since 2010
	Score	Items/Explanation		Information Source		
		transactions or in the process leading to contract award decisions		membership drawn from the private sector, secondary school system, hospital, and the PSF (NGO). The panel does not charge fees, decides cases in 30 days, and its decision is binding on all parties		
		• does not charge fees that prohibit access by concerned parties	√			
		• follows processes for submission and resolution of complaints that are clearly defined and publicly available	√			
		• exercises the authority to suspend the procurement process	√			
		• issues decisions within the timeframe specified in the rules/regulations	√			
		• issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	√			
Score (Method M2)	**B+**					

Rationale for the Score

<u>Transparency, comprehensiveness and competition in the legal and regulatory framework</u>

3.119 This dimension is not applicable to the district, because the CG regulates public procurement in the entire country, including districts. It makes procurement laws and regulations, which all public procuring entities (including districts) apply and cannot change. The extant legal and regulatory framework for public procurement include the Public Procurement Act (PPA) 2007[49] and the Ministerial Order on Public Procurement of February 2014.[50] Features of the framework with regard to this dimension is as follows.

- *Hierarchical organization* – the Ministerial Order establishes thresholds for use of procurement methods.
    - The threshold for use of single-source is three hundred thousand (300,000) Rwandan francs *(Art. 23)*; however, "the procuring entity shall not … split tenders

[49] Law N° 12/2007 of 29/03/2007 - Law on Public Procurement
[50] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts

in a manner aimed at avoiding the normal procurement methods provided for by the law".
    - The threshold for requesting expression of interests in consultancy contacts is tenders in excess of fifty million (50,000,000 Rwf) Rwandan francs *(Art. 34).*
    - The threshold for performance security (guarantee) for non-consultancy services is generally ten million Rwandan francs (10,000,000 Rwf) and above;[51] tenders for consultancy services do not require performance security *(Art. 33).*

- *Free and easy public access* – provided for in the PPA in *(Art. 5)*, which provides for public access to "the Law, orders, standard bidding documents, and contracts".
- *Scope of applicability* – applies "to all procurement of works, goods, consulting services or other services carried out by the procuring entity except the procurement provided for in Article 3 of this Law." *Art. 3* excludes "procurement of classified items meant for national defence and security" and procurement under a multilateral or bilateral treaty, which provide for use of different rules.
- *Open competitive bidding as default procurement method* – provided for under *Art. 23*, which provides that, "Except where provided otherwise by this chapter, the procuring entity shall apply open competitive bidding to supplies, works, goods, and other services. Bidders from different foreign countries shall be allowed to participate in the Open Competitive bidding if they are willing to do so".
- *Public access to key procurement information* – mandated by the PPA and Ministerial Order. The PPA requires public access to "the Law, orders, standard bidding documents, and contracts" (*Art. 5)*, while the Ministerial Order provides for publication of "Some of the elements of the procurement plan namely title and quantity of the tender, method of tendering, source of funds, expected publication and execution dates" by posting the information on procuring entity's notice board, its official website and that of RPPA, and advertisement in "at least one newspaper of wide circulation, which may be national or international" (*Art. 3).* The Ministerial Oder also provides for "Publication of the decisions of the Independent Review Panel" by posting it "on the official website of the procuring entity, … the RPPA official website and … the procuring entity's notice board" (*Art. 60)* and for audit of the independent review panel by the RPPA (*Art. 62).*
- Independent administrative procurement review process – provided for under Article 21 of the PPA and Article 49 of the Ministerial Order. The panel shall comprise "seven (7) members appointed for a one period of four (4) years, and drawn for the public sector, private sector and civil society; however, "members from the public sector shall not exceed three (3)". Members of tender committees and persons not qualified to serve on tenders committees are not eligible to serve on the panel. The independent review panel shall submit quarterly reports to the district Council *(Art. 61).* The RPPA shall appoint a full time official as secretary of the panel *(Art. 50).*

Use of competitive procurement methods

3.120 The district predominantly uses open competition for its procurements, and rarely uses noncompetitive methods. Evidence of the 2014/2015 annual public procurement report dated

[51] However, the performance security may not be required depending on special nature of the tender whose characteristics does not show any risk of poor performance

July 15, 2015 showed the district used noncompetitive procurement method only once in the year, i.e., at the instance of the CG to procure an urgent school item worth Frw 40,000,000. The CG had instructed all districts to use the SS method because of the need to complete the procurement before the commencement of the new school year. Genuine urgency is one of the justifications allowed in the Public Procurement Act, 2007 for use of noncompetitive bidding (see below). The different bidding methods and the lawful justifications for their use are as follows.

3.121 Restricted tendering (Art. 51 - 52) - this procuring entity invites a limited number of bidders (at least three) to bid. The justifying circumstances are that only a limited number of suppliers or contractors can provide the goods or construction, because of "their highly complex or specialized nature, or otherwise" or that the time and cost required to examine and evaluate a large number of bids within the procurement threshold outweighs the value of the goods, construction or services. Selection of bidders must be "in a fair and non-discriminatory manner from a list of prequalified bidders"; however, the procuring entity may not contact more than two bidders in the same country when the shortlist involves bidders based abroad. In addition, the procuring entity shall advertise at least annually in at least one newspaper of the largest nationwide circulation for interested bidders to apply for inclusion on the prequalified list.

3.122 Request for Quotations (Art. 53 - 54) – involves "quotations from as many bidders as possible, but not less than three". This method applies when the procurement items (i) are readily available **goods** or **services**, (ii) have standard specifications, (iii) have an established market, and (iv) are of a very low cost. However, "the procuring entity shall not split its tender into separate contracts for the purpose of applying" this method.

3.123 Single-source procurement/direct contracting (Art. 55 - 56) - involves soliciting a price quotation from a single qualified bidder. A procuring entity may use this method in four situations. First, the cost of the procurement is within limits established by the Minister. Second, the contract is for additional works, which are technically inseparable from the initial tender and the value of additional works does not exceed 20 percent of the initial tender value. Third, there is a case of *force majeure*, if the circumstances giving rise to it were neither foreseeable by the procuring entity nor the result of dilatory conduct on its part; the procurement shall only be in respect of those goods, works or services that are necessary to cater for the emergency. Fourth, the procurement is for items available only from a monopolist; however, this will not be justification "if functionally equivalent goods, works or services from other bidders would meet the needs".

3.124 Force Account (Art. 57) – involves recourse to civil servants and use of public equipment. The circumstances are when (i) quantities of work are not proactively definable, (ii) qualified contractors may not bid reasonably, because the works are small and scattered in remote locations, (iii) work must proceed without disrupting ongoing operations, (iv) emergencies need prompt attention, and (v) the entity is completing works delayed by a contractor after written warnings failed to yield results.

3.125 Community participation (Art. 57) - this involves the beneficiary community participating in delivery of services within the context defined by the procurement regulations.

The condition is that use of the method will contribute to the economy, create employment, and involve the beneficiary community.

<u>Public access to complete, reliable and timely procurement information</u>

3.126 The district posts procurement plans in at least, one national newspaper, noticeboards, and the website of the Rwanda Public Procurement Authority (RPPA), (www.rppa.gov.rw). In addition, the district posts information of procurement plans on the RPPA website and a summary in newspapers. However, the district does not provide public access to information on contract awards and complaints resolution.

<u>Existence of an independent administrative procurement complaints system</u>

3.127 The district established an independent review panel of five persons in line with *Art. 35* of an earlier Ministerial Order; the 2014 Order became applicable only recently, following its gazetting.[52] Membership of the panel includes a businessman that deals on carpets (private sector), the director of a secondary school, director of a hospital (public sector), and two members from the PSF (an NGO). The panel does not charge fees for its deliberations, but complainants pay a fee of Frw 50,000 to the district to file cases. Complaints take 30 days to dispose of, and decisions are binding on both parties, but an aggrieved party can appeal to the National Independent Review Panel. In a recent case, a dissatisfied complainant appealed the decision of the District panel and won. The District did not publicize the decisions of both the district and national panels.

PI-20: Effectiveness of Internal Controls for Non-Salary Expenditures

3.128 *PI-20* reviews effectiveness of internal controls for non-salary operations, i.e., relevance, comprehensiveness, understandability, acceptance, and level of compliance. Compliance is particularly crucial to controls effectiveness; circumvention must be occasional allowing only genuine and exceptional emergencies. Exceptions are transparent, properly documented, and result in an audit trail. Effective internal controls protect the integrity of the procurement process; weak controls create gaps that allow errors, wastes, and fraud. *Score Box 3.21* outlines the three dimensions of this indicator and their ratings.

Score Box 3.21: Effectiveness of Internal Controls for Non-Salary Expenditure						
Comments	**Current Assessment (2015)**				**2010 Score**	**Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Effectiveness of Expenditure Commitment Controls	Expenditure commitment controls are in place, but they do not cover all expenditure lead to overdrawing of accounts in FY 2014.	C	C. Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	Treasury, IFMIS & Decentralization units at the MINECOFIN / District Administration	Not assessed in 2010	

[52] Article 64 provides that, "This Order shall come into force on the date of its publication in the Official Gazette of the Republic of Rwanda."

Score Box 3.21: Effectiveness of Internal Controls for Non-Salary Expenditure					
(ii) Comprehensiveness, relevance, and understanding of other control rules/procedures	Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; some rules and procedures are excessive and contradictory, at times.	C	C. Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures	District management	
(iii) Degree of compliance with rules for processing and recording transactions	The District complies with many processing and recording rules, but audit reports cases of noncompliance both at the district headquarters and especially at the NBA level.	C	C. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.	2013/14 audit report	
Score (Method M1)		**C**			

Rationale for the Score

<u>Effectiveness of expenditure commitment controls</u>

– the CG-controlled IFMIS platform helps to enforce established expenditure commitment and payment policy. This policy limits commitment to the approved expenditure plan, expenditure plans to the approved budget, and payments to expenditure commitments and cash availability.[53] The OBL requires that budget entities, "In accordance with the authorization issued by the Minister, make commitments based on the approved expenditure plans for the quarter or the month as the case may be. In making commitments, the chief budget manager shall comply with this Organic Law and other related laws as well as the regulations issued by the Minister *(Art 43 OBL)*. Consequently, the IFMIS locks the budget on the system, allowing access only to the amount transferred by MINECOFIN in accordance with the approved expenditure plan.

[53] The IFMIS does effectively limit commitment to cash availability in practice. Additional measures to secure this are in the Manual of Government Policies and Procedures, Volume I: Financial Management and Accounting. Section 4.2.1 of the Manual prohibits overdrawing of bank accounts except with the authorization of the Secretary to the Treasury or mayor, as applicable or the district has obtained formal overdraft facilities as set out in chapter 6 of the Manual regarding government borrowing. The section enjoins the Chief Budget Manager to institute mechanisms to prevent overdrawing accounts. "The overdraft preventive mechanisms may include ensuring that the bank account has sufficient funds to cover all payment orders or cheques issued, expected direct debits and regular reconciliation of the bank accounts at short intervals*" (see 2013/2014 audit report, p. 6)*.

3.129 The minister requests budget entities (including districts) to prepare and submit annual and quarterly expenditure plans based on the approved budget. The minister authorizes it or its modification on the IFMIS, which limits the expenditure plan by line in 'local mode'. Budget entities can only make commitment by line items and this, on the system. The system automatically rejects attempts to commit above the expenditure limit by returning an error message. This approval effectively limits payment to the approved expenditure plan. The IFMIS also limits payment to actual cash availability by linking all bank accounts and ensuring that all procurement, approvals, authorization, and actual payment are through the platform. This enables it to reject authorization and payments of amounts in excess of available cash balance.

3.130 However, evidence of overdrawn bank accounts raises questions about the effectiveness of payment controls. For instance, FY 2013/2014 audit report discusses two cases of overdrawn bank accounts amounting to Frw 137,072,095, caused by issuing of payment orders "without sufficient cash balances and several unreconciled bank differences". Consequently, existing expenditure commitment controls procedures 'are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated".[54] This is the case for a 'C' rating.

<u>Comprehensiveness, relevance, and understanding of other control rules/procedures</u>

3.131 PFM laws and orders include comprehensive rules and procedures on authorization, approvals, delineation of roles, verifications, access and custody of resources, etc. Core district personnel clearly understand these rules, but there is some evidence of non-adherence, especially in NBAs, which leads to repeated adverse audit findings annually. In addition, the District management explained that rules can be excessive and at times and lead to delays, especially when the MINECOFIN provides guidelines on some issues and ministries provide additional instructions on the same issues. Donors also provide conflicting guidelines at times, leading to confusion on which to follow. An example is allowance (sitting, transport) provided by donors, which often conflict with government's.

<u>Degree of compliance with rules for processing and recording transactions</u>

3.132 The *Manual of Government Procedures: Financial Management & Accounting, Vols 1 – 4* published by MINECOFIN sets out details of rules and procedures for recording transactions, among others. Compliance with these rules is high, but audit reports cases of noncompliance at the district headquarters level and much more at the level of subsidiary entities. The headquarters cases include incomplete fixed assets register[55] and failure to stamp "PAID" on paid invoices as required by the regulations[56] *(see pages 37 and 38 of the FY 2014 audit report)*. The district management attributes the high level of noncompliance in NBAs to shortage of necessary capacity skills to in NBAs, especially in primary schools. A common practice in

[54] See the rating criteria in the PEFA Bluebook (PI 20 (i)).
[55] Contrary to the provisions of *the Manual of Government Policies and Procedures: Financial Management and accounting, Volume 3, chapter 8, paragraph 8.2*
[56] In accordance with *The Manual of Government policies and procedures: Financial Management and Accounting, Volume 3 section 5.4.2 (xii)*

primary schools is to assign any teacher to do the accounting work for the period. The teacher's insufficient knowledge of financial procedures leads to noncompliance with them.

3.133 *NBAs are non-budget entities, but the CG requires districts to supervise and monitor their performance (see PI-9).* NBAs also report to the CG through districts, which must incorporate their reports in the district's monthly reports. The CG makes direct budgetary allocations to NBAs, but includes the allocations in districts' budgets. Districts cannot withhold these allocations or discipline NBAs in any other way for nonperformance. Districts are responsible for training NBAs on accounting and procurement procedures, and for securing compliance. Districts internal auditors monitor NBAs and report to the district for necessary corrective action. Audit reports clearly holds districts accountable for controls shortcomings to NBAs.

3.134 *Districts are, therefore, responsible for control flaws in NBAs, despite their being non-budget entities.* The regulations (especially the Organic Budget Law) and external audit reports confirm that districts are responsible for monitoring financial management performance of NBAs.

PI-21: Effectiveness of Internal Audit

3.135 *PI-21* assesses the effectiveness of internal audit, measured by its ability to provide sufficient and timely feedback to management and support external audit. Internal audit must then focus on systems monitoring not prepayment audit unit[57] and produce relevant and timely reports. The indicator also examines management's reaction to internal audit reports. Internal audit must be approach be professional and independence, adhering to international standards such as *International Standards for the Professional Practice in Internal Audit (ISPPIA)* issued by the Institute of Internal Auditors (IIA). The indicator has three dimensions rated in Score Box 3.22 below.

Score Box 3.22: Effectiveness of Internal Audit						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Coverage and quality of internal audit function	Internal audit does not involve accounting work; it focuses on expenditures, revenues, transactions, and some system work, but the limited capacity adversely affects its scope and effectiveness.	C	C. The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.	District administration / Internal Auditors / 2013/14 Report of the Auditor General	Not assessed in 2010	
(ii) Frequency	Internal auditors prepare reports for the	B	B. Reports are issued regularly for	District administration /		

[57] Which is an accounting control function assesses assessed under *PI-20*.

Score Box 3.22: Effectiveness of Internal Audit					
and distribution of reports	auditee, and quarterly reports for the DC, with copies to MINECOFIN, MINALOC, and the Province, and to the auditor general on request at the time of external audit.		most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	Internal Auditors	
(iii) Extent of management response to internal audit findings	The auditee, internal auditor, audit commission, and the sector PFM committee all engage with follow up of audit findings; however, capacity shortages in primary schools affect their ability to implement audit findings effectively.	B	B. Prompt and comprehensive action is taken by many (but not all) managers.	District administration / Internal Auditors	
Score (Method M1)		**C+**			

Rationale for Score

Coverage and quality of internal audit function

3.136 The District currently has only one internal auditor (it used to have three). The internal audit (IA) function reports directly to the DC and is administratively independent of the district executive committee; the mayor and the executive secretary do not control the hiring and discipline (including dismissal) of internal auditors. Internal auditors interact with the executive management, but report to the Audit Committee of the District Council. Audit personnel hold Bachelor's degree at the point of entry into service, and undergo training for professional accounting qualification under the sponsorship MINECOFIN.

3.137 Severe IA capacity shortages seriously constrains the scope of audit work to a very small "representative" sample of about 20[58] out of 184 auditable entities, according to the district. Internal audit does not involve accounting work such as ex ante checking and approval of vouchers (so-called prepayment audit). A review of the FY 2015 IA plan shows that IA does some system audit work, conformity tests on budget lines to ensure non-diversion of the budget, checks on the internal control system (approvals, authorizations, verifications, etc.), financial audit, and operations (including procurement) audit. The District explained that the basis of IA work is an audit plan prepared at the beginning of the fiscal year, but that issues may arise that warrant urgent follow up by the internal auditor the district. However, it was not possible to determine extent of adherence to the workplan.

Frequency and distribution of reports

[58] This is the District's suggestion, but it was not possible to confirm this since there was no audit plan submitted, and no audit report.

3.138 The district produces monthly internal audit reports, consolidated into quarterly reports. Distribution of monthly reports is within the district to the executive council and audit commission. Distribution of the consolidated quarterly reports goes further to include the District Council, the Ministry of Finance (MINECOFIN), Ministry of Local Government (MINALOC), and the Province. The auditor general is not on the routine distribution list, but gets a copy on demand, usually at the commencement of external audit.

Extent of management response to internal audit findings

3.139 Internal audit prepares and submits draft IA reports to managers of audited entities for comments. The auditee reviews the findings and recommendations and agrees implementation action plan for recommendations with the auditor. The implementation plan details who should take what action and the timeline for action. IA prepares monthly reports incorporating these findings for the audit commission of the DC. The audit commission reviews the reports and implementation plan. The PFM committee at the sector level also reviews the plan and follows up with the auditee on ensure implementation. However, some NBAs find it difficult to implement due to shortage of capacity; this is especially the case with primary schools.

3.5 Accounting, Recording, and Reporting

3.140 The accounting and reporting process helps secure and strengthen integrity of the PFM system. The accounting system maintains records and disseminates information for management decision-making and public enlightenment. *PIs 22 – 25* measure how effectively the accounting process discharges these obligations.

PI-22: Timeliness and Regularity of Accounts Reconciliation

3.141 *PI-22* assesses verification of recording practices of accountants, especially reconciliation of bank and book balances and treatment of suspense accounts and advances. 'Advances' here refer to cash payments for which there is yet no record of expenses, even if such payments are for a specific purpose, e.g., travels advances and operational imprests. Advances exclude budgeted transfers (subventions) to parastatals and local government classified as expenditures when made, even if the practice is periodic reporting on any earmarked portion. Reconciliation is critical to internal control, helping to secure reliability and integrity of financial information. Timeliness and frequency of reconciliation are fundamental to reliability. The indicator has two dimensions, assessed in *Score Box 2.23* below.

Score Box 3.23: Timeliness and Regularity of Accounts Reconciliation						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Regularity of bank reconciliations	Regular bank reconciliation takes place at district level and NBA levels within two weeks of the month end, but the quality of district reconciliation is	C	C. Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter.	District Administration (Finance Unit) / monthly financial statements	Not assessed in 2010	

Score Box 3.23: Timeliness and Regularity of Accounts Reconciliation					
	poor.				
(ii) Regularity of reconciliation and clearances of suspense accounts and advances	The district does not use suspense accounts or operational advances.	NA	See Fieldguide, p. 21 "NA – Not applicable: in the case of a dimension, then the dimension is excluded from any further consideration i.e. the assessor proceeds as if the dimension did not exist."		
Score (Method M2)		**C**			

Rationale for the Score

3.142 *Regularity of bank reconciliations – the finance department of the district prepares monthly bank reconciliation statements on treasury held bank accounts, while each NBA prepares and forwards reconciliation statements along with supporting documents and its financial report to the district headquarters monthly.* Bank reconciliation is regular and takes place within two weeks of the succeeding month; bank reconciliation statements form part of the annex to the financial reports, which the district routinely sends to MINECOFIN about the middle of the month. The district reconciles statements on the IFMIS, while NBAs do so by other means, since they do not operate on the IFMIS platform.

3.143 The District acknowledged that some difficult issues to resolve arise occasionally, e.g., debits made by the BNR on District's accounts, which appear in bank statements, and for which there are no supporting documents. The District explained further that the June 2015 bank reconciliation statement includes an unreconciled debit entry of Frw 380,000 by the BNR.

3.144 In addition, the 2013/2014 audit report[59] identified several issues that raise concerns about the quality of bank reconciliation generally. These include five cases of failure to reconcile differences (debits and credits) between the bank statement and cashbooks *(see Figure 3.8).* These resulted in the District overdrawing on some accounts contrary to financial regulations *(see PI-20 above).* The District acknowledged the findings, but blamed it on the bank for double-credited some of their deposits, while failing to debit some of their payments. However, prevention of unplanned overdrawing of account and their unintended consequences is the sort of error proper and regular reconciliation statements and of bank statements and cashbook aims to prevent proactively.

[59] See pp. 46, 47 of the audit report for 2013/2014

Figure 3.8: Unreconciled Items in Bank Reconciliation Statements

- Unreconciled bank differences on these bank accounts as summarised in the table below;

Account Number	Particular	Amount Frw
1210530	Unauthorised payments	(18,724,508)
1210530	Incomplete payments	(340,859)
1210530	Un reconciled bank deposits	15,580
	Total 1	**(19,049,787)**
1210534	Unauthorised payments	(10,068,858)
1210534	Un reconciled bank deposits	1,234,597
	Total 2	**(8,834,261)**

Source: 2013/2014 Audit Report, p. 35

3.145 *Regularity of reconciliation and clearances of suspense accounts and advances* – the district does not use suspense accounts or operational advances (travel or imprest) in its activities.

PI-23: Availability of Information on Resources Received by Service Delivery Units

3.146 *PI-23* measures the extent to which the PFM system tracks cash and in- kind resources available to frontline service delivery units at the community level, e.g., schools and health clinics. Frontline service delivery units are furthest in the resource allocation chain; often there may be significant delays in providing resources to them and they withstand the worst of resource shortfall. Tracking information on resource allocation and availability to such primary service delivery units will help determine the extent to which the PFM system supports frontline service delivery. *Score Box 3.24* assesses the only dimension of this indicator.

Score Box 3.24: Availability of Information on Resources received by Service Delivery Units

Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
Collection and processing of information to demonstrate resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to overall resources made available to the sectors(s) irrespective of which level of government is responsible for the operation of the funding unit (i) Regularity of bank reconciliations	The district collates data on cash resources available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually. It also separately compiles physical (not monetary) data on in-kind gifts to schools annually to the Ministry of Education.	B	B. Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both	District administration	Not assessed in 2010	

Score Box 3.24: Availability of Information on Resources received by Service Delivery Units					
			primary schools and primary health clinics across most of the country (including by representative sampling).		
Score (Method M1)		**B**			

Rationale for the Score

3.147 *The District compiles and reports information on cash resources received by its subsidiary entities (including primary schools and primary health centres) from different sources to the Ministry of Finance.* The education department of the District also reports similar information on primary schools to the Ministry of Education annually. Primary schools receive cash resources from district, parents, donors, and internal resources, which they report to the district headquarters monthly using a template provided by the District. The finance department compiles, consolidates, and includes the summary of the information in its periodic (monthly and quarterly financial reports to the Ministry of Finance. The education department also complies and reports information on these resources and their utilization (with emphasis on capitation grants) to the Ministry of Education, annually.

3.148 *Primary schools also receive in-kind gifts (e.g., sports equipment) from donors, whose monetary value the District's education department is unable assess.* Donors do not formally report these gifts and their values to the District, but schools report them, using a template provided for that. The education department compiles, summarizes, and submits information on in-kind gifts to the Ministry of Education, distinguishing between public schools, private schools, and government-aided schools. The report also includes a district synthesis. The District provided the Excel version of the FY 2014 report in evidence.

PI-24: Quality and Timeliness of In-year Budget Reports

3.149 *PI-24* assesses the ability of the accounting system to produce quality reports on all aspects of budget execution. In-year budget reports provide information for monitoring and corrective decision-making and covers both commitment and payment expenditures. Reports must be regular, timely, available to the Ministry of Finance and the cabinet (for monitoring purposes) and MDAs for managing their affairs, and identify new actions needed to "bring in" the budget. In-year reports include interim budget performance reports to the Legislature. The quality of in-year budget reporting determines the timeliness of final accounts and the ease of data verification, including bank reconciliations. The indicator has three dimensions, assessed in *Score Box 3.25* below.

Score Box 3. 25: Quality and Timeliness of In-year Budget Reports						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Scope of reports in terms	Monthly budget execution reports	D	D. Comparison to the budget may	The district administration /	Not assessed in 2010	

Score Box 3. 25: Quality and Timeliness of In-year Budget Reports					
of coverage and compatibility with budget estimates	capture expenditure at the payment stage only (not also at commitment); comparison between budget and outturns is possible only by economic categories, and not by administrative headings, as well		not be possible across all main administrative headings.	monthly financial reports	
(ii) Timeliness of issues of the reports	Budget execution reports issued as part of monthly financial reports not later than the middle of the next month. Real-time record keeping. On the IFMIS system makes this possible.	A	A. Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.		
(iii) Quality of information	There are no material concerns affecting accuracy of IFMIS-based monthly budget execution reports.	A	A. There are no material concerns regarding data accuracy.		
Score (Method M1)		**D+**			

Rationale for the Score

Scope of reports in terms of coverage and compatibility with budget estimates –

3.150 The Finance unit of the district prepares monthly budget execution reports comparing budget and actual expenditure on a template produced by the MINECOFIN. The template requires comparison of actual payment (not commitment) with the budget on economic categories only. Comparison is with the originally approved budget from July to December and the revised budget from January to June. Reporting uses information generated from the IFMIS, which also holds information administrative categories and commitment expenditure. *PI-20* above shows that commitment is online through the IFMIS platform; *PI-5* also shows that the general ledger on the IFMIS records budget execution along economic and administrative lines. It is possible therefore to reconfigure the budget execution template to show the original budget (always), commitment expenditure, and actual payment along administrative (and economic) lines, should the Ministry of Finance see the usefulness of such reporting in helping to "bring in" the budget. While administrative entities have access to that information through the IFMIS, periodic reporting of the information to the Ministry of Finance will focus attention on the role of administrative control in achieving budget targets.

Timeliness of issues of the reports

3.151 Budget execution reports is part of the package of annexes attached to the monthly financial reports, which the district submits to the Ministry of Finance by the middle of the next month. Meeting this target is not difficult, because the IFMIS platform makes real-time record keeping possible. NBAs do not prepare budget execution reports, because they are non-budget agencies. The district is the lowest level budget entity.

Quality of information

3.152 The quality of data for the report is good. Online, real-time recording on the IFMIS helps to ensure data accuracy. There are no material concerns affecting accuracy of IFMIS-based monthly budget execution reports

PI-25: Quality and Timeliness of Annual Financial Statements

3.153 This indicator assesses completeness, timeliness, and conformity of annual financial statements to generally accepted accounting standards. Completeness requires that financial statements the central government, independent departments, and deconcentrated units. Timeliness indicates how well the accounting system is functioning and the quality of records maintained. Compliance with international standards promotes understandability and transparency in dealing with assets and liabilities. This indicator has three dimensions, as rated in *Score Box 3.26*.

Score Box 3.26: Quality and Timeliness of Annual Financial Statements						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Completeness of the financial statements	Financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, and both detailed and consolidated information of its subsidiaries as notes. The disclosure by way of notes, rather than full integration into the main accounts of the district is a major reason for the auditor general issuing a qualified audit report.	B	B. A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities. See also "Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments", *pp. 28 -29*	District government / FY 2014 audit report	Not assessed in 2010	
(ii) Timeliness of submission of the financial statements	FY 2014 financial statements submitted for audit on September 30, 2014.	A	A. The statement is submitted for external audit within 6 months of the end of the fiscal year.	District Administration		
(iii) Accounting	The modified cash standard used is	A	A. IPSAS or corresponding	FY 2014 audit report		

Score Box 3.26: Quality and Timeliness of Annual Financial Statements					
standards used	broadly compatible with IPSAS reporting requirements		national standards are applied for all statements.		
Score (Method M1)		**B+**			

Rationale for the Score

Completeness of the financial statements

3.154 The annual financial statements cover the main activities of the district and includes information on subsidiary entities or non-budget agencies in an annex. The format / template provided by the Ministry of Finance comprises three main sections: the statements, notes to the financial statements, and important disclosures.[60] The actual statements are three, i.e., statement of revenues and expenditure, statement of financial assets and liabilities, and cash flow statement. The notes show details of 23 items relevant to the financial position of the district, and include information on accounts payable, accounts receivables.[61] Items shown as disclosures include these four (i) statement of contingent liabilities, (ii) statement of investments, (iii) undrawn loan and grant balances, and (iv) disclosure on subsidiary entities financial results. The 2013/2014 audit opinion is an unqualified one and certifies that the district maintained proper books of account "and the financial statements give a true and fair view of the state of the financial affairs of [the] … District as at 30 June 2014 and of its receipts and expenditure for the year then ended and comply with the existing laws and regulations."[62]

Timeliness of submission of the financial statements

3.155 Budget entities must submit their financial statements to the Ministry of Finance and Economic Planning for comments by July 31 each year for review. The entity incorporates observations of the ministry before submitting the revised financial statements for audit. In compliance with this requirement, the district submitted a first draft of the financial statements to the ministry on July 31, and a revised version on August 29, 2014. The district reflected the ministry's comments before submitting the draft for audit on 30 September 2014. The auditor general completed the audit and made observations, which included certain required adjustments. The management treated the comments, made the adjustments, and re-submitted to the statements to auditor general on February 14, 2015. The auditor general reflected the management responses in its audit report issued in March 2015.

[60] The financial statements are a component of the financial report, which also include budget execution report, progress report on follow up to auditor general's findings, and compliance checklist for budget agencies.
[61] Notes to the financial statements use these headings (i) tax revenue,(ii) fees, fines, penalties and licenses, (iii) transfer from central treasury, (iv) grants, (v) capital receipts, (vi) proceeds from borrowings, (vii) other revenue, (viii) compensation of employees , (ix) use of goods and service, (x) transfers to reporting entities, (xi) grants and other transfer payments, (xii) social assistance, (xiii) finance cost, (xiv) other expenses, (xv) capital expenditures, (xvi) loan repayments, (xvii) cash at bank, (xviii) cash in hand, (xix) accounts receivables, (xx) account payables, (xxi) accumulated surplus (deficit) from previous year, (xxii) prior Year Adjustments
[62] 2013/2014 audit report, p. 7

3.156 Therefore, the effective date of submission of the statements therefore, is September 30, 2014, and not the February 19, 2015 date of submission of the adjusted 2013/2014 financial statements at the end of the annual audit.

Accounting standards used

3.157 The 2013/2014 financial statements contain a section on Statements of Accounting Policies indicating use of the “modified cash basis of accounting”, which the audit report confirms is generally in line with IPSAS. The cash basis recognizes financial transactions only at the time the associated cash flows take place, does not capitalize expenditure on acquisition of fixed assets, i.e., written off on acquisition, this not depreciation, and writes off prepaid expenditure/advances when disbursed. The “modification”[63] recognizes (i) outstanding yearend invoices for goods and services as liabilities, (ii) loans/advances as liabilities/assets at time of disbursement, (iii) related interest only when disbursed and accrual of interest payable on public debt, and (v) exchange rate gains/losses associated with conversion of foreign currency denominated book balances recurrent revenue/expenditure.[64] The main categories of expenditure are as defined in ministerial order as follows employees, use of goods and services, capital expenditures, transfers and subsidies, loan and interest repayments, social benefits, transfers to reporting entities, and other expenses[65].

3.6 External Scrutiny and Audit

3.158 These indicators assess the quality of external oversight of the budget process by bodies unconnected with its preparation, implementation, recording, and reporting, e.g., the Legislature and the Supreme Audit Institution (SAI). Audit scrutinizes the final accounts and internal controls against internationally accepted principles and standards and makes recommendations for improvement to the Legislature to rule on. The Legislature also reviews and approves the executive budget proposal. It also examines audit findings and recommendations and makes resolutions for the executive to enforce.

PI-26: Scope, Nature, and Follow-Up of External Audit

3.159 This indicator assesses the quality of external audit reports, i.e., its scope, mandate, standards and procedures, and independence (political, administrative, financial, and emotional independence), and the extent of follow up of its findings. *Score Box 3.27* summarizes the assessment.

Score Box 3. 27: ***Scope, Nature, and Follow-Up of External Audit***

Comments	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Scope/nature of audit performed (including adherence to	Audit covers 100 percent of the operations (revenues,	A	A. All entities of central government are audited annually covering revenue,		Not assessed in 2010	

[63] Ministerial Order N° 002/07 of 9 February 2007 relating to Financial Regulations
[64] See 2013/2014 Financial Statements
[65] Article 19 of Ministerial Order N° 002/07 of 09/02/2007 relating to Financial Regulations

Score Box 3. 27: *Scope, Nature, and Follow-Up of External Audit*					
auditing standards)	expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards.		expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.		
(ii) Timeliness of submission of audit reports to legislature	The SAI submitted the 2013/2014 audit report to the district council on March 20, , 2015, i.e., about six months after receiving the financial statements	B	B. Audit reports are submitted to legislature within 8 months of end of period covered and in the case of financial statements from their receipt by the auditor.		
(iii) Evidence of follow-up on audit recommendations	The level of implementation of previous audit findings has been rising in recent years, from 55.6% in FY 2012 to 73.7% in FY 2013, and 83 in FY 2014.	A	A. There is clear evidence of effective and timely follow up.	Audit reports for FY 2012, 2013, & 2014	
Score (Method M1)		**B+**			

Rationale for the Score

Background

3.160 *Dimensions (i) and (ii) are not applicable to district, because external audit is not a function of district governments, but that of the Central Government.* The OBL[66] and the Decentralization Law[67] define the role of district administrations in external audit. The OBL requires the chief budget manager "to provide any other information as … required by the Ministry and the Office of the Auditor General of State Finances" and to "implement the audit recommendations of the Ministry and Auditor General of State Finances". The Decentralization Law defines the duties of district councils to include, "to monitor the implementation of recommendations contained in the report of the Auditor General of State Finance". Thus, the

[66] Organic Law on State finances and property, **Law N°12/2013/OL of 12/09/2013**, Art. 19, paras. 9 - 10
[67] Law determining the organization and functioning of decentralized administrative entities, **Law Nº 87/2013 of 11/09/2013** Art. 125, para. 5

responsibility of districts is only to implement audit findings, making only dimension (iii) of this indicator relevant.

3.161 *Article 183* of the Constitution of the Republic Rwanda 2003 establishes the Office of the Auditor General of State Finances as “an independent **national** institution responsible for the audit of state finances … vested with legal personality … financial and administrative autonomy”. The article defines the responsibilities of the Office to include the following :

- “auditing objectively whether revenues and expenditures of the State as well as local government organs, public enterprises and parastatal organizations, privatized state enterprises, joint enterprises in which the State is participating and government project were in accordance with the laws and regulations in force and in conformity with the prescribed justifications
- auditing the finances of the institutions referred to above and particularly verifying whether the expenditures were in conformity with the law and sound management and whether they were necessary
- carrying out all audits of accounts, management, portfolio and strategies which were applied in institutions mentioned above”.

3.162 The article further provides that *“no person shall be permitted to interfere in the functioning of the Office or to give instructions to its personnel or to cause them to change their methods of work”*

3.163 Audit is therefore, a central government (CG) function, not district function. It is, at best, a deconcentrated function of the CG, better assessed at the CG level (as part of the CG PEFA taking place simultaneously with this exercise), rather than the district. This reasoning is in line with the provisions of the *Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments*. The Guidelines provide (page 5)

> “To date, PEFA assessments have been carried out for SN governments that have some degree of decentralization, which clearly requires some measure of fiscal decentralization. This is distinct from deconcentration, which is a transfer of responsibilities, powers and resources from the national government (ministries and agencies) to field offices at the local and regional level, thereby becoming closer to the citizens while remaining a part of the national government system. **Deconcentrated units (administrations déconcentrées) should therefore be covered by a national government assessment.**” The analysis has added this emphasis added.

3.164 However, the revised draft has proceeded to assess dimensions (i) and (ii) following comments by the PEFA Secretariat, and subsequent pressure by the GoR, based on the comments.

<u>Dimension (i): Scope/nature of audit performed (including adherence to auditing standards)</u>

3.165 This assessment presents evidence answers to address the key questions in the Fieldguide as follows

3.166 *What legislation regulates external audit (including organization of SAI)?* – External audit is a constitutional function in Rwanda, as stated above. The Supreme Audit Institution (SAI) is the Office of the Auditor General for State Finance. The office audits both CG and in

LG entities. The objective of the audit function in districts is as usually summarized in annual audit reports, i.e., to ascertain that

- the district has kept proper books of account and the financial statements prepared therefrom give a true and fair view of the state of the financial affairs of the district for the financial year and of its receipts and expenditure for the year then ended and comply with existing laws and regulations
- the district observed controls put in place to safeguard the receipt, custody and proper use of public funds and the laws and regulations in force
- The expenditure incurred was necessary and in conformity with the laws and regulations in force and sound management, and
- The district acquired and utilized human, material and financial resources economically, efficiently and effectively[68]

3.167 *What % of total expenditure of central government was achieved in audit coverage for last FY audited (50% or less, over 50%, over 75% or 100%)?* – the 2013/2014 audit covered 100 percent of expenditures of the district headquarters. This percentage "refers to the amount of expenditure of the entities covered by annual audit activities, not the sample of transactions selected by the auditors for examination within those entities".[69]

3.168 *Do audit activities cover PEs & AGAs?* A special relationship exists between districts and its subsidiary entities or non-budget agencies (NBAs), as explained in *Chapter 2* of the consolidated PEFA report and highlighted in *PIs 7, 8, 9, 20, 21, and 24* of this report. These NBAs are neither PEs nor strictly AGAs; however, districts are responsible for monitoring them and ensuring that they conform to financial regulations. The audit function covers them, although only a limited sample basis, since they are many and will require much time and financial resources to audit in detail (see PI-7 for the composition districts' NBAs).

3.169 *What is nature of external audit performed (audits of transactions or audits of systems)?* – the 2013/2014 audit comprised both transactions and systems audit. The systems audit comprised an early review of the internal control system (including internal audit) and procurement processes to help inform the audit procedures. The transactions audit aspect carried out a test examination of evidence supporting amounts and disclosures in the financial statements. The audit also assessed the accounting principles used and significant estimates made by management, and evaluated the presentation financial statements. The 2013/2014 audit report includes findings on all these elements.

3.170 *Are performance audits performed in addition to financial audits?* The 2013/2014 audit also involved some performance and value for money audit, although only on a limited basis. For instance, the report includes a section on *"Results from the Physical Verification"*[70], which reports the case of "Delayed completion and abandoned works for construction of Minazi health centre". The "total contract amount was Frw 288,697,780" of which the district had paid 75 percent of the costs. The audit report alleges that, "a lot of works were yet to be executed". The audit report did not state the exact extent of outstanding work, and whether it conducted an

[68] See Gakenke District Audit Report for The Year Ended 30 June 2014, p. 4
[69] *See the Fieldguide. p. 148*
[70] See 2013/2014 audit report, *pp. 39 – 41*

independent assessment to determine that. The quality of the audit assessment is thus unclear, especially given the district management's response that its engineers assessed the amount of completed at time of abandonment at 78.5 percent (as against 75 percent payment made). The audit report also did not dispute the management's assertion that it retained the "performance guarantee of Frw 28,848,658".

3.171 *To what extent do audit activities adhere to auditing standards?* The audit function enjoys a high degree of independence at the district level. First, audit is a CG function, which district administrations do not control. Appointment, remuneration, and discipline of auditors are not LG responsibilities, but that of the CG. Second, the SAI reports management s findings to the Parliament at the CG level, as required by law, although it also sends a copy of its report to the district as the auditee. Third, audit adopts international standards on auditing, especially the International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions (INTOSAI) and standards issued by the African Organization of Supreme Audit Institutions (AFROSAI), to which the SAI has belonged since 2004. These standards require compliance with ethical principles in the planning and conduct of the audit. The SAI operationalized its internal Code of Ethics in 2007, in line with these standards. The appropriate score for this dimension is A.

Timeliness of submission of audit reports to legislature

3.172 Evidence from the Office of the Auditor General shows that it submitted the 2013/2014 audit report to the District on March 20, 2015.[71] This was six months after receipt of the financial statements for audit on September 30, 2014. The score is, "B".

Evidence of follow-up on audit recommendations

3.173 Audit reports include a section on "Implementation of Previous Year Audit Recommendations". Review of the section in recent audit reports shows an increasing trend in the level of full implementation of audit recommendations. The level of full implementation was 55.6% in 2011/2012 when the District resolved 20 out of 36 findings.[72] Some of the unimplemented or partially implemented recommendations involve matters are awaiting court decisions. The level of implementation rose to 73.7% in 2012/2013 with full resolution of 14 out of 19 findings,[73] and again to 83.3% in 2013/2014 with resolution of 24 out of 29 issues.[74]

3.174 The 2013/2014 audit report shows that that the District has fully implemented 75 percent or 12 of the 16 recommendations in the preceding year's report. The district had not only partially implemented one of the findings, while it had not implemented three at all 75 percent[75] The level of full implementation in 2012/2013 was 47 percent.[76] In 2011/2012, the level of implementation reported was also 75 percent, i.e., 21 out 28 findings.[77] The level of

[71] See transmittal memo No. 102/03/15/DPP/OAGA, dd 17 Mars, 2015 and by Head of Central Secretariat in Gakenke District on 20/03/2015
[72] See 2011/2012 audit report, pp. 9, 58
[73] See 2012/2013 audit report, p. 61
[74] See 2013/2014 audit report, p. 42
[75] See pp. 98 of FY 2014 audit report; 44 of FY 13 audit report, and 38-39 of FY 14 audit report
[76] See page 52 of the 2012/2013 audit report
[77] 2011/2012 audit report, pp. 46, 60 – 74.

implementation of audit recommendations was high in two of the three years, justifying the "A: rating; the middle year appears to be exceptional.

3.175 Some of the recurring unimplemented findings relate to the district's failure to consolidate or integrate "Transactions and bank balances of NBAs … in the district books of account", an issue that is beyond districts. Districts keep their records and prepare their statements and reports in accordance with templates and using software supplied by the MINECOFIN. Only the MINECOFIN can make the required changes for districts to implement. An issue that was peculiar to 202/2013 is the case of failure to return spent receipt booklets by two tax collectors. Audit required return of the booklets in line with financial regulations. The district sued the tax collected and the action was still pending in court when the audit report listed the recommendation to recover as 'not implemented" in 2012/2013.

PI-27: Legislative Scrutiny of Annual Budget Law

3.176 PI-27 assesses the thoroughness and rigour involved in the legislature's approval of the Appropriation Bill. Accountability and transparency of government requires a rigorous and clear process in scrutinizing and approving the budget. *Score Box 3.28* rates the four dimensions of the indicator: (i) scope of the Legislature's scrutiny, (ii) the internal legislative procedures, (iii) time allowed for that process, and (iv) rules for in-year budget amendments and the level of adherence to them.

Score Box 3.28: Legislative Scrutiny of the Annual Budget Law						
Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Scope of Legislatures Scrutiny	The DC reviews details of revenue and expenditures, but it cannot change fiscal policy decisions already made by the CG, which finances over 90% of the budget	C	C. The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	District administration / MINECOFIN / OBL 2013	Not assesses in 2010	
(ii) to which Legislature's procedures are well-established and respected	Simple procedures for review exist; the Economic Commission reviews details of proposals and present to the DC for approval. The Commission interacts with the CBM and other technical staff of the District in the process.	B	B. Simple procedures exist for the legislature's budget review and are respected.	District administration		
(iii) Adequacy of time for the Legislature to provide response	Review of the budget begins after receipt of the first budget call circular and concludes	B	B. The legislature has at least one month to review the	District administration		

Score Box 3.28: Legislative Scrutiny of the Annual Budget Law					
to budget proposals, both to detailed estimates, and where applicable, for proposals on macro fiscal aggregates earlier in the budget cycle (time allowed in practice for all stages combined)	sometime before or on June 30, a period of about three months.		budget proposals.		
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature	The OBL 2013 and relevant regulations set out clear rules for in-year budget amendments. Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.	A	A. Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.	Legislations supplied by the MINECOFIN / the District administration district accounts	
Score (Method M1)		**C+**			

Rationale for the Score

3.177 *Scope of Legislatures Scrutiny* – the District has a legislative council comprising 36 members, who serve part-time. The Council reviews and adopts the budget of the district in accordance with extant legal provisions; however, its review has a limited scope. *Articles 5* of OBL and *125(3)* of the Decentralization Law[78] require the District Council to adopt the budget of the District Council. *Article 11* emphasizes that only the District Council may adopt the budget of the district, but before doing so, "members of the Decentralized entity Council shall consider and provide comments on the Budget Framework Paper" (BFP). However, the DC only provides comments to the cabinet, as other decentralized entities and the Chamber of Deputies do as well. It does not approve the Budget Framework Paper (BFP). The Minister of Finance prepares the BFP for the cabinet to approve *(Art. 32, OBL)*. The BFP sets the tone of the MTEF and the budget. The law requires that expenditure estimates of the district be "in conformity with medium term strategies established by the State" in the BFP *(Article 36 of the OBL)*. In reality

[78] Law determining the organization and functioning of decentralized administrative entities, **Law Nº 87/2013 of 11/09/2013**

therefore, the district does not make fiscal policies and forecasts; the GoR does so in the BFP for the entire country. The District Council therefore, cannot approve fiscal policy, but only ensures that the district's budgets align with it. The Council approves forecasts only for own revenues of the district, which accounts for less than 10 percent of its budget.

Extent to which Legislature's procedures are well established and respected –

3.178 The district follows simple, but well-established procedures in adopting the budget. The DC sometimes holds retreats at the beginning of the planning period, during which it discusses projects proposed for funding in the budget and some issues relating to the budget, although the retreats are not solely dedicated budget discussions. The retreat for the last fiscal year held at Rubavu from January 16 to 18, 2015.

3.179 The district administration shares the budget proposal and other documents for review in advance with the economic commission[79] of the DC on commencement of the budget review process. The commission verifies that the proposal includes projects agreed for funding at the planning retreat. The economic commission reviews in the proposal in detail, taking about one week and interacting with the executive committee and technical personnel in the process. The commission thereafter, endorses the proposal to the DC for adoption. This is an established tradition, based on the legal provisions. *Art. 11* of the OBL provides that, "The Council of the decentralized entity shall have the authority to require members of the Executive Committee and chief budget manager to appear before it and explain policies, programs and utilization of the budget of the concerned decentralized entity". The Commission then presents its findings to the DC to consider and adopt.

Adequacy of time for the Legislature to provide response to budget proposals –

3.180 Review of the draft budget begins after receipt of the first budget call circular, but submission of the draft 2015/2016 proposed budget was on May 25, 2015. The DC approved the budget on June 30, 2015, about six weeks after submission. However, the time taken is more than six weeks, counting from the time of planning retreat in January.

Rules for in-year amendments to the budget –

3.181 Rules for in-year amendment to the budget are clear, set out in the OBL and relevant regulations. *Arts. 46* and *49* of the OBL permit the CBM to reallocate up to 20 percent of the budget of one program (administrative units) to another programme during budget execution. However, the articles expressly prohibit reallocation in excess of 20 percent or from one economic category to another without express approval. Reallocation from employee costs (salaries) to another category requires parliamentary (Chamber of Deputies) approval and reallocation between recurrent and development expenditures or between programmes requires the approval of the Minister of Finance. The District adheres to the rules. Commitment controls on the IFMIS also help to secure observance of the rules.

[79] Established under Art 46 of **Law Nº 87/2013 of 11/09/2013** on Decentralization

PI-28: Legislative Scrutiny of External Audit Reports

3.182 *PI-28* assesses the extent the legislature's scrutiny of audit reports. Usually, a dedicated legislative committee (the Public Accounts Committee, PAC) examines eternal audit reports and questions responsible parties over irregular audit findings. The examination covers both government entities directly audited by the SAI, and AGAs audited by other auditors. The committee makes recommendations to the full House for approval as resolutions for the executive to implement. The House must allocate adequate financial and technical resources to facilitate the work of this committee. *Score Box 3.29* set out the states performance on the three dimensions of this indicator.

<table>
<tr><th colspan="7">Score Box 3.29: Legislative Scrutiny of External Audit Reports</th></tr>
<tr><th rowspan="2">Comments</th><th colspan="4">Current Assessment (2015)</th><th rowspan="2">2010 Score</th><th rowspan="2">Explanation of Change since 2010</th></tr>
<tr><th>Evidence Used</th><th>Score</th><th>Framework Requirement</th><th>Information Source</th></tr>
<tr><td>(i) Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)</td><td>Completion of examination of audit reports takes about three months from date of its receipt by the DC; the district is not in arrears of review of audit report.</td><td>A</td><td>A. Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.</td><td rowspan="3">District Administration</td><td rowspan="3" colspan="2">Not assessed in 2010</td></tr>
<tr><td>(ii) Extent of hearings on key findings undertaken by the Legislature</td><td>The AC interviews indicated persons in serious cases such as the fraud case of 2011, but the executive committee satisfactorily investigates and agrees corrective measures, even before its meeting with the AC.</td><td>A</td><td>A. In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.</td></tr>
<tr><td>(iii) Issuance of recommended actions by the Legislature and implementation by the executive</td><td>The AC proposes recommendations, which the DC ratifies, and the CBM follows up on implementation.</td><td>A</td><td>A. The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.</td></tr>
<tr><td colspan="2">Score (Method M1)</td><td>A</td><td colspan="2"></td><td colspan="2"></td></tr>
</table>

Rationale for the Score

<u>Timeliness of examination of audit reports by the Legislature –</u>

3.183 The parliamentary Public Accounts Committee (PAC) reviews audit findings, hold public hearings, invites indicted persons, and makes recommendations. However, these hearings are of necessity, on a representative basis, given the impracticality of holding hearings on the findings of all 30 districts, for instance, in addition to the numerous other public entities. The DC has parallel arrangements for reviewing audit findings, which begins with receipt of the audit report. Procedurally, the auditor general submits the audit report to the mayor of the district, who is both the elected political head of the district and a member of the District Council. The mayor promptly submits the report to the audit committee (AC) of the District and also places it before the executive committee (EC) of the district under the mayor's headship for technical review and preliminary remedial action. Other members of executive committee are the two deputy mayors and the executive secretary. The executive committee reviews the findings of the report, meets with indicted persons, outlines strategy for implementing the recommendations with timelines, and meets with the AC. The AC reports to the DC, suggesting remedial actions and follow up plan. The DC may adopt the suggestions as made or modify them, before issuing them as directives to the executive committee for implementation.

3.184 The DC usually completes examination and issues recommendations on audit findings before the submission of the financial statements to the Ministry Finance and Economic Planning by July 31. This is so, because the financial statements must include a DC-approved report on the treatment of the preceding year's audit findings.

3.185 The DC completes its hearings and issues recommendations within three months of the receipt of the audit report. It was not possible to confirm the exact date of the completion of the most recent hearing during the field visit to the District. However, the DC had completed its hearing on the 2013/2014 audit report by the time the District submitted the 2014/2015 financial statements in July 2015. Note 10 of the financial statements is an attachment titled, "Progress on follow up of Audit Recommendations"; a document that the DC usually approves. Evidence from the Office of the Auditor General shows that it submitted the 2013/2014 audit report to the District on March 20, 2015.[80]

Extent of hearings on key findings undertaken by the Legislature

3.186 The AC meets with the executive committee to review the findings, factors responsible for them, and the corrective measures proposed by the executive committee. The AC invites and interviews indicted persons in serious cases, e.g., the fraud case that in 2011, when a former district accountant embezzled district funds. Recent audit reports, however, have not involved any such major finding, but rather relatively minor cases of failure to comply with rules and procedures. The district management meets with affected personnel in such cases, and in most cases, works out corrective measures, even before its meeting with the AC.

Issuance of recommended actions by the Legislature and implementation by the executive

3.187 The DC issues recommendations. The district's management implements these recommendations, follows up on progress, and periodically reports on the same to the DC. The follow-up process includes preparation of a formal progress report ("Progress on follow up of

[80] See transmittal memo No. 102/03/15/DPP/OAGA, dd 17 Mars, 2015 and by Head of Central Secretariat in Gakenke District on 20/03/2015

Audit Recommendations") with the following seven headings, (i) serial number, (ii) reference no. on the OAG Report, (iii) issue / observations from Auditor, (iv) management comments, (v) focal point and contact person (Names and Phone), (vi) status, and (vii) timeframe. This report forms part of the monthly, quarterly, and annual financial reports / statements submitted by the District to the Ministry of Finance.

3.188 The level of implementation of audit findings is as stated in PI-26 (iii), and reproduced here. The level of full implementation was 55.6% in 2011/2012 when the District resolved 20 out of 36 findings.[81] Some of the unimplemented or partially implemented recommendations involve matters are awaiting court decisions. The level of implementation rose to 73.7% in 2012/2013 with full resolution of 14 out of 19 findings,[82] and again to 83.3% in 2013/2014 with resolution of 24 out of 29 issues.[83]

3.189 The 2013/2014 audit report shows that that the District has fully implemented 75 percent or 12 of the 16 recommendations in the preceding year's report. The district had not only partially implemented one of the findings, while it had not implemented three at all 75 percent[84] The level of full implementation in 2012/2013 was 47 percent.[85] In 2011/2012, the level of implementation reported was also 75 percent, i.e., 21 out 28 findings.[86] The level of implementation of audit recommendations was high in two of the three years, justifying the "A: rating; the middle year appears to be exceptional.

3.190 Some of the recurring unimplemented findings relate to the district's failure to consolidate or integrate "Transactions and bank balances of NBAs … in the district books of account", an issue that is beyond districts. Districts keep their records and prepare their statements and reports in accordance with templates and using software supplied by the MINECOFIN. Only the MINECOFIN can make the required changes for districts to implement. An issue that was peculiar to 202/2013 is the case of failure to return spent receipt booklets by two tax collectors. Audit required return of the booklets in line with financial regulations. The district sued the tax collected and the action was still pending in court when the audit report listed the recommendation to recover as 'not implemented" in 2012/2013.

3.7 Donor Practices

3.191 The three indicators in this set assess the impact of donor practices on country PFM system. The indicators deal with both direct budget (D-1) and project (D-2) support, and use of national procedures by donors (D-3).

D-1: Predictability of Direct Budget Support

3.192 D-1 assesses the predictability of flow and timing of direct budget support. Direct budget support is an important source of revenue for many aid dependent countries. Predictability is

[81] See 2011/2012 audit report, pp. 9, 58
[82] See 2012/2013 audit report, p. 61
[83] See 2013/2014 audit report, p. 42
[84] See pp. 98 of FY 2014 audit report; 44 of FY 13 audit report, and 38-39 of FY 14 audit report
[85] See page 52 of the 2012/2013 audit report
[86] 2011/2012 audit report, pp. 46, 60 – 74.

therefore as important for fiscal management as predictability of other revenues is. Poor predictability can transmit shocks into the revenue performance and shortfalls may affect ability to implement the budget as planned. Delays in in-year distribution of aid flows also have similar serious implications. *Score Box 3.30* assesses the two dimensions of this indicator.

Score Box 3. 30: Predictability of Direct Budget Support					
Dimension		**Score**	**Comments**	**Information Source**	
(i)	Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the Government submitting its budget proposals to the Legislature (or equivalent body for approval)	Not applicable			
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)				
Score (Method M1)					

Rationale for the score

3.193 *This indicator does not apply at the local government level.* Districts do not directly interface with donors and thus, do not receive direct cash contributions (budget or project support). Donors channel their cash assistance through the central government, which disburses to districts through its agencies, such as sector ministries, LODA, RALGA, etc. These disbursements form an integral part of districts budgeting and financial reporting, as discussed in *PI-7 above*.

D-2: Financial Information provided by donors for Budgeting and Reporting on Project and Program Aid

3.194 Predictability is also important in project/program-tied aids because it affects implementation specific budget lines or items. The ability of the government to budget the resources and report actual disbursement and use of funds may depend on the extent of its involvement in planning and management of resources. Limited government involvement may create difficulties in budgeting and reporting. The less involved the government is, the greater the responsibility of the donor to provide necessary information for budgeting and reporting. For cash aids, disbursement may be through a separate bank account or as extra-budgetary funds. The government (through the spending units and the Treasury, perhaps) should be able to budget and report on cash received through such assistance. However, the government totally depends on donors for information on in-kind assistance. Whether assistance is in cash or kind, donor reports are vital for reconciliation between donor disbursement records and government project accounts. This indicator assesses the completeness and timeliness or budget estimates on project support by donors. It also assesses the frequency and coverage of reporting by donors on actual funds flow. *Score Box 3.31* assesses the two dimensions of this indicator.

Score Box 3. 31: Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid				
Dimension		**Score**	**Comments**	**Information Source**
(i)	Completeness and timeliness of budget estimates by donors	Not		

	for project support	applicable		
(ii)	Frequency and coverage of reporting by donors on actual flows for project support.			
Score (Method M1)				

Rationale for the Score

3.195 *This indicator does not apply at the local government level.* Districts do not directly interface with donors and thus, do not receive direct cash contributions (budget or project support). Donors channel their cash assistance through the central government, which disburses to districts through its agencies, such as sector ministries, LODA, RALGA, etc. These disbursements form an integral part of districts budgeting and financial reporting, as discussed in *PI-7 above*.

D-3: Proportion of Aid Managed by Use of National Procedures

3.196 This indicator assesses the extent to which donor agencies rely on domestic procedures to manage their assistance programmes. Some general national or domestic legislation and regulations establish procedures for the management of funds. Implementation of these procedures is usually through mainstream line management structures and functions of Government. Some donors do not trust existing domestic structures and arrangements. Consequently, they establish parallel structures to manage their assistance. This diverts capacity away from managing the state system and becomes worse when different donors require different management arrangements. Use of national/domestic structures help focus efforts on strengthening and complying with the national procedures, including for domestic operations.

Score Box 3. 32: Proportion of Aid Managed by Use of National Procedures

Dimension		Score	Comments	Information Source
(i)	Overall proportion of aid funds to central Government managed through national/district procedures	Not applicable		
Score (Method M1)				

Rational for the Score

3.197 *This indicator does not apply at the local government level.* Districts do not directly interface with donors and thus, do not receive direct cash contributions (budget or project support). Donors channel their cash assistance through the central government, which disburses to districts through its agencies, such as sector ministries, LODA, RALGA, etc. These disbursements form an integral part of districts budgeting and financial reporting, as discussed in *PI-7 above*.

Appendixes

Appendix 1: Gakenke District PEFA PFM Performance, 2014 Indicators Summary

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
HLG-1 Predictability of Transfers from Higher Level Government						
Predictability of Transfers from Higher Level Government	B	C	A		**C+**	Deviation in HLG transfers fell short of estimate by more than 10 percent only in 2012/2013 (i.e., 14%). Variance in earmarked transfers did not reach 10% in any; however, it exceeded 5% every year (FY12 = 8.0%; FY13 = 8.4%; FY14 = 9.7%). Disbursement does not experience delay; districts access transfers through the IFMIS in accordance with a quarterly cash / disbursement plan made by the Ministry of Finance & Economic Planning and locked on the IFMIS.
A. PFM Outturns: Credibility of the Budget						
1. Aggregate expenditure out-turn compared to original approved budget	A				**A**	Actual expenditure deviated from budget expenditure by more than 5 percent only in FY 2013. Expenditure deviation was 3.6% in FY 2012 and FY 2014 and 8.3% in FY 2013.
2. Composition of expenditure out-turn compared to original approved budget	C	A			**C+**	Composition variance exceeded 15% in only one of the last three years: 17.5% in 2011/2012, 14.9% in 2012/2013, and 6.4% in 2013/2014. The district did not use contingency votes in any of the last three years.
3. Aggregate revenue out-turn compared to original approved budget	D				**D**	Actual own revenue collected was either below 92% or above 116 percent of the budget every year from FY 2013 to 2014, i.e., 78.3% in FY 2012, 547.8% in FY 2013, and 86.0% in FY 2014
4. Stock and monitoring of expenditure payment arrears	A	A			**A**	Accounts payable was 1.8% of aggregate expenditure in FY 2014, down 52 percent from the level in FY 2013. Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made after formal closure of the books at yearend, and paid immediately at the beginning of the new year.
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	A				**A**	Budget classification uses administrative, economic, and functional categories; the program category fits into functional classification at the sub functional level. The general ledger records budget execution on the IFMIS using the same categories as in formulation, but actual reporting is only by economic category.
6. Comprehensiveness of information included in the budget	D				**D**	The district provides none of the applicable four items provided to the District Council.
7. Extent of unreported government operations	A	NA			**A**	Monthly and annual financial reports disclose key fiscal information of the district's government in the main accounts and of the 184 subsidiary entities (AGAs, i.e., schools, health institutions, and administrative sectors), excluding PTA collections, in the notes. In line with PEFA Secretariat's guidance, dimension (ii) does not apply to districts, since districts do not directly contract loans/grants. The CG does
8. Transparency of inter-governmental fiscal relations	NA	NA	NA		**NA**	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.
9. Oversight of aggregate fiscal	C	NA			**C**	The 184 NBAs do not audit their accounts, but they submit unaudited monthly financial reports to

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
risk from other public sector entities						the District, which the Finance Unit consolidates into an overall report and includes in the notes to its monthly, quarterly, and annual financial statements. The large number of NBAs, and the limited number of internal auditors (only one at the time of assessment) and accounting personnel makes effective review of financial statements submitted by the NBAs difficult.
10. Public access to key fiscal information	C				**C**	Four out of eight applicable elements are accessible to the public, through various means, including website and noticeboards: audit reports, awards, user charges and fees, and service delivery information.
C. Budget Cycle						
C (i). Policy-Based Budgeting)						
11. Orderliness and participation in the annual budget process	A	A	A		**A**	The Ministry of Finance (not the district) is responsible for issuing budget calendars and budget call circulars to all budget entities, including the district. The CG (MINECOFIN) issues two call circulars to all budget entities, including the district. The first announces commencement of the budget season and provides planning guidelines; the second conveys firm and clear expenditure ceilings. Budget approved before the commencement of the fiscal year on July 1: June 30, 2015 for FY 2016, on June 20, 2014 for FY 2014/2015, and June 28, 2013 for FY 2013/2014.
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. The District's Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not recurrent costs) for all sectors and has links with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF and budget. However, the link between investment and recurrent expenditure costing is weak as the two are separate activities.
C (ii). Predictability and Control in Budget Execution						
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY2014, collects them on behalf of district governments. Prior to this takeover, the appeal process was not independent, as it required recourse to the same assessment authority and to the court. However, the district government publicizes the taxes and procedures through a variety of means: website, public noticeboards, tax enlightenment campaigns, meetings and seminars in localities, and a helpdesk.
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NA**	This indicator is not applicable in its entirety with the takeover of tax registration and collection responsibilities by the RRA in FY 15.
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 73.6%, i.e., collection of Frw 2,134,235.00 in FY 2014 out of a beginning balance of Frw 2,901,445.00, although it is not exactly clear whether the arrears are all of taxes or whether they include of fees, etc. The district does not have complete control over effectiveness of transfers of collection to its coffers, following the RRA takeover of tax collection. Audit evidence demonstrate the district's inability to reconcile tax assessment with collections

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
16. Predictability in the availability of funds commitment of expenditures	NR	NA	A		**NR**	The district does not have its own independent treasury and cannot forecast cash inflows, except for its own resources, which was only 4.9% of total revenues in FY 2014. The district prepares and submits expenditure plans as input into the MoF's overall cash forecasts; however, the district did not provide documentary evidence for review. The district is a budget entity and is user, not provider of, advance information on cash availability. The CBM does not reallocate the budget during implementation, but the District reviews the budget in line with regulatory provisions in December, especially Arts. 41 of the OBL.
17. Recording and management of cash balances, debt, and guarantees	NA	C	C		**C**	Debt comprise only accounts payables, incurred in routine course of business; the district does not borrow. The finance unit of the districts maintains good record of these payables. The district's operational (expenditure) accounts balances consolidate daily on the TSA; in addition, all cash district consolidates all balances (revenue and expenditure accounts) monthly in the financial reports. The district also consolidates most NBA balances separately in the monthly financial reports. The district does not have regulatory powers; the Minister of Finance does and must also approve district's borrowings (Arts 50 – 54); the Minister had not made any such regulations, as at the time of the assessment.
18. Effectiveness of payroll controls	A	A	B	NR	**NR**	Personnel records and the payroll are the same, creating potential integrity issues. Changes to personnel records and the payroll happen simultaneously, occasioning no delays, because the two are the same. The HR must receive documentary authorization from the mayor, in addition to other relevant documentary notifications before effecting changes to the payroll. A system of periodic ex post review of the payroll is in place, involving the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general. The District did not provide evidence to confirm assertions of recent payroll audit conducted by the Public Service Commission.
19. Transparency, competition,, and complaints mechanisms in procurement	B	A	C	A	**B+**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. The District has used noncompetitive bidding only in once in recent times and at the instance of the CG to meet an urgent school procurement. The public has access to procurement plans and bidding opportunities, but not contract awards and outcomes of conflicts resolution. An independent appeals panel of 2 state and three non-state actors with powers to issue binding decisions exists.
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	Expenditure commitment controls are in place, but they do not cover all expenditure lead to overdrawing of accounts in FY 2014. Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; some rules and procedures are excessive and contradictory, at times. The District complies with many processing and recording rules, but audit reports cases of noncompliance both at the district headquarters and especially at the NBA level.
21. Effectiveness of internal audit	C	B	B		**C+**	Internal audit does not involve accounting work; it focuses on expenditures, revenues, transactions, and some system work, but the limited capacity adversely affects its scope and effectiveness. Internal auditors prepare reports for the auditee, and quarterly reports for the DC, with copies to MINECOFIN, MINALOC, and the Province, but not the auditor general, except on request. The auditee, internal auditor, economic commission, and the sector PFM committee all

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
						engage with follow up of audit findings; however, capacity shortages in primary schools affect their ability to implement audit findings effectively.
C (iii). Accounting, Recording, and Reporting						
22. Timeliness and regularity of accounts reconciliation	C	NA			**C**	Regular bank reconciliation takes place at district level and NBA levels within two weeks of the month end, but the quality of district reconciliation is poor.
23. Availability of information on resources received by service delivery units	B				**B**	The district collates data on cash resources available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually. It also separately compiles physical (not monetary) data on in-kind gifts to schools annually to the Ministry of Education.
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports capture expenditure at the payment stage only and comparison between budget and outturns is possible only by economic categories. Monthly budget execution reports are part of the financial reports issued by the middle of the next month. There are no material concerns affecting accuracy of the IFMIS-based budget execution reports.
25. Quality and timeliness of annual financial statements	B	B	A		**B+**	Financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, and both detailed and consolidated information of its subsidiaries as notes. The disclosure by way of notes, rather than full integration into the main accounts of the district is a major reason for the auditor general issuing a qualified audit report. FY 2014 financial statements submitted to the for audit on September 30, 2014. The modified cash standard used is broadly compatible with IPSAS reporting requirements.
C(vi). External Scrutiny & Audit						
26. Scope, nature, and follow-up of external audit	A	B	A		**B+**	Audit covers 100 percent of the operations (revenues, expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards. The SAI submitted the 2013/2014 audit report to the district council on March 20, , 2015, i.e., about six months after receiving the financial statements. The level of implementation of previous audit findings has been rising in recent years, from 55.6% in FY 2012 to 73.7% in FY 2013, and 83 in FY 2014
27. Legislative scrutiny of annual budget law	C	B	B	A	**C+**	The DC reviews details of revenue and expenditures, but it cannot change policy decisions already made the CG, which finances up to 90% of the budget. Simple procedures for review exist, requiring the economic committee of the DC to review details of proposals (usually in a 2 or 3-day retreat) and present to the DC for approval. Presentation to the DC is by PPT presentation and approval does not involve serious debate and is usually a formality. The budget approval process begins with the retreat after receipt of the first budget call circular from MINECOFIN; the retreat for 2015/16 budget held on Feb. 19 – 21, 2015 and it involved the entire DC, four months to the commencement of the budget year. Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.
28. Legislative scrutiny of external	A	A	A		**A**	Completion of examination of audit reports takes about three months from date of its receipt by

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
audit reports						the DC; the district is not in not in arrears of review of audit report. The AC interviews indicated persons in serious cases such as the fraud case of 2011, but the executive committee satisfactorily investigates and agrees corrective measures, even before its meeting with the AC. The AC proposes recommendations, which the DC ratifies, and the CBM follows up on implementation.
D. Donor Practices						
D-1. Predictability of Direct Budget Support						
D-2. Financial information provided by donors for budgeting and reporting on project and program aid						
D-3. Proportion of aid that is managed by use of national procedures						

Appendix 2: Excel Calculations for PI-1 & PI-2

Table 2

Data for year =	2011/2012					
Administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	1,477,027,699.00	1,788,036,490.00	1,423,488,039.88	364,548,450.12	364,548,450.12	25.6%
Good Governance & Justice	163,548,940.00	79,510,813.00	157,620,578.26	(78,109,765.26)	78,109,765.26	49.6%
Education	2,584,055,957.00	2,756,198,349.00	2,490,388,468.45	265,809,880.55	265,809,880.55	10.7%
Health	1,643,876,260.00	1,546,351,194.00	1,584,288,633.68	(37,937,439.68)	37,937,439.68	2.4%
Social Protection	157,778,160.00	279,460,388.00	152,058,978.90	127,401,409.10	127,401,409.10	83.8%
Youth, Sport, & Culture	83,193,489.00	20,633,689.00	80,177,871.19	(59,544,182.19)	59,544,182.19	74.3%
Private Sector Development	127,055,520.00	113,673,400.00	122,449,980.62			
Agriculture	341,570,000.00	168,043,242.00	329,188,687.60	(161,145,445.60)	161,145,445.60	49.0%
Environment & Natural Res	31,937,554.00	25,320,092.00	30,779,873.78	(5,459,781.78)	5,459,781.78	17.7%
Energy	6,550,000.00	2,551,842.00	6,312,574.01	(3,760,732.01)	3,760,732.01	59.6%
Water and Sanitation	299,515,000.00	45,510,402.00	288,658,107.46	(243,147,705.46)	243,147,705.46	84.2%
Housing, Urban Devt, & Land Mgt	100,637,605.00	43,808,995.00	96,989,668.63	(53,180,673.63)	53,180,673.63	54.8%
Transport	125,765,266.00	125,558,020.00	121,206,496.06	4,351,523.94	4,351,523.94	3.6%
Community Development	1,821,938,081.00	1,644,847,069.00	1,755,896,026.50	(111,048,957.50)	111,048,957.50	6.3%
			-	-	-	#DIV/0!
15			-	-	-	#DIV/0!
16			-	-	-	#DIV/0!
17			-	-	-	#DIV/0!
18			-	-	-	#DIV/0!
19			-	-	-	#DIV/0!
20			-	-	-	#DIV/0!
21 (= sum of rest)			-	-	-	#DIV/0!
allocated expenditure	8,964,449,531.00	8,639,503,985.00	8,639,503,985.0	8,776,580.6	1,515,445,946.8	
contingency						
total expenditure	8,964,449,531.00	8,639,503,985.00				
overall (PI-1) variance						3.6%
composition (PI-2) variance						17.5%
contingency share of budget						0.0%

Table 3

Data for year =	2012/2013					
Administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	1,792,003,636.00	1,833,050,367.00	1,643,580,919.5	189,469,447.5	189,469,447.5	0.115278
Good Governance & Justice	123,468,959.00	114,342,714.00	113,242,641.4	1,100,072.6	1,100,072.6	0.009714
Education	3,634,651,395.00	3,140,528,674.00	3,333,611,362.0	-193,082,688.0	193,082,688.0	0.05792
Health	974,329,057.00	1,083,797,803.00	893,630,244.5	190,167,558.5	190,167,558.5	0.212803
Social Protection	711,158,924.00	710,956,255.00	652,257,180.0	58,699,075.0	58,699,075.0	0.089994
Youth, Sport, & Culture	38,676,102.00	22,795,399.00	35,472,753.5	-12,677,354.5	12,677,354.5	0.357383
Private Sector Development	344,696,883.00	258,309,566.00	316,147,360.7	-57,837,794.7	57,837,794.7	0.182946
Agriculture	275,175,154.00	307,099,410.00	252,383,769.5	54,715,640.5	54,715,640.5	0.216795
Environment & Natural Res	51,863,933.00	75,595,562.00	47,568,302.3	28,027,259.7	28,027,259.7	0.5892
Energy	-	4,968,381.00	0.0	4,968,381.0	4,968,381.0	#DIV/0!
Water and Sanitation	98,819,227.00	174,646,673.00	90,634,523.7	84,012,149.3	84,012,149.3	0.926933
Housing, Urban Devt, & Land Mgt	162,456,534.00	64,932,571.00	149,001,070.2	-84,068,499.2	84,068,499.2	0.564214
Transport	568,020,007.00	314,969,341.00	520,973,745.0	-206,004,404.0	206,004,404.0	0.395422
Community Development	143,708,689.00	74,317,172.00	131,806,015.6	-57,488,843.6	57,488,843.6	0.436163
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	8,919,028,500.00	8,180,309,888.00	8,180,309,888.0	0.0	1,222,319,168.2	
contingency						
total expenditure	8,919,028,500.00	8,180,309,888.00				
overall (PI-1) variance						8.3%
composition (PI-2) variance						14.9%
contingency share of budget						0.0%

Table 4

Data for year =	2013/2014					
Administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	1,993,194,448.00	1,915,953,284.00	1,993,194,448.0	-77,241,164.0	77,241,164.0	0.038752
Good Governance & Justice	350,340,682.00	320,210,690.00	350,340,682.0	-30,129,992.0	30,129,992.0	0.086002
Education	3,480,025,314.00	3,607,488,662.00	3,480,025,314.0	127,463,348.0	127,463,348.0	0.036627
Health	1,442,793,390.00	1,391,934,938.00	1,442,793,390.0	-50,858,452.0	50,858,452.0	0.03525
Social Protection	873,518,907.00	857,924,945.00	873,518,907.0	-15,593,962.0	15,593,962.0	0.017852
Youth, Sport, & Culture	82,374,738.00	83,305,018.00	82,374,738.0	930,280.0	930,280.0	0.011293
Private Sector Development	184,938,650.00	183,797,889.00	184,938,650.0	-1,140,761.0	1,140,761.0	0.006168
Agriculture	122,699,190.00	120,379,337.00	122,699,190.0	-2,319,853.0	2,319,853.0	0.018907
Environment & Natural Res	171,216,743.00	90,554,044.00	171,216,743.0	-80,662,699.0	80,662,699.0	0.471115
Energy	312,250,000.00	163,303,495.00	312,250,000.0	-148,946,505.0	148,946,505.0	0.47701
Water and Sanitation	84,752,898.00	87,892,910.00	84,752,898.0	3,140,012.0	3,140,012.0	0.037049
Housing, Urban Devt, & Land Mgt	108,000,000.00	51,581,000.00	108,000,000.0	-56,419,000.0	56,419,000.0	0.522398
Transport	115,666,587.00	110,259,164.00	115,666,587.0	-5,407,423.0	5,407,423.0	0.04675
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0	#DIV/0!
17			0.0	0.0	0	#DIV/0!
18			0.0	0.0	0	#DIV/0!
19			0.0	0.0	0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	9,321,771,547.00	8,984,585,376.00	9,321,771,547.0	-337,186,171.0	600,253,451.0	
contingency						
total expenditure	9,321,771,547.00	8,984,585,376.00				
overall (PI-1) variance						3.6%
composition (PI-2) variance						6.4%
contingency share of budget						0.0%

List of Gakenke District Officials that Participated in the Assessment

	Name	Designation
1	Kansiime James	Executive Secretary
2	Ndayambaje Jean De Dieu	Accountant
3	Kabaya Bobolo Rulinda	Director of Planning
4	Ahishakiye Frodourd	Secretary to The DC
5	Rwasibo M Nicodem	Internal Auditor
6	Uwamaliya Josephine	Local Revenue Accountant
7	Nsengiyumva Samuel	Director of Finance
8	Kwizera J Pierre	Budget Officer
9	Nsengiyumva Gakumba	Logistics Officer
10	Sebagisha Emmanuel	Procurement Officer
11	Dusabimana Alexis	Accountant
12	RANGIRA Jimmy	Ministry of Finance & Economic Planning, Kigali
13	MUREKUMBANZE Jean Damascene	Ministry of Finance & Economic Planning, Kigali

Annex: Profile of Gakenke District: Overall sub-national government structure

1. What higher-level government legislation and regulations define and guide the sub-national government structure?

Three documents are vital here: *Decentralization Implementation Plan 2011-2015*, *Revised Decentralization Policy of June 2012*, and *Law Nº 87/2013 of 11/09/2013 determining the organization and functioning of decentralized administrative entities*.

2. What is the number of government levels or administrative tiers that exists, and what is their average jurisdiction size?

See Table A below

Table A.12: Overview of Subnational Governance Structure in Country

	Government Level / Administrative Tier	Corporate Body?	Own Political Leadership?	Approves Own Budget?	No. of Jurisdictions	Average Population[†]	% Consolidated Public Expenditures FY 2014	% Consolidated Public Revenues (FY 2014)	%. Funded by Intergovernmental Transfers
Central Government	Government of Rwanda	Yes	Yes	Yes	Four (4) provinces plus the City of Kigali; 30 districts	10,515,973	73.21%	72%	0.0%
Provinces	Northern Province	No[1]	No	No	Eight Districts: Rulindo, Gakenke Musanze, Burera, Gicumb	1,726,370	Counted as part of CG expenditures and revenues		
Districts	Gakenke District	Yes	Yes	By law, the District Council (DC) must approve the district's budget, but a large proportion of it relates to CG line ministries programs delegated to the district for implementation, which the DC cannot alter.	Eighteen administrative sectors: Coko, Cyabingo, Gakenke, Gashenyi, Janja, Kamubuga, Karambo, Kivuruga, Mataba, Minazi, Mugunga, Muhondo, Muyongwe, Uzo, Nemba, Ruli, Rusasa, Rushash	338,234	0.6	0.6	94.4%

[†]2012 Census Figures, Rwanda National Institute of Statistics of Rwanda, 2012 Population & Housing Census, Report on the Provisional Results, November 2012

Table A.12: Overview of Subnational Governance Structure in Country
87[1] See Art. 2 of Nº 87/2013 of 11/09/2013: Law determining the organisation and functioning of decentralized administrative entities, "The decentralised administrative entities shall comprise the City of Kigali, Districts, Sectors, Cells and Villages. These entities shall be governed by their respective Councils and be under the supervision of the Ministry in charge of local government. The same Ministry shall also monitor the functioning of the management organs of these entities". Thus, provinces are not really decentralized administrative entities. Art. 3 provides as follows, "Decentralised administrative entities with legal personality shall be the City of Kigali and the District. They shall constitute the basis for community development and shall have administrative and financial autonomy."

3. What is the year of the local government law, decentralization law, or last major reform of intergovernmental (fiscal) structure? What is the name of the law or reform?

The National Constitution of the Republic of Rwanda 2003, as amended, explicitly recognizes local democracy in Rwanda. *Article No. 167* requires that Rwanda decentralize public administration in accordance with the provisions of law governing decentralized entities. However, the GoR has pursued a policy of political, administrative, and fiscal decentralization since 2000, when it adopted the National Decentralization Policy to secure "equitable political, economic, and social development". Rwanda's decentralization policy has five specific objectives, i.e., to

- Enable and reactivate local peoples' participation in initiating, making, implementing, and monitoring decisions and plans that concern them;
- To strengthen accountability and transparency in Rwanda by making local leaders directly accountable to the communities;
- To enhance the sensitivity and responsiveness of public administration to the local environment by placing the planning, financing, management, and control of service provision at the point where services are provided;
- To develop sustainable capacity for economic planning and management at local levels; and
- To enhance effectiveness and efficiency in the planning, monitoring, and delivery of services.

The current local government law *is Law Nº 87 of 11/09/2013 determining the organization and functioning of decentralized administrative entities*.

4. How does the entity that is the subject of the assessment compare to other jurisdictions at the same government level in terms or population size, population density, economic activity, and (total and per capita) expenditures and own source revenues.

This section of the report relies heavily on the report of the 2012 population census.[88] The 2012 census established the Eastern Province as the most populated with a population of 2,595,703 inhabitants. The Southern ranks with 2,589,975 inhabitants; the Northern Province is third with 1,726,370, and the Western Province fourth with 2,471,239. The City of Kigali has the smallest population with 1,132,686 inhabitants. Gasabo district is the most populated with more than 500,000 inhabitants and the least populated is Nyarugenge district, which has less than 300,000 inhabitants.

The executive summary of the report states as follows,[89] "The population density in 2012 was 415 inhabitants per square kilometer. Compared to neighbouring countries: Burundi (333), Uganda (173) or Kenya (73), Rwanda is the highest densely populated county in the region. It was only 183 persons per sq. km in 1978, and 321 in 2002. In general, urban districts have the highest densities of population, in particular the districts of Nyarugenge 2,124 inhabitants/ km^2, Kicukiro (1,911 inhabitants/ km^2), Gasabo (1,234 inhabitants/km^2), and Rubavu (1,039 inhabitants/km^2), and those with the lowest density are Bugesera (280 inhabitants/ km^2), Gatsibo (274 inhabitants/km^2), Nyagatare (242 inhabitants/km^2), Kayonza (178 inhabitants/ km^2) …."

"The population of Rwanda is young, with one in two persons being under 19 years old. People aged 65 and above account for only 3% of the resident population …. The mean age of the population of Rwanda is 22.7 years. The mean age of females is higher than that of males (23.5 vs. 21.9). At the provincial level, the Southern Province and Northern Province have the highest mean ages."[90]

Gakanke is a rural district with an annual population growth rate of 0.5 percent compared to the Northern Province's -- percent average and the country's 2.6%[91]. Northern Province is the second least populated in the country with a population share of 16.4 percent, ranking above only the City of Kigali with 10.8 percent.

Main functional responsibilities of the sub-national government
Which sub-national government/administrative level is the most important in terms of public service delivery and public expenditures?

Districts are very important in service delivery, exercising both devolved and delegated authority. Devolved authority involves powers and functions, constitutionally and legally transferred by the central government to districts and exercised through institutionalized structures and processes. Examples include powers transferred to districts "empowering them by law to determine local taxes, raise own revenue and decide on how to use it". Districts deliver local services through devolved authority, for which they account directly to their local populations through a system of elections and indirectly to the Central Government through periodic

[88] See the **Fourth Population & Housing Census, Rwanda 2012, Thematic Report, Population Size, Structure, & Distribution**, published in January 2014 by the National Institute of Statistics of Rwanda (NISR), Ministry of Finance & Economic Planning. All the direct quotes are from the report.
[89] See *p. xv*
[90] See *pp. xv - vxi*
[91] See *p. xv*

reporting. Devolved authority accounts for a relatively small proportion of the expenditure of rural-based districts, including seven of the eight districts in this assessment sample; Kicukiro is the only urban based district in the sample.

Districts also design and implement their own activities, independent of the CG, but these programs are relatively of smaller values.

Delegated authority of districts involves powers and functions exercised on behalf of a central government agency without a formal transfer of authority, e.g., when a CG office assigns a districts to perform some of its duties or execute some of its tasks. However, the CG agency does not relinquish control and require districts to consult with it on matters that require decision-making. A large proportion of expenditures incurred by districts derive from such delegated authority, especially by the ministries of Education, Health, Agriculture, Infrastructure, and Local Government.

Table A.13: Population Specifics of Northern Province

	Population	Density	Growth Rate Average Annual Growth Rate (2002-2012)
Gicumbi	395,606	477	1.00
Musanze	368,267	694	1.80
Gakenke	338,234	480	0.50
Burera	336,582	522	0.50
Rulindo	287,681	507	1.40
Northern Province	**1,726,370**	**527**	1.04

Source of Data: 2012 Census

The CG also implements certain programmes directly. Central government spending accounts for the larger proportion of public expenditures.

Provinces do not execute projects; they only monitor the activities of districts on behalf of the CG; thus, they do not incur much public expenditures. Even then, provinces are technically part of the CG, which accounts for their expenditures.

What are the functions / expenditure responsibilities of the government level under consideration? Where are these functional assignments defined (e.g., constitution or law)? Are these functional assignments generally accepted, clear, and followed in practice?

See Table A.14 below.

Table A.14: Distribution of Functions and Responsibilities in Rwanda's Decentralization System

Level/Units	Functions and Responsibilities
Central (1)	• Policy Formulation; Resource mobilization; Capacity building; M&E
Provincial (4)	• Planning coordination function decentralized to Districts in collaboration with central government • Co-ordinate District planning; Promote citizens centred governance; alignment with national policies, laws and regulations and research
City of Kigali (1)	• City master plan; Capacity building to city Districts and Sectors; City development programmes; Vital statistics on socio-economic development; Mobilise investments in the City

Table A.14: Distribution of Functions and Responsibilities in Rwanda's Decentralization System	
Level/Units	**Functions and Responsibilities**
District (30)	• Coordination of medium term development planning; building and maintenance of service facilities; in-kind transfers for the poor; acquisition and maintenance of heavy machinery • Capacity building for sectors to enable them to provide services to the population • Develop and implement District Development Plans; • Co-ordinate and analyse vital statistics on socio-economic development; Management of public resources • Mobilization of funds; Research in districts; Promote ICT and social welfare
Sector (416)	• Provision of basic services; facilitate participation of citizens in participatory planning; Conflict and problem solving among the populace; Collection of basic statistics; Sensitization of the population • Coordinate and promotion of specific Government programmes such as TIG, ICTs
Cell (2,148)	• Coordination of the village activities and linking with Sectors; collection of basic data and information for the Sectors • Assessing challenges facing the population and resolving conflicts; Promotion of positive social development
Umudugudu /Village (14,837)	• Collect basic statistics and deliver them to institutions which analyse, utilise and keep them; Promote ICT; Promote peace and security • Villages will mainly play a community mobilization role

5. Sub-national budgetary systems

To what degree do central (or higher-level) laws and regulations guide the sub-national budget cycle?

The Government of Rwanda operates a central planning and budgeting process. Districts align their process with the CG's, by legal requirements. Thus, districts do not prepare independent budget calendars; they follow budget guidelines and calendar issued by the Minister of Finance & Economic Planning. Current provisions require that districts' "preparation and approval of the budget … follow the budget cycle on the basis of the calendar included in the instructions issued by the Minister" *(Article 26 of OBL)*

What are the main features of the sub-national financial management process (e.g., do entities hold their accounts in the national Treasury or in bank accounts in their own name; and so on)?

The GoR operates a nationwide *Integrated Financial Management Information System (IFMIS)*, hosted by the Ministry of Finance and Economic Planning (MINECOFIN) in the capital in Kigali. However, decentralized entities access it from their locations to do their planning, recording, accounting, and reporting.

The GoR also operates a Treasury Single Account (TSA) system at the Banque Nationale du Rwanda (BNR). Districts maintain their expenditure accounts on the TSA platform, but they their own revenue accounts are in commercial banks. However, they transfer balances on the revenue accounts to the expenditure accounts on the platform of the TSA before they expend them.

Districts'' subsidiary entities of NBAs do not operate on the IFMIS platform and they operate a different accounting system, mainly, manual.

For the latest year for which actual expenditure data are available, what is the general expenditure composition of sub-national governments in terms of economic classifications?

See Table A15

Do sub-national governments have their own budgets which are adopted by their councils (without subsequent modification by higher level governments, other than administrative approval processes)? If not, explain.

Articles 5 of OBL and 125(3) of the Decentralization Law require the District Council to adopt the budget of the District. However, the DC's review has a limited scope. *Article 11* of the OBL ensures this when it emphasizes that only the District Council may adopt the budget of the district, but before doing so, "members of the Decentralized Entity Council shall consider and provide comments on the Budget Framework Paper" (BFP). The DC only provides comments to the cabinet, as other decentralized entities and the Chamber of Deputies do as well. It does not adopt or approve the Budget Framework Paper (BFP). The Minister of Finance prepares the BFP for the cabinet to approve *(Art. 32, OBL)*. The BFP sets the tone of the MTEF and the budget. The law requires that expenditure estimates of the district be "in conformity with medium term strategies established by the State" in the BFP. In reality therefore, the district does not make fiscal policies and forecasts; the GoR does so in the BFP for the entire country.

Do sub-national governments hold and manage their own accounts within a financial institution of their choice (with the context of applicable)

Districts mandatorily run their expenditure accounts on the platform of the TSA maintained in the BNR, as explained above. Districts maintain accounts in commercial banks for the purpose of collecting their own revenues, but with the approval of the Ministry of Finance and Economic Planning.

Do sub-national governments have the authority to procure their own supplies and capital infrastructure (with the context of applicable procurement legislation/regulations)? Is higher-level / external approval needed for procurement by sub-national governments and/or is there a limit (ceiling) to the procurement authority of sub-national governments?

Districts procure their own supplies and infrastructure within the regulatory framework provided by the CG. The CG makes procurement laws and regulations, which all public procuring entities (including districts) apply and cannot change. The extant legal and regulatory framework include *the Public Procurement Act (PPA) 2007*[92] and *the Ministerial Order on Public Procurement of February 2014*.[93]

6. Sub-national fiscal systems

For the latest year for which actual revenue data are available, what is the general composition of financial resources collected and received by sub-national governments?

See Table A.15

What are the main own revenue sources assigned to the sub-national government level? What tax and non-tax revenue sources are the most important revenue generators at the local government level?

The CG makes laws on the revenues of decentralized entities; *Law N° 59/2011* establishes *"the sources of revenue and property of decentralized entities in Rwanda and their management arrangements"*.[94] *Article 4* of the Law lists 10 sources of revenue, seven of which are own revenue sources. These are

- taxes and fees
- funds obtained from issuance of certificates by decentralized entities and their extension
- profits from investment by decentralized entities and interests from their own shares and income-generating activities
- fines
- fees from the value of immovable property sold by auction
- funds obtained from rent and sale of land of decentralized entities
- all other fees and penalties that may be collected by decentralized entities according to any other Rwandan law[95]

The other (i.e., non-own) revenue sources are loans, government subsidies, and donations and bequests.

[92] Law N° 12/2007 of 29/03/2007 - Law on Public Procurement
[92] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts
[93] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts

[94] Law N° 59/2011 of 31/12/2011 - Law establishing the sources of revenue and property of decentralized entities and governing their management (Art. 1).
[95] Article 4 also provides that, "All revenue projections of decentralized entities shall be included in their annual budget"

District own revenues thus, consists of taxes and fees. Taxes comprise fixed asset tax, rental income tax, and trading license tax. Taxes accounted for an average of 3.4 percent to own resources in the three fiscal years, i.e., FY 2012 to FY 2014. Fee constitute the bulk source of own revenues by a large proportion, about 96.5 percent in the period. The district collects many different types of fees; fiscal 2013/2014 approved budget lists 21 different types. Incentives attached to the collection of fees also contribute to their performance. Sector administrations collect these fees on behalf of the district, for which the district gives them 50 percent of their total collections. Taxes do not have similar incentives.

What are the main intergovernmental fiscal transfers (including revenue sharing and/or intergovernmental grants) that are provided to the sub-national government level? How is the size of each of the transfer pools determined? How are these transfer resources distributed among eligible sub-national governments? Are these intergovernmental fiscal transfers conditional or unconditional?

Law N° 59/2011 of 31/12/2011[96] defines CG transfers to decentralized entities. Article 63 of the Law deals with Government "subsidies". The article provides as follows, "Central Government entities shall each fiscal year plan activities to be implemented by decentralized entities and earmark related funds that shall be included in the budgets of the decentralized entities.

"Central Government entities whose activities are implemented by decentralized entities shall prepare annually a document outlining activities of those entities transferred to the local level and methods for estimating funds needed to implement such activities. The same document also includes instructions on the use of these funds and modalities for reporting on the use of such funds.

"The Minister in charge of finance shall issue every year instructions on modalities under which Central Government entities shall issue instructions relating to the activities and use of funds allocated to decentralized entities.

"Every year, the Government shall transfer to decentralized entities at least five percent (5 %) of its domestic revenue of the previous income taxable year in order to support their budgets.

"The decentralized entity must submit a report on the use of subsidies allocated by the Government in accordance with the organic law on State finance and property."

The CG makes the transfers through the following specific instruments:

- Block Grants – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. Its helps to finance administrative expenses, including salaries, running costs, and supervision of activities in ensuring service delivery. Block grants comprise five percent of the domestic revenue of the CG in the preceding year distributed

[96] - Law establishing the sources of revenue and property of decentralized entities and governing their management

among qualifying districts. Generally, urban based districts are not eligible for block grant support, because of the expectation for them to be able to generate sufficient own revenues to fund their recurrent spending.

- Earmarked Grant Transfers – these are project-tied grants for each delegated function. The delegating line ministry regulates the transfer mechanisms, reporting requirements and the formula for allocation. This framework does not allow decentralized entities any discretion on how to use the funds. The Budget Framework Paper prepared by the Minister of Finance and approved by both the cabinet and the Parliament must include "the guidelines on earmarked transfers to decentralized entities" *(Art. 32 of the OBL 2013).* In addition, the Ministry of Finance and Economic Planning issues an annual document titled, "Districts' Earmarked Transfers Guidelines". The document specifies the following eight items, among others
    - objectives of each earmarked program or subprogram
    - expected outputs / activities that the district should achieve or implement
    - allocation formula by subprogram / output
    - performance targets set by the transferring line ministry
    - reporting obligations of the decentralized entity and frequency
    - monitoring and evaluation mechanism
    - and disbursement mechanism for each transfer
    - depending on outputs or activities involved, etc.

- Capital Block Grants - intended to assist districts undertake local development projects. The grant is not from any specific line ministry. Districts have some discretion in determining the development projects to undertake with these resources.

- Common Development Fund: provided under *article 12 of Law 62/2013 of 27/08/2013* to the Local Administrative Entities Development Agency (LODA) for disbursement to districts to assist them with their development programs. The fund comprises, at least ten percent (10%) of the CG's domestic revenues (calculated based on the preceding year's budget) and funds provided by development partners. LODA assists districts in planning the use of these funds and monitors the programs and activities.

Are sub-national governments allowed to borrow? If so, what mechanisms for sub-national government borrowing are available? What legislative or regulatory restrictions (if any) are imposed on sub-national borrowing?

Extant regulations permit districts to borrow under certain conditions, although Bugesera is the only one of the eight districts in this PEFA sample to exercise this authority. Article 50 of the OBL provides as follows, "… For decentralized entities, the Council of each entity may borrow loans only for development projects upon authorization of the Minister. However, the Minister shall, by use of instructions, determine the maximum amount that the Council may borrow without prior authorization from the Minister.

“The members of organs of decentralized entities shall not have powers to give guarantees but may pledge securities for a debt. An Order of the Minister shall determine the procedures for giving and approving guarantees and pledging securities by decentralized entities.”

Table A.15: Overview of Gakanke Government Finances (2013/2014)			
Expenditure/Revenue Item	**Amount (Frw)**	**Per capita (Frw)**	**As % of total**
Wage expenditures	5,076,408,034	15,008.57	50.8%
Non-wage recurrent administration	931,170,842	2,753.04	9.3%
Transfers to Reporting Entities	22,114,800	65.38	0.2%
Other recurrent expenditure	872,795,382	2,580.45	8.7%
Capital expenditures	2,235,142,138	6,608.27	22.4%
Total expenditures	**10,057,508,718**	**29,735.36**	**100.7%**
Own source revenues	491,268,883	1,452.45	4.9%
Intergovernmental fiscal transfers	9,492,400,151	28,064.59	95.0%
Other revenue sources (as appropriate)	6566475	19.41	0.1%
Total revenues	**9,990,235,509**	**29,536.46**	**100.0%**
Deficit	-67,273,209	**(198.90)**	-0.7%

7. Subnational institutional (political and administrative) structures

Does the relevant subnational level have directly elected councils? (If not, explain.) Is the council involved in approving the budget and monitoring finances?

District Councils comprise directly and indirectly elected representatives, as follows *(Art. 126 of the Decentralization Law)*[97]

i. the councilors elected at the Sector level
ii. the members of the Bureau of the National Youth Council at the District level
iii. the Coordinator of the National Women’s Council at the District level
iv. the female members to the Council who make up at least thirty percent (30%) of members of the District Council
v. the Coordinator of the National Council of Persons with Disabilities at the District level
vi. the Chairperson of the private sector federation at the District level.

[97] Nº 87/2013 of 11/09/2013 - Law determining the organization and functioning of decentralized administrative entities

District Councils have responsibilities include oversight over the budget and finances of the districts. *Art. 125 of the Decentralization Law* lists the responsibilities of district councils, as follows

i. to set up departments of the District, draw up instructions that govern them and determine their responsibilities
ii. to set up strategies for the development
iii. to adopt the budget of the District
iv. to monitor the implementation of government programs and policies
v. to monitor the implementation of recommendations contained in the report of the Auditor General of State Finance
vi. to set salaries for employees in accordance with Laws
vii. to consider and approve the development plan and monitor its implementation
viii. to monitor and assess the functioning of the Executive Committee
ix. to approve donations, legacies and debts that the District may take out or grant in accordance with Laws
x. to control the management of the property of the District and its activities
xi. to approve the sale of the immovable property of the District in accordance with relevant laws
xii. to suspend a councillor or one of the members of the Executive Committee in case of misconduct and failure to discharge his/her duties
xiii. to invite every six (6) months members of the Executive Committee for them to table the report on the accomplishment of activities falling within their responsibilities
xiv. to invite every three (3) months the Executive Secretary to table the report on the use of the budget
xv. to decide on the establishment of friendship, cooperation and partnership with other Districts, Cities and other institutions
xvi. to monitor and make decisions on other activities conducted in the District falling under the responsibilities of the District.

The Organic Law on State Finances elaborate on these functions as they relate to the budget, finances, accounting and reporting, as well as audit.

Is the local political leadership (executive or council) able to appoint their own officers independently of external (higher-level) administrative control? Is the chief administration officer, the chief financial officer/ treasurer, internal auditor, and other key local finance officials locally appointed and hired?

District councils hire, discipline, and fire their personnel in line with regulations made by Ministry of Labour. Specifically, the ministry must give a priori approval for new recruitments, suspensions, and dismissals.