Government of Rwanda (GoR)

2015 Local Government PEFA PFM Performance Assessment

Rulindo District

Final Report

Prepared by AECOM International Team

of

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31 July 2017

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

Rulindo District

Location	Northern Province, Rwanda
Government	Elected Mayor (Chief Executive) and District Council
Political arrangement	Administrative decentralization
HQs	Rulindo
Industrial/Commercial Cities	None / Rural district
Population	287,681 (2012 census)
Area	567 km^2
Population Density	507 persons/km^2 (2012 census)
Official Languages	Kinyarwanda, English, & French

Government of Rwanda – 2015 Local Government PEFA PFM Performance Assessment – Rulindo 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 Rulindo, 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 Rulindo
  - 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 Rulindo
  - 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.

Table of Contents

Table of Figures

Table of Tables

Table of Score Boxes

Table of Cases

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 Rulindo District PFM system posts top performance seven 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 implement audit recommendations. 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	PI - 5, 7, 11, 13	4
2	B+	HLG-1	1
3	B	PI - 1, 3, 6, 12	4
4	C+	PI - 4, 12, 19, 27	4
5	C	PI - 9, 10, 20	3
6	D+	PI - 2, 21	2
7	D	PI - 15, 18, 22, 23, 24	5
8	NA	PI – 8, 14	2
9	NR	PI – 16, 25, 26, 28	4
	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.* Own revenue performance was good, but own revenue contributes less than six percent of budget resources. 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. The stock of expenditure payment arrears is high and growing annually, prompting concerns in the audit report.

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: PFM Outturns: Credibility of the Budget

Performance Indicator	2015 Assessment						2010 Baseline					Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
1. Aggregate expenditure out-turn compared to original approved budget	B				**B**	Aggregate expenditure deviated from budgeted expenditure by 6.8 % in FY 2012, 16.1% in FY 2013, and 1.4% in FY 2014	B				**B**	No change
2. Composition of expenditure out-turn compared to original approved budget	D	A			**D+**	Composition variance based on functional heads was 16.2% in FY 2012, 27.5% in FY 2013, and 6.2% in FY 2014. Average expenditure to contingency was nil in the last three years.	D	NA			**D**	Not comparable; dimension (ii) not assessed in 2010; a revision of the PEFA Framework introduced the dimension in May 2010
3. Aggregate revenue out-turn compared to original approved budget	B				**B**	Actual domestic revenue was 180.2% of prediction in FY 2012, 106.1% in FY 2013, and 98.0% in FY 2014.	Not assessed in 2010					
4. Stock and monitoring of expenditure	C	A			**C+**	The stock of payment arrears was 9.9 percent of total expenditures at end						

Table 0.2: PFM Outturns: Credibility of the Budget												
Performance Indicator	2015 Assessment						2010 Baseline					Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
payment arrears						FY 2014, almost the same proportion as at the end of FY 2013, 10%. 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; the district pays off the invoices 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 assessing well are those with strict and prominent CG guidance and oversight, 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 did not assess well. 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						
Performance Indicator	2015 Assessment			2010 Baseline		Brief Explanation of Difference
	Dimension Ratings	Overall Score	Brief Explanation	Dimension Ratings	Overall Score	

	i	**ii**	**iii**	**iv**		**and Cardinal Data Used**	**i**	**ii**	**iii**	**iv**		**with 2010 Assessment**
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	B				**B**	Two out of five applicable elements provided to the DC.	Not assessed in 2010					
7. Extent of unreported government operations	A	NA			**A**	Monthly and annual financial reports disclose key fiscal information of the district's administration in the main accounts, and of the 136 subsidiary entities 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.	NA	NA	NA		**NA**	No change; the indicator is not applicable.
9. Oversight of	C	NA			**C**	NBAs submit	Not assessed in 2010					

Table 0.3: Key Crosscutting Issues: Comprehensiveness and Transparency

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
aggregate fiscal risk from other public sector entities						unaudited monthly reports to the District, which consolidates and includes them as note in its monthly financial reports prepared for the Ministry of Finance.						
10. Public access to key fiscal information	C				**C**	Three out of 8 elements accessible to the public	A				**A**	2010 assessment over-justified in many respect, but positive changes have occurred since with public access to several additional documents since.

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

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		

Table 0.4: Policy-Based Budgeting													
Performance Indicator	**2015 Assessment**						**2010 Baseline**					**Brief Explanation of Difference with 2010 Assessment**
	Dimension Ratings				**Overall Score**	**Brief Explanation and Cardinal Data Used**	**Dimension Ratings**				**Overall Score**	
	i	**ii**	**iii**	**iv**			**i**	**ii**	**iii**	**iv**		
11. Orderliness and participation in the annual budget process	A	A	A		**A**	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. 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. The DC approves the budget before the commencement of the new FY on July 1, i.e., June 29, 2014 for FY 2015, June 30, 2013 for FY 2014, and June 23, 2012 for FY 2013.	A	D	A		**D+**	The 2010 assessment incorrectly rated districts over the budget calendar, which it noted they 'receive from MINECOFIN", and for not issuing budget calendars to NBAs (non-budget entities).
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes fiscal forecasting and allocations for transferred funds; the district makes projections for expenditure funded from its own resources, which averaged only about 6% of actual expenditure from FY 12 to FY 14. The DDP, 2013 – 2018 provides costs for development projects (but not the recurrent cost component) for all sectors, linked with the EDPRS 2 (2013 – 2018) link between investment and recurrent expenditure costing is weak; the two are separate activities.	Not assessed in 2010					

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

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	The district government uses a variety of means to provide taxpayers access to tax information: public noticeboards, tax enlightenment campaigns, focus groups, and a helpdesk	Not assessed in 2010					
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NA**	Responsibility for taxpayer registration belongs to the RRA, not the District, i.e., with the takeover of tax assessment and collection duties from districts.						
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 9.5%, i.e., collection of Frw 2,631,065 out of a beginning balance of Frw 27,783,520. The district no longer had responsibility for tax collection as at the time of assessment; the RRA had taken over this task. Complete reconciliation of assessments, collections, transfers, and arrears could not						

Table 0.5: Predictability and Control in Budget Execution

Performance Indicator	2015 Assessment: Dimension Ratings i	ii	iii	iv	Overall Score	Brief Explanation and Cardinal Data Used	2010 Baseline: Dimension Ratings i	ii	iii	iv	Overall Score	Brief Explanation of Difference with 2010 Assessment
						have taken place since the tax register lacks assessment information.						
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 5.3% of total revenues in FY 2014; however, the district did not provide documentary evidence for review. The district only provides input to the Ministry of Finance on its disbursement profile that assists the Ministry in preparing cash projections. The district reviews the budget in line with regulatory provisions in December, especially Arts. 41 of the OBL.	B	B	A		**B+**	Dimension (i) is not comparable due to lack of evidence to complete assessment in 2015. The 2010 assessment incorrectly treated dimension (ii) as applicable to the district. No change in performance and situation of dimension (iii).
17. Recording and management of cash balances, debt, and guarantees	NA	B	C		**C+**	The district's debts comprise mainly invoices for small purchases caught up in yearend accounts closing formalities. The district consolidates operational account balances daily on the TSA and (with revenue accounts) monthly in financial reports, and most NBA balances separately in the monthly financial reports. The district does not have regulatory powers; the Minister of Finance does (Arts 50 – 54); however, the minister had not issued the guidelines at the time of the assessment	Not assessed in 2010					
18.	A	A	B	D	**D+**	Personnel and payroll	A	A	A	B	**B+**	The 2010

Table 0.5: Predictability and Control in Budget Execution												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
Effectiveness of payroll controls						data are the same, creating potential integrity issues; districts apply the Integrated Personnel and Payroll System (IPPS) provided MIFOTRA. No time lag between personnel and payroll changes: the two are the same. The HR bases changes to the payroll on the mayor's written authorization and relevant supporting documents. The District has not conducted any recent payroll audit.						assessment rated these dimensions based on the performance of the CG, rather than the district.
19. Transparency, competition, and complaints mechanisms in procurement	B	D	C	B	**C+**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. Competitive procurement method is the default, but lack of data does not allow assessment of the extent of use of noncompetitive methods. The public has access to procurement plans and bidding opportunities, but not to contract awards and conflicts resolution. An independent appeals panel of both state and non-state actors with powers to issue binding decisions exists, but it is not clear how it takes to issue decisions.	Not assessed in 2010					
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	The high and recurring incidence of accounts payable indicates partial effectiveness of commitment controls, despite the IFMIS.	A	A	B		**B+**	2010 wrongly took extent implementation of audit findings dealt with in PI - 2 (iii) and 26 (iii) into account, but

Table 0.5: Predictability and Control in Budget Execution												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						PFM laws and regulations are clear and comprehensive, but NBA do not fully understand them; the district also violates some of them. The District complies with many processing and recording rules, but audit reports some noncompliance in both district and NBAs (especially)						failed to take subsidiary entities into account.
21. Effectiveness of internal audit	D	B	NR		**D+**	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. External audit report show internal audit reports do not indicate management comments to establish ownership and follow up.	Not assessed in 2010					

Accounting, Recording, and Reporting

0.12 *Reconciliation of suspense accounts and advances assessed well, but bank reconciliation did not.* The quality of financial statements is not good, as in-year budget reporting and information on resources available to service delivery units are also not. 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

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
22. Timeliness and regularity of accounts reconciliation	D	NA			**D**	Bank reconciliation takes place on District held accounts; but cases, failure to update bank register, undue delay in depositing cash collections, etc., reduce the quality of reconciliation. The district does not use suspense accounts or operational advances.	B	A			**B+**	Performance has fallen below the 2010 level, when the assessment reported reconciliation of all accounts within 4 weeks
23. Availability of information on resources received by service delivery units	D				**D**	The district collates data on cash resources (but not for non-cash resources) available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually.	Not assessed in 2010					
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports show expenditure at the payment stage only and compare budget and outturns only by economic categories; reports issued as part of monthly financial reports by middle of the next month of not of much to district use in "bringing in" the budget. The accuracy of reported information is high; Audit did not highlight any materials issues with data accuracy in budget execution reports, as it did with other districts.	A	A	B		**B+**	The rationale for the 2010 rating is mostly unclear. The 2010 report is silent on administrative classification and asserts both commitment and payment reporting, which is not currently the case.
25. Quality and timeliness of annual financial statements	C	NR	A		**NR**	Financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, and both	Not assessed in 2010					

Table 0.6: Accounting, Recording, and Reporting												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						detailed and consolidated information of its subsidiaries as notes, but, information on cash balance, debtors, and creditors are misleading. Date of submission FY 2014 financial statements for audit is not clear; evidence provided is of submission to MINECOFIN. The modified cash standard used is broadly compatible with IPSAS reporting requirements						

External Scrutiny and Audit

0.14 *Assessment here is incomplete due to non-availability of evidence of performance in key dimensions.* Even then, follow up on audit recommendations assessing strongly. The scope of legislative scrutiny of the budget is apparently weak, not covering budget policy. However, this is because fiscal policy is a national prerogative, decided centrally for all of the country. Other dimensions of the legislative budget scrutiny follow the provisions of the law, as do the other indicators.

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												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
26. Scope, nature, and follow-up of	A	NR	C		**C**	Audit covers 100 percent of the operations (revenues, expenditures,	A	A	B		**B+**	The 2010 assessment correctly

Table 0.7: External Scrutiny and Audit												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
external audit						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 April 02, 2015; however, it is not clear when it received the statement for audit, as the audit report did not indicate it. The district responds formally to responds to comments, but the rate of implementation of recommendations has been declining since FY 2012 and stood at only 56% in FY 2014.						identified auditing as a CG function, but still rated scope and timeliness; this is incorrect. It is difficult to track response to audit finding, because of the 2010 assessment generalized performance across the four districts assessed.
27. Legislative scrutiny of annual budget law	C	B	A	A	**C+**	Budget review is of detailed revenue and expenditures, but fiscal policy. Established procedures for approving the budget include interaction with relevant staff and a retreat for the District and sector councils. The review begins after receipt of the BFP around April or May and concludes by June 30 (for 2015/16, 29/06/15), i.e., at least, two months. Rules for budget amendment are clear rules, allowing up to 20% reallocation between programs (administrative units) execution, but prohibiting reallocation on economic categories without authorization of the Minister of the Finance and /or the Parliament, as the case may be.	Not assessed in 2010					
28. Legislative scrutiny of	NR	A	A		**NR**	The audit commission annually reviews audit recommendations and						

Table 0.7: External Scrutiny and Audit												
Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
external audit reports						submits to the DC, but the exact date of DC's resolution on the last report is unclear, although it a matter of months, not years. The AC interviews responsible officials in cases of major findings; internal auditors provide assistance to 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 a repeat assessment for Rulindo district. The district participated in the 2010 joint assessment of the Government of Rwanda (GoR) and four of its districts, but not in the earlier 2007 assessment. 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.

[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	Frw 9,611,889,911	100.0%
Non- budget agencies (NBA[1]	136	Frw 5,366,552,831	55.8%
[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.

Section 2: Profile of Rulindo 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 involving Rulindo district. The first assessment took place in 2010 in an exercise that also involved Bugesera, Nyamagabe, and Kicukiro. 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 Rulindo 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 the district 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	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.	HLG transfers fell short of the estimate by more than 10% in only FY 2013; i.e., 1.1% in FY 2012, 16.9% in FY 2013, and 6.3% in FY 2014.	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.	B	
(ii) Annual variance between actual and estimated transfers of earmarked grants	Variance in earmarked transfers exceeded deviation in total transfers by more than 10 percent in only one year. The excesses were 9.3% in FY12, 12.4% FY13, and 6.3 percent in FY14	C	(ii) 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		A	
(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		A	
Score (Method M1)		**C+**			**B+**	

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,

"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

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

  - 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.

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

3.9 *Total HLG transfers fell short of the estimate by more than 10% in only one year, i.e., FY 2013.* Deviations in HLG transfers were 1.1 percent in FY 2012, 16.9 percent in FY 2013, and 6.3 percent in FY 2014, as shown in *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	983,122,888	982,697,938	1,057,908,700	975,358,477	1,200,375,540	1,193,653,436
Admin & Support Serv	24,687,192	22,134,206	23,647,647	33,398,170	-	-
Good Gov & Justice	52,152,783	45,316,764	53,909,468	44,562,614	262,436,527	210,882,523

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**
Education	2,350,697,956	2,536,828,258	3,278,632,690	2,887,928,701	3,545,110,721	3,509,627,370
Health	592,036,161	540,475,100	897,210,497	827,486,886	1,021,455,691	1,105,605,210
Social Protection	258,989,781	223,121,265	404,272,389	325,820,536	807,735,579	711,084,415
Youth, Sport, & Culture	10,102,906	6,271,100	20,511,689	12,586,600	15,449,624	11,511,765
Private Sector Devt	111,613,930	79,651,541	336,633,470	165,243,577	102,914,135	90,742,711
Agriculture	118,000,000	116,698,298	133,431,176	112,356,709	90,335,862	75,069,793
Environment & Nat Res	21,916,463	21,084,612	39,253,815	29,511,461	20,993,590	18,891,070
Energy	-	28,057,900	162,151,045	22,459,278	41,148,860	23,914,463
Water and Sanitation	155,675,000	114,930,733	-	2,016,740	34,105,613	16,685,591
Housing, Urban Devt, & L/ Mgt	-	-	-	-	-	-
Transport	114,060,998	108,078,593	476,640,282	290,914,937	190,827,040	331,018,922
Community Development	677,476,578	583,200,142	48,374,708	34,714,833	-	-
Total Earmarked Grants	**5,470,532,636**	**5,408,546,450**	**6,932,577,576**	**5,764,359,519**	**7,332,888,782**	**7,298,687,269**
Overall Deviation	1.1%		16.9%		6.3%	
Composition variance (on basis of PI-2)	9.3%		12.4%		6.3%	

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 exceeded deviation in total transfers by more than 10 percent in only one of the three years, Table 3.9* shows. The differences were: 9.3 percent in FY 2012, 12.4 percent in FY 2013, and 6.3 percent in FY 2014. The applicable rating 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

[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

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**	**Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	Aggregate expenditure deviated from budgeted expenditure by 6.8 % in FY 2012, 16.1% in FY 2013, and 1.4% in FY 2014	B	B In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 10% of budgeted expenditure.	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual data from budget execution reports (unaudited)	B	No change

Rationale for the Score

3.13 *Aggregate expenditure deviation exceeded 10 percent only in one of the three years of assessment, i.e., in fiscal 2012/2013.* Expenditure deviation was 6.8 percent in FY 2012, 16.1 percent, in FY 2013, and 1.4 percent in FY 2014. This performance qualifies for a rating of "B", the same rating as in the 2010 assessment when the deviations were 9.1 percent, 2.3 percent, and 40.0 percent in 2007, 2008, and 2009 respectively. Notwithstanding this similarity in rating, the GoR has made significant advances in nationwide fiscal, budgetary, and treasury reforms since the last assessment. For instance, cash planning and forecast has improved to the point where districts receive reliable advance quarterly information on cash available for commitment. IFMIS reforms have also progressed to the point where budget formulation and execution, and actual payment take place online and on real-time basis. Progress with implementation of the Treasury Single Account (TSA) system has also contributed to cash control. In addition, the Ministry of Finance and Economic Planning has strengthened reporting, with the enforcement of comprehensive monthly financial reporting by decentralized entities, including districts. Execution of the budget on the IFMIS makes both compliance with and enforcement of reporting easier.

3.14 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. 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

[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

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 Outturn Compared to Original Approved Budget

3.15 *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 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	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 based on functional heads was 16.2% in FY 2012, 27.5% in FY 2013, and 6.2% in FY 2014.	D	D. Variance in expenditure composition exceeded 15% in at least two of the last three years.	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual data from budget execution reports (unaudited)	D	No change
(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	(ii) Actual expenditure charged to the contingency vote was less than 3% of the original budget.		*NA*	Not comparable; dimension (ii) not assessed in 2010; a revision of the PEFA Framework

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.

Score Box 3.3: Composition of Expenditure Out-turn v Composition of Original Approved Budget						
Dimensions	Current Assessment (2015)				2010 Score	Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
						introduced the dimension in May 2010
Score (Method M1)		D+			D	

Rationale for the Score

3.16 *Extent of variance in expenditure composition during the last three years, excluding contingency items* – variance in expenditure composition was 16.2 percent in 2011/2012, 27.5 percent in 2012/2013, and 6.2 percent in 2013/2014. The applicable rating is “D”. This District’s performance in this dimension is lower than its performance on *PI-1* on aggregate expenditure deviation. The performance rating of “D” is the same as in the 2010 baseline assessment, when the actual variances were 9.1 percent in FY 2007, 37.2 percent in FY 2008, and 41.1 in FY 2009. The current performance shows that the District places greater emphasis on achieving aggregate fiscal discipline than it does on maintaining the inherent consistency of the budget. This happens, because of authorized budget reallocations during implementation and midyear budget revisions take place around December each year. The regulations permit both ‘informal’ reallocation of the budget during implementation and formal budget revision.

3.17 *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. Sources of data for this indicator are the same as with *PI–1* above.

3.18 *The average amount of expenditure actually charged to the contingency vote over the last three years* – the district did not use ‘contingency (or miscellaneous) votes’ in the period of assessment. The District’s approach to meeting contingencies during the period of assessment depended on the nature of the emergency. The GoR Ministry of Disaster Relief would intervene in appropriate cases of disaster; the Ministry of Social Affairs would also do so as necessary. Besides, there is a small provision for social welfare in the District’s budget through which it offered assistance to needy persons. Setting aside a fund for emergencies is a relatively novel idea, 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”.

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

3.19 *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**	**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 180.2% of prediction in FY 2012, 106.1% in FY 2013, and 99.0% in FY 2014.	B	B Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years.	District audit reports for FY 2012, 2013, & 2014	NA	Not assessed in 2010

Rationale for Scoring

3.20 *Actual domestic revenue was 180.2% of prediction in FY 2012, 106.1% in FY 2013, and 99.0% in FY 2014.* Budgeted own revenue was Frw 360,000,000 in FY 2012, Frw 457,223,635 in FY 2013, and 497,032,186 in FY 2014, while realized own revenue was Frw 648,649,732, Frw 485,129,921, and Frw 491,998,045.00, respectively. Two issues are worthy of note here. First, the financial statements (as the audit report shows) do not disclose tax receipts for any of the three years. The figure included as tax revenue in FY 2014 *(see Figure 3.1)* is an adjustment from "transfers from central government entities", which the audit report explains as including tax collections of Frw 4,685,073 made by the RRA on behalf of the district and transferred to the district.[9] The failure to report tax revenue is most probably a classification issue; it is difficult otherwise to conceive the district as not having any tax assignments. Second, the FY 2012 statements do not show a figure for "fines, fees, and licenses", as well; in fact, the statements do not disclose own revenues for the year. The Frw 648,649,732 as "fees, fines, and licenses" is the amount shown as "other revenue" in the statements. The reason for the substitution is the following definition in the audit report for the year, *"Other income includes internally generated income, receipt of fees from payment of fines, penalties and forfeits. Other income is recognized when received" (2011/2012 audit report, p. 14).*

[9] See 2013/2014 audit report, pp. 18 - 19

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

Analysis of District Revenues	2011/2012	2012/2013	2013/2014	Average
Total Own Revenue	**649,497,732.00**	**485,129,921.00**	**491,998,045.00**	**542,208,566.00**
Operating Revenues, of which	*648,649,732.00*	*485,129,921.00*	*485,800,545.00*	539,860,066.00
Tax Revenue	-	-	4,685,073.00	1,561,691.00
Fees, fines, penalties and licenses§	648,649,732.00	485,129,921.00	481,115,472.00	538,298,375.00
Capital Receipt - Proceeds from Sale of Capit	*848,000.00*	-	*6,197,500.00*	2,348,500.00
Transfers from the CG & Other Sources (includes unspeccified amounts of tax revenue collected and transferred to the District by the RRA)*	**7,272,703,484.00**	**8,322,179,638.00**	**8,858,468,113.00**	**8,151,117,078.33**
Total Revenue	**7,922,201,216.00**	**8,807,309,559.00**	**9,350,466,158.00**	**8,693,325,644.33**
Own Revenue % of Total Revenue	**8.2%**	**5.5%**	**5.3%**	**6.2%**

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

* "Transfers from other Government reporting agency: These are funds received from another reporting agency (Ministry, Agency, Development Project or a subsidiary entity with status of submitting financial report for consolidation). These funds should be in form of budget support. It has adjusted out tax collectionsf 4685073 in FY 2014 o made by RRA on behalf of the District" (see 2013/2014 audit report, pp. 16; 18 - 19)

§The 2012 entry is actually "other revenue", which the audit report defines as follows, "Other income includes internally generated income, receipt of fees from payment of fines, penalties and forfeits. Other income is recognized when received" (2011/2012 audit report, p. 14)

3.21 *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]

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

3.23 *District revenues consists of taxes and fees.* Taxes comprise fixed asset tax, rental income tax, and trading license tax. Fees generally constitute the greater proportion of domestic revenues in districts. This is especially so in the case of this district, where there is no figure for tax revenues.

3.24 *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

[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"

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

3.25 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**	**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	The stock of payment arrears was 9.9 percent of total expenditures at end FY 2014, almost the same proportion as at the end of FY 2013, 10%.	C	C The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years.	Audited financial statements / audit reports - FY 2012 – FY 2014	NA	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 after formal closure of the books at yearend; the district pays off the invoices immediately at the beginning of the new year.	A	A: Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).		NA	Dimension not assessed in 2010
Score (Method M1)		**C+**				

Rationale for the Score

<u>Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock</u>

3.26 *The stock of expenditure payment arrears (EPA) was Frw 954,256,318, or 9.9 percent of total expenditure as at June 30, 2014; almost the same proportion as at the end of FY 2013, 10% (Figure 3.2).* EPAs here are the accounts payable reported in the financial statements. Accounts payable "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".[12] This is in line with the Modified Cash Basis of Accounting in use. Accounts payable *"also relate to loans and advances to the institution which are recognized as liabilities at the time of disbursement"*.[13] However, the books do not expressly disclose any outstanding loan obligation, although it shows an unspecified item of "other accounts payable" of Frw 69,130,359, without stating whether the figure represents expenditure payment arrears of loan liability. Notwithstanding this, the calculation here deducted this amount from the total of accounts payable.

Figure 3.2: Analysis of Expenditure Payment Arrears

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

Fiscal Year	Payment Arrears	Total Expenditure	% of Expenditure	% Reduction in Stock
2011/2012	678,741,886.00	8,203,452,983.00	8.3%	
2012/2013	908,078,864.00	9,075,762,598.00	10.0%	33.8%
2013/2014	954,256,318.00	9,611,889,911.00	9.9%	5.1%

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

3.27 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.

3.28 The 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 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.

[12] FY 2014 audit report, p. 17
[13] FY 2014 audit report, p. 17
[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

Availability of data for monitoring the stock of expenditure payment arrears

3.29 *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. 24 - 27)*. The accounts payable information includes age classification, as the following analysis in the audit shows. *"Accounts payable reported in the financial statements include creditors whose balances totaling Frw 42,127,983 have been outstanding for more than 1 year. Out of this balance, an amount of Frw 16,814,935 has been outstanding for more than 2 years and had not been settled by the district at the time of my audit in December 2014"*.[17] 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)

3.30 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

3.31 *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[18] (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**		

[17] 2013/2014 audit report, p. 8

[18] 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.

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 / national perspective	Reflected in the General Ledger (GL) kept on the IFMIS, but not in actual reporting; the IFMIS can generate this when queried	MINECOFIN / District Administration: (i) Annex II-1: 2014-2017 Detailed Expenditure by Budget Agency and (ii) Annex II-2: 2014/15 Development Projects; 2014/2015 Budget Execution Reports, & Annual Financial Statements	Not assessed in 2010
Economic	Compatible, but employee compensation not fully attributable to administrative categories, except in Education & Health sectors. This design is useful for 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: (i) Annex II-1: 2014-2017 Detailed Expenditure by Budget Agency and (ii) 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: (i) Annex II-6: 2014-2017 Budget ay Agency, Programme and Sub-Programme and (ii) Annex II-7: 2014/15; Budget by Programme, Sub-Programme and Economic Category	
2015 Score: Method M1		**A**		

Rationale for the Score

3.32 *Budget formulation and reporting apply 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.

3.33 *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 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

3.34 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" rowspan="2">Item</th><th colspan="2">2015 Assessment</th><th rowspan="2">2010 Score</th><th rowspan="2">Change since 2010</th></tr>
<tr><th>Whether Provided</th><th>Source of Information</th></tr>
<tr><td>1.</td><td>Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate</td><td colspan="2" rowspan="3">Not applicable</td><td rowspan="8">Not assessed in 2010</td><td rowspan="8">Not comparable</td></tr>
<tr><td>2.</td><td>Fiscal deficit, defined according to GFS or other internationally recognized standard.</td></tr>
<tr><td>3.</td><td>Deficit financing, describing anticipated composition.</td></tr>
<tr><td>4.</td><td>Debt stock, including details, at least for the beginning of the current year (where relevant)</td><td>Not provided</td><td>2013/2014 Audit report</td></tr>
<tr><td>5.</td><td>Financial assets, including details, at least for the beginning of the current year</td><td>Not provided.</td><td></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>The PPT presentation to the DC on the 2014/2015</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>Provided</td><td>The PPT presentation to the DC on the 2014/2015</td></tr>
<tr><td>8.</td><td>Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous</td><td>Not provided</td><td></td></tr>
</table>

Score Box 3.7: Comprehensiveness of Information Included in Budget Documentation					
Item		2015 Assessment		2010 Score	Change since 2010
		Whether Provided	Source of Information		
	year.				
9.	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 programs	**Provided**	The district management prepares a supplementary note for the DC to explain cost implications of new tariffs and other policies.		
	Score (Method M1)	**B**	**2 items provided out of 5 applicable**		

Rationale for the Score

<u>Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate</u>

3.35 – 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.

<u>Fiscal deficits (where relevant)</u>

3.36 **Not applicable; however, some explanation is necessary.** The district does not prepare deficit budgets; the CG and OBL do not oblige districts to project expenditures beyond available resources. In reality, however, the district incurred fiscal deficits in each of the three years of this assessment, i.e., Frw 261,423,753 or 2.8 percent of revenue in FY 2014, Frw 268,453,039 or 3.0 percent of revenue in FY 2013, and Frw 281,251,767 or 3.6 percent of revenue in FY 2012.[19] The district also hinted at the likelihood of incurring another in 2014/2015. The "Key Challenges" slide in the PPT budget presentation to the DC on June 29, 2014 includes the following challenges,

- "High dependency [on] central Government funds;
- "Insufficiency of Block Grant Budget for Remuneration of all Staff according to District Structure (Deficit in FY 2014/2015 will be 374,206,206 Frw for Remunerating all Staff as stated on the District structure)" (see slide 17).

<u>Deficit financing, describing anticipated composition (where relevant)</u>

3.37 Not applicable, since the district does not prepare deficit budgets. However, the district's financial statements consistently showed actual deficit results from FY 2012 to FY 2014, i.e., Frw (261,423,753), Frw (268,453,039), and Frw (281,251,767) respectively.

<u>Debt stock, including details, at least for the beginning of the current year (where relevant)</u>

[19] See the audited financial statements and audit reports for FY 2012 – FY 2014.

3.38 Applicable, but not provided. The law allows districts to borrow to finance development projects with the approval of the Minister of Finance *(Article 50 of the OBL)*. The district did not provide information on any actual borrowing, but the district's 2013/2014 audit report provides information on existence of non-current liability. *Pages 24 - 27* of the report include the item, "other accounts payable" with a balance of Frw 69,130,359 under "accounts payable" information. This figure probably relates to non-current liability (debt stock), because the audit report states that accounts payable "also relate to loans and advances to the institution which are recognized as liabilities at the time of disbursement" *(2013/2014 audit report, p. 17)*. The remainder or bulk of the Frw 1,023,386,677 accounts payable balance "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" *(2013/2014 audit report, p. 17)*. The DC did not receive information on "other accounts payable" as part of budget documentation. The PowerPoint presentation to the DC on the proposed 2014/15 budget provided in evidence shows only information on revenues and expenditures, but not also on assets and liabilities.

3.39 *Financial assets* – The district does not have any financial assets, except moving cash balances at bank, which the district does not provide to the DC, as part of the budget document. However, the district owns a guest house (fixed asset) that generates Frw 2,500,000 million francs monthly.[20]

<u>Prior year's budget out-turn, presented in the same format as budget proposal</u>

3.40 *Prior Year's budget outturn* – **not provided.** The PPT presentation to the DC on the 2014/2015 budget includes information only on 2013/2014 (i.e., current year) budget up to May 2014. It does not include information on 2012/2013 budget (prior year)

<u>Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the current budget</u>

3.41 **Provided.** The PPT presentation to the DC on the 2014/2015 budget includes information on 2013/2014 (i.e., current year) budget (revenue and expenditure) up to May 2014. The PPT shows revenue from block grant, earmarked transfers, own revenues, balance brought forward from 2012/2013, transfers from other GoR agencies, external grants, and "extra budgetary revenue". It also shows details of recurrent costs (district salaries, health workers salaries, teachers' salaries, and other recurrent costs) and development costs (domestic capital projects and external capital projects).

<u>Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.</u>

3.42 **Not provided.** The 2014/2015 PPT presentation to the DC provided in evidence includes information for the current year (2013/2014) up to May 2014, but not the previous year (2012/2013).

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[20] The district administration had stated the figure as two million francs, but the 2013/2014 audit report stated it as Frw 2,500,000, citing the agreement between the district and the "Mineral Corporation Limited (former Helmet) represented by Clement NSENGIYUMVA to rent a Guest House owned by the district located at Shyorongi sector" *(see FY 2014 audit report, p. 42)*.

<u>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 programs</u>

3.43 **Provided.** The district management prepares a supplementary note for the DC to explain cost implications of new tariffs and other policies

3.44 *The 2010 assessment did not include this indicator and is thus not comparable to this rating.*

PI-7: Extent of Unreported Government Operations

3.45 *PI-7* assesses the extent to which fiscal reports include all budgetary and extra budgetary[21] activities. Extra budgetary operations (EBOs) are activities of government not included in the annual budget, for example, those funded through extra budgetary funds (EBFs).[22] 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 administration in the main accounts, and of the 136 subsidiary entities	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	

[21] 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

[22] "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

Score Box 3.8: Extent of Unreported Government Operations					
	in the notes.				
Income/expenditure information on donor-funded projects included in fiscal reports	The District usually reports donor receipts; however, it did not receive any donor assistance in 2013/2014.	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 government / annual financial statements and audit report for FY ended June 30, 2014	
Score (Method M1)		**A**			

Rationale for the Score

Level of unreported extra budgetary expenditure (other than donor funded projects)

3.46 The 2013-2014 audited financial statement show the district had 136 subsidiary entities (aka, non-budget agencies (NBAs)) as at close of business on June 30, 2014. (This contrasts with the number of 158 given by the district in verbal interviews during field mission). The breakdown of the 136 is as follows: one district pharmacy, one mutual health[23] (fund) at the District level, 17 sectors, 29 primary schools, 50 secondary schools, two district hospitals, 17 health centres, and 19 mutual health (funds) at the sector level. (*Table 3.10)*. NBAs (excluding sectors) generally receive funding from the CG through the district or directly from the Ministry of Finance & Economic Planning. Some NBAs also raise revenues from additional sources, e.g., through Parent – Teachers Association (PTA) levies (schools) or charges for services rendered (hospitals and health centres). Sectors receive funds from the District for their running costs *(see PI-8 below)*, but they do not raise independent revenue.

Table 3.10: Summary of AGAs of the District, June 2014

Summary of Disclosures on NBAs in Audited 2013-2014 Financial Statements (Number, Franc Rwanda)

Type of NBA	Count	Opening Balance	Net Financial Assets
District Pharmacy	**1**	62,027,712	80,026,927
District Mutual Health Centre	1	-115,585,393	-293,170,102
Sectors	17	103,906,931	14,456,386
Primary Schools	29	6,611,284	14,350,238
Secondary Schools	50	36,779,442	18,454,206
District Hospital	2	212,893,611	232,733,101
Health Centres	17	140,229,355	188,058,578
Mutual Health - Sector Level	19	95,800,023	24,225,931
Total	**136**	542,662,965	279,135,265

Summarized from 2013/2014 Audit Report, pp 31 - 38

3.47 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:

[23] This is the term used in the 2013/2014 financial statement from which this section summarized the data used; this is the same as the mituelle du sante or community based health insurance (CBHI) institutions.

consolidation of reports of the 17 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:[24] (i) adjusted[25] 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.

Income/expenditure information on donor-funded projects included in fiscal reports

3.48 The template for monthly and annual financial reports/statements includes a section on (donor) grant in the notes, which reporting entities must complete. The District duly completes this template annually, even if with empty cells. Empty cells indicate the district did not receive any donor assistance in the year and thus, has nothing to report on the item. The audit report also usually reports on donor grants by reproducing and commenting on the receipts. The district's 2013/2014 audit report reproduced the comparative statement on proceeds from donor grants for FY 2013 and FY 2014 on *page 19*. It shows the district received Frw 1,201,000 from RALGA and Frw 9,714,680 from the Rwanda Health Family Project in FY 2014.

PI-8: Transparency of Inter-Governmental Fiscal Relations

3.49 *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 government (both budgeted and actual	The district transfers 50% of district fees and charges collected by the sector plus 10% of previous year's own revenues shared equally among the sectors and paid in equal monthly	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 Use of Funds Allocated at	NA	No change; the indicator is not applicable.

[24] i.e., excluding the serial number and the name of subsidiary entity, which would take the number of columns to 12.

[25] The 2013/2014 audit report (p. 30) for which this dimension summarized this information actually uses "adjusted opening balances"; some other district financial statements use simply 'opening balance'

Score Box 3.9: Transparency of Inter-Governmental Fiscal Operations					
allocations)	instalments			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

The context

3.50 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.[26] 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 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"*.[27] 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."

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)

3.51 Districts constitute the lowest tier of real subnational government in Rwanda's decentralized system; sectors, cells, and villages do not strictly qualify as SNGs, as is clear from the foregoing. However, the legal regulations enjoin districts to allocate resources to sectors to

[26] 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

[27] *Art. 3 of Law N° 12/2013/OL of 12/09/2013, Organic Law on State finances and property*, i.e., the OBL.

help them implement their expenditure plans. A Ministerial Order[28] 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)*

3.52 By the *Decentralization Law (No. 87/2013)*, provincial sectors must deposit all revenues *(Art. 3)*,[29] 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*.

3.53 The 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 17 sectors and paid monthly

<u>Timeliness of reliable information to SN governments on their allocations from central governments for the coming year</u>

3.54 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 coordinating district programmes around those areas; fund allocations to them are mostly for

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

running costs. The District's Director of Finance advises sectors on their expected allocations for the coming year based on own (domestic) revenues projection to aid their planning. However, the timing of provision of this information is not clear. As explained already, this dimension does not really apply to sectors.

Extent to which financial information (at least on revenue and expenditure) is collected and reported by the SG according to sectoral categories

3.55 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

3.56 *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

Dimension		Score	Evidence Used	Source of Information	2010 Score	Change since 2010
(i)	Extent of central government monitoring of AGAs and PEs.	C	The 136 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 and accounting personnel makes effective review of financial statements submitted by the NBAs difficult.	District administration	Not assessed	Not comparable
(ii)	Extent of central government monitoring of SN governments" fiscal position.	NA	The district is the lowest tier of formal government.			
Score (Method M1)		**C**				

Rationale for the Score

Extent of central government monitoring of AGAs and PEs

3.57 *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 136 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 necessary attachments - bank statements and cashbook) and assets register. The District's finance department summarizes and consolidates the NBA reports into an overall report, and includes it in the notes to its monthly, quarterly, and annual financial statements to the Ministry of Finance. The summary is under the following 10 headings: (i) name of subsidiary entity, (ii) adjusted opening balance, (iii) transfers of funds from the District, (iv) other revenues of the NBA, (v) expenses of the NBA, (vi) Fund balance at the end of the period, (vii) bank balances, (viii) cash balance, (ix) accounts receivables, (x) accounts payables, and (xi) fund balance.

3.58 *The District takes a number of additional measures designed to improve the integrity of fiscal monitoring of non-budget agencies,* including risk-based internal audit monitoring (at least theoretically) and periodic PFM meetings that monitor internal audit reports. The district's finance department staff also review NBAs' monthly returns, checking bank balances, bank reconciliation, payables, receivables, petty cash. These measures seek to ensure that NBAs do not spend more than they receive. However, the large number of NBAs relative to the human and technical capacity available in both the District and NBAs limits the effectiveness of these measures.

3.59 Approved district accounting establishment quotas is two to three per district, but unfilled vacancies sometimes exist for the establishment positions. Poor quality records keeping and reporting in NBAs, especially schools, create additional difficulties. Schools do not have accounting and internal audit personnel; they use teachers to do their accounting task. These teachers have no technical accounting background, making their work error prone. Besides, schools do not operate on the IFMIS and the GoR was yet to deploy the Subsidiary Entities Accounting System (SEAS) to schools (as at the time of the assessment) as it had to hospitals. Schools' therefore still sent manual reports, prepared under a different format to Districts, making tracking, and monitoring, and consolidation difficult. Audit findings buttress this point with this finding, *"There was no evidence to show that the financial reports submitted by NBAs were reviewed by District management. Consequently, I noted differences between amounts shown in reports from NBAs and those included in the disclosure note 21 presented by the District."*[30]

3.60 The 2013/2014 audit report lists the specific findings leading to its conclusion above on *pages 7, 39 - 40*. They include the following

- Differences between amounts shown in reports from NBAs and those included in the disclosure note 21 presented by the District, indicating that financial reports of NBAs contain errors and hence not reliable for decision making by the stakeholders

[30] 2013/2014 audit report, *p. 40*

- Lack of “bank reconciliation statements for all health centers, Rutongo hospital, mutual health-section level, primary and secondary schools disclosed in the financial statements of Rulindo district with balances totaling Frw 392,816,476.”
- Failure of (NBAs’) management to provide bank statements for most of the bank accounts, thereby hampering ability to confirm the accuracy of bank balances disclosed for these NBAs
- Lack of supporting documents[31] for payables and receivables balances amounting to Frw 912,918,544 and Frw 704,150,647 included in the disclosure note as well as individual reports of non-budget agencies, thereby raising the “risk that the debtors and creditors’ balances disclosed may not be genuine and could represent fictitious balances or errors”
- “… unexplained difference of Frw 96,458,894 between closing fund balance as at 30 June 2013 per previous audit report (Frw 293,396,597) and the opening fund balance as at 1st the July 2013 disclosed in the financial statements (Frw 390,077,087)”.

3.61 The district confirmed during the field assessment mission that it did not know how many bank accounts the NBAs have; each NBA has at least one. NBAs provide monthly returns, which include an item on their bank balances. The district picks and consolidates the balances on individual NBA submissions to get the overall picture. The district administration was positive in asserting that it did not know the number of district accounts.

3.62 Internal audit (IA) faces similar constraints. The District does not have the full complement of internal auditors approved for it.[32] (In fact, the district had no substantive internal auditor at the time of the assessment visit at the end of June 2015. The only internal auditor was acting in that capacity, although he had five years of on the job. The introduction of a new internal audit structure in January 2015 found him unqualified, but he has remained in an acting capacity until the district finds qualified candidates.) IA mandate covers both the district headquarters and the 136 NBAs. However, the district conformed that IA spends more time on the district audit than it dos on NBAs. Even then, internal auditors, sometimes perform other tasks assigned by the CG, which also affects their ability to discharge their tasks effectively. Specifically, FY 2014 audit report raise concerns about the effectiveness of internal audit work in the year, including Lack of “proper referencing and cross referencing of working papers to facilitate understanding and information retrieval” and internal audit findings not including “management comments to enable ownership and follow up” *(see 2013/2014 audit report, p. 59)*. These weaknesses may be partly due to insufficient IA personnel.

3.63 In addition, the auditor general audits NBAs as part of the annual audit process, but the audit reviews only a small risk-based sample.

3.64 The district management acknowledged the weaknesses and risks identified in the audit report and noted as follows.

- “Generally, apart from sectors there is no software available for other NBAs to support the reporting system. In addition, the district does not have the right to integrate the transaction of Non-Budget Agencies.

[31] (including list of debtors and creditors)
[32] Approved establishment quota is also two to three per district, but there are often unfilled vacancies.

- "NBA issues have been decentralized and discussed through PFM meetings to look for a solution. Further, the issue of other Non-Budget Agencies not having accounting software is being looked at by MINECOFIN to ease their financial reporting.
- "On the review of financial reports, the district has limited human resources to appropriately review the financial reports of Non-Budget Agencies. and the issue is expected to be solved with new structure which will be in place from January 2015.
- "Regarding the differences, the observation is noted and management will make regular follow-up for better reporting of NBAs financial statements."[33]

3.65 The foregoing findings illustrate that the monitoring of fiscal risks of NBAs is weak and ineffective.

<u>Extent of central government monitoring of SN governments' fiscal position.</u>

3.66 *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. 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).*[34] 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".*[35] 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."

PI-10: Public Access to Key Fiscal Information

3.67 *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 the District's score.

Score Box 3.11: Public Access to Key Fiscal Information						
Item		**Whether Accessible**	**Rationale for the Score**	**Source of Information**	**2010 Score**	**Change since 2010**
1.	Annual budget documentation: the public can obtain a	Not accessible	Current legislation provides as follows, "When the draft budget of a decentralized entity is		Yes	The explanation for 2010 is that the public has access

[33] 2013/2014 audit report, p. 40
[34] 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
[35] Art. 3, *Law N° 12/2013/OL of 12/09/2013, Organic Law on State finances and property*, i.e., the OBL.

	complete set of documents (including the items listed under *PI-6*) through appropriate means when it is submitted to the Approving Authority		approved by the Council, it shall be made public through appropriate media, including public on the entity website" *(Article 40 of the OBL)*. The District's contains the approved budgets for FYs 2012, 2013, and 2014, but not the drafts.			on request. ''Access on request'' meets the Framework requirement only in the case of Item 7, "Resources Available to SD Units".
2.	In-year budget execution reports: routinely made available to the public through appropriate means within one month of their completion	Not Accessible	The District explained that the DC discusses this and sends a then reports to the MINECOFIN and MINALOC. However, this does not meet the Framework requirements.		Yes	The 2010 "access on request'' justification does not meet the requirement.
3.	Year-end financial statements: available to the public through appropriate means within six months of completed audit	Not Accessible	The district explained that it discusses results on accountability day – a town hall meeting where officials answer questions posed by attendees. This does not meet the Framework requirements.		Yes	No change; however, the 2010 justification of "access on request'' is erroneous.
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, Accessible**	Summary included in audit report published by the OAG on its website, www.oag.gov.rw immediately after presentation to the Parliament.	Auditor General's website	Yes	The 2010 "access on request'' justification does not meet the requirement
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[36]	The district publishes only tender documents, e.g., on the District's website, www.rulindo.gov.rw	D	Yes	Not comparable; District procurement threshold in 2010 was only up to a maximum of Frw 300 million
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	Not Accessible	The district compiles and consolidates information on NBAs' monthly cash receipts (and expenditures) and sends as part of the monthly financial reports to the Ministry of Finance & Economic Planning.	Monthly reports on resources available to schools	No	
7.	Fees and charges for major service organizations are posted at the service delivery site and in other appropriate locations/media	**Yes, accessible**	Disseminated at service delivery sites, e.g., hospitals and health centres.	District administration	Yes	No change

[36] 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.

8	Services provided to the community, e.g., potable water, sewage, street lighting, etc.	**Yes, accessible**	Services provided to the community detailed in service charter and posted in notice boards on District and sector noticeboards.			No applicable in 2010; added in 2013
Score (Method M1)		**C**	**Three out of 8 elements accessible to the public**		**A**	

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

3.68 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

3.69 *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	No change in performance.	
(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	A	A. A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's	MINECOFIN / District administration	The 2010 rating of "D" based on its observation that "Budget Call Circulars are not issued by district level sub-national governments", is incorrect going by the guidance of the PEFA Secretariat. Sectors are non-budget agencies; districts are the lowest level	

Score Box 3.12: Orderliness and Participation in the Annual Budget Process					
	and provides planning guidelines; the second conveys firm and clear expenditure ceilings.		distribution to MDAs.		of budget entities, according to the OBL.
(iii) Timely budget approval by the District Council (within the last three years)	Budget approved before the commencement of the fiscal year on July 1, i.e., June 29, 2014 for FY 2015, June 30, 2013 for FY 2014, and June 23, 2012 for FY 2013	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

Existence and adherence to a fixed budget calendar

3.70 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

3.71 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.

Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions

3.72 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).*

<u>Timely budget approval by the District Council (within the last three years)</u>

3.73 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 follows: June 29, 2014 for FY 2015, June 30, 2013 for FY 2014, and June 23, 2012 for FY 2013

3.74 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

3.75 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							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Source of Information**	**2010 Score**	**Change since 2010**
(i)	Preparation of multi-year forecasts and functional allocations or programs	The CG (MINECOFIN) makes fiscal forecasting and allocations for transferred funds; the district makes projections for	A	A. Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least	MINECOFIN / District administration and budgets		Not assessed in 2010

Score Box 3.13: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Source of Information**	**2010 Score**	**Change since 2010**
		expenditure funded from its own resources, which averaged only about 6% of actual expenditure from FY 12 to FY 14.		three years on a rolling annual basis. Links between multi-year estimates and 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		District government / annual financial statements		
(iii)	Existence of sector strategies with multi-year costing of recurrent and investment expenditures	The DDP, 2013 – 2018 provides costs for development projects (but not the recurrent cost component) for all sectors and links this with the EDPRS 2 (2013 – 2018). The DDP (as modified periodically) is also the basis for the MTEF	B	B. Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure	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, ring-fencing provisions for each of staff compensation, goods and services, and investment.	D	D. Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared	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>

3.76 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).*

3.77 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

3.78 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 to CG ministries, which use them to prepare more detailed expenditure forecasts that include earmarked transfers to districts. However, the projection made by the CG does not include district revenues, which in Kicukiro, averaged about 41 percent of actual expenditure from FY 12 to FY 14. The district prepares forecasts for those directly.

3.79 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.

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

Figure 3.3: 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

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

Figure 3.4: 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%**

Source: MINECOFIN

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

3.82 Resource Allocation in the BFP per EDPRS sectors

Figure 3.5: 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>

3.83 The District has no need for a DSA, because it has no debt stock. Its relatively[37] large debt burden Frw 1,023,386,677 comprises accounts payable, which are mainly unpaid invoices caught up in yearend financial routine. However, the 2013/2014 audit report states that the balance "also relate to loans and advances to the institution which are recognized as liabilities at the time of disbursement".[38] The report does not provide details of the "loans and advances" or to whom they are owing, but the particulars of accounts payable provided on *pp. 24 – 27* include a debt of Frw 69,130,359 listed as "other accounts payable". This is probably the amount of "loans and advances", in which case it is too small to warrant a DSA. 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>

3.84 Districts do not prepare sector strategies in Rwanda; sector ministries of the CG do this, since the programme implemented by districts are theirs. However, districts prepare detailed District Development Plans (DDP) aligned to the CG's Economic Development & Poverty Reform Strategy (EDPRS) and reflect the sector strategies, as appropriate. The Local

[37] Relative to the other districts in this assessment sample and to its revenue size

[38] See for instance, 2013/2014 Audit Report, *p. 17*

Development Agency (LODA) assists districts to prepare the development plans, using a template provided by the Ministry of Finance & Economic Development. The district's current DDP (2013 – 2018) covers the following.[39]

- *Introduction*, discussing context and purpose, the district's profile, demography, and stakeholders, and the DDP elaboration methodology and structure.
- *District Overview*, i.e., a review of achievements under the EDPRS 1, situation analysis, and challenges, priorities, and potentials
- *Strategic Framework*, outlining the vision, mission, and core values of the district, and discusses strategies in various sectors for meeting identified priorities, and contribution of various sectors to EDPRS 2
- *Implementation Framework* that sequences interventions, and outlines roles and responsibilities of partners and stakeholders, institutional responsibilities, mechanisms for coordination and information sharing, and assumptions, risks and risk management.
- *Monitoring and Evaluation Plan*, - which discusses the district's monitoring and evaluation framework, and indicators, data collection, and reporting.
- *Cost and Financing of the District Development Plan* – which summarizes the estimated total cost of the DDP *(see Figure 3.4)* and sketches the funding sources year by year and by source, i.e., government block grants, own taxes and fees, donor projects, private sources, and other sources

Figure 3.6: Rulindo DDP - Total Cost and Source of Funds by Year in Billions of Rwanda Francs

Source: Rulindo District Development Plan, 2013 – 2018 (PDF Version, p. 57)

Table 6.1: Cost and Financing of the District Development Plan

Own Funds Available '000'	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total for EDPRS 2**
Government block grants	1,057,908	1,412,974	1,636,120	1,859,266	2,082,412	8,048,680
Own taxes and fees	520,894	572,984	630,282	724,824	833,548	3,282,532
Donor projects	2,618,963	3,404,652	4,426,048	5,753,863	7,480,022	23,683,548
Private sources	354,589	425,507	510,608	612,730	735,276	2,638,709
Other sources	1,000,000	120,000	140,000	160,000	180,000	1,600,000
Total	5,552,354	5,936,117	7,343,058	9,110,683	11,311,258	**39,253,469**

3.85 The DPP 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.

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

[39] See the PDF version of the Rulindo District Development Plan (2013 – 2-18)

3.87 Link between investment and recurrent expenditure costing is weak, the two being 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 and the District jointly fund the budget (capital and recurrent), but their contributions do not mix. However, both the CG and the district use the dual budgeting approach that provides separately for recurrent and development costs. This dichotomy introduces complications to any effort to link the investment and recurrent expenditure. For example, the CG ties much of its contributions to specific projects / activities, such as - teachers' salaries, health workers' salaries, construction of new schools and classrooms, etc. 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)

3.88 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

3.89 *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

Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
(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	"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" – see PEFA Fieldguide, p. 14	Law No. 59/2011 on sources of revenue and property for decentralized entities / RRA website, www.rra.gov.rw		
(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: public	A.	A. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative	District government		

Score Box 3.14: Transparency of Taxpayer Obligations and Liabilities							
Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
		noticeboards, tax enlightenment campaigns, focus groups, and a helpdesk		procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.			
(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 independent and it required recourse to the tax authority and to the court.	NA	"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" – see PEFA Fieldguide, p. 14			
Score (Method M2)		A					

Rationale for the Score

Clarity and comprehensiveness of tax liabilities

3.90 Tax legislation and regulation in districts are by Parliamentary Acts and Presidential and Ministerial Orders. For instance, 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.

Taxpayers' access to information on tax liabilities and administrative procedures

3.91 *The district still enlightens taxpayers on tax liabilities, despite the MOU with the RRA signed in March 2014.* Taxpayer enlightenment uses several media: sector noticeboards, distribution of copies of approved tariffs to the public through the Public Sector Federation (PSF) and the JAF (Joint Action Forum), tax campaigns, etc. Tax education campaigns sensitize potential taxpayers on (any changes in) the tax structure, taxpayer liabilities, and the payment and grievance resolution procedures. Senior district and sector officials and members of the Tax Advisory Council (TAC)[40] rum these campaigns. The officials include the Mayor, district executive secretary, the director of finance, sector executive secretaries, RRA officials, and representatives of the PSF and JAF. Discussions held with RRA officials[41] 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 TAC conducts additional public enlightenment sessions, independent the sessions referred to above. Further, the District publishes tax information on noticeboards and its official website. All enlightenment meetings, dissemination documents, and notices are in the local Kinyarwanda language, spoken and understood by every citizen. The District has a 'good governance' hotline on which citizens can call and complain about anything. This is not a dedicated tax helpdesk line, but the responsible official can (re)direct tax queries to the right officials. Sectors also have tax offices, which engage with and render different services to taxpayers.

Existence of a functioning tax appeal mechanism

3.92 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 administration.[42] 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 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

3.93 *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[43] 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					
Dimension	**Score**	**Comments**	**Information**	**2010**	**Change**

[40] TAC comprises members from the private sector, RRA, District (Mayor and Vice Mayor in charge of economic affairs), and security organs.

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

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

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

				Source	Score	since 2010
(i)	Controls in taxpayer registration system	NA	Tax registration is a responsibility of the CG, not the district.			
(ii)	Effectiveness of penalties for non-compliance with registration and tax declaration	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	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

3.94 *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.

3.95 *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".

3.96 *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

3.97 *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							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	Collection ratio for	Collection rate of	D	D. The debt collection	2013/2014		

Score Box 3.16: Effectiveness of Collection of Tax Payments							
Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
	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)	arrears in FY 2014 was 9.5%, i.e., collection of Frw 2,631,065 out of a beginning balance of Frw 27,783,520.		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).	Audit Report		
(ii)	Effectiveness of transfer of collections to the Treasury by the revenue administration	The district no longer had responsibility for 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	Complete reconciliation of assessments, collections, transfers, and arrears could not have taken place since the tax register lacks assessment information.	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

<u>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)</u>

3.98 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. Audit reports reproduce these statements. Information in the 2013/2014 audit report *(pp. 23 – 24)* shows a total 17 debtors at the end of June 2014. Fifteen of these 17 debtors with a total debt of Frw 27,783,520 were 'brought forward' debts from the preceding year, i.e., closing balance on June 30, 2013 and beginning balance on July 1, 2013. Balances on these 15 pre-existing debts did not increase with the year – they either decreased indicating the extent of payment they made or they remained the same, indicating they did not make any payment during the year. The closing balance on these pre-existing 15 accounts on June 30, 2014 was Frw 25,152,455.00, indicating collection on the arrears of Frw 2,631,065 or 9.5 percent within FY 2014. The new arrears that arose in FY 2014 are in respect BCR (Frw

1,396,800) and Heimart Hotel (Frw 22,500,000[44]). They have not been included in the forgoing calculation.

3.99 However, it is not clear whether all the arrears relate to taxes or whether they relate to other revenues as well, although the indication is that they are taxes due,[45] although the audit report confirm that. Besides, an explanatory note in the 2014/2014 audit report suggests that these third party accounts receivable are mostly likely tax area. The report explains that the outstanding balance of Frw 15,670,000 *"relates to amount embezzled by Rebero Bertin, a tax collector, through falsification of deposit slips. The case seeking to recover this amount is before court"*.[46]

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

<u>Effectiveness of transfer of collections to the Treasury by the revenue administration</u>

3.101 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".

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

3.102 *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. The district did not provide evidence on the extent of reconciliation. However, the 2013/2014 audit report found that the district failed to properly complete the tax register to show assessment *(see p. 8)*. Complete reconciliation could not have taken place without information on assessment. The correct rating is D.

3.103 It is unclear why the transfer of tax assessment and collection to the CG does not extend to tax reconciliation. A possible explanation is that districts are the primary stakeholders, the ultimate beneficiaries / recipients in the transaction; the RRA is not. Further, districts (not the RA) are accountable to their citizens on how much revenue accrued, and how they used it. Besides, their reconciliation makes the process more transparent, and affords them the opportunity to oversight the work of the RRA.

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

3.104 *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

[44] Nine months' rent arrears on the district's guest house in Shyorongi sector at a monthly rent of Frw 2,500,000 *(2013/2014 audit report, p. 42)*.

[45] The major indication is the lack of many new debts in the year, which suggests that the takeover of taxes by the RRA in the year is the reason behind this. Had the arrears included revenues still collected by the District, the likelihood is that there would have been fresh debts.

[46] 2013/2014 audit report *p. 24*

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 5.3% of total revenues in FY 2014; however, the district did not provide documentary evidence for review.	NR			Not comparable due to lack of evidence to complete assessment in 2015.	
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	District are budget entities in the Rwanda Decentralization structure and have no MDAs to advise on budget commitments	NA			The 2010 assessment incorrectly treated dimension (ii) as applicable to the district.	
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	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	No change in performance and situation of dimension (iii).	
Score (Method M1)		**NR**				

Rationale for the Score

Extent to which cash flows are forecast and monitored

3.105 *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.

3.106 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.

3.107 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. The district thus has no discretion over cash forecasts and planning. Therefore, this dimension does not apply to the district.

3.108 The 2010 rating of "B" for this dimension is incorrect. First, the report incorrectly generalized the status of own (local) revenues in all the four districts assessed in 2010 as low.[47] The report states, *"In all the four districts above, local revenue and donor funds are a minor part of the actual revenues of the districts and the majority of the funds are central transfers".*[48] While that description applied to rural districts, it did not apply to the urban district of Kicukiro. Second, the assessment did not base its rating of the District on its forecasting of 'own' revenues, which the assessment acknowledged as low. Instead, it based the assessment on the forecast of CG revenues, over which the district has no discretion. Third, the report correctly describes the

[47] See 2010 assessment, pp. 122 - 123
[48] 2010 assessment, p 123

respective roles of the Ministry Finance and the districts in the cash forecasting and planning process, but wrongly proceeded to assess the District based on activities performed by the CG.

<u>Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment</u>

3.109 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 NBAs do not need such information. The CG directly funds the NBAs through earmarked grants and development grants. The district does not make allocations from its own resources to NBAs, except to sectors as described in *PI-8* above. The district is the lowest budget entity with responsibility 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).*

3.110 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.

3.111 The 2010 report correctly describes the process for setting and communicating commitments, but incorrectly treated this dimension as applicable to districts. The report acknowledged that this is a CG function when it notes, "There was no reported use of "non-transparent cash control mechanisms" by MINECOFIN during periods of cash flow constraints. Also, for the fiscal period under review, there was no reported evidence that any funds made available to these districts were ever reduced during the same period.".[49] The statements clearly apply to what discretion exercisable by the Ministry, rather than the district. The district was the recipient, not the provider of information on resource availability. The assessment therefore, should not have rated the district under this dimension.

<u>Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs</u>

3.112 This dimension assesses 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

[49] See the 2010 report, pp. 123 - 124

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.

3.113 *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.

3.114 *Budget revision has become an annual ritual 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 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.

3.115 *There is no evidence on the CBM reallocating budget heads during implementation.* However, the district readjusts the budget in December during the annual budget revision exercise, in line with the regulations cited above. The adjustment covers both own and CG revenues.

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

3.116 *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						
Dimension	**2015 Assessment**				**2010 Score**	**Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**	**Not assessed in 2010**	

(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, which the district quickly pays off in the new fiscal year)	NA	"Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments", *p. 23*		
(ii)	Extent of consolidation of the government's cash balances	The district consolidates operational account balances daily on the TSA and (with revenue accounts) monthly in financial reports, and most NBA balances separately in the monthly financial reports.	B	B. Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	District administration	
(iii)	Systems for contracting loans and issuance of guarantees	The district does not have regulatory powers; the Minister of Finance does (Arts 50 – 54). The minister must approve district borrowing. The approval must be according to guidelines issued by the minister; however, the minister had not issued the guidelines 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

<u>Quality of debt data records – Debt comprises accounts payables, incurred in the routine course of business; the district has not borrowed recently.</u>

3.117 Districts have the power to borrow for development project financing with the approval of the Minister of Finance, *(Article 50 of the OBL)*; however, the District has not been exercising this 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".[50] This is in line with the modified IPSAS cash basis of accounting the GoR uses. Accounts payable stood at Frw 1,023,386,677 on June 30, 2014 and Frw 908,078,864 on June

[50] Accounts payable "also relate to loans and advances to the institution which are recognized as liabilities at the time of disbursement" in the case of this district (see Audit Report for the Year Ended 30 June 2014, *p. 17*).

30, 2013.[51] The finance department of the district maintains records of accounts payable, but the 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 is that it financial statements adhere to the template provided by the Ministry of Finance & Economic Planning, to which the auditor general attests, but holds stills falls short of legal requirements.[52]

Extent of consolidation of the government's cash balances

3.118 The district administration explained that it maintains 15 bank accounts - 12 operational accounts at the Banque Nationale du Rwanda (BNR), which is the country's central bank and three own revenue accounts in commercial banks. The accounts in commercial banks are revenue collecting banks and they do not currently operate on the TSA platform. The operational 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 thus, affects only bank accounts holding funds sourced from the CG funds; it does not include accounts holding funds sourced from the District's "own" resources and held in accounts outside the BNR). The District 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.

3.119 The district also consolidates and discloses bank balances of its 136 NBAs in the notes to the monthly financial report. However, the district does not know the number of bank accounts each NBA maintains *(see PI-9 above)*. The finance department picks the balances from monthly returns provided by each NBA, but does not confirm their accuracy and completeness of the information. The "A" rating cannot therefore, apply to this evidence, since that requires that consolidation should cover "all" bank balances. The appropriate rating is "B", which provides as follows, "Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement".[53]

System for contracting loans and issuance of guarantees

3.120 The district does not have powers to regulate debts or 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. 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.

[51] See Audit Report for the Year Ended 30 June 2014, p. 9
[52] See Audit Report for the Year Ended 30 June 2014, pp. 31 - 33
[53] See the PEFA Framework.

"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.

"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."

3.121 *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.

3.122 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.

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

3.123 *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						
Dimension	**Score**	**Comments**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**

(i)	Degree of integration and reconciliation between personnel records and payroll data	NA	Districts can only apply the Integrated Personnel and Payroll System (IPPS) as 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.	A. Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.		A	Should not have been rated in 2010
(ii)	Timeliness of changes to personnel records and the payroll	A	Changes to personnel records and the payroll happen simultaneously, occasioning no delays, since the two are the same.	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	A	No change; the 2010 assessment still rated the dimension after finding it not applicable
(iii)	Internal controls of changes to personnel records and the payroll	B	The HR bases changes to the payroll on the mayor's written authorization and relevant supporting documents. 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.	B. Authority and basis for changes to personnel records and the payroll are clear.	District administration	A	No change; the 2010 assessment still rated the dimension after finding it not applicable
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	D	The District has not conducted any recent payroll audit.	D. No payroll audits have been undertaken within the last three years.	District administration	B	Assessed based on the performance of the CG
Score (Method M1)		**D+**				**B+**	

Rationale for the Score

<u>Dimension (i): Degree of integration and reconciliation between personnel records and payroll data</u>

3.124 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.[54] 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.[55] Separating personnel from payroll functions adds an additional layer of control that makes occurrence of such errors more difficult.

3.125 *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 database deals with the district's core personnel, i.e., staff of District headquarters, sectors, and cells, directly paid by the District. The second process is for teaching personnel; the district prepares the teachers' payroll and sends to the MINECOFIN to pay them directly. The third is for health services personnel, directly payrolled at the finance departments of the institutions and paid directly by the MINECOFIN. 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).

[54] 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 is in charge of 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.

[55] Karongi Audit Report 2013/2014, *pp. 8 – 9*

3.126 *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.

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

3.127 *In summary,* personnel and payroll records are the same, domiciled in the HR 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.

3.128 *The assessment of this dimension in 2010 is erroneous as a reading of the evidence used clearly shows.* The 2010 report found that, "This entire indicator must mirror the results of the central government PEFA assessment because the only payroll that is within even partial control of SN Government is the teacher's payroll, which was partially decentralized on 1 July 2008. The responsibility for managing this teachers' payroll falls to MIFOTRA (Central Government) and the districts (SN Government)."[56] The 2010 report should have refrained from assessing the

[56] See 2010 PEFA report, *p. 125*

indicator, or at least this dimension given the finding it has made. The assessment thus rated the district on the basis of the performance of the CG, rather than that of the district.

<u>Dimension (ii): Timeliness of changes to personnel records and the payroll</u>

3.129 *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. This is so in all the three payroll processes prepared in the district, i.e., for core district staff, teachers, and health workers. The district adopts measures put in place by the CG on payroll procedures. For instance, districts generally endeavour to ensure that new staff assume duties at the beginning of the month to avoid payroll adjustments. Thus, the district only issues appointment letters to new entrants upon completion of all necessary processes and documentation, including medical tests. Besides, the sector executive secretary or other appropriate supervisor of outpost staff must confirm their resumption of duties and being on before the 15th of the month, which is the payroll cut date. Changes resulting transfers reflect monthly on the payroll. Staff are due for promotions after a minimum of three years on a position; the resultant change reflects in the payroll in about a month, except in the case of acting appointments, which may take up to two to three months.

<u>Dimension (iii): Internal controls of changes to personnel records and the payroll</u>

3.130 *Authority for changes is clear, the Finance Department does not produce "change report" 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), but the changes follow established due process in the public service and each change must have the necessary supporting documents. For instance, the Disciplinary Committee of the District investigates cases of misconduct and reports findings to the executive committee. The committee comprises the Director of HR and Admin, the HR desk officer, the District's legal advisor, and three other personnel selected from time to time by peers. Decisions for suspension or dismissal go to the Minister of Public Services and Labour, since the District does not have power to suspend of dismiss. The mayor signs the suspension or dismissal notice and authorizes change to records, but the documentation includes evidence of observance of this due process, including letter from the MIFOTRA approving the dismissal.

3.131 Similarly, 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. Documentation for resignation includes the resignation letter of the staff and the mayor's letter authorizing the resignation. Documentation for changes arising from absenteeism includes evidence of absence from duty post for up to 15 days (including data from the finger biometric identification at entrance doors of district offices), letter demanding explanation from staff, and approval letter from the MIFOTRA, etc.

3.132 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.

Dimension (iv): Existence of payroll audits to identify control weaknesses and/or ghost workers

3.133 The District has not conducted any payroll audit in the to identify control weaknesses and / or ghost workers in the last three years.

PI-19: Transparency, Competition, and Complaints Mechanism in Procurement[57]

3.134 *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."[58] 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				
(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)[59]	**Not assessed in 2010**	
			• be freely and easily accessible to the public through appropriate means	√	Art. 5 of the PPA		
			• 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	√	*Art. 23* of PPA, 2007		

[57] 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"

[58] Transparency International (TI): TI Handbook on Curbing Corruption on Public Procurement (2006), www.transparency.org/content/download/12496/120034

[59] 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						
			procurement and define clearly the situations in which other methods can be used and how this is to be justified			
			• 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	D	Competitive bidding is the default, but lack of data does not allow assessment of the extent of use of noncompetitive methods. **D. For less than 60% of the value of contracts awarded, OR reliable data is not available.**			
(iii)	Public access to complete, reliable and timely procurement information	C	The district advertises procurement plans and bidding opportunities on the RPPA's and its own websites, at least, one national newspaper, its noticeboard, and DG market; information on contract awards and resolution of complaints not publicly available. D**. For less than 60% of the value of contracts awarded, OR reliable data is not available.**		District management / RPPA website www.rppa.gov.rw / District's website, www.rulindo.gov.ng	
(iv)	Existence of an independent administrative procurement complaints system	B	***Are complaints reviewed by a body which***			
			• is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	√	District management - An independent appeal panel exists, with membership comprising both state and non-state actors. The panel does not charge fees, issues binding decisions, but it is not	

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement						
			• does not charge fees that prohibit access by concerned parties	√	clear how long it takes to issue decisions.	
			• 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	NR		
			• issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)	√		
Score (Method M2)		**C+**				

Rationale for the Score

<u>Dimension (i): Transparency, comprehensiveness and competition in the legal and regulatory framework</u>

3.135 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[60] and the Ministerial Order on Public Procurement of February 2014.[61] 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 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).*

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

- The threshold for performance security (guarantee) for non-consultancy services is generally ten million Rwandan francs (10,000,000 Rwf) and above;[62] 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 committee and persons not qualified to serve on it 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).*

Dimension (ii): Use of competitive procurement methods

3.136 *Open competition is the preferred method of procurements n the district, but lack of data does not allow review of the extent of use of noncompetitive methods.* The law allows use of

[62] 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

noncompetitive methods under certain conditions. The different bidding methods and the lawful justifications for their use are as follows.

3.137 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.

3.138 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.

3.139 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".

3.140 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.

3.141 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.

Dimension (iii): Public access to complete, reliable and timely procurement information

3.142 *The public has access to complete information on two of the four listed items.* The district posts procurement plans and invitations to tender on its website (www.rulindo.gov.rw) and noticeboard, the RPPA's website (www.rppa.gov.rw), DG market,[63] and at least one national newspaper. However, information on contract awards was not available on the district's website, as the district had asserted during the assessment mission. The district does not make information on complaints available to the public. Three such complaints arose in FY 2014.

Dimension (iv): Existence of an independent administrative procurement complaints system

3.143 The district has an independent review panel comprising both state and non-state actors, and including male and female members. The current chair of the panel is a representative of MINALOC, while the secretary is a civil beginner form LODA seconded to the district. The membership also includes three persons from the academia, specifically, the University of Rwanda, the Institute of Agriculture, Technology, and Education (WATEK), Kibungo, and Institute Polytechnique du Byumba (IPB). The panel does not charge fees for its deliberations, but complainants pay a fee to the district to file their cases - Frw 50,000 for contracts up to Frw 20 million, and Frw 100,000 for cases above Frw 20 million and up to Frw 100 million. The panel has powers to cancel the procurement process and its decisions are binding on both parties, but either party may appeal to the resolution panel at the CG level. However, the district could not establish how long it takes the panel to issue its decisions and whether this is within the stipulated timeframe.

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

3.144 *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

Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
(i)	Effectiveness of Expenditure Commitment Controls	The high and recurring incidence of accounts payable indicates partial effectiveness of commitment controls, despite the IFMIS.	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 Management / FY 2014 audit report	A	No change
(ii)	Comprehensiveness, relevance, and understanding of other control	PFM laws and regulations are clear and comprehensive,	C	C. Other internal control rules and procedures consist of a basic set of rules for	District management	A	The 2010 assessment did not take subsidiary

[63] http://www.market.gov.rw/tenders/np-notice.do?noticeId=13684916

Score Box 3.21: Effectiveness of Internal Controls for Non-Salary Expenditure							
Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
	rules/procedures	but NBA do not fully understand them; the district also violates some of them.		processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.			entities into account in the rating.
(iii)	Degree of compliance with rules for processing and recording transactions	The District complies with many processing and recording rules, but audit reports some noncompliance in both district and NBAs (especially)	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 of the district	B	2010 wrongly took extent of implementation of audit findings dealt with in PI - 21 (iii) and 26(iii) into account, but failed to take subsidiary entities into account.
Score (Method M1)			C			**B+**	

Rationale for the Score

Dimension (i): Effectiveness of expenditure commitment controls

3.145 The CG-controlled IFMIS helps enforce clearly defined expenditure commitment and payment policy on CG (earmarked) transfers and, to a limited extent, on own resources. This policy limits commitment of both earmarked transfers and own resources to the approved expenditure plan, expenditure plans to the approved budget, and payments on earmarked transfers to both expenditure commitments and cash availability,[64] but payments on own resources only to expenditure commitments and not also to cash availability. 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.

[64] The IFMIS does not 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)*.

3.146 The commitment control procedure is as follows. The minister requests budget entities (including districts) to prepare and submit annual and quarterly expenditure plans based on the approved budget. The expenditure plans cover commitments of both CG transfers and own resources. The minister authorizes this plan or its modification on the IFMIS and this limits the expenditure plan by line in 'local mode'. However, any modification by the Minister will only affect expenditures on CG transfers, not the district's "own resources" as well, but limiting of expenditure commitment on the local mode affects both. Budget entities can only make commitment by line items and this, on the system, which limits commitment to the approved expenditure plan, which itself cannot be above budget limits. 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 and the budget, but not yet to cash availability.

3.147 The IFMIS attempts to limit payment to actual cash availability by linking all expenditure bank accounts on the TSA system and ensuring that all procurement, approvals, authorization, and actual payment are through the platform. This effectively 'locks' the ability to pay to cash availability by enabling it to reject authorization and payments of amounts in excess of available cash balance. However, this arrangement affects only payments from CG transfers, but not from the District's own resources. Arrangements for limiting actual payment from own resources to cash availability is manual and lie outside the IFMIS. Consequently, payment commitments can be above cash availability, leading to cash rationing and frequent adjustments to the 'own resources' cash plan *(see PI-16 above)*. The District funds nearly half of its budget from 'own resources' as already noted elsewhere in this assessment.

3.148 *However, the evidence shows that these controls are not very effective in limiting expenditure within fund availability in Rulindo district.* Significant annual increases in the balance of accounts payable and problems associated with it illustrates the ineffectiveness of commitment to cash availability. Accounts payable grew from Frw 678,741,886 at the end of FY 2012 to Frw 908,078,864 at the end of FY 2013, and to Frw 1,023,386,677 at the end of FY 2014 *(see 2013/2014 audit report, pp. 12, 28)*. This is an increase of 34 percent and 12 percent in FY 2013 and FY 2014 respectively. These increases have also led to growing fiscal deficit and net closing liabilities. For instance, annual fiscal deficits were Frw 281,251,767, Frw 268,453,039, and Frw 261,423,753 in FYs 2012 to 2014, respectively. Net closing liabilities (accumulated deficits) were Frw 435,522,699 at the close of business in FY 2012, Frw 582,318,384 in FY 2013, and Frw 833,127,516 in FY 2014, i.e., 34 percent and 43 percent increases in FYs 2013 and 2014 respectively[65]. The FY 2014 audit report points attention to the dangers of this scenario *pp. 55 and 56*. Expenditure commitment controls are partially effective, at best.

<u>Dimension (ii): Comprehensiveness, relevance, and understanding of other control rules/procedures</u>

3.149 PFM laws, orders, and regulations include comprehensive rules and procedures on authorization, approvals, delineation of roles, verifications, access and custody of resources, etc. The *Manual of Government Policies and Procedures, Volumes 1 – 4* specify internal controls

[65] See 2013/2014 audit report, *pp. 12, 28*

and procedures in the Government of Rwanda. The documents apply to decentralized entities as well. Volume 1 deals with financial policies and procedures, Volume 2 with the uniform chart of accounts, Volume 3, with books of accounts, book-keeping and accounts and Volume 4 with financial reporting requirements and procedures. Core district personnel clearly understand these rules, but there is some evidence of non-adherence, especially in matters relating to NBAs. For instance, the fact that the district does not know the number of bank accounts each NBA has as established in PI-19 reveals weaknesses in observance of authorization procedures. Similarly, the audit finding of repeated failure to bank revenue collections for between 6 and 381 days[66] violates internal control rules on custody of assets. Besides, the repeated adverse audit findings on NBA internal controls point to poor understanding of internal procedures, among others. In addition, the rules can be excessive and at times and lead to delays, especially when the Ministry of Finance provides guidelines on some issues and ministries provide additional instructions on the same issues.

Dimension (iii): Degree of compliance with rules for processing and recording transactions

3.150 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. The District complies with these rules, but there are important instances of noncompliance in both the district and its subsidiary entities. For instance, failure to update the petty cash register resulting in negative balances, failure to cancel and reverse book entries on longstanding uncredited cheques,[67] and failure to update the bank register,[68] all in violation of provisions of the Manual of Government Policies and Procedures on Financial Management. In addition, there were “unreconciled differences between the amount as per the District Revenue Officer’s report and the amount recorded in the District’s books of account,”[69] no database on land owners,[70] “Difference between monthly reports from sectors and monthly report from district revenue officer”[71], failure to provide copies of contracts between tenants and the District for revenue amounting to Frw 713,125,[72] etc. The level of noncompliance in NBAs is also high, and is due to shortage of necessary capacity skills to in subsidiary entities. Primary schools, especially lack the capacity to comply with processing and recording rules. A common practice in 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.

PI-21: Effectiveness of Internal Audit

3.151 *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[73] and produce relevant and timely reports. The indicator also examines management’s reaction to internal audit reports. Internal

[66] 2013/2014 audit report, *p. 46*
[67] 2013/2014 audit report, *pp. 76 - 77*
[68] 2013/2014 audit report, *pp. 77 - 78*
[69] 2013/2014 audit report, *p 44*
[70] 2013/2014 audit report, *pp. 44 - 45*
[71] 2013/2014 audit report, *p 45*
[72] 2013/2014 audit report, *p 8*
[73] Which is an accounting control function assesses assessed under *PI-20*.

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							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(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 approach falls short of professional standards.	D	D. There is little or no internal audit focused on systems monitoring.	The District Management / Internal Auditors / 2013/14 Report of the Auditor General	Not assessed in 2010	
(ii)	Frequency and distribution of reports	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.	B	B. Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	District management / Internal Auditors		
(iii)	Extent of management response to internal audit findings	External audit report show internal audit reports do not indicate management comments to establish ownership and follow up.	NR		District Management / Internal Auditors		
Score (Method M1)			**D+**				

Rationale for Score

<u>Dimension (i): Coverage and quality of internal audit function</u>

3.152 *The internal audit function is weak. District had no substantive internal auditor, but had one acting internal auditor, at the time of the assessment mission at the end of June 2015.* The district has establishment for three internal auditors, following structural reforms that took effect in January 2015. The current acting internal auditor was the substantive personnel until the reforms, but his profile falls short of the specifications for the new positions. Meanwhile he continues to perform the internal audit role for the district and its 136 subsidiary entities, as he had done for five years running.

3.153 Internal audit has a very limited reach in the district, due to the severe capacity constraints explained above. The district administration explained that IA focuses mostly on the district headquarters, devoting only very little to NBAs. It was not possible to determine the extent of system work involved, because the district did not provide the internal audit plan.

3.154 The external audit report for 2013/2014 highlights some internal audit weaknesses. These weaknesses include the following five[74]

i. senior person not signing off work done by internal auditor
ii. internal audit findings not include management comments to enable ownership and follow up
iii. lack of documentation of the audit approach followed by internal auditor during the evaluation of internal controls
iv. lack of proper referencing and cross referencing of working papers to facilitate understanding and information retrieval, contrary to Contrary to the provisions of Chapter 5 sections 5.24 of the Government Internal Audit Procedures Manual, and
v. doing reports manually, instead of generating them through the system.

<u>Dimension (ii): Frequency and distribution of reports</u>

3.155 The district produces quarterly internal audit reports, except when there is a special audit, in which case it produces a specific report on that. Circulation of the report is to the District Council, Ministry of Finance & Economic, Ministry of Local Government (MINALOC), and the Provincial Governor. The auditor general is not on the routine distribution list, but gets a copy on demand, usually at the commencement of external audit.

<u>Dimension (iii): Extent of management response to internal audit findings</u>

3.156 The extent of management follow-up is unclear, since internal audit reports do not include management comments, as reported by the 2013/2014 (financial) audit report (see dimension (i) above) and the district not provide documentary evidence on the extent of implementation. However, the district management explained that the DC gives the internal audit report to its audit commission (AC) for thorough review and analysis, and to report back thereafter. The DC considers the report of the AC and issues specific directives to the executive secretary or the Directors of Mituelle des Santes, Director of Pharmacy, district hospitals, as the case may be. The DC also tasks the Mayor and the executive secretary report to the DC periodically on the extent of implementation of the directives. The district did not provide samples implementation reports for review.

3.5 Accounting, Recording, and Reporting

3.157 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.

[74] 2013/2014 audit report, *p. 59*

PI-22: Timeliness and Regularity of Accounts Reconciliation

3.158 *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							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	Regularity of bank reconciliations	Bank reconciliation takes place on District held accounts; but cases, failure to update bank register, undue delay in depositing cash collections, etc., reduce the quality of reconciliation.	D	D. Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.	District Finance Unit / 2013-2014 financial audit report	B	Performance has fallen below the 2010 level, when the assessment reported reconciliation of all accounts within 4 weeks
(ii)	Regularity of reconciliation and clearances of suspense accounts and advances	The district does not use suspense accounts or operational advances.	NA			A	No change
Score (Method M2)		**D**				**B+**	

Rationale for the Score

<u>Dimension (i): Regularity of bank reconciliations</u>

3.159 *The district prepares monthly bank reconciliation statements in line with established GoR rules and traditions.* The establishment tradition the is to prepare monthly bank reconciliation statement for all bank accounts. Decentralized entities prepare and submit the statements as part of the monthly financial reports to the Ministry of Finance & Economic Planning. The finance department of the district is responsible for preparing bank reconciliation statements for the District accounts, while each NBA prepares and forwards reconciliation statements with supporting documents to the District for inclusion in the monthly financial report as disclosure notes. The District observes this tradition, regularly preparing and submitting bank reconciliation statements within two weeks of the succeeding month as part of the annex to its monthly financial reports to the 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.

3.160 *However, some audit findings cast doubt on the quality of bank reconciliation statements.* These include cases of failure to deposit revenues totaling Frw 566,500 for between six and 381 days, and "the receipt book register is incomplete as it doesn't indicate the amount collected and banked to facilitate reconciliation between"[75] failure to reverse 19 cases of long standing unpresented cheques amounting to Frw 3,143,104, at least one of which was outstanding for up to 16 months,[76] and 13 cases of failure to update the bank register.[77] The 2013/2014 audit report also shows that many NBAs did not prepare bank reconciliation statements; these include primary schools, health centres, mutual heath section level, and the Rutongo hospital.[78]

<u>Dimension (ii): Regularity of reconciliation and clearances of suspense accounts and advances</u>

3.161 The district does not use suspense accounts or operational advances (travel or imprest) in its activities. It rather outsources small procurements to service providers / suppliers for a period through a framework tendering process and successful tenderers provide the needed service or supply when called upon to do so. Payment is upon submission of invoice. Travel advances also do not usually apply to staff. Instead, touring personnel receive allowances in line with ministerial guidelines, but return the balance to the District, if unused, e.g., if the tour does not take place as envisaged or takes less than the period planned.

3.162 However, the district still uses petty cash for the purchase of small items, for which it maintains a petty cash ledger. The 2013/2014 audit report "noted that the petty cash ledger maintained in the accounting software has some negative balances. This was due to the fact that the accountant delayed to record the replenishment while he continued to record petty cash payments made in the petty cash ledger. As a result, the amount being paid exceeded the available balance resulting into negative petty cash balance appearing instantly as shown in appendix 7".[79] The Appendix 7 referred to in the report shows that the accountant subsequently posts the replenishments within the same month, which immediately corrects the negative balances.

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

3.163 *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.

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[75] 2013/2014 audit report, *p. 46*.
[76] 2013/2014 Audit Report, *p. 76 – 77;* long outstanding unpresented cheques lead to a misstatement of bank balances in bank reconciliation statements.
[77] 2013/2014 Audit Report, *p. 77 - 78*
[78] 2013/2014 audit report, *p. 72*
[79] 2013/2014 audit report, *p. 53*

Score Box 3.24: Availability of Information on Resources received by Service Delivery Units							
Dimension		**Score**	**Comments**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	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	D	The district collates data on cash resources (but not for non-cash resources) available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually.	D. No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	District management	Not assessed in 2010	
Score (Method M1)		**D**					

Rationale for the Score

3.164 *The District has not comprehensively collated data on cash and in-kind resources available to primary schools and health centres in the last three years, although the system is capable of generating the information.* The current practice is to require non-budget agencies (NBAs) to report cash resources from all sources, but not in-kind gifts. NBAs provide these reports monthly and the district collates and discloses the information in the notes to its monthly financial reports and annual financial statements. The District becomes aware of in-kind donations to NBAs when the internal auditor discovers them during routine audit. However, the District does not compile or consolidate the information. Besides the information cannot be comprehensive or reliable given the capacity constraints that make internal audit and finance departments' monitoring of the 136 NBAs ineffective *(see PIs 9 -21).*

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

3.165 *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							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	Monthly budget execution reports capture expenditure at the payment stage only; comparison of budget and outturns is only by economic categories, and not by administrative headings, as well	D	D. Comparison to the budget may not be possible across all main administrative headings.	The district government / monthly financial reports	A	The 2010 report is silent on administrative classification and asserts both commitment and payment reporting, which is not currently the case.
(ii)	Timeliness of issues of the reports	Budget execution reports issued as part of monthly financial reports by 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.	The district government / monthly financial reports	A	No change
(iii)	Quality of information	The accuracy of reported information is high; Audit did not highlight any materials issues with data accuracy in budget execution reports, as it did with other districts.	A	A. There are no material concerns regarding data accuracy.	The district government / monthly financial reports	B	The rationale for the 2010 rating is unclear and does not have a clear evidence basis.
Score (Method M1)		**D+**				**B+**	

Rationale for the Score

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

3.166 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 deals only with economic classification and compares the budget with actual payment, but not commitments. 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 on 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 decide to do so. Doing so will significantly enhance the role of the reports in "bringing 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. Either the assertion in the 2010 assessment report that the "… classification of data allows direct comparison to the original budget and expenditure is covered at both commitment and payment stages"[80] is therefore incorrect or the situation has deteriorated since 2010. Even then, the 2010 report is silent on the requirement for administrative classification as a condition for scoring beyond a "D".

<u>Timeliness of issues of the reports</u>

3.167 Budget execution reports is part of the package of annexes attached to the monthly financial reports submitted to the Ministry of Finance by the middle of the following month. Meeting this target is relatively easy, 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.

<u>Quality of information</u>

3.168 The accuracy of reported information is high; however, the lack of administrative classification in released reports hampers its fitness for purpose in "bringing in" the budget. The reports accurately report budgeted revenues, expenditures. Even the annual audit reports did not highlight any issues with the correctness and accuracy of the District's budget execution reports; audit reports always review, often identify, and list problems in budget execution reports in districts, e.g., misclassifications of items.[81] The 2013/2014 audit report did review the District's budget execution reports, but did not report any such or other cases. However, the failure to present budget and spending data along administrative lines limits the usefulness of the report to supervisors of administrative units and managers of budget entities. Economic classification does not mirror performances of administrative units and thus, does not facilitate use the report as instruments of correction. However, dimension (i) above has dealt with this administrative issue.

3.169 This finding differs from the 2010 assessment, primarily because the 2010 reports did not review the fitness of the reports to the purpose stated in the PEFA Framework, i.e., their usefulness in "bringing in the budget". Besides, analysis in the 2010 report appeared to focus more on the CG, rather than districts and the rationale for the differing ratings of "C" for the CG and "B" for districts is unclear, as shown the following 2010 narrative. "The rationale provided is The Team interviewed MINECOFIN and the ministries, as well as reviewed the in-year and annual budget execution reports, which did not highlight any concerns pertaining to the quality of information. That said, in its Audit of the 2009 minibudget Accounts, the OAG reports concerns regarding the accuracy of information although no supported evidence is provided. The districts submit their budget execution reports quarterly and are considered by the SN legislature.

[80] 2010 PEFA report, *p. 130*
[81] See accompanying Kamonyi and Gakenke PEFA assessment reports, for instance

The Team did not find evidence of poor quality except the general concerns expressed by the OAG. This dimension is scored B, compared to C for CG."[82]

PI-25: Quality and Timeliness of Annual Financial Statements

3.170 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

	Dimension	Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Explanation of Change since 2010
(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, but, information on cash balance, debtors, and creditors are misleading.	C	C. A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. 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	Date of submission FY 2014 financial statements for audit is not clear; evidence provided is of submission to MINECOFIN	NR	A. The statement is submitted for external audit within 6 months of the end of the fiscal year.	District government / FY 2014 audit report		
(iii)	Accounting standards used	The modified cash standard used is broadly compatible with IPSAS reporting	A	A. IPSAS or corresponding national standards are applied for all statements.	FY 2014 audit report		

[82] See 2010 report, *pp. 130 - 131*

Score Box 3.26: Quality and Timeliness of Annual Financial Statements							
	Dimension	**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Explanation of Change since 2010**
		requirements					
Score (Method M1)		**NR**					

Rationale for the Score

Completeness of the financial statements

3.171 *Completeness of the financial statements* – the annual financial statements covers 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.[83] 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.[84] 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.

3.172 The 2013/2014 audit expressed a qualified opinion[85] due to failure to consolidate NBAs accounts into the district's financial statements, and some other accounting and financial management issues in both the District and NBAs. Issues relating to the failure to consolidate NBA accounts do not materially affect completeness of the financial statements and, in any case, other indicators have assessed them *(e.g., PIs-4, 9, 15, 20, 22, 26).* For instance, the audit report acknowledges that the District discloses NBA reports as notes to the financial statements, using a template supplied by the Ministry of Finance & Economic Planning, but contends that regulations require full consolidation, rather than mere disclosure of information.[86]

3.173 The other accounting and financial management issues highlighted in the audit report are more serious and some of them adversely affected the completeness of assets and liabilities reported in the financial statements. These include[87]

- Long outstanding cheques (at least one up to 16 months) amounting to Frw 3,143,104 which had not been cashed at bank and not reversed in the books in the subsequent months after the year end - this misstates the asset of cash

[83] 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.
[84] 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
[85] See 2013/2014 audit report, *p. 10*
[86] See 2013/2014 audit report, *pp 39 - 40*
[87] See 2013/2014 audit report, *pp. 7 - 10*

- Long outstanding and unsupported receivables - debtors as at 30 June 2014 include a balance of Frw 21,050,175 that had been outstanding for more than 12 months
- Long outstanding payables - accounts payable reported include creditors whose balances totaling Frw 42,127,983 outstanding for more than 1 year; out of this balance, an amount of Frw 16,814,935 had been outstanding for more than 2 years and had not been settled by the district at the time of my audit in December 2014.… "In addition to above, management did not avail the supporting documents for long outstanding creditors amounting to Frw 33,089,743".
- Delay in payment and declaration of value added tax (VAT) amounting to Frw 30,142,584, which is capable of overstating revenues

3.174 In addition, there are material irregularities affecting the accounts of NBAs.

Dimension (ii): Timeliness of submission of the financial statements

3.175 *Timeliness of submission of the financial statements* – budget entities must submit their financial statements to the Ministry of Finance for comments by July 31 each year for review. The entity incorporates observations of the Ministry, resubmits the revised statements to the Ministry and submits it to the Office of the Auditor General. The date of submission of 2013/2014 financial statements to the OAG is unclear. Evidence provided by the district shows the MINECOFIN acknowledged receipt of the statement on August 5, 2014 (see Letter Ref. 256/07.0401.04 dated 05/08/2014 and acknowledged as received on the same day at the MINECOFIN). The district did not provide any documentary evidence to confirm the verbal assertion of submission to the OAG on September 18.

Dimension (iii): Accounting standards used

3.176 *Accounting standards used* – 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" 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.[88] 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[89].

[88] See 2013/2014 Financial Statements
[89] Article 19 of Ministerial Order N° 002/07 of 09/02/2007 relating to Financial Regulations

3.6 External Scrutiny and Audit

3.177 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

3.178 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*							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Explanation of Change since 2010**
(i)	Scope/nature of audit performed (including adherence to auditing standards)	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.	A	A. All entities of central government are audited annually covering revenue, 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.		A	The 2010 assessment correctly identified auditing as a CG function, but still rated districts for the performance; this is incorrect.
(ii)	Timeliness of submission of audit reports to legislature	The SAI submitted the 2013/2014 audit report to the district council on April 02, 2015; however, it is not clear when it received the statement for audit, as the audit report did not indicate it.	NR			B	
(iii)	Evidence of	The district	C	C. A formal	Audit	B	Response to

Score Box 3.27: *Scope, Nature, and Follow Up of External Audit*							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Explanation of Change since 2010**
	follow-up on audit recommendations	responds formally to responds to comments, but the rate of implementation of recommendations has been declining since FY 2012 and stood at only 56% in FY 2014.		response is made, though delayed or not very thorough, but there is little evidence of any follow up.	reports for 2013, & 2014		findings has improved, although the 2010 assessment made generalized finding on all four district assessed
Score (Method M1)		NR				**B+**	

Rationale for the Score

3.179 *Background: 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[90] and the Decentralization Law[91] 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 responsibility of districts is only to implement audit findings, making only dimension (iii) of this indicator relevant.

3.180 *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".

[90] Organic Law on State finances and property, **Law N°12/2013/OL of 12/09/2013**, Art. 19, paras. 9 - 10
[91] Law determining the organization and functioning of decentralized administrative entities, **Law N° 87/2013 of 11/09/2013** Art. 125, para. 5

3.181 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"*

3.182 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.

3.183 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.

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

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

3.185 *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[92]

3.186 *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

[92] See Rulindo District Audit Report for The Year Ended 30 June 2014, *p. 5*

expenditure of the entities covered by annual audit activities, not the sample of transactions selected by the auditors for examination within those entities".[93]

3.187 *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).

3.188 *What is [the] 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.

3.189 *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 audit report contains a section titled, "Physical Verification", which discussed findings of the review of performance of select contracts against, the terms of the awards, payments, utilization, etc.[94] Thus, the audit report cases review, "Contracts signed with ECOBE for the construction of classrooms", and listed evidence of "Non-compliance with the contracts signed for phase II & III" and "Duplication of construction works in tender document".[95] The report also reviewed two other cases, i.e., "Quantities of fertilisers distributed to farmers differ from what was actually received per the confirmation from farmers"[96] and "Management of houses owned by RULINDO District".[97] The reviews listed findings, discussed the associated risks, and reported made recommendations for improvement.

3.190 *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

[93] *See the Fieldguide. p. 148*
[94] 2013/2014 Rulindo Audit Report, *p. 65f*
[95] 2013/2014 Rulindo Audit Report, *pp. 65 - 68*
[96] 2013/2014 Rulindo Audit Report, *p 68*
[97] 2013/2014 Rulindo Audit Report, *pp 68 - 69*

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.

Dimension (ii) Timeliness of submission of audit reports to legislature

3.191 The SAI submitted the 2013/2014 audit report to the district council on April 03, 2015.[98] The date of receipt of the financial statement for audit is unclear. The district claimed it submitted the financial statements on September 18, 2014, but it could not provide any evidence ot substantiate this. The audit report also does include a statement on the date of receipt of the statements for audit. It is therefore not possible to rate this dimension.

Evidence of follow-up on audit recommendations

3.192 *The district responds formally to responds to comments, but the rate of implementation of recommendations has been declining since FY 2012.* Audit reports include a section on *"Status of Implementation of Previous Audit Recommendations"*. The monthly financial reports and annual financial statements also include an annex on the *"Progress on follow up of Audit Recommendations"*. Review of the section in recent audit reports shows the District's record on implementing audit findings has been declining since FY 2012. Complete implementation of recommendations was 72 percent in FY, 2012,[99] 68.42 percent in FY 2013,[100] and only 56 percent in FY 2014.[101] The district fully implemented 14 and partially implemented 2 of the 25 audit recommendations in FY 2014; the district did not implement nine at all. The number of fully implemented recommendations was 13 in FY 2013 and the number partially implemented was 5. The district fully implemented 23 of the 32 recommendations in FY 2012, while it partially implemented only one.

PI-27: Legislative Scrutiny of Annual Budget Law

3.193 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							
Dimension		**Evidence Used**	**Score**	**Framework Requirements**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	Scope of Legislatures Scrutiny	The DC reviews details of revenue and expenditures, but it cannot change fiscal policy	C	C. The legislature's review covers details of expenditure and	District administration / MINECOFIN / OBL 2013	Not assessed in 2010	

[98] See District's minute of acknowledgement of receipt of the Auditor General's letter ref. No. 103/03/15/DLA/OAG of 17 Mars, 2015 titled, "Re: Final Audit Report for the Year Ended 30 June 2014".
[99] See 2011/2012 audit report, *p. 70*
[100] See 2012/2013 audit report, *p. 56*
[101] 2013/2014 audit report, *p. 71*

Score Box 3.28: Legislative Scrutiny of the Annual Budget Law							
Dimension		**Evidence Used**	**Score**	**Framework Requirements**	**Information Source**	**2010 Score**	**Change since 2010**
		decisions already made by the CG		revenue, but only at a stage where detailed proposals have been finalized.			
(ii)	Extent to which Legislature's procedures are well-established and respected	Established procedures for approving the budget include interaction with relevant staff and a retreat for the District and sector councils.	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 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)	Review of the budget begins after receipt of the BFP around April or May and concludes sometime before or on June 30 (for 2015/16, June 29, 2015), i.e., at least, two months.	A	A. The legislature has at least two months to review the budget proposals.	District administration		
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the Legislature	Existing frameworks set out clear rules for budget amendment, which allow up to 20% reallocation between programs (administrative units) execution, but prohibits reallocation on 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

Dimension (i): Scope of Legislatures Scrutiny

3.194 The District has a legislative council, whose members serve part-time. The Council reviews and adopts the budget of the district in accordance with extant legal provisions, but its review has a limited scope. *Articles 5* of OBL and *125(3)* of the Decentralization Law[102] require the District Council to adopt the budget of the District. *Article 11* emphasizes that only the District Council may adopt the budget of the district, but that, "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 that the MTEF and the budget adopt. 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 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. However, the DCs approve forecasts the District's own revenues, which accounted for just about 5 percent of the District's its expenditures in FY 2014. The DC also approves the District Development plan, prepared once every five years, the action plan, and tariff.

<u>Dimension (ii): Extent to which Legislature's procedures are well established and respected</u>

3.195 The district follows simple, but well-established procedures in adopting the budget. The rules have become entrenched since their introduction 2006, during the 3rd Phase of Decentralization. The economic commission of the DC reviews budget proposals (including the MTEF) in-depth and reports to the Council. The district administration shares the budget proposal and other documents for review in advance with the economic commission[103] of the DC. The economic commission interacts with relevant staff of the District in the process. In addition, the District organizes a two to three-day retreat for the DC and sector councils to review the documents in detail. 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 can request for corrections or amendments to the proposals.

<u>Dimension (iii): Adequacy of time for the Legislature to provide response to budget proposals</u>

3.196 Review of the budget related documents begins after receipt of the first budget call circular (the planning circular) by the Ministry of Finance & Economic Planning around September or October. The budget call circular usually requires Districts to adopt the MTEF and the Strategic Implementation Plan (SIP) around March, but delays in providing expenditure ceilings by the Ministry of Finance & Economic Planning in 2015 sometimes affects compliance. The Law requires the Ministry to submit the BFP to the Parliament DC by April 30 and the Ministry provides expenditure ceilings after submitting the BFP to the Parliament. The Ministry also sends the BFP to budget entities for comments in accordance with the law. The DC reviews

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

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

it and subsequently ensures that the District's budget is line with it. Review of the budget therefore commences after receipt of the BFP at the end of April. The date of approval of the District's 2014/2015 budget was 29/06/2014.[104] Thus, the DC had at least, two months to review the budget.

<u>Dimension (iv): Rules for in-year amendments to the budget</u>

3.197 Rules for in-year amendment to the budget are clear, set out in the OBL and relevant regulations. The rules apply to both CG funded and district-funded components of the budget. *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.

PI-28: Legislative Scrutiny of External Audit Reports

3.198 *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.

Score Box 3.29: Legislative Scrutiny of External Audit Reports							
Dimension		**Evidence Used**	**Score**	**Framework Requirement**	**Information Source**	**2010 Score**	**Change since 2010**
(i)	Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	The audit commission annually reviews audit recommendations and submits to the DC, but the exact date of DC's resolution on the last report is unclear, although it a matter of months, not years.	NR		The District's Management	Not assessed in 2010	
(ii)	Extent of hearings on key findings undertaken by the Legislature	The AC interviews responsible officials in cases of major findings; internal auditors provide	A	A. In-depth hearings on key findings take place consistently with responsible officers from all or			

[104] See the approved 2014/2015 budget

Score Box 3.29: Legislative Scrutiny of External Audit Reports							
Dimension		Evidence Used	Score	Framework Requirement	Information Source	2010 Score	Change since 2010
		assistance to the AC.		most audited entities, which receive a qualified or adverse audit opinion.			
(iii)	Issuance of recommended actions by the Legislature and implementation by the executive	The AC proposes recommendations, which the DC ratifies, and the CBM follows up on implementation.	A	A. The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.			
Score (Method M1)		**NR**					

Rationale for the Score

<u>Dimension (i): Timeliness of examination of audit reports by the Legislature Public</u>

3.199 The parliamentary Public Accounts Committee (PAC) reviews audit findings, holds 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 and the numerous other public entities. PAC reviews audit reports, but it does not invite every institution; it invites only those with serious audit issues. Besides, PAC review takes a relatively long time due to the bulk of the work involved, among other reasons.

3.200 The District Council has parallel arrangements for reviewing audit findings and usually completes its hearings long before the PAC. The DC's review process begins with receipt of the audit report from the auditor general. 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 Council. The DC usually completes its hearings and issues recommendations, but it was not possible to confirm the exact date of completion of hearings on the 2013/2014 audit report. The District received the 2013/2014 audit report on April 02, 2015.[105]

<u>Dimension (ii) Extent of hearings on key findings undertaken by the Legislature</u>

3.201 The AC reviews audit recommendation with the technical assistance of internal auditors. Internal auditors analyze the reports and prepare a list of the findings, indictments, recommendations, and suggested implementation plan, submitted to both the AC and the executive committee. The AC meets with the executive committee to review the findings,

[105] See District's minute of acknowledgement of receipt of the Auditor General's letter ref. No. 103/03/15/DLA/OAG of 17 Mars, 2015 titled, "Re: Final Audit Report for the Year Ended 30 June 2014".

recommendations, and implementation measures, as stated above. The AC invites indicted officials to its hearings for explanation on major findings.

Dimension (iii): Issuance of recommended actions by the Legislature and implementation by the executive

3.202 The AC makes recommendations for remedial actions and follow up to the DC; these recommendations may include sanctions. The DC reviews, adopts, or modifies the recommendations, and issues them as District Council decisions / resolutions for implementation by the executive committee. 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. The title of the 2013/2014 sample presented in evidence is, "Status of Rulindo Audit Recommendations – 2013/2014". The report has the following four columns, (i) Number (serial), (ii) Observation, (iii) (audit) recommendations, (iv) status (of implementation).[106]

3.203 "Progress on follow up of 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. The AC also follows up on implementation progress of DC and Parliament recommendations. The rate of implementation of audit findings was 72 percent in FY, 2012,[107] 68.42 percent in FY 2013,[108] and 56 percent in FY 2014.[109]

3.7 Donor Practices

3.204 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

3.205 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 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	Not		

[106] See Rulindo District's Letter to the Hon. Minister of Local Government, ref. 3917/07.0401.04, dd 18 June 2015.
[107] See 2011/2012 audit report, *p. 70*
[108] See 2012/2013 audit report, *p. 56*
[109] 2013/2014 audit report, *p. 71*

	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)	applicable		
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)			
Score (Method M1)				

Rationale for the score

3.206 *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

3.207 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 for project support	Not applicable		
(ii)	Frequency and coverage of reporting by donors on actual flows for project support.			
Score (Method M1)				

Rationale for the Score

3.208 *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

3.209 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

3.210 *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: Rulindo District PEFA PFM Performance, 2014 Indicators Summary

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
HLG-1 Predictability of Transfers from Higher Level Government												
HLG-1. Predictability of Transfers from Higher Level Government	B	C	A		**C+**	HLG transfers fell short of the estimate by more than 10% in only FY 2013; i.e., 1.1% in FY 2012, 16.9% in FY 2013, and 6.3% in FY 2014. Variance in earmarked transfers exceeded deviation in total transfers by more than 10 percent in only one year. The excesses were 9.3% in FY12, 12.4% FY13, and 6.3 percent in FY14. 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.	B	B	A		**B+**	
A. PFM Outturns: Credibility of the Budget												
1. Aggregate expenditure out-turn compared to original approved budget	B				**B**	Aggregate expenditure deviated from budgeted expenditure by 6.8 % in FY 2012, 16.1% in FY 2013, and 1.4% in FY 2014	B				**B**	No change
2. Composition of expenditure out-turn compared to original approved budget	D	A			**D+**	Composition variance based on functional heads was 16.2% in FY 2012, 27.5% in FY 2013, and 6.2% in FY 2014. Average expenditure to contingency was nil in the last three years.	D	NA			**D**	Not comparable; dimension (ii) not assessed in 2010; a revision of the PEFA Framework introduced the dimension in May 2010
3. Aggregate revenue out-turn compared to original approved budget	B				**B**	Actual domestic revenue was 180.2% of prediction in FY 2012, 106.1% in FY 2013, and 98.0% in FY 2014.	Not assessed in 2010					
4. Stock and monitoring of expenditure payment arrears	C	A			**C+**	The stock of payment arrears was 9.9 percent of total expenditures at end FY 2014, almost the same proportion as at						

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				**Overall Score**	**Brief Explanation and Cardinal Data Used**	**Dimension Ratings**				**Overall Score**	
	i	**ii**	**iii**	**iv**			**i**	**ii**	**iii**	**iv**		
						the end of FY 2013, 10%. 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; the district pays off the invoices 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	B				**B**	Two out of five applicable elements provided to the DC.	Not assessed in 2010					
7. Extent of unreported government operations	A	NA			**A**	Monthly and annual financial reports disclose key fiscal information of the district's administration in the main accounts, and of the 136 subsidiary entities 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.	NA	NA	NA		**NA**	No change; the indicator is not applicable.
9. Oversight of aggregate fiscal risk from other public sector entities	C	NA			**C**	NBAs submit unaudited monthly reports to the District, which consolidates and includes them as note in its monthly financial reports prepared for the Ministry of	Not assessed in 2010					

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						Finance.						
10. Public access to key fiscal information	C				**C**	Three out of 8 elements accessible to the public	A				**A**	2010 assessment over-justified in many respect, but positive changes have occurred since with public access to several additional documents since.
C. Budget Cycle												
C (i). Policy-Based Budgeting)												
11. Orderliness and participation in the annual budget process	A	A	A		**A**	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. 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. The DC approves the budget before the commencement of the new FY on July 1, i.e., June 29, 2014 for FY 2015, June 30, 2013 for FY 2014, and June 23, 2012 for FY 2013.	A	D	A		**D+**	The 2010 assessment incorrectly rated districts over the budget calendar, which it noted they 'receive from MINECOFIN", and for not issuing budget calendars to NBAs (non-budget entities).
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes fiscal forecasting and allocations for transferred funds; the district makes projections for expenditure funded from its own resources, which averaged only about 6% of actual expenditure from FY 12 to FY 14. The DDP, 2013 – 2018 provides costs for development projects (but not the recurrent cost component) for all sectors, linked with the EDPRS 2 (2013 – 2018) link between investment and recurrent expenditure costing is weak; the two are separate activities.	Not assessed in 2010					
C (ii). Predictability and Control in Budget Execution												

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	The district government uses a variety of means to provide taxpayers access to tax information: public noticeboards, tax enlightenment campaigns, focus groups, and a helpdesk	Not assessed in 2010					
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NA**	Responsibility for taxpayer registration belongs to the RRA, not the District, i.e., with the takeover of tax assessment and collection duties from districts.						
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 9.5%, i.e., collection of Frw 2,631,065 out of a beginning balance of Frw 27,783,520. The district no longer had responsibility for tax collection as at the time of assessment; the RRA had taken over this task. Complete reconciliation of assessments, collections, transfers, and arrears could not have taken place since the tax register lacks assessment information.						
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 5.3% of total revenues in FY 2014; however, the district did not provide documentary evidence for review. The district only provides input to the Ministry of Finance on its disbursement profile that assists the Ministry in preparing cash projections. The district reviews the budget in line with regulatory provisions in December, especially Arts. 41 of the OBL.	B	B	A		**B+**	Dimension (i) is not comparable due to lack of evidence to complete assessment in 2015. The 2010 assessment incorrectly treated dimension (ii) as applicable to the district. No change in performance and situation of dimension (iii).
17. Recording and management of cash balances, debt, and guarantees	NA	B	C		**C+**	The district's debts comprise mainly invoices for small purchases caught up in yearend accounts closing formalities. The district consolidates operational account balances daily on the TSA and	Not assessed in 2010					

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						(with revenue accounts) monthly in financial reports, and most NBA balances separately in the monthly financial reports. The district does not have regulatory powers; the Minister of Finance does (Arts 50 – 54); however, the minister had not issued the guidelines at the time of the assessment						
18. Effectiveness of payroll controls	A	A	B	D	**D+**	Personnel and payroll data are the same, creating potential integrity issues; districts apply the Integrated Personnel and Payroll System (IPPS) provided MIFOTRA. No time lag between personnel and payroll changes: the two are the same. The HR bases changes to the payroll on the mayor's written authorization and relevant supporting documents. The District has not conducted any recent payroll audit.	A	A	A	B	**B+**	The 2010 assessment rated these dimensions based on the performance of the CG, rather than the district.
19. Transparency, competition, and complaints mechanisms in procurement	B	D	C	B	**C+**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. Competitive procurement method is the default, but lack of data does not allow assessment of the extent of use of noncompetitive methods. The public has access to procurement plans and bidding opportunities, but not to contract awards and conflicts resolution. An independent appeals panel of both state and non-state actors with powers to issue binding decisions exists, but it is not clear how it takes to issue decisions.	Not assessed in 2010					
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	The high and recurring incidence of accounts payable indicates partial effectiveness of commitment controls, despite the IFMIS. PFM laws and regulations are clear and comprehensive, but NBA do not fully understand them;	A	A	B		**B+**	2010 wrongly took extent implementation of audit findings dealt with in PI - 2 (iii) and 26 (iii) into account, but failed to take subsidiary entities into

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						the district also violates some of them. The District complies with many processing and recording rules, but audit reports some noncompliance in both district and NBAs (especially)						account.
21. Effectiveness of internal audit	D	B	NR		**D+**	Internal audit does not involve accounting work; it focuses on expenditures, revenues, transactions, and some system work, but the approach falls short of professional standards. 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. External audit report show internal audit reports do not indicate management comments to establish ownership and follow up.	Not assessed in 2010					
C (iii). Accounting, Recording, and Reporting												
22. Timeliness and regularity of accounts reconciliation	D	NA			**D**	Bank reconciliation takes place on District held accounts; but cases, failure to update bank register, undue delay in depositing cash collections, etc., reduce the quality of reconciliation. The district does not use suspense accounts or operational advances.	B	A			**B+**	Performance has fallen below the 2010 level, when the assessment reported reconciliation of all accounts within 4 weeks
23. Availability of information on resources received by service delivery units	D				**D**	The district collates data on cash resources (but not for non-cash resources) available to its subsidiary entities (including primary schools and primary health centres) monthly, quarterly, and annually.	Not assessed in 2010					
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports show expenditure at the payment stage only and compare budget and outturns only by economic categories; reports issued as part of monthly financial reports by	A	A	B		**B+**	The rationale for the 2010 rating is mostly unclear. The 2010 report is silent on administrative classification and asserts both

Performance Indicator	**2015 Assessment**						**2010 Baseline**					**Brief Explanation of Difference with 2010 Assessment**
	Dimension Ratings				**Overall Score**	**Brief Explanation and Cardinal Data Used**	**Dimension Ratings**				**Overall Score**	
	i	**ii**	**iii**	**iv**			**i**	**ii**	**iii**	**iv**		
						middle of the next month of not of much to district use in “bringing in” the budget. The accuracy of reported information is high; Audit did not highlight any materials issues with data accuracy in budget execution reports, as it did with other districts.						commitment and payment reporting, which is not currently the case.
25. Quality and timeliness of annual financial statements	C	NR	A		**NR**	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, but, information on cash balance, debtors, and creditors are misleading. Date of submission FY 2014 financial statements for audit is not clear; evidence provided is of submission to MINECOFIN. The modified cash standard used is broadly compatible with IPSAS reporting requirements	Not assessed in 2010					
C(vi). External Scrutiny & Audit												
26. Scope, nature, and follow-up of external audit	A	NR	C		**C**	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 April 02, 2015; however, it is not clear when it received the statement for audit, as the audit report did not indicate it. The district responds formally to responds to comments, but the rate of implementation of recommendations has been declining since FY 2012 and stood	A	A	B		**B+**	The 2010 assessment correctly identified auditing as a CG function, but still rated scope and timeliness; this is incorrect. It is difficult to track response to audit finding, because of the 2010 assessment generalized performance across the four districts assessed.

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
						at only 56% in FY 2014.						
27. Legislative scrutiny of annual budget law	C	B	A	A	**C+**	Budget review is of detailed revenue and expenditures, but fiscal policy. Established procedures for approving the budget include interaction with relevant staff and a retreat for the District and sector councils. The review begins after receipt of the BFP around April or May and concludes by June 30 (for 2015/16, 29/06/15), i.e., at least, two months. Rules for budget amendment are clear rules, allowing up to 20% reallocation between programs (administrative units) execution, but prohibiting reallocation on economic categories without authorization of the Minister of the Finance and /or the Parliament, as the case may be.	Not assessed in 2010					
28. Legislative scrutiny of external audit reports	NR	A	A		**NR**	The audit commission annually reviews audit recommendations and submits to the DC, but the exact date of DC's resolution on the last report is unclear, although it a matter of months, not years. The AC interviews responsible officials in cases of major findings; internal auditors provide assistance to 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												

Performance Indicator	2015 Assessment						2010 Baseline					Brief Explanation of Difference with 2010 Assessment
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used	Dimension Ratings				Overall Score	
	i	ii	iii	iv			i	ii	iii	iv		
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	1,664,878,530.00	1,675,523,396.00	1,551,355,886.50	124,167,509.50	124,167,509.50	8.0%
Good Governance & Justice	326,795,576.00	64,903,858.00	304,512,450.23	(239,608,592.23)	239,608,592.23	78.7%
Education	2,355,677,686.00	2,537,268,258.00	2,195,051,698.38	342,216,559.62	342,216,559.62	15.6%
Health	1,261,047,896.00	887,358,741.00	1,175,061,147.92	(287,702,406.92)	287,702,406.92	24.5%
Social Protection	444,009,286.00	430,014,978.00	413,733,739.18	16,281,238.82	16,281,238.82	3.9%
Youth, Sport, & Culture	10,817,906.00	13,516,100.00	10,080,268.23	3,435,831.77	3,435,831.77	34.1%
Private Sector Development	114,410,665.00	80,589,100.00	106,609,374.45			
Agriculture	138,616,720.00	164,595,286.00	129,164,897.42	35,430,388.58	35,430,388.58	27.4%
Environment & Natural Res	73,585,899.00	40,869,612.00	68,568,316.26	(27,698,704.26)	27,698,704.26	40.4%
Energy	-	28,057,900.00	-	28,057,900.00	28,057,900.00	#DIV/0!
Water and Sanitation	408,815,000.00	322,808,538.00	380,939,236.89	(58,130,698.89)	58,130,698.89	15.3%
Housing, Urban Devt, & Land Mgt	40,582,000.00	23,586,271.00	37,814,845.62	(14,228,574.62)	14,228,574.62	37.6%
Transport	114,060,998.00	108,078,593.00	106,283,550.11	1,795,042.89	1,795,042.89	1.7%
Community Development	1,528,632,964.00	1,526,405,242.00	1,424,400,461.81	102,004,780.19	102,004,780.19	7.2%
			-	-	-	#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	8,481,931,126.00	7,903,575,873.00	7,903,575,873.0	26,020,274.5	1,280,758,228.3	
contingency						
total expenditure	8,481,931,126.00	7,903,575,873.00				
overall (PI-1) variance						6.8%
composition (PI-2) variance						16.2%
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	1,573,524,587.00	1,708,353,010.00	1,319,956,806.3	388,396,203.7	388,396,203.7	0.294249
Good Governance & Justice	89,649,468.00	69,328,114.00	75,202,781.4	-5,874,667.4	5,874,667.4	0.078118
Education	3,278,632,690.00	2,958,818,038.00	2,750,292,922.3	208,525,115.7	208,525,115.7	0.075819
Health	1,151,849,971.00	1,013,783,664.00	966,233,525.5	47,550,138.5	47,550,138.5	0.049212
Social Protection	604,569,276.00	846,319,732.00	507,145,129.7	339,174,602.3	339,174,602.3	0.668792
Youth, Sport, & Culture	27,611,689.00	16,403,600.00	23,162,165.5	-6,758,565.5	6,758,565.5	0.291793
Private Sector Development	336,833,470.00	165,243,577.00	282,553,977.9	-117,310,400.9	117,310,400.9	0.415179
Agriculture	169,981,176.00	204,856,021.00	142,589,325.9	62,266,695.1	62,266,695.1	0.436686
Environment & Natural Res	40,777,815.00	29,511,461.00	34,206,618.0	-4,695,157.0	4,695,157.0	0.137259
Energy	162,151,045.00	47,959,278.00	136,020,992.2	-88,061,714.2	88,061,714.2	0.647413
Water and Sanitation	931,764,635.00	470,831,133.00	781,614,143.2	-310,783,010.2	310,783,010.2	0.397617
Housing, Urban Devt, & Land Mgt	29,000,000.00	72,135,116.00	24,326,755.2	47,808,360.8	47,808,360.8	1.965258
Transport	476,640,282.00	300,637,737.00	399,831,429.1	-99,193,692.1	99,193,692.1	0.248089
Community Development	609,576,393.00	50,301,459.00	511,345,368.0	-461,043,909.0	461,043,909.0	0.901629
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	9,482,562,497.00	7,954,481,940.00	7,954,481,940.0	0.0	2,187,442,232.2	
contingency						
total expenditure	9,482,562,497.00	7,954,481,940.00				
overall (PI-1) variance						16.1%
composition (PI-2) variance						27.5%
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	1,836,315,583.00	1,849,387,039.00	1,836,315,583.0	13,071,456.0	13,071,456.0	0.007118
Good Governance & Justice	288,686,527.00	295,708,735.00	288,686,527.0	7,022,208.0	7,022,208.0	0.024325
Education	3,545,110,721.00	3,509,627,370.00	3,545,110,721.0	-35,483,351.0	35,483,351.0	0.010009
Health	1,273,078,114.00	1,283,652,883.00	1,273,078,114.0	10,574,769.0	10,574,769.0	0.008306
Social Protection	1,072,921,359.00	975,441,418.00	1,072,921,359.0	-97,479,941.0	97,479,941.0	0.090855
Youth, Sport, & Culture	18,449,624.00	12,087,765.00	18,449,624.0	-6,361,859.0	6,361,859.0	0.344823
Private Sector Development	102,914,135.00	93,442,711.00	102,914,135.0	-9,471,424.0	9,471,424.0	0.092032
Agriculture	93,535,862.00	75,069,793.00	93,535,862.0	-18,466,069.0	18,466,069.0	0.197422
Environment & Natural Res	20,993,590.00	127,968,910.00	20,993,590.0	106,975,320.0	106,975,320.0	5.095618
Energy	41,148,860.00	23,914,463.00	41,148,860.0	-17,234,397.0	17,234,397.0	0.41883
Water and Sanitation	34,105,613.00	16,685,591.00	34,105,613.0	-17,420,022.0	17,420,022.0	0.510767
Housing, Urban Devt, & Land Mgt	-	-	0.0	0.0	0.0	#DIV/0!
Transport	190,827,040.00	376,643,934.00	190,827,040.0	185,816,894.0	185,816,894.0	0.973745
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	8,518,087,028.00	8,639,630,612.00	8,518,087,028.0	121,543,584.0	525,377,710.0	
contingency						
total expenditure	8,518,087,028.00	8,639,630,612.00				
overall (PI-1) variance						1.4%
composition (PI-2) variance						6.2%
contingency share of budget						0.0%

List of Rulindo District & MINECOFIN Officials that Participated in the Assessment

	Name	Designation
1	RUKERAMIHIGO Jean Nepo	In charge of Cooperative
2	SINDAYIGAYA Emmanuel	Revenue Officer
3	MUGISHA Delice	Director of finance
4	MUKANDEKEZI Jeanne	Accountant
5	MUNYARUKAZO JB	District Executive Secretary
6	KURUJYIBWAMI Celestin	Accountant
7	MUNGWARAKARAMA Emile	Investment promotion officer
8	HABUHAZI Theogene	Secretary to the Council
9	MUHIZI J. Nepo	Employment promotion officer
10	NSIMIYIMANA Karim	Planning officer
11	BITUNGURAMYE Desire	Director of Education
12	UWINGABIRE Esther	Director of Health services
13	MUKAGACINYA M. Immaculee	Director of Human Resources
14	MFITUMUKIZA ENOCK	Head of Teachers and health workers' salaries
15	RANGIRA Jimmy	Ministry of Finance & Economic Planning official
16	MUREKUMBABZE Jean Damascene	Ministry of Finance & Economic Planning official

Annex: Profile of Rulindo 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.11: Overview of Subnational Governance Structure in Country

	Government Level / Administrative Tier	Corporate Body?	Own Political Leadership?	Approves Own Budget?	No. of Jurisdictions	Average Population[ɩ]	% 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	Rulindo 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.	17 administrative sectors: Base, Burega, Bushoki, Buyoga, Cyinzuzi, Cyungo, Kinihira, Kisaro, Masoro, Mbogo, Murambi, Ngoma, Ntarabana, Rukozo, Rusiga, Shyorongi and Tumba.	287,681	0.5%	0.6%	92.2%

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

110[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.[111] 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.

[111] 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.

Table A.12: 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
Total	**1,726,370**	**527**	1.04

Source of Data: 2012 Census

The executive summary of the report states as follows,[112] "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."[113]

Rulindo is a rural district with an annual population growth rate of 1.4 percent compared to the Northern Province's 1.04 percent average and the country's 2.6%[114]. 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 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.

112 See *p. xv*
113 See *pp. xv - vxi*
114 See *p. xv*

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.

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.13 below.

Table A.13: 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
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

Table A.13: Distribution of Functions and Responsibilities in Rwanda's Decentralization System	
Level/Units	**Functions and Responsibilities**
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 A.14

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*[115] and *the Ministerial Order on Public Procurement of February 2014*.[116]

[115] Law N° 12/2007 of 29/03/2007 - Law on Public Procurement

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.14

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"*.[117] *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[118]

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

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

[115] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts
[116] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts

[117] 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).
[118] Article 4 also provides that, "All revenue projections of decentralized entities shall be included in their annual budget"

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[119] 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 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.

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

- 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.14: Overview of Rulindo Government Finances (2013/2014)			
Expenditure/Revenue Item	**Amount (Frw)**	**Per capita (Frw)**	**As % of total**
Wage expenditures	4,550,198,210	15,816.82	48.7%
Non-wage recurrent administration	994,653,445	3,457.49	10.6%
Transfers to Reporting Entities	8,500,528	29.55	0.1%
Other recurrent expenditure	2,137,545,044	7,430.26	22.9%
Capital expenditures	1,920,992,684	6,677.51	20.5%
Total expenditures	**9,611,889,911**	33,411.63	**102.8%**
Own source revenues	491,998,045	1,710.22	5.3%
Intergovernmental fiscal transfers	8,858,468,113	30,792.68	94.7%
Other revenue sources (as appropriate)	0	-	0.0%
Total revenues	**9,350,466,158**	**32,502.90**	**100.0%**
Deficit	-261,423,753	(908.73)	**-2.8%**

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)*[120]

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.

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

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

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 councilor 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.