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ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement
AFROSAI-E	African Organization of Supreme Audit Institutions-English speaking
BNR	National Bank of Rwanda
BRD	Banque Rwandaise de Dévelopement
CHUK	University Teaching Hospital- Kigali
CNLG	National Commission for The Fight Against Genocide
EAAPAC	East Africa Association of Public Accounts Committees
EAPHLN	East Africa Public Health Laboratory Networking Project
EARP	Electricity Access Rollout Program
EASSDP	Electricity Access Scale-Up and Sector Wide Approach Development Project
EATTFP	East Africa Trade and Transport Facilitation Project
EDPRS	Economic Development and Poverty Reduction Strategy
EIF	Enhanced Integrated Framework
EWSA	Energy, Water and Sanitation Authority
FARG	Genocide Survivors Fund
FER	Fond d'Entretien Routier (Road Maintenance Fund)
GBEs	Government Business Enterprises
GMO	Gender Monitoring Office
GoR	Government of Rwanda
ICPAR	Institute of Certified Public Accountants of Rwanda
IDF	Institutional Development Fund
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organisation of Supreme Audit Institutions
IPPIS	Integrated Personnel and Payroll Information System
KWAMP	Kirehe Community Based Watershed Management Project
LEVEMP	Lake Victoria Environmental Management Project
LODA	Local Administrative Entities Development Agency
LWH	Land Husbandry Water harvesting and Hillside Irrigation
MDTF	Multi Donor Trust Fund
MHC	Media High Council
MIFOTRA	Ministry of Labour and Skills Development
MINADEF	Ministry of Defense
MINAFFET	Ministry of Foreign Affairs
MINAGRI	Ministry of Agriculture
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINICOM	Ministry of Trade and Industry
MINIJUST	Ministry of Justice
MININFRA	Ministry of Infrastructure

MINIRENA	Ministry of Natural Resources
MINISANTE	Ministry of Health
MINISPOC	Ministry of Sports and Culture
NBA	Non Budget Agency
NDIS	National Decentralization Implementation Secretariat
NEC	National Electoral Commission
NHRC	National Human Rights Commission
NIDA	National Identification Agency
NIMR	National Institute of Museums of Rwanda
NISR	National Institute of Statistics
NPPA	National Public Prosecution Authority
NURC	National Unity and Reconciliation Commission
OAG	Office of the Auditor General of State Finances
OP	Payment Order
OTR	Ordonnateur Trésorier du Rwanda (Central Treasury of Rwanda)
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PFM	Public Financial Management Reform Basket Fund
PHHS TF	Post Harvest Handling and Storage Task Force
PPF (LISP)	Project Preparation Facility of the Livestock Infrastructure Support Programme
PRIMATURE	Prime Minister's Office
RAB	Rwanda Agricultural Board
RBA	Rwanda Broadcasting Agency
RBC	Rwanda Biomedical Centre
RCA	Rwanda Cooperative Agency
RCAA	Rwanda Civil Aviation Authority
RCS	Rwanda Correctional Services
RDB	Rwanda Development Board
RDRP	Rwanda Demobilization and Reintegration Programme
REB	Rwanda Education Board
REMA	Rwanda Environment Management Authority
RHA	Rwanda Housing Authority
RNP	Rwanda National Police
RNRA	Rwanda Natural Resources Authority
RPPA	Rwanda Public Procurement Authority
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board
RSSP III	Rural Sector Support Project Phase III
RTDA	Rwanda Transport Development Agency
RURA	Rwanda Utilities Regulatory Agency
SEDP	Sustainable Energy Development Project
SDP	Skills Development Project
SONARWA	Société Nouvelle d’Assurances du Rwanda

TSDP	Transport Sector Development Project
BPR	Banques Populaires du Rwanda
UNAIDS	United Nations Programme on HIV/AIDS
VUP	Vision Umurenge program
WDA	Work Force Development Agency
SMTO	Small, Medium Taxpayers Office
LTO	Large Taxpayers Office

FOREWORD BY THE AUDITOR GENERAL

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year. That report must indicate the manner in which the budget was utilised, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

Accordingly, I now submit to Parliament a report on the audits conducted during the period from May 2017 to 20 April 2018. The audits covered state consolidated financial statements; expenditure incurred by Government entities for the year ended 30 June 2017 and operations of Boards and Government Business Enterprises. This report presents cross cutting and other key issues of national impact noted during regularity, performance, IT and special audits. Individual reports containing the audit opinion, conclusions and details of all findings have been issued for each audited entity.

i) AUDIT COVERAGE

The audits covered **165 public entities and projects**, comprising **four (4) Government Business Enterprises** that had assets worth **Frw 1,411,298,196,322** as at 30 June 2016, **twenty six (26)** District Hospitals that incurred expenditure amounting to **Frw 37,837,545,396** during the year ended 30 June 2016, and **139 budget agencies and projects** that incurred total expenditure of **Frw 1,901,246,047,228** during the year ended 30 June 2017.

The expenditure incurred by the **139 budget agencies and projects** represents **86.4%** of the reported Government Expenditure of **Frw 2,200,199,963,530** for the year ended 30 June 2017, compared to **85%** for the year ended 30 June 2016.

A total of **165 audit reports** have been issued compared to **147 audit reports** in my previous annual report, to support the audit opinion issued on state consolidated financial statements.

ii) FOCUS OF OAG AUDITS DURING THIS AUDIT CYCLE

Boards and Government Business Enterprises

OAG continues to invest significant resources to focus on high-risk audits for Government Business Enterprises (GBEs) and Government Boards. The audits covered **five (5)** GBEs controlling **Frw 1,411,298,196,322** in assets as at 30 June 2016 and **eleven (11)** Boards/ Authorities controlling **Frw 530,097,362,558** in expenditure during the year ended 30 June 2017. These two categories of public entities controlled a combined value of **Frw 1,941,395,558,880** in assets and expenditure and this is equivalent to **88%** of the National expenditure of **Frw 2,200,199,963,530** for the year ended 30 June 2017. Entities covered during the audits are:

	Entity	**Total assets or Expenditure audited (Frw)**	**Assets or expenditure**
1	REG-EUCL	309,124,526,515	Assets
2	REG-EDCL	205,520,199,498	Assets
3	WASAC	110,187,753,750	Assets
4	RSSB	786,465,716,559	Assets
5	RRA (entity)	34,129,664,703	Expenditure
6	RNRA	15,012,281,404	Expenditure
7	RBC	136,427,148,547	Expenditure
8	RDB	43,387,431,462	Expenditure
9	RAB	38,285,415,042	Expenditure
10	REB	66,388,848,511	Expenditure
11	RTDA	112,400,122,714	Expenditure
12	NAEB	8,106,877,526	Expenditure
13	UR	40,954,351,064	Expenditure
14	WDA	27,831,771,787	Expenditure
15	Capacity Devt and Employment Service Board (CESB)	7,173,449,798	Expenditure
	Total assets/expenditure controlled by audited GBEs and Boards	**1,941,395,558,880**	
	National consolidated expenditure for 30 June 2017	**2,200,199,963,530**	
	%age	**88%**	

Other audits conducted by OAG

In addition to the above OAG also audited thirty-one (31) local governments, fifty-eight (58) projects, twelve (12) ministries, twenty-three (23) central government entities and twenty-six (26) district hospitals. The office also conducted eight (8) performance audits, four (4) IT audits, one (1) special audit and audit of East African Community.

iii) OVERVIEW OF AUDIT RESULTS

a) **Number of reports with unqualified audit opinion on financial statements:** An unqualified opinion on financial statements means that a public entity was able to prepare complete and reliable financial statements to account for public funds received and utilized during the year ended 30 June 2017, as required by provisions of the Organic Law N° 12/2013/ of 12/09/2013 on State Finances and property.

   Based on audits concluded, financial statements for **82 entities (50% of 165 reports)** received unqualified audit opinion. These financial statements were free from any material misstatements and reflected a true and fair view of transactions and balances reported by these budget agencies. All **12 ministries** audited, City of Kigali and majority of **projects** (**50 projects)** obtained unqualified audit opinions. However, for the case of **GBEs, Boards, Districts and District hospitals**, all audit reports have a modified audit opinion except for **RRA budget agency** and **RBC** which obtained an unqualified audit opinion on their financial statements.

b) **Number of reports with unqualified audit opinion on compliance with laws and regulations:** An unqualified opinion on compliance means that a public entity was able to comply with existing laws and regulations as required by provisions of the Organic Law N° 12/2013/ of 12/09/2013 on State Finances and property, in utilizing resources reported as expenditure in the financial statements, to ensure that the expenditure incurred was budgeted, necessary and within the law; that there was no wasteful expenditure; that there was no misappropriation of public resources; and that value for money was realised on expenditure incurred.

   Based on audits concluded, only **49 entities (30% of 165 reports)** received unqualified audit opinion on compliance with existing laws and regulations. Again, majority of these (**35 reports**) were for **Projects**. However, majority of budget agencies did not comply with existing laws and regulations in utilization of resources under their stewardship. This was noted across board.

For the case of **GBEs, Boards, Districts and District hospitals**, all audit reports have a modified audit opinion for compliance- an indicator that Government may not be realizing value for money due to instances of wasteful expenditure, ineligible expenditure, cases of idle assets or cases of delayed and abandoned contracts.

c) **High proportion of recommendations not yet fully implemented:** A follow up made on status of implementation of **4,031 recommendations** from previous year audits identified that that only **1,927 recommendations** (**48%)** were fully implemented. The remaining **2,018 recommendations** (**50%)** had not been fully implemented while **86 (2%)** recommendations were no longer applicable due to changes in operating environment in the affected public entities. Key concerns still remain with **GBEs, Boards** and **District hospitals** which did not implement majority of the recommendations.

iv) KEY RECOMMENDATIONS

1. **Implementation of audit recommendations:** Chief Budget managers need to comply with the requirements of Article 69 of Organic law on state finances and property and ensure that they actively engage responsible staff and monitor the status of implementation of recommendations. This will require them to put in place mechanisms to verify status provided in monthly financial reports to MINECOFIN and to hold responsible staff individually accountable for implementation of audit recommendations.

   Government needs to continue with efforts of ensuring that the level of implementation of the audit recommendations is reflected as performance indicator for the Chief Budget Managers so that it attracts reward for those who successfully implement the recommendations and penalty for those who fail to address gaps identified by audits.

2. **Contract management:** Like it was recommended in previous years, there is need for proper definition of contract scope, market analysis for relevant pricing information and proper tender evaluations during the procurement process to minimise instances of significant contract variations, delays or price undercuts that significantly contribute to abandonment of contracts.
   Further, there is need for improved supervision of contracts to minimise unexpected delays or abandonment of work. Further, public entities need to improve cash flow planning to ensure that they pay contractors on timely in accordance with agreed payment schedules to address cases of abandoned or delayed works.

3. **Dealing with the challenge of idle Assets acquired:** There is need for Chief Budget managers to ensure that procurement of assets is not done before adequate needs assessment has been done and approved for significant assets requested for procurement. There is also need for better coordination across Government entities along the same supply chain to minimise instances where an asset is procured but cannot be put to use pending acquisition of another asset by another entity.

An inventory should be done of existing assets not put to use to identify departments that may benefit from existing assets instead of procuring new assets similar to those which are idle in other public entities. Centralised procurement and distribution of certain categories of assets should be considered and implemented.

4. **Strengthen oversight and regularly demand for results and accountability:** There is need for MINECOFIN and line ministries to demand more accountability from Boards of Directors of these Institutions. The aim should be to strengthen Corporate Governance in these institutions to provide adequate oversight required to hold management to account, demand results and to build a high performance, results oriented culture amongst staff in order for the organisations to deliver on the mandate and agreed performance targets.

5. **Set clear performance indicators and regularly monitor performance to build a high performance culture:** The Boards should develop and agree on clear set of performance indicators for the organisation and for the management team. These should include both service delivery and financial management indicators need to be agreed with the management team annually and evaluated regularly with a mechanism to reward top performance and to penalise poor performance. Where identified, adequate training should be provided to staff to enhance their abilities to deliver.

6. **Consider value for money and efficiency in operations when developing and implementing Business plans:** The Boards of Directors should also ensure that these entities' strategic and business plans are adequately elaborated in line with their mandate and vision, and properly implemented with due consideration for value for money, in order to realise the mandate for which the GBEs and Government Boards were established. Measures should be undertaken to enhance efficient and coordinated operations, and to control pilferage and wasteful expenditure in the Government Business Enterprises.

v) ACKNOWLEDGEMENT

I would like to acknowledge the PFM reforms undertaken by Government to continue strengthening Public Financial Management.

I also acknowledge the Parliament of Rwanda for their continued oversight role that is changing the mindset of accounting officers towards effective management of public funds

I would also want to acknowledge the continued support from the Development Partners towards the development of OAG.

I extend my heartfelt appreciation to OAG staff for their immense contribution that has made OAG to execute its constitutional mandate.

BIRARO R. Obadiah
AUDITOR GENERAL

KIGALI, ……. 2018

EXECUTIVE SUMMARY

INTRODUCTION

According to Article 165 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015, and Articles 6 and 14 of Law no 79/2013 of 11/09/2013 determining the mission, organization and functioning of the Office of the Auditor General of State Finances, the responsibilities of the Office of the Auditor General include the following:

- Auditing and reporting on accounts of all public entities, local administrative entities, public enterprises, parastatal organizations and projects;
- Conducting financial and value for money, economy and efficiency audits in respect of expenditure in all institutions referred to above;
- Conducting accountability, management and strategic audits of accounts in the institutions mentioned above.

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year.

Accordingly, I submit the Annual audit report covering OAG audits of financial statements of public entities for the year ended 30 June 2017 and performance audits conducted during the period.

SUMMARY OF KEY ISSUES IDENTIFIED DURING AUDITS

CROSS CUTTING ISSUES

1. **Persistent cases of delayed and abandoned contracts:** The audits identified that cases of delayed and abandoned contracts were still persisting in public entities. A total of 109 contracts worth Frw 206,817,279,066 had been delayed or abandoned. These comprise of (83) delayed and abandoned contracts worth Frw 158,354,746,771 identified during the year and (26) delayed and abandoned contracts worth Frw 48,462,532 from the previous annual report that have not been finalized and are still ongoing or abandoned.***See summary table below for details***

	DELAYED AND ABANDONED CONTRACTS		
			Frw
1	BOARDS AND GBE	30	73,483,292,425
2	District	55	38,233,984,939
3	Ministries and other central government entities	5	22,092,828,039
4	Project - Others	19	73,007,173,663
		109	**206,817,279,066**

The delayed and abandoned contracts mainly comprised of energy and water projects managed by EDCL and WASAC respectively. Other contracts with significant delays were noted for building projects at WDA and districts. The abandoned contracts amounted to **Frw 45,866,655,835** and the delayed contracts amounted to **Frw 210,000,662,065**.

2. **Persistent cases of idle assets:** The problem of idle assets is still persisting and was identified during the audits for the year ended 30 June 2017. The audits identified (**137**) cases of idle assets worth **Frw 23,049,464,800**. These include newly identified cases of idle assets worth Frw 10,831,316,402, and some idle assets identified in previous audits worth **Frw 12,218,148,398** which were still idle by the time of current year audits.

3. **Cases of Government projects and facilities which are underutilized or operating below required capacity:** The audits identified cases where some Government projects and facilities are operating below the required capacity and hence denying beneficiaries full access to services envisaged by Government after making such investments. For example, WASAC and EDCL had projects worth **Frw 75,580,527,522** which were underutilized or operating below the expected capacity. Accordingly, Government is not getting value for money on these projects, shown below:

	Entity	Value for money concerns	Cost to Government Frw
1	WASAC	Nzove I water treatment plant functioning below capacity without plans for repairs (US$ 30,000,000)	24,900,000,000
2	WASAC	Kadahokwa water retaining dam of 575,529 m³ completed but has no water	4,520,083,529

3	WASAC	Various water projects ▪ Water supply project in Nyarurenzi Cell, Mageragere Sector of Nyarugenge District ▪ Water reservoirs at Ruhunda and Mwurire ▪ Completed 250 m³ reservoir at Cyanyirangegeni in Karangazi Sector, Nyagatare District ▪ Water supply system from Cyampirita and Matunguru water sources in Gatsibo District ▪ Water supply system in Cyeza and Shyogwe Sectors in Muhanga district	1,090,814,954
4	EDCL	Gishoma Power plant completed but not providing desired power capacity (breakdown and no sufficient water and peat)	40,570,617,811
5	EDCL (NELSAP)	93.2 Km transmission line (220 Kilovolt (Kv)) constructed between Shango substation (Rwanda-Gasabo district) and Uganda border not in use for 2 years	4,499,011,228
			75,580,527,522

4. **Project absorption challenges and potential loss of funding:** The audits of projects identified cases of low budget absorption during implementation of Government projects. Some projects are at risk of failing to absorb allocated funding and are at risk of losing funds totaling **Frw 57,246,402,728** on expiry of project completion dates unless they scale up their levels of implementation. These include EDCL projects of SEAP project, Interconnection of Electrical Networks of Nile Equatorial Lakes Countries Project and Regional Rusumo Falls Hydropower Project-Transmission Lines component, SEDP/ Solar water heaters programme

5. **Cases of irregular expenditure:** The audits identified irregular expenditure of **Frw 7,997,479,706.** This is mainly comprised of the following:

Category of questionable	**2016/2017 annual report**
Unsupported expenditure	3,286,227,450
Partially supported expenditure	1,711,072,606
Wasteful expenditure	2,364,412,095
Unauthorised expenditure	244,574,402
Funds diverted or fraudulently utilised	391,193,153
Total	**7,997,479,706**

These irregular expenditure were mainly incurred by WDA, UR, WASAC, REG-EUCL, NELSAP Project, Nyagatare district, Forest Management and woody biomass energy support project (FMBE) and District Hospitals

ENTITY/SECTOR SPECIFIC ISSUES

RWANDA SOCIAL SECURITY BOARD (RSSB)

6. **Concerns over the accounting set up for the schemes under RSSB management:** RSSB elected to perform the accounting and financial reporting function of the medical, pension, CBHI and maternity leave schemes in one set of books of account. This poses a challenge of inherent comingling and failure to differentiate transactions and balances of each scheme. This has resulted into **unreconciled inter-scheme balance** of **Frw 4,237,926,888** included in other payables and receivables under the Medical Scheme at 30 June 2016.

7. **Non performing equity investments:** Review of equity investments showed six (6) entities where RSSB has invested a total of **Frw 21,341,164,979** that have not paid any dividend from the time of initial acquisition or establishment and continues to lose value as indicated by their current financial positions. The fair value of these investments at 30 June 2016 stood at **Frw 11,874,145,669** implying an overall reduction in value (cost of acquisition) of **Frw 9,467,019,310.** Other investments where RSSB has not earned a return yet include: KT Rwanda Networks Limited (**Frw 3,700,228,195**) and Preference shares in New Forest Company Rwanda (**Frw 438,273,748**).

8. **Unrecovered social security contributions identified during RSSB audits:** RSSB audits identified **Frw 16,110,711,215** as due from contributing employers as per the RSSB internal audit reports of 2015/2016 and 2016/2017. However, only **Frw 684,238,657** had been recovered by the time of RSSB audit in October 2017 and **Frw 15,426,472,558** was still outstanding. In addition, **Frw 3,956,230,435** assessed in previous year was still outstanding by the time of my audit in October 2017. Hence total unrecovered balance of **Frw 19,382,702,993** from RSSB audits done in the 3 years (2014/2015, 2015/2016 and 2016/2017).

9. **Lack of detailed lists of individual employers for balances in transit accounts:** RSSB maintains transit accounts to enable them initially record declarations for contributions before they are paid and to record payments made without declarations or to record estimations of contributions for cases where employers fail to file declarations nor make payments. However, there is no detailed list showing individual contributors/employers to

support balances reported on these transit accounts at 30 June 2016. Transit account for pension scheme had a net receivable balance of **Frw 28,283,652,897** and that for medical scheme had a net payable balance of **Frw 8,931,221,410** at 30 June 2016.

10. **Delay in implementation of Batsinda phase II affordable housing project:** The first project feasibility study for Batsinda phase two project was made in 2012 but the project commenced in 2016 (after four years). Further, letter dated 16th January 2017 addressed to MINECOFIN by RSSB requesting for guidance on the delays encountered showed that the target was to achieve 30% completion of the project by the end of June 2017. However, by June 2016, the project was estimated at 1% completion. In addition, the letter further highlighted that the project had been put on hold from October 2016 due to change in plans. This is an indicator that delays in implementation of this project are likely to escalate if no effective measures are implemented by management to expedite the project.

11. **Delayed completion of Vision City construction project leading to cost overruns and prolonged project payback period:** According to the business plan provided by RSSB, UDL targeted to develop the Vision City land in four phases with 4,529 houses in total. The first phase entailed construction of 504 houses expected to be completed in 18 months from May 2013 to December 2014. However, there are concerns regarding this project:

    - **Delays:** There was a delay in project completion. By the time of RSSB audit in October 2017, 32 months beyond the original target completion date, finishing works on the houses were still ongoing.

    - **Cost overruns:** The original construction cost was estimated at **USD 89,605,000** (**Frw 62,835,370,946** at an exchange rate of 30 December 2014). However, by 13th July 2017, a total of **Frw 85,736,347,247** had been spent on the construction project and final project cost will increase to **Frw 107,670,708,884** after considering the unpaid amounts to contractors and land cost. Hence an extra cost of Frw **44,835,337,938** above original projected cost.

    - **Low uptake for the houses:** The rate of bookings for the completed houses is still low. Only 78 houses (representing only 15.5% of the total houses))out of 504 had been booked with sale contracts signed as at 29th September 2017. The remaining 426 houses had not been booked. This is an indicator of low likelihood to sell the houses

over a reasonable period of time. The significant cost overruns mainly attributed to delay in completion of construction works have ultimately resulted in higher prices for the houses. It is envisaged that the low sales rate will result in prolonged investment pay-back period and further shrinking return on investment.

RWANDA REVENUE AUTHORITY (RRA)

12. Challenges with recoverability, tracking and management of tax arrears

- **High proportion of tax arrears:** RRA report on tax arrears shows total balance of **Frw 161,825,550,820** in tax arrears as at 30 June 2017. This represents **14.6%** of collections for the year and exceeds the **12% target** for 2016/2017 set by RRA in their strategic plan. Analysis of tax arrears made by RRA shows that **Frw 132,088,400,251** is recoverable and **Frw 29,737,150,569** is irrecoverable. The basis and rationale used by management to classify each of the balances as irrecoverable was not provided.

  RRA indicated that recovery procedures were ongoing in accordance with the existing tax administration procedures, with some taxpayers signing payment plans and Government being engaged for recovery of unpaid taxes from Government agencies. Despite these recovery efforts, the continuing delays in collecting these taxes denies Government cash flows needed to implement priority Government programmes.

- **Unreliable report of tax arrears**: On sample basis, the audit identified a total of **Frw 7,634,437,150** in tax arrears that were omitted from the report of tax arrears as at 30 June 2017. There is no evidence of follow up of these taxpayers to recover the taxes. Accordingly, the list of tax arrears maintained by management and provided for audit is incomplete. Hence a risk of failing to timely follow up unpaid taxes and an indicator of gaps in system of identifying and monitoring tax arrears.

13. Unreliable balances reflected on taxpayer tax accounts:

- **Collections not allocated to individual taxpayers:** RRA **maintains six (6) suspense accounts** where unidentified collections on RRA bank accounts are recorded pending availability of information to identify the taxpayer and tax type. These collections are supposed to be reclassified to the correct taxpayer account. However, as at 30 June 2017, the unallocated collections had accumulated to **Frw 84,498,517,091** on 6

suspense accounts. This implies that taxpayers who have cleared their obligations still appear in arrears and may be attracting penalties and yet they already made payment to RRA. Management indicated that plans are underway to set up a taskforce to review the above transactions to allocate them to specific taxpayer accounts.

- **Un-updated payments in taxpayer accounts:** Cases were noted where declarations were not matched with the corresponding payments. This resulted into unpaid taxes and tax credit in the E-TAX system. Those cases relate specifically to public entities. RRA management stated that some taxpayers paid taxes using direct payments through BNR and yet the system does not capture these payments automatically. The exercise of matching declarations with direct payments is done manually in SIGTAS while declarations were done through E-TAX.

  Ultimately, a taxpayer may appear as not having paid in E-Tax and yet they have paid in SIGTAS. Management did not regularly reconcile these balances, hence differences between balances maintained in E-Tax and those maintained in SIGTAS for same taxpayer.

14. Gaps in tax audits and increasing trend of contested tax assessments

- **Gaps in follow up of risky cases identified for comprehensive and specific issue audits:** Out of the identified **1,210** risky cases identified by RRA Risk Management and Modernization Department, only **628 cases (52%)** were audited by the respective audit divisions. The number of audits carried out was based on available staffing in the tax audit divisions. This could be an indicator of inadequate staffing in the Tax audits divisions.

  Management did not provide documented evidence to show the compliance follow up actions taken to enforce compliance and address the risks identified for the remaining **582 risky cases (48%)** identified. Consequently, the identified risks may materialize and lead to loss of tax revenue if not timely followed up and addressed for specific taxpayers.

- **Increasing trend of contested tax audits and cancellation of significant tax amounts:** The appeal cases contesting RRA tax assessments are increasing; from **622** appeal cases during the year ended 30 June 2015 to **1,036 cases** during the year ended 30 June 2017 **(increased by 67%)**. Tax assessments disputed for the **1,036 cases** amounted to **Frw 39,516,819,236** representing **5% of all domestic taxes collected**,

while the tax assessments disputed for the **622 cases** at 30 June 2015 amounted to **Frw 71,740,412,559** representing **10%** of the collections during the year ended 30 June 2015.

Disputes resulted into cancellation of tax assessed totalling **Frw 8,206,981,884** in the year ended 30 June 2017 compared to **Frw 12,619,887,476** cancelled during the year ended 30 June 2015, hence a total of **Frw 20,826,869,360** in tax assessments cancelled during appeals process in the two years. This high proportion and increasing trend of contested tax assessments and ultimate waivers is an indicator of weaknesses in quality of tax audits and gaps in supervision of RRA tax audits which undermine credibility of the assessments.

15. **Eligible Taxpayers not registered for some relevant tax types:** Like in previous audits, **10,495 cases** were identified where taxpayers are registered for one tax type but could not be traced in other tax types where they are eligible taxpayers, as shown below:

Tax payers	**Number of taxpayers not traced in relevant register per tax type**
PIT/CIT taxpayers with turnover above **Frw 20,000,000** are not registered as VAT taxpayers	18
Taxpayers with turnover above **20 million** but could not be traced in EBM database.	708
Taxpayers registered for VAT but are not registered as PIT or CIT taxpayers.	997
Taxpayers registered for Pay As You Earn (PAYE) but not registered as PIT or CIT.	5,087
Companies registered and declaring PENSION contributions in RSSB but not registered for PAYE.	3,393
VAT registered taxpayers but could not be traced in EBM database.	292
Total	**10,495**

These cases show that RRA is not effectively utilising IT systems to monitor taxpayers and ensure those eligible for specific taxes are timely identified and followed up. Ultimately, RRA may be losing out revenue from some tax streams for the existing taxpayers.

16. **Cases of unrecovered amounts relating to fraudulent input VAT declared:** Investigations by RRA Revenue Investigation and Enforcement Department (RIED) identified cases of companies that issued fictitious EBM (VAT) invoices. The audit of these companies revealed falsely claimed input VAT amounting to **Frw 3,406,359,890** that had been utilised to suppress VAT amounts included in the VAT declarations. RRA started the recovery process from taxpayers involved in the fraudulent scheme. However, only **Frw 446,866,828** (representing **13%** of recoverable amount) had been recovered as

at the time of my audit in September 2017. This has denied Government cash flows required to implement priority Government programs.

17. **Inconsistencies in information generated by IT systems to support revenue collections:** Management uses information on collections in the IT operational systems and bank statements to capture records in the cashbooks. The Revenue Accountability Statement (RAS) is generated from cashbooks. However, a comparison of collections per the IT operational systems, Intermediate Database (IMDB) and cashbooks revealed unexplained differences which had not yet been resolved at the time of finalising the RRA audit. Summary is shown in the table below:

Source	Revenue collected Frw	Collections per RAS Frw
IT operational systems	1,185,391,820,491	1,190,459,475,452
IMDB	940,175,408,8855	1,190,459,475,452
Cashbooks	1,190,459,475,452	1,190,459,475,452

The above cases are indicators of inadequate review of revenue collection transactions across the RRA revenue collection systems. This exposes RRA to a risk of incomplete records in respect to revenue collections.

RWANDA ENERGY GROUP (EUCL)

18. **Delayed reporting and unreliable financial statements:** There is still a problem of delayed financial reporting and unreliable financial statements at EUCL. Consolidated Financial statements initially prepared for REG Group for the year ended 30 June 2016 were not updated to reflect material changes made balances in EUCL financial statements. In addition, financial statements prepared for EUCL had significant accounting errors and were not reliable. Errors include unreconciled balances, unsupported transactions and balances and instances of omitted balances. Some of the errors were corrected during the audit and resulted in the audit taking significantly longer than planned.

19. **Assets transferred from EDCL to EUCL recorded based on budgeted amounts rather than actual costs:** The audit of EUCL identified that there are no proper records maintained to support costs accumulated for projects transferred from EDCL.

Consequently, EUCL financial statements have a balance of **Frw 20,367,928,645** which is based on estimated costs budgeted to construct these works.

20. **Inadequate tracking of loan obligations for completed projects transferred to EUCL**: The audit identified that some of the assets transferred to EUCL on completion by EDCL are financed by a mix of grants and loans. However, at the time of transfer, EUCL considers the assets as fully financed by grants and does not recognise the loan obligations arising from those assets in their financial statements. Accordingly, grants reported by EUCL are overstated and loan obligations have been understated.

21. **Debts inherited from EWSA not yet recovered:** REG/ EUCL is struggling to recover debtors worth **Frw 13,598,656,949** that were inherited from EWSA at 1 July 2014. Management had been advised in previous audits to engage with MINECOFIN and MININFRA to support them in following up these old debts and ensure their recovery but only **Frw 333,259,223** (representing only 2.5% of the total debtors) has been recovered since July 2015. These debtors have been fully provided for in the EUCL financial statements to illustrate the difficulties faced by management to recover these balances.

22. **Inadequate documentation to support tax computation:** EUCL revised the tax written down values carried forward at 1 July 2015 from **Frw 37,508,445,614** to **Frw 57,463,499,837** when computing taxes for the year ended 30 June 2016. However, management did not provide supporting documents to explain this difference of **Frw 19,955,054,223** that impacted computation of deferred tax at 30 June 2016. It should also be noted that management utilised tax losses of **Frw 4,778,949,016** from the year 2009 yet they are expired, being more than five years old. This overstated deferred tax by **Frw 1,433,684,705** *(being 30% of the expired tax loss)*.

23. **Lack of agreed mechanism to compensate EUCL for revenue forfeited on public lighting:** EUCL is providing services for public lighting across the Country. However, Government is not billed for electricity consumed for public lighting and neither is EUCL compensated for the cost incurred on providing public lighting. This denies EUCL revenue and increases the cost of operations and hence affecting its profitability. Total consumption for public lights amounted to **Frw 1,826,406,809** during the year ended 30 June 2016 and is reported as part of EUCL expenditure for electricity distribution.

24. **Loss of revenue due to persistent power losses:** The problem of high power losses highlighted in previous reports has not yet been resolved. For the year ended 30 June

2016, a total of **136,881,801 Kwh** of electricity *(representing **21.1%** of electricity produced)* was still unaccounted for in the billings. This is similar to the **21.18%** power losses reported in previous annual report. Therefore, EUCL continues to experience revenue leakages arising from technical problems, unbilled electricity and electricity theft. This ultimately erodes company earnings.

25. **Power plants continue to operate below installed capacity:** The Country continues to face a problem of expensive power from Thermal power plants and yet majority of Hydro power plants are operating below installed capacity. Out of the existing 33 power plants at 30 June 2016, only 6 power plants operating at more than 50% of their installed capacity. The remaining 27 power plants operated below installed capacity, with five (5) power plants generating no electricity during the year (Nshiri, Gashashi, Nyabahanga, Nyirabuhombohombo and Gatsata). It should be noted that expensive Thermal power of 25MW was procured by EUCL during the year to boost power supply for factory activities in Rusizi and at the Kigali Special Economic Zone.

RWANDA ENERGY GROUP (EDCL)

26. **Unreliable financial statements:** Financial statements prepared for EDCL had significant accounting errors and are not reliable. Errors include wrong accounting treatment for some transactions, unreconciled balances and instances of unsupported transactions and balances processed through the books of account. Some of the errors were corrected during the audit and resulted in the audit taking significantly longer than planned. Examples include:
    - **Fuel expenditure for EUCL power plants recognised in EDCL books of account:** A total of **Frw 16,665,359,095** for fuel subsidies and related taxes related to EUCL was wrongly accounted for as grant income and expenditure in EDCL financial statements. These transactions should not have been recorded in financial statements of EDCL, hence misleading users.
    - **Adjustments:** For example, adjustments totalling to **Frw 316,668,256,600** were made on various accounts to restate the opening balances without the approval of the Board of Directors. Out of these adjustments, management did not provide approved journal vouchers and support documents to justify adjustments of **Frw 296,921,737,161**.

- **Trade Creditors:** A balance of **Frw 11,137,363,157** for trade creditors ("Local supplier control accounts'') was not supported by any individual supplier ledger accounts.
- **Amounts due from related parties:** Management made some adjustments on balances for related parties without proper documentation and approval. Adjusting transactions totalling **Frw 2,293,387,359** were made to increase balance due from related parties (EUCL). Other adjusting transactions totalling **Frw 9,891,201,699** were made to reduce the balance from related parties (EUCL). These unsupported adjustments reduced balance due from EUCL by **Frw 7,597,814,340** as at 30 June 2016.

27. **Creditors written off without Board approval:** EDCL management decided to write off from its books of account creditors amounting to **Frw 1,845,664,052.** However, there was neither board approval nor evidence to prove that all these creditors have forfeited their claims. There was no documentation provided to indicate that, prior to the write off, EDCL had undertaken and exhausted all actions and efforts to confirm inexistence of these payables.

28. **Gaps in tracking costs for assets under construction:** The audit of EDCL identified that there are no proper records maintained to track costs for each project under construction and to support costs accumulated for each project. Consequently, EDCL was unable to provide necessary support documents to support a balance of **Frw 171,063,717,470** reported as costs of works-in-progress in financial statements at 30 June 2016.

29. **Increased cost of borrowing due to penalties charged for delayed loan interest repayments**: As highlighted in previous annual reports, EWSA (now EDCL) has had challenges in making timely interest repayments for Bank of Kigali a loan of **USD 30,900,000** (equivalent to **Frw 19,500,000,000)** borrowed for the purpose of financing for construction of 15 MW Peat Power Plant at Gishoma at an interest rate of 15% per annum. This has resulted in additional cost on penalties to the tune of **Frw 531,413,356** as at 30 June 2016. The penalties represent 3% of the Loan principal and have therefore increased the cost of the loan to more than 15% of interest per annum.

WATER AND SANITATION AUTHORITY (WASAC)

30. Unreliable financial statements for the year ended 30 June 2016: Financial statements prepared for WASAC had significant accounting errors and are not reliable. Errors include unsupported opening balance, unreconciled balances, irregular/unusual transactions and instances of unsupported transactions and balances processed through the books of account. Examples include:

- **Unreliable opening balances:** Balances in WASAC financial statements at 30 June 2015 were unreliable and could not be confirmed when OAG conducted the previous year audit (Disclaimer of Opinion). Management was required to undertake an exercise to establish correct balances at 30 June 2015 to form a reliable opening balance sheet for preparation of financial statements for the year ended 30 June 2016. However, the audit identified that management engaged a Consultancy firm to undertake this exercise, but the contract was terminated without establishment of correct balances at 30 June 2015. The opening balances carried in the financial statements are therefore unreliable.
- **Suspense accounts' balances presented in the financial statements:** Ordinarily, in accounting practice, suspense accounts are normally temporary accounts used to clear reconciling items during the course of the accounting year. They should have nil balances by the end of the year and should be cleared as part of year- end accounting and reporting procedures. However, financial statements of WASAC Ltd as at 30 June 2016 include suspense accounts' balances totalling **Frw 419,295,488**. These balances were not analysed to establish what they represent. No supporting documentation was provided by management to explain what they relate to.
- **Irregularities noted in bank reconciliation statements:** Review of bank reconciliation statements prepared for various bank accounts of WASAC as at 30 June 2016 revealed that, as at year end, there were outstanding deposits totalling **Frw 8,243,402,134** mainly relating to payment of water bills for 16 bank accounts. However, management did not provide any records to show whether these unreconciled deposits on WASAC bank accounts had been subsequently reconciled and cleared by the time of WASAC audit in September 2017 (1 year and 3 months after year- end). Analysis done by auditors for one bank account having most outstanding deposits (314,660 transactions totalling **Frw 6,347,519,255**) revealed that **16,486**, cash deposits amounting to **Frw 164,115,644** in July 2015 were recorded in

the cash book and on the bank statement and yet they appear in the bank reconciliation statements as reconciling items. This is an indicator that bank reconciliation was not properly prepared.

- **Withdrawals/ fund transfers made from WASAC bank accounts which are not supported:** Review of bank reconciliation statements prepared for various bank accounts of WASAC as at 30th June 2016 revealed withdrawals/fund transfers (direct debits) made on WASAC bank accounts amounting to **Frw 437,976,041** which WASAC management could not explain and support. These direct debits had been outstanding for a period ranging from **1** to **364** days as at 30th June 2016 and could not be supported by the time of audit in September 2017.
- **Lack of detailed listing or reconciliation of customer deposits for caution fees:** WASAC financial statements include customer deposits amounting to **Frw 732,324,831** at 30th June 2016. Management indicated that these were related to caution fees collected in the previous financial years from customers at the time of connection to the national water grid. However, management was not able provide a detailed listing and reconciliation of these caution fees per customer by the time of WASAC audit in September 2017.
- **Unexplained differences between the reported trade receivables balance and the detailed debtors listing:** Trade receivables per the books of account and financial statements amounted to **Frw 7,570,806,167**. However, the detailed debtors' listing provided by management analyzing trade debtors amounted to **Frw 8,293,961,467**. Hence unexplained difference of **Frw 723,155,300**.
- **Unsupported other receivable balances:** "Other accounts receivable" of WASAC LTD as at 30 June 2016 include balances totaling **Frw 313,662,390** which are not supported by any verifiable document such as list of debtors, contracts, purchase orders, invoices/bills, letters of credit or any other documentation creating a collectable debt by WASAC Ltd. These have also been long outstanding from the previous financial year without any recovery.
- **Unsupported provision for bad debts**: WASAC financial statements include a provision for bad and doubtful debts of **Frw 1,908,333,980** as at 30th June 2016. However, management did not provide detailed workings and documentation to justify the provision.

- **Unsupported and long outstanding payables:** WASAC financial statements include a balance of **Frw 499,715,094** which was not supported by any verifiable document. This balance is carried forward from previous periods and has been long outstanding. There is no evidence for subsequent settlement of these liabilities by the time of audit in September 2017.
- **Unauthorised adjustments made under inventory accounts:** Review of a sample of inventory accounts revealed that adjusting entries totaling **Frw 8,670,630,432** were made to increase value of stock (debit entries) and Frw **25,150,345,367** were made to reduce the value of stock (credit entries). However, there was no evidence provided for prior authorization and approval to confirm validity of these adjustments. The net effect of these adjustments was unexplained reduction in inventory balances by **Frw 16,479,714,935.**
- **Adjustments for Stock count differences:** WASAC management identified missing stock valued at **Frw 553,426,491** during the physical count at 30 June 2016. The missing stock was written off from the stock balances and is reported as part of suspense account. The stock items had not been recovered by the time of WASAC audit. On the other hand, management identified some stock items valued at **Frw 860,442,368** which were not reflected in the books of account and yet they were physically held in the stores. Management did not provide documentation to explain the source of extra stocks. These could represent stocks issued and returned but not updated in stock cards and stock management system. Adjustments were made to recognise these stock items in the books of account and financial statements.

31. **High value of dormant, slow-moving and obsolete stock items:** Physical count conducted at time of WASAC audit in September 2017 identified slow-moving and dormant stock items worth **Frw 1,721,024,312** (*i.e for which there was no or few movements in/out for long periods*) and obsolete stock items worth **Frw 137,957,553**. Hence total of **Frw 1,858,981,865** for dormant, slow-moving and obsolete stock items.

    It should be noted WASAC management had made a provision for obsolete stock of **Frw 1,077,729,157** to cater for obsolete stock held by WASAC Limited as at 30th June 2016. This provision is expected to increase to **Frw 1,858,981,865**, an indicator that additional items worth **Frw 781,252,708** have become dormant since 30 June 2016. Such high levels of dormant and slow-moving stock adversely affect cash flows since the stock items are not being utilized to generate revenue for WASAC Ltd. This is further an indicator that

those items were procured without being necessarily needed for use or consumption in carrying out WASAC activities, hence no value for money was derived from their acquisition.

32. **Loss of revenue due to a high volume of non-revenue water:** WASAC continues to struggle with a problem of high level of Non-revenue water (NRW) which is processed for transmission and distribution but cannot be billed. Internal water production reports prepared by the WASAC directorate for Urban water and sanitation services shows that for the 12 months period from 1st July 2015 to 30th June 2016, WASAC Ltd produced **43,558,705 m^3** of water. However, internal reports prepared by the Directorate of commercial services show that only **25,765,792 m^3** (**equivalent to 59%**) was billed to customers during the same period. This resulted into unbilled water of **16,786,025 m^3** (after adjusting for authorized Non-Revenue water reported by WASAC of **1,006,888 m^3**).

    The unbilled water represents **39%** of total water produced during the year (42% for year ended 30 June 2015). The value of unbilled water ranges between **Frw 5,421,886,075** (at the lowest selling price of Frw 323 per m^3) and **Frw 14,217,763,175 (**at the highest selling price of Frw 847 per m^3). Such high levels of non-revenue water if left unchecked in the long run may pose a threat to the financial viability of WASAC and deter the realization of the company's objective to become a self-sustaining profitable utility company.

33. **Water treatment plants operating significantly below their full installed capacity:** Out of 16 water treatment plants operated by WASAC, four (4) water treatment plants were operating significantly below their full installed capacity during the year ended 30 June 2016. These four (4) plants have installed capacity of **59,075 m^3** per day but produced **30,565 m^3 (52%)** during the year ended 30 June 2016. Major problem was at Nzove I water treatment plant which operated at **44%** of installed capacity and failed to produce an **average of 22,536 m^3** of water per day during the year ended 30 June 2016. This is an indicator of inefficient operations and contributes to inability to meet the water demand. Further, this results into loss of revenue that would be collected from sale of additional water which is not produced.

WORKFORCE DEVELOPMENT AUTHORITY (WDA)

34. **Incomplete financial statements due to missing information and transactions for operations of companies registered by IPRCs:** IPRCs have registered and invested in six (6) companies: *IPRC North Consultancy Company* (for IPRC North), *IPRC – Kigali Private Consulting Company* and *RZ Manna Limited* (for IPRC Kigali), *IPRC South Engineering Company Limited* (for IPRC South), *Musanze Polytechnic Company Limited* (supervised by Musanze Integrated Polytechnic) and *IPRC East Engineering Company Limited* (for IPRC East). However, these investments had not been disclosed in the consolidated financial statements of WDA. Accordingly, WDA financial statements are incomplete.

35. **Payment of other allowances not approved by both WDA board and MIFOTRA:** WDA consolidated expenditure includes an amount of **Frw 207,607,432** for different allowances (**top up allowance**, **allowance for additional duties,** and **allowance for profit sharing)** which were paid by **IPRC KIGALI (Frw 35,177,319)**, **Tumba College (Frw 124,863,727)**, **IPRC South** and **Musanze Polytechnic (Frw 47,566,386)**. However, these allowances were paid without approval of the WDA Board and MIFOTRA and may be depriving critical WDA activities of funding and jeopardising the quality of service delivery.

36. **Concerns over implementation of an agreement for establishment of the Hospitality Management Institute – Kigali:** On 1st April 2015, the Government of Rwanda and WDA signed a Memorandum of Understanding (MoU) with Gesthotel SARL (*Les Roches* International School of Hotel Management Bluche) - a limited liability Company domiciled in Switzerland for provision of advisory and support services to WDA in a project to establish a Hospitality Management Institute (HMI) in Kigali at a total service fee of **Swiss Francs (CHF) 1,289,000** (equivalent to **Frw 938,658,003**) for advisory services provided by *Les Roches* to WDA's HMI Kigali campus over the 4-year implementation period of the MoU. WDA guaranteed *Les Roches* that construction of the HMI - Kigali campus would commence in April 2015 and the Kigali Campus would open in **January 2016**.

However, there are some concerns detailed below:

- **Delays in completing the construction of the building facilities to house the Hospitality Management Institute (HMI)- Kigali campus at Remera:** The contract for the construction of the HMI Kigali campus at WDA Head office was signed

between **WDA** and **ROKO Construction (Rwanda) Ltd** on **27th February 2017 (**two years after the expected starting date) for **Frw 2,446,877,824.5**. The contract execution period was to be six (6) months after receiving the advance. The advance of **Frw 489,375,565** was paid by WDA on **26th May 2017** and thus the expected completion date was **26th November 2017**. This represents significant delay from the date of January 2016 agreed with *Les Roches.*

It should be noted that as at the time of WDA audit in December 2017, the construction works were **44%** level of completion and yet works should have ended on 26th November 2017. The audit identified that works at the site had stopped by the time of site visit in December 2017. Correspondences with the contractor show that the contractor suspended the construction works on 16th November 2017 and has not resumed the works due to the failure by WDA to settle the last three (3) invoices issued by the contractor amounting to **Frw 456,511,841** for completed works certified by the supervisor.

The delays in construction works have resulted in delayed commencement of institute by **two (2) academic years** from expected date for commencement per the MoU of **January 2016**. It should be further noted that the MoU has only 1 year and 4 months to expiry on 30th March 2019.

- **Payments made to *Les Roches* for phase two (2) yet HMI- Kigali is not yet operational:** The MOU envisaged that the school would start operations in January 2016 and service fee of **CHF 212,000** (equivalent to **Frw 174,637,020**) per year would be charged by *Les Roches* as consideration for advisory services provided by *Les Roches* to WDA. Accordingly, WDA made payment for service fees for two semesters of academic year 2016 (**CHF 212,000** equivalent to **Frw 174,723,644**). WDA was also processing payment of **CHF 212,000** equivalent to **Frw 174,637,020**) for services for two semesters of the academic year 2017. However, the **Hospitality Management Institute (HMI)** is still under construction and had not started operations. This implies that payments made to ***Les Roches*** are being made without any service provided to WDA.
- **Equipment ordered for HMI – Kigali ready for shipment to Rwanda yet the building/premises for HMI – Kigali are not yet ready:** WDA signed contracts for the supply of various equipment to furnish the **HMI – Kigali Campus** in March 2017

for a total of **Eur 619,046.57 (equivalent to Frw 551,736,329.2)**. Delivery of the equipment was expected between July and September 2017. The equipment had not been delivered by the time of audit in December 2017. Construction works on the HMI Kigali premises in which they are supposed to be installed was still **44%** level of completion by December 2017. A total of **Eur 273,454.99** (equivalent to Frw **242,936,166**) had been paid on contracts for supply of equipment as at the time of WDA audit in December 2017.

DISTRICT HOSPITALS

37. **Errors in financial statements of District Hospitals:** The audit of twenty six (26) District Hospitals identified a general problem of poor book keeping and errors in financial statements prepared by the District hospitals. Major concerns were with unexplained differences in opening balances which affected **nine (9) District Hospitals** and instances of omitted balances which affected **eleven (11) District Hospitals**. Receivables totalling to **Frw 1,080,476,695** were omitted from the financial statements of **eleven** (**11)** District hospitals while Liabilities totalling to **Frw 543,524,846** were omitted from financial statements of **nine (9)** district hospitals.

38. **Cash flow concerns for hospitals with long outstanding receivables:** Receivables amounting to **Frw 2,837,351,638** were long outstanding. This was noted in fourteen (**14)** District Hospitals. Long outstanding receivables deny the district hospitals the necessary cash flows for their effective operations. As a result, this adversely affect service delivery in district hospitals.

39. **High cases of rejected claims which may threaten service delivery:** The audit revealed high cases of rejected claims amounting to **Frw 343,429,142** as result of insurers adjusting some medical invoices due to mainly; billing for services that are not covered by the insurers, use of invalid insurance cards, overcharging of patients, lack of transfers, medical services provided which are not part of the insurance approved medical care etc.

    While rejecting the claims is a right of insurers in line with insurance contracts, such a high amount of rejected claims implies that hospitals are not able to recover the cost of services provided to the affected patients. This is likely to strain existing hospital resources unless efforts are taken to address the causes of these rejected claims. This was noted in ten (10) district hospitals.

40. **Irregular expenditure incurred by District Hospitals:** The audits identified irregular expenditure of **Frw 1,040,622,663** that was incurred by some of the District Hospitals. This comprised **unsupported expenditure** (**Frw 690,354,382** in 11 Hospitals), **partially supported expenditure (Frw 158,178,217** in 4 hospitals) and **Wasteful expenditure (Frw 192,090,064** in 7 hospitals).

41. **Corporate governance issues**: Audit of district hospitals revealed that the Boards of Directors were ineffective. Weaknesses identified include: failure to review financial reports and budget execution, failure to monitor the implementation of external and internal auditor's recommendations, lack of audit committees and gaps in Board composition. Further, most boards lacked at least a member with an accounting/finance background and there were no induction programs for the new board members. Mechanism for evaluating performance of Board members had not been put in place to enable performance evaluation for Board members.

SECTION 1

HIGHLIGHT OF ACHIEVEMENTS FOR THE YEAR

1.1 Mandate and functions of the office of Auditor General

Article 165 of the Constitution of the Republic of Rwanda of 4 June 2003 revised in 2015, and Articles 6 and 14 of Law no 79/2013 of 11/09/2013 determining the mission, organization and functioning of the Office of the Auditor General of State Finances (OAG) require the Auditor General to audit and report to Parliament on the Public Accounts of Rwanda and of all Public offices including local government organs, public enterprises and parastatal organizations, privatized state enterprises, joint enterprises in which the State is participating and government projects.

The responsibilities of the Office of the Auditor General include the following:

- Auditing and reporting on accounts of all public entities, local administrative entities, public enterprises, parastatal organizations and projects;
- Conducting financial and value for money, economy and efficiency audits in respect of expenditure in all institutions referred to above;
- Conducting accountability, management and strategic audits of accounts in the institutions mentioned above.

In addition, Article 166 of the Constitution of the Republic of Rwanda of 4 June 2003 revised in 2015, stipulates that the Auditor General shall submit each year to each Chamber of Parliament, prior to the commencement of the session devoted to the examination of the budget of the following year, a complete report on the state financial statements for the previous year. That report must indicate the manner in which the budget was utilized, unnecessary expenditure which was incurred or expenses which were contrary to the law and whether there was wasteful expenditure or misappropriation.

1.2 OAG Vision, Mission and Core values

Vision

"To promote an accountable, honest and effective Government administration".

Mission

"To promote accountability, transparency and best practice in Government operations as a means to good governance".

Core Values

The Auditor General and the staff of the Office of the Auditor General, in executing their responsibilities are committed to live by the office's core values of:

- **Integrity**: Being upright and honest;
- **Objectivity**: to display impartiality and professional judgment;
- **Independence:** from the audited entity and other outside interest groups;
- **Accountability:** by providing assurance that activities were carried out as intended and with due regard for fairness, propriety, and good stewardship;
- **Confidentiality**: respect of the confidentiality of information acquired in the course of work; and
- **In Public Interest**: by making decisions with the public interest in mind.

1.3 Summary of OAG achievements made during the year

OAG is implementing an extended strategic plan 2015/2016 to 2017/2018 based on five (5) key pillars of:

1. Enhancing the independence of OAG;
2. Strengthening institutional capacity in line with its mandate;
3. Building and strengthening professional audit capacity;
4. Strengthening OAG's capacity to engage stakeholders effectively; and
5. Oversight, coordination, implementation and monitoring of the Strategic Plan.

This is the final year of implementation of the above strategic plan. Most of the activities had been implemented as planned and achievements realised during the year as summarised below:

1.3.1 Enhancing the independence of OAG

Key focus of strategic plan	Achievements realised during the year
▪**Structure:** Implementation of new organization structure promulgated in Auditor General Instructions No 01/11/AG/16 of 01/11/2016 determining the organizational structure of the Office of the Auditor General	▪**The new Structure** was implemented and staff placement has been done for new level of Assistant Auditor Generals, for IT audit unit, Research and training unit and other positions created in the structure.

1.3.2 Strengthening institutional capacity in line with its mandate

Key focus of strategic plan	Achievements realised during the year
▪**Staffing**	▪**Staff placement and development**: This was done to fill positions on the OAG structure and required staff trainings were conducted. Staff are regularly trained to ensure they are well equipped to deliver on their responsibilities. A strong performance and staff development system has been put in place to facilitate staff capacity development and career growth.
▪**IT Infrastructure**	▪**OAG auditors using Teammate:** OAG continues to use Teammate audit software. An assessment was conducted to ensure there is optimal utilisation of Teammate audit software. Recommendations are being implemented for further improvement. ▪**E-archiving:** This has been implemented and is also being used to keep audit documentation (working papers) and other OAG documents ▪**ICT systems review:** OAG is implementing the recommendations from the review of ICT systems and infrastructure that was conducted in 2016 to progressively replace and upgrade the network

1.3.3 Building and strengthening professional audit capacity

Key focus of strategic plan	Achievements realised during the year
Graduate recruitment program (GRP)	▪**34 staff recruited:** OAG runs an annual Graduate Recruitment program that targets top performing students with an Upper Second class or first Class Degree in the year of recruitment or during the previous graduation. This program has been implemented since 2012. During the year, OAG was able to recruit twenty eight (28) new audit staff from various universities both in the country as well as outside the country through this Graduate Recruitment Program. In addition, 4 IT staff were also recruited in the same year as well as 1 Logistics and Estate Officer The new staff were taken through an induction program to enable them understand the OAG policies, manuals, code of conduct and auditing methodologies before being deployed for audits and other office assignments.
Professional Training and development	▪**OAG has 40 staff** with professional qualifications compared to **25 staff** at last annual report. **5** of these staff obtained their professional qualifications during the period from July 2017 to 20 April 2018. Most of the recently qualified staff are beneficiaries of Government program introduced at University of Rwanda (SFB) to enrol top performing

Key focus of strategic plan	Achievements realised during the year
	students in accounting for CPA professional qualification training alongside their Degree program. OAG has started benefiting from this program through the Graduate Recruitment Program that targets those graduating from Universities with top performance. The qualified staff would have been more if **5** of them had not left OAG during the year. Most of those who left OAG joined other Government institutions. Others were head hunted by multi-national private sector players seeking to recruit outstanding Rwandan Professionals. ▪ **78 staff preparing for professional exams:** OAG continues to sponsor its staff for professional courses such as ACCA, CPA and CISA, CAA. A total of 70 OAG students are preparing for the June 2018 professional exams. OAG has committed to invest in staff development through professional trainings and on job hands on training. As a result, it has registered additional qualified audit staff. ▪ **Internal OAG trainings:** OAG puts a lot of emphasis on professional training. Most of the month of July is used by the office to conduct internal professional trainings organised by our department for Quality Assurance and Staff Development. These trainings are based on International Standards and are helping to ensure that our staff are professionally equipped to undertake audits.
Continuous Professional Development (CPD)	▪ As a professional organisation, OAG puts emphasis on training and continuous learning. A total of 36 different trainings and workshops organized by AFROSAI-E, ICPAR and other external stakeholders (between July and December 2017) were attended by 58 OAG staff as part of Continuous Professional Development (CPD). The trainings covered institutional development and leadership, PFM, HRM, Regularity Audits, performance audits and IT audits.

1.3.4 Strengthening OAG's capacity to engage stakeholders effectively

Key focus of strategic plan	Achievements realised during the year
▪ Parliament	▪ The OAG continues to work closely with Parliament especially the Public Accounts Committee. Since the presentation of the annual report for last year, OAG has participated in various activities including the PAC hearings.
▪ Ministry of Finance and PFM working group	▪ **Participation in PFM working group:** OAG is one of the strategic PFM institutions in Rwanda. It operates under the component of External Oversight and Accountability. During the year, the Auditor General participated actively in the planned activities for PFM Secretariat that is based at MINECOFIN ▪ **Quarterly accountability meetings organised by MINECOFIN for GBEs**: Auditor General participated in two quarterly meetings organised for reviewing progress made in implementing recommendations from audits of GBEs and Boards.
▪ Judiciary and other Accountability institutions	▪ Auditor General participated in various fora organised by National Public Prosecution Authority and Law Reform Commission.

Key focus of strategic plan	Achievements realised during the year
▪ Auditees	▪ **Presentation to Chief Budget managers:** MINECOFIN organised an annual workshop for Chief Budget Managers and heads of corporate services under the theme "towards a transformational Public Financial Management". The Auditor General made a presentation on cross cutting audit issues and new focus for external audit exercise. He highlighted how the continued gaps in public financial management can be addressed going forward to ensure that there is value for money and improved service delivery. ▪ **District Hospitals:** The Auditor General participated in the training organised for Directors General and newly recruited Directors of Finance for all District Hospitals. This was the first training of such kind and it is anticipated to facilitate District Hospital management to improve public financial management in District Hospitals. ▪ **Induction of CoK/District Executive Secretaries and Division Managers**: Deputy Auditor General participated in the induction of CoK/District Executive Secretaries and Division Managers. Accounting officers committed to improve the implementation of the audit recommendations as it was highlighted that most of the districts implemented below 60%. ▪ **Training of District and City of Kigali accountants:** The Director of Audit in charge of quality assurance addressed the Forum of District and City of Kigali Accountants and Accountants in charge of Non Budget Agencies (NBAs). The forum was organized by Rwanda Association of Local Government Authorities (RALGA) under the theme "Sharing experience and discussion on the general Public Financial Management issues in the Local Government.
▪ INTOSAI, AFROSAI, AFROSAI-E and other SAIs	▪ **Workshops and Trainings:** OAG staff attended various trainings organised by AFROSAI-E. The trainings included leadership trainings, HRM, Performance audit, Regularity audits and IT audits. **Meetings** ▪ From 23rd to 27th October 2017, 14th General Assembly of AFROSAI was held in Windhoek, Namibia and SAI Rwanda was represented by Deputy Auditor General. The general assembly is held every 3 years. ▪ From 8th May to 11th May 2017 Auditor General attended AFROSAI-E Governing Board meeting in Nairobi, Kenya.
▪ Hosting delegations from other Countries/ International events hosted by OAG Rwanda	OAG hosted three delegations from other Countries on study tour to Rwanda and an INTOSAI workshop. These included: ▪ Parliamentary Delegation from **Western Cape Province** (South Africa) ▪ Delegation from Office of Ombudsman (Mali) ▪ **P**arliamentary delegation from Burkina Faso ▪ **INTOSAI and IDI:** OAG again hosted the IDI Global programme on SAIs engaging with stakeholders from 25th September to 7 October 2017. Twenty eight (28) representatives from 14 SAIs participated in this workshop. The SAIs included; Kenya, Liberia, Botswana, Malawi, Rwanda, South Africa, Tanzania, Zambia, Zimbabwe, Ghana, Cameroon, Costa Rica, Sierra Leone and Jamaica. ▪ **AFROASI-**E **Governing Board meeting:** OAG was nominated to host the AFROSAI-E Governing Board meeting from 7th May to 10th May 2018. This is a high level meeting with delegates expected from INTOSAI, AFROSAI Secretariat, AFROSAI-E countries: Kenya,

Key focus of strategic plan	Achievements realised during the year
	Tanzania, Uganda, Ghana…. etc. The Governing Board provides strategic direction to AFROSAI-E.
▪ICPAR and Professional Accounting firms registered by ICPAR	▪**Governing Council:** OAG supports ICPAR to enhance regulating the accountancy profession in Rwanda. Auditor General is a member of the Governing Council of ICPAR. OAG has actively participated in the Governing Council the body that provides oversight role to the institute. ▪**Annual ICPAR seminar:** Seven (7) OAG staff participated in the 6th Annual Seminar organized by ICPAR under the theme "**Professional accountancy in the modern age".** ▪**ICPAR technical trainings: 22** OAG staff participated in ICPAR technical trainings on taxation.
▪Development Partners	▪OAG participated in meetings involving Development partners where OAG audits were required. These included the Global Fund, IFAD, AfDB and the World Bank.
▪Regional and International Institutions	▪**Audit of East African Community:** OAG is a member of the EAC Audit Commission, a body responsible for audit of the East African Community Secretariat and its organs. The Office provided four (4) senior staff members to conduct the audit of EAC Secretariat and its organs for a period of two (2) months. The audit team was under the supervision of Auditor General. All these audits were completed and audit reports submitted to Council of Ministers for EAC. The Office shall continue to participate in these audits. ▪**United States Government Accountability Office:** Since 2009, OAG has been sending one senior staff to attend International Auditors' Fellowship program at the United States Government Accountability Office. This year, one Director will be attending the program for a period of 4 months up to July 2018. This training program further enhances the technical capacity of our staff and makes them equipped to address challenges in the ever changing audit environment.

1.3.5 Oversight, coordination, implementation and monitoring of the Strategic Plan

Key focus of strategic plan	Achievements realised during the year
▪Oversight of the Strategic Plan	▪The oversight of OAG SP is being done by the AG through the support of OAG SP technical committee chaired by the Deputy Auditor General. The technical committee is comprised of AAGS, SG and Directors. For external oversight, it is being done by PFM SP coordinating forum. This forum is made up of AG, DPs and MINECOFIN and is responsible for aligning OAG SP with PFM reform programme. During this year, Quarterly meetings between OAG and its stakeholders i.e DPs and MINECOFIN were held.

▪Coordination of SP implementation	▪To ensure effective coordination of OAG SP, AG has been working closely with OAG technical committee as well the PFM coordination forum level during the year. This helped OAG to effectively implement its own SP. It should however be noted that OAG SP is expected to end this year 2018. The final completion report of OAG SP has been done with a score of A+. OAG has therefore started the process of hiring a consultant to come up with another strategic plan that covers a period of 6 years (2018-2024). The tender for hiring a consultant has been published.
▪Implementation arrangements	▪ Implementation of the SP was undertaken within the overall framework of the National PFM Reform Strategy. To help ensure the effective implementation and monitoring of OAG SP, SP technical committee has been conducting monthly meetings. With the support of the project manager, progress reports (Monthly and quarterly reports) on SP implementation were prepared and shared with PFM Coordinating Forum and as well as DPs.

SECTION 2

CROSS CUTTING ISSUES FROM THE AUDITS

2.1 High proportion of recommendations not yet fully implemented

	Total number of all finding	Fully implemented	Partially implemented	Not implemented	No longer applicable	%age Fully implemented	%age Partially implemented	%age Not implemented	%age No longer applicable
PROJECTS	283	143	66	68	6	51%	23%	24%	2%
OTHER CENTRAL GOVERNMENT AGENCIES (OCGAs)	154	111	27	13	3	72%	18%	8%	2%
BOARDS	747	345	183	196	23	46%	24%	26%	3%
GOVERNMENT BUSINESS ENTERPRISES	459	147	106	191	15	32%	23%	42%	3%
MINISTRIES	157	92	25	35	5	59%	16%	22%	3%
DISTRICTS AND CITY OF KIGALI	1,450	743	256	419	32	51%	18%	29%	2%
District Hospitals	781	346	116	317	2	44%	15%	41%	0%
Total	**4,031**	**1,927**	**779**	**1,239**	**86**	**48%**	**19%**	**31%**	**2%**

The audits identified that only **48%** of audit recommendations were fully implemented. The remaining **2,018 recommendations (50%)** of the previous audit recommendations had not been fully implemented. Key concerns still remain with **GBEs** and **District hospitals** which did not implement majority of the recommendations. This undermines realization of improvements envisaged from implementing proposed recommendations to improve public financial management in public entities.

Notably, only **59 entities** implemented more than 60% of audit recommendations. The majority of public entities implemented below 60% of the prior audit recommendations. See summary below:

	Entities which have implemented 60% or more of recommendations	Entities which have implemented less than 60% of recommendations
Projects	17	16
OTHER CENTRAL GOVERNMENT AGENCIES (OCGAs)	12	4
BOARDS	7	4

GOVERNMENT BUSINESS ENTERPRISES	0	5
MINISTRIES	6	6
DISTRICTS AND CITY OF KIGALI	9	22
Total	8	18
	59	**75**

2.2 Persistent cases of delayed and abandoned contracts

The audits identified that cases of delayed and abandoned contracts were still persisting in public entities. A total of **109** contracts worth **Frw 206,817,279,066** had been delayed or abandoned. These comprise of **(83)** delayed and abandoned contracts worth **Frw 158,354,746,771** identified during the year and **(26) delayed and abandoned contracts** worth **Frw 48,462,532** from the previous annual report that have not been finalized and are still ongoing or abandoned. See summary in table below:

	DELAYED AND ABANDONED CONTRACTS		
			Frw
1	BOARDS AND GBE	30	73,483,292,425
2	District	55	38,233,984,939
3	Ministries and other central government entities	5	22,092,828,039
4	Project - Others	19	73,007,173,663
		109	**206,817,279,066**

The above cases have resulted into increased cost of Government projects, significant delays in completion and lack of value for money for many Government projects. Majority of the delayed and abandoned contracts were noted in **districts** (70 contracts), **GBEs** and **Boards** (38 contracts), **Projects** (23 contracts) Ministries and other central Government entities (8 contracts). The entities with majority of these contracts are summarised in sections below:

2.2.1 Contracts managed by Local Governments

Districts had **70** contracts worth **Frw 48,605,709,515** that had been delayed by the time of the audits for a period ranging from **5 days to 886 days**. These comprised **55 contracts (Frw 41,773,395,557)** delayed this year and **15 contracts (Frw 6,832,313,958)** from previous year which were still pending completion. The districts that had high number of delayed and abandoned contracts are the following:

No	Entity with cases of delayed/abandoned	No. of contracts	Value of contracts delayed/abandoned (Frw)
1	Nyagatare	9	3,404,364,297
2	Burera	7	9,622,174,014
3	Nyaruguru	6	2,093,024,355

4	Gisagara	4	4,852,127,736
5	Karongi	5	1,912,545,114
6	Rubavu	4	1,929,345,855
7	Rutsiro	4	1,131,528,781

2.2.2 Contracts managed by Boards and Government Business Enterprises (GBEs)

The GBEs continue to have challenges with Contract management. A total of **38** contracts worth **Frw 79,335,712,580** had been delayed in GBEs by the time of the audits for a period ranging from **5 days to 1,863 days**. These comprised **24 contracts (Frw 57,757,722,684)** delayed this year and **13 contracts (Frw 21,184,393,296)** from previous year which were still pending completion. Majority of the delayed contracts were contracted by EWSA or its successor companies of WASAC and REG/EDCL, University of Rwanda and Workforce Development Agency (WDA), as shown below

Entity with cases of delayed/abandoned	No. of contracts	Value of contracts delayed/abandoned (Frw)
WASAC	5	4,025,574,864
REG/EDCL	13	55,610,334,545
WDA	11	10,961,576,105
UR	4	5,893,915,988

2.2.3 Contracts managed by Government projects

Contract management in Government projects deteriorated during the year. A total of **23** contracts worth **Frw 102,185,376,073** (**40%** of the total value) had been delayed or abandoned for a period ranging from **19 days to 940 days** by the time of the audits. These comprised of **14 contracts (Frw 78,167,089,368)** delayed or abandoned this year and **9 contracts (Frw 24,018,286,705)** from previous year which were still pending completion. Entities which had significant contracts that delayed or were abandoned include the following:

Entity with cases of delayed/abandoned	No. of contracts	Value of contracts delayed/abandoned (Frw)
REG/EDCL (Electricity transmission projects)	10	73,890,399,172
MINAGRI (Rwanda Feeder Road development project)	2	2,943,349,106
RBC (Global Fund Projects)	3	2,271,934,390

2.2.4 Contracts managed by Ministries and other Central Government entities

Ministries had **8** contracts worth **Frw 25,740,519,732** that had been delayed by the time of the audits for a period ranging from **127 days to 1,946 days**. These comprised **2 contracts (Frw 17,328,945,448)** delayed this year and **6 contracts (Frw 8,411,574,284)** from previous year which were still pending completion. Majority of the delayed contracts were contracted by MINISANTE, MINAGRI and Former MINEACOM as shown below:

Entity with cases of delayed/abandoned	No. of contracts	Value of contracts delayed/abandoned (Frw)
MINISANTE	3	4,763,882,591
MINAGRI	2	1,300,000
EX-MINEACOM	1	16,678,945,448
	6	**21,444,128,039**

2.3 Project absorption challenges and potential loss of funding

The audits of EDCL projects identified cases of low budget absorption during implementation of Government projects. Some projects are at risk of failing to absorb allocated funding worth **Frw 29,039,081,707** ahead of the project completion dates unless they scale up their levels of implementation. These funds are at risk of being forfeited by Government and services may not be delivered within the timeframe envisaged. See table below:

Project	Budget agency	Concern	Funds at risk of being forfeited
			Frw
SEAP Project	REG/EDCL	Project's closing date is 30th August 2018 and yet USD 22,732,004.93 (49.1%) was undrawn by 31 December 2017	18,935,760,107
Interconnection of Electrical Networks of Nile Equatorial Lakes Countries Project	REG/EDCL	Project completion date of the project was 31 December 2017 and yet Frw 9,271,560,914 equivalent had not been received.	9,271,560,914
Regional Rusumo Falls Hydropower Project-Transmission Lines component	REG/EDCL	The project is 5 years from 7 February 2014 up to 31 August 2019. However, equivalent of Frw 28,310,932,207 (98%) had not been disbursed by 30 June 2017	28,310,932,207
SEDP/ Solar water heaters programme	REG/EDCL	The Solar water heaters programme has for over 5 years and 10 months ago received only **Euro 3,210,250** (representing 80%) by 30 November 2017 and only reached only 2,173 beneficiaries (representing 21.7% of 10,000 target). However, balance of **Euro 789,750** had not been received.	728,149,500
Total			**29,039,081,707**

2.4 Persistent cases of idle assets

The audit reports issued by the Office of the Auditor General over the past 2-3 years made recommendations for public entities to curb the practice of procuring assets for which they have no proper utilization plans and to improve on contract management so that buildings are completed timely to house equipment procured. The recommendations were aimed at addressing the growing cases of idle assets identified across board in public entities.

However, this problem is still persisting and was identified during the audits for the year ended 30 June 2017. The audits identified **(137)** cases of idle assets worth **Frw 23,049,464,800.** These include newly identified cases of idle assets worth **Frw 10,831,316,402**, and some idle assets identified in previous audits worth **Frw 12,218,148,398** which were still idle by the time of current year audits.

2.4.1 Idle assets identified in Government Business Enterprises and Boards

Boards and GBEs had **thirty-eight (38) cases of idle assets** identified with value totalling **Frw 10,331,752,620**. These idle assets were found at REG/EDCL and REG/EUCL, WASAC, NAEB, RAB, WDA, UR and RSSB as shown in table below:

Public entity	Cases of idle assets identified in current audit	Cases of idle assets from previous year	Total cases of idle assets	Value of idle assets identified this year	Value of idle assets from previous year but not yet in use	Total value of idle assets
				Frw	Frw	Frw
NAEB	2		2	138,610,970	-	138,610,970
RAB		3	3	-	636,356,626	636,356,626
RDB	7	1	8	6,915,620	120,275,202	127,190,822
WDA	3	2	5	30,237,213	211,292,050	241,529,263
UR	2		2	9,500,390	-	9,500,390
REG	1	3	4	505,189,860	2,786,768,134	3,291,957,994
RSSB		1	1	-	646,798,532	646,798,532
WASAC	7	6	13	1,966,769,653	3,273,038,370	5,239,808,023

2.4.2 Idle assets identified in Government projects

Projects had **thirty (30) cases of idle assets** identified with value totalling **Frw 8,931,200,226.** Majority of these cases of idle assets worth **Frw 6,142,943,777** were found in projects at MINISANTE, MINAGRI, REG and WASAC as shown in table below:

Public entity and project	Cases of idle assets identified in current audit	Cases of idle assets from previous year	Total cases of idle assets	Value of idle assets identified this year	Value of idle assets from previous year but not yet in use	Total value of idle assets
MINAGRI	1	3	4	18,363,247	1,210,880,393	1,229,243,640
MINISANTE		5	5	-	839,596,761	839,596,761
WASAC	3	1	4	3,763,738,843	45,487,129	3,809,225,972
REG		8	8	-	264,877,404	264,877,404

2.4.3 Idle assets identified in Local Governments

Districts had **fifty-three (53) cases of idle assets** identified with value totalling **Frw 4,089,428,947** (2 contracts worth **Frw 103,621,568** from previous year**).** Cases of districts with high number of idle assets are shown in the table below:

Districts	Cases of idle assets identified in current audit	Cases of idle assets from previous year	Total cases of idle assets	Value of idle assets identified this year	Value of idle assets from previous year but not yet in use	Total value of idle assets
				Frw	Frw	Frw
Rusizi	3	2	5	320,900,397	103,621,568	424,521,965
Kamonyi	5	-	5	122,324,790	-	122,324,790
Nyagatare	4	-	4	285,342,012	-	285,342,012
Nyamagabe	4	-	4	173,354,723	-	173,354,723
Nyanza	4	-	4	1,430,816,345		1,430,816,345

2.4.4 Idle assets in Ministries and other Central Government entities

Ministries and other central government entities had **twenty-six (26) cases of idle assets** identified with value totalling **Frw 1,756,414,645** as shown in table below:

Public entity	Cases of idle assets identified in current audit	Cases of idle assets from previous year	Total cases of idle assets	Value of idle assets identified this year	Value of idle assets from previous year but not yet in use	Total value of idle assets
CHUB		2	2		19,649,690	19,649,690
EX-MINEACOM	1		1	3,083,798		3,083,798
INMR		2	2		2,700,000	2,700,000
MINAFET	1		1	5,047,425		5,047,425
MINISANTE	2	2	4	181,853,686	1,188,682,230	1,370,535,916
NISR	2		2	8,577,600		8,577,600
NCC	1		1	2,851,900		2,851,900
RCS		2	2		11,670,200	11,670,200
RLMUA	3		3	48,631,990		48,631,990
UR		5	5		231,443,226	231,443,226
WDA		3	3		52,222,900	52,222,900

2.5 Wasteful, Unsupported Unauthorised, and Fraudulent expenditure

Article 166 of the Constitution of the Republic of Rwanda of June 2003 revised in 2015 requires the report submitted to Parliament by the Auditor General to indicate the manner in which the budget was utilised and report cases of:

- Unnecessary expenditure or wasteful expenditure which was incurred;
- Expenses which were contrary to the law; and
- Cases of misappropriation.

In line with the above requirements, total expenditure of **Frw 7,997,479,706** was identified as having been incurred either unnecessarily (wasteful expenditure) or was incurred contrary to the law (unauthorized or unsupported expenditure) or it was incurred on fraudulent activities, as shown below:

Category of questionable	2016/2017 annual report	2015/2016 annual report	2014/2015 annual report
		Frw	Frw
Unsupported expenditure	3,286,227,450	6,968,552,037	12,785,406,805
Partially supported expenditure	1,711,072,606	7,416,511,375	3,838,748,979
Wasteful expenditure	2,364,412,095	1,643,449,556	1,723,841,679
Unauthorised expenditure	244,574,402	699,098,630	443,736,357
Funds diverted or fraudulently utilised	391,193,153	906,654,335	173,469,076
Total	**7,997,479,706**	**17,634,265,933**	**18,965,202,896**

2.5.1 Wasteful expenditure

Public institutions incurred wasteful expenditure of **Frw 2,364,412,095**. This expenditure was incurred mainly to settle court fines and claims for damages and in payment of penalties, interest and fines to RRA and RSSB as detailed in table below:

	30 Jun 2017	30 Jun 2016	30 Jun 2015	30 Jun 2014
Nature of expenditure considered as wasteful	**Amount (Frw)**	**Amount (Frw)**	**Amount (Frw)**	**Amount (Frw)**
Penalties/interest and fines to RRA & CSR	484,168,344	290,129,770	341,516,519	2,164,387,418
Supplier penalties	1,101,352	700,000	36,637,887	416,037,089
Court fines and claims for damages	925,900,938	696,006,106	583,380,242	88,840,585
Excessive payments for services/goods not delivered	337,667,992	41,942,730	66,177,527	3,279,347,910
Ineligible staff benefits and incentives	46,349,977	151,993,247	17,493,191	43,163,611
Others	569,223,492	36,188,910	685,652,813	116,100,642
Total	**2,364,412,095**	**1,216,960,763**	**1,730,858,179**	**6,107,877,255**

Most of the expenditure were incurred by WASAC/ LVWSAN (**Frw 207,629,417**), REG/EDCL (**Frw 196,921,279**), REG/EUCL **(83,017,603**), RRA (**Frw 54,199,478**), WASAC (**Frw 17,311,500**), RNRA (Frw **22,246,857**) and District Hospitals **(Frw 193,347,660).**

2.5.2 Unsupported and partially supported expenditure

A total of **Frw 5,399,203,780** in expenditure was either unsupported or partially supported, compared to **Frw 14,385,063,412** in the previous annual report. This unsupported expenditure was incurred mainly by the following: WASAC, REG-EUCL, NELSAP Project, RNRA, WDA, Huye district and Nyaruguru district and district hospitals as shown in table below:

	Entity with significant questioned expenditure	**Unsupported**	**Partially supported**	**Total**
		Frw	**Frw**	**Frw**
1	WASAC	1,301,136,680	26,776,819	1,327,913,499
2	REG/EUCL	19,106,035	118,645,700	137,751,735
3	RNRA (Forest Management and woody biomass energy support project(FMBE))	144,201,891		144,201,891
4	RNRA (Support Program for the development of the Forestry in Rwanda-Belgium funded)	104,107,822		104,107,822
5	REG/EDCL (Interconnection of Electrical Grids of Nile Equatorial Lakes countries project (NELSAP))		223,197,043	223,197,043
6	WDA	16,699,662	33,017,600	49,717,262
7	Huye Districts		121,618,608	121,618,608
8	Nyarugenge		18,321,900	18,321,900
9	District hospitals	1,702,290,397	400,326,844	2,102,617,241

2.5.3 Unauthorized expenditure

The unauthorized expenditure of **Frw 244,574,402** was mainly incurred by WDA, RRA, REG and MINAGRI Projects (PRICE, PASP and RDDP). These are mainly salary increments not approved by competent authorities, allowances paid without approval and salaries paid to employees who were not in service, as shown in table below:

No.	**Institution**	**Description (why it is considered unduly paid)**	**Unauthorised expenditure**
1	PASP/MINAGRI	Salaries for the and accountant were increased by Project Steering Committee (PSC) without the approval of MIFOTRA	2,366,820
2	PRICE/MINAGRI	Salaries for the chief accountant and accountant were increased by Project Steering Committee (PSC)	3,859,860

No.	Institution	Description (why it is considered unduly paid)	Unauthorised expenditure
		without the approval of MIFOTRA	
3	RDDP/MINAGRI	The salary for the Accountant was increased by Project Steering Committee (PSC) without the approval of MIFOTRA	1,295,208
4	RRA (Budget agency)	Allowances paid to RRA drivers without Board approval	19,042,857
5	WDA	Top up allowance, allowance for additional duties, and allowance for profit sharing had been paid by IPRC KIGALI, TCT, IPRC South and Musanze Polytechnic but which had not approved by the WDA Board in consultation MIFOTRA	212,758,184
6	REG - EUCL	Salaries paid to employees who had already left EUCL	665,401
7	Kicukiro	Salaries paid to employees who were no longer in services	1,408,175
8	Nyanza	Salaries paid to employees who were no longer in services	1,483,297
9	Nyarugenge	Unrecovered salaries paid to two teachers (employees) who were no longer in services	566,658

2.5.4 Funds diverted or fraudulently utilized

During this audit fraudulent activities amounting to **Frw 391,193,153**were noted in 6 entities (REG-EDCL/EARP project, Nyamagabe, Rusizi and nyamasheke districts) **as shown in the table below:**

No.	Institution	Description of the fraudulent case	Category of fraud	Amount not yet recovered Frw
1	REG - EDCL	Cable of 3,000 metres of 30KV disappeared at Nyamagabe Branch	Other	12,000,000
2	REG - EDCL	Theft of electricity materials from EARP store located at Remera	Funds and materials diverted and not reaching intended beneficiaries	371,000,000
3	Nyamasheke	Payment to a ghost staff (Teacher Ndagijimana Francois who was not in service at EP Kagunga in Rangiro sector)	Funds withdrawn using forged documents/signatures	983,161
4	Rusizi	Fraudulently VUP amount paid to sector staff including the Executive Secretary using fictitious groups in Nkombo sector	Funds and materials diverted and not reaching intended beneficiaries	3,245,000
5	Nyamagabe	Payment of salaries to a staff who is no longer in service	Other	562,832

2.6 Persistent accounting errors in financial statements of public entities

2.6.1 Accounting errors and omissions not corrected in the financial statements of Budget Agencies

While some of the identified errors and omissions were corrected by various Budget agencies at the time of finalising their audits, some significant balances were still omitted from financial statements and are therefore not reflected in State Consolidated financial statements as highlighted below:

- Omitted creditors of **Frw 5,082,242,372** (2016: **Frw 5,216,304,916**). Significant balances were noted at Scaling Up Energy Access Projects **(Frw 1,815,019,152).**
- Omitted debtors of **Frw 2,489,877,711**. Significant balances were noted at Global Fund Malaria Program **(Frw 18,670,392).**
- Sixteen (16) bank accounts with credit balance of Frw **638,450,832.** For details of institutions with omitted bank balances, See the table below:

	Institution	Audit period	Number of accounts omitted	Amount (Frw)
1	Great Lakes Regional Trade Facilitation	30 Jun 2017	1	-
2	University of Rwanda (UR)		2	306,558,354
3	REG - EDCL	30 Jun 2016	1	287,744,661
4	RSSB	30 Jun 2016	2	29,605,463
5	GIHUNDWE Hospital	30 Jun 2016	5	9,181,492
6	KIBUYE Hospital	30 Jun 2016	1	27,177
7	KIREHE Hospital	30 Jun 2016	3	688,685
8	MUHIMA Hospital	30 Jun 2016	1	4,645,000
	GRAND TOTAL		**16**	**638,450,832**

- Unsupported creditors of **Frw 6,261,741,767** (2016: **Frw 42,727,974,458)** mainly identified at WASAC (**Frw 1,714,441,847**) and REG-EUCL **(Frw 513,671,449).**
- Unsupported debtors of **Frw 5,961,020,061** (2016: **Frw 8,881,919,324)** mainly identified at WASAC **(Frw 313,662,390)** and Rwanda Sustainable Woodland Management and Natural Forest (**Frw 18,993,167**).

There were also cases of unusual balances noted in the financial statements of budget agencies as illustrated by the following:

- Creditors amounting to **Frw 27,332,514,372** and debtors amounting to **Frw 5,604,646** with no detailed listings (2016: Debtors - **Frw 8,056,798,274** and creditors - **Frw 27,343,439,863).** Creditors without detailed listings were mainly identified at REG (UCL **Frw 10,134,127,505** and EDCL **Frw 11,137,363,157**).
- Long outstanding debtors of **Frw 36,760,084,973** (2016 **Frw 8,055,364,916**) including a balance of **Frw 11,462,927,585** at Post Harvest handling and storage taskforce, **Frw 1,666,158,884** at Electricity Access Scale-up and Sector-wide approach development project (EASSDP), **Frw 1,179,215,022** EUCL and **Frw 1,428,156,030** at WASAC**.**
- Long outstanding creditors of **Frw 11,284,492,621** (2016 **Frw 6,516,894,142**) mainly noted at EDCL **(Frw 8,001,847,518)**, WASAC **(Frw 937,119,567),** Post Harvest Handling and Storage Taskforce **(Frw 277,365,646)** and WASH project **(Frw 211,455,900) .**
- Omissions, errors and inconsistencies in bank reconciliation statements including cases where bank reconciliation statements for some bank accounts were not prepared at all, bank reconciliations with unexplained differences and bank reconciliations with irregular reconciling items as highlighted below:

  - A total of 20 bank accounts with balances totalling to **Frw 49,111,541** did not have bank reconciliations. This was mainly noted at UR (**8 bank accounts**) and RRA (**2 bank accounts**)
  - Bank reconciliations for 74 bank accounts with balances totalling **Frw 2,166,654,225** had unexplained differences implying that reported balances were not accurate. These bank accounts were mainly identified at RSSB (33 bank accounts **Frw 338,499,631**), RRA (10 bank accounts **Frw 1,307,077,844)** and **WASAC (**8 bank accounts **Frw 21,916,449).**

  - Bank reconciliations for **8 bank accounts** with balances totalling **Frw 2,848,637,936** had irregular reconciling items. These bank accounts were mainly identified at Great Lakes Regional Trade Facilitation project, WDA and WASAC.

2.6.1 Internally generated revenue and expenditure for NBAs not reflected in National Budget

A review of the Budget execution report revealed that budget and expenditure for revenue generated internally by Non-Budget Agencies is omitted. Available information on

disclosures made for NBAs shows that a total **Frw 106,566,923,194** of internally generated revenue was omitted from Government expenditure for the year ended at 30 June 2017.

Name of subsidiary entity	Adjusted Opening	Transfers from Districts and other entities	Revenues	Expenses	Fund Balance
	Frw	Frw	Frw	Frw	Frw
District Pharmacy	7,355,225,140	466,847,540	14,171,267,788	14,007,991,104	7,985,349,364
District Hospitals	11,815,053,081	20,984,066,210	24,763,433,216	47,277,794,118	10,284,758,389
Sectors	12,970,651,168	24,135,449,821	1,255,288,716	26,122,571,521	12,238,818,184
Primary Schools	858,775,809	4,993,722,435	776,393,995	5,828,925,108	799,967,131
Secondary Schools	5,387,427,765	12,648,144,493	32,462,798,669	45,775,490,397	4,722,880,530
Health Centers	15,085,676,097	11,430,446,046	33,137,740,810	46,110,161,585	13,543,701,368
VUPs	0	0	-	-	-
Grand Total	**53,472,809,060**	**74,658,676,545**	**106,566,923,194**	**185,122,933,833**	**49,575,474,966**

Gaps in reporting system for Non-Budget Agencies (NBAs)

As highlighted in my previous audit, there were still errors and omissions identified during audits of Non Budget agencies. In some cases, information from NBAs financial operations at District level were different from that in financial reports of NBAs.

These are indicators of inadequate review of financial reports submitted by NBAs in order to be reported by the district. There is need for districts to ensure that financial reports of NBAs are properly reviewed and any errors and omissions corrected before they are consolidated and disclosed in the district financial statements.

SECTION 3

SECTOR SPECIFIC FINDINGS

3.1 RWANDA SOCIAL SECURITY BOARD (RSSB)

3.1.1 Concerns over the accounting set up for the schemes under RSSB management

RSSB elected to perform the accounting and financial reporting function of the medical, pension, CBHI and maternity leave schemes in one set of books of account. This poses a challenge of inherent comingling and failure to differentiate transactions and balances of each scheme. This has resulted into **unreconciled inter-scheme balance** of **Frw 4,237,926,888** included in other payables and receivables under the Medical Scheme at 30 June 2016.

3.1.2 Non performing equity investments

Review of equity investments showed six (6) entities where RSSB has invested a total of **Frw 21,341,164,979** that have not paid any dividend from the time of initial acquisition or establishment and continues to lose value as indicated by their current financial positions. The fair value of these investments at 30 June 2016 stood at **Frw 11,874,145,669** implying an overall reduction in value (cost of acquisition) of **Frw 9,467,019,310.** Other investments where RSSB has not earned a return yet include: KT Rwanda Networks Limited (**Frw 3,700,228,195**) and Preference shares in New Forest Company Rwanda (**Frw 438,273,748.**

3.1.3 Unallocated mortgage payments

The concerns made in previous audits requiring RSSB to ensure that mortgage payments are allocated to individual accounts of mortgage holders have not been resolved. By the time of auditing RSSB in October 2017, there was a balance of **Frw 208,127,637** for unallocated mortgage payments made by 30 June 2016. These payments had remained unallocated for over one (1) year and hence distorting balances on individual mortgage accounts.

3.1.4 Unrecovered social security contributions identified during RSSB audits

RSSB audits identified **Frw 16,110,711,215** as due from contributing employers as per the RSSB internal audit reports of 2015/2016 and 2016/2017. However, only **Frw 684,238,657** had been recovered by the time of RSSB audit in October 2017 and **Frw 15,426,472,558** was still outstanding. In addition, **Frw 3,956,230,435** assessed in previous year was still outstanding by the time of my audit in October 2017. Hence total unrecovered balance of

Frw 19,382,702,993 from RSSB audits done in the 3 years (2014/2015, 2015/2016 and 2016/2017).

3.1.5 Lack of detailed lists of individual employers for balances in transit accounts

RSSB maintains transit accounts to enable them initially record declarations for contributions before they are paid and to record payments made without declarations or to record estimations of contributions for cases where employers fail to file declarations nor make payments. However, there is no detailed list showing individual contributors/employers to support balances reported on these transit accounts at 30 June 2016. Transit account for pension scheme had a net receivable balance of **Frw 28,283,652,897** and that for medical scheme had a net payable balance of **Frw 8,931,221,410** at 30 June 2016.

3.1.6 Irregularities noted in declaration and payment of medical contributions

Medical declarations are done online by contributing employers through the RRA e-tax system and followed by corresponding payments that are directly deposited on RSSB bank accounts. However, there was unexplained difference between Total collections and declarations. The total medical contributions received by RSSB from contributing employers, pensioners and diplomats during the year ended 30 June 2016 amounted to **Frw 37,271,213,351** and yet the amount declared by the contributing members was **Frw 36,970,884,028.** Hence unexplained difference of **Frw 300,329,323**. Some of these differences are attributed to payments made by contributing employers (mainly public entities) through the Central Bank (BNR), which does not have an interface with the e-tax system.

3.1.7 Inconsistencies in employer status reported by RSSB contributions module

RSSB contributions module has 3,463 employers' accounts with dormant status, 15,405 employers' accounts that were suspended and 7,525 employers' accounts that were automatically closed as at 30 June 2016.

However, corroboration of the above information, on the basis of a sample of employers, with e-tax records maintained by RRA for eligible contributors revealed cases of employers whose accounts are dormant, suspended or were closed per the RSSB system and yet they remain active in the RRA tax system as evidenced by some recent payments of pay as you earn tax to RRA. This is an indicator that these employers continue to operate without

complying with RSSB pension law in force. These employers are not making pension contributions to the detriment of their employees.

3.1.8 Delay in implementation of Batsinda phase II affordable housing project

The first project feasibility study for Batsinda phase two project was made in 2012 but the project commenced in 2016 (after four years). Further, letter date 16th January 2017 addressed to MINECOFIN by RSSB requesting for guidance on the delays encountered showed that the target was to achieve 30% completion of the project by the end of June 2017.

However, by June 2016, the project was estimated at 1% completion. In addition, the letter further highlighted that the project had been put on hold from October 2016 due to change in plans. This is an indicator that delays in implementation of this project are likely to escalate if no effective measures are implemented by management to expedite the project.

3.1.9 Delayed completion of vision city construction project leading to cost overruns and prolonged project payback period

According to the business plan provided by RSSB, UDL targeted to develop the Vision City land in four phases with 4,529 houses in total. The first phase entailed construction of 504 houses expected to be completed in 18 months from May 2013 to December 2014. However, there are concerns regarding this project:

- **Delays:** was a delay in project completion. By the time of RSSB audit in October 2017, 32 months beyond the original target completion date, finishing works on the houses were still ongoing.

- **Cost overruns:** The original construction cost was estimated at **USD 89,605,000** (**Frw 62,835,370,946** at an exchange rate of 30 December 2014). However, by 13th July 2017, a total of **Frw 85,736,347,247** had been spent on the construction project and final project cost will increase to **Frw 107,670,708,884** after considering the unpaid amounts to contractors and land cost. Hence an extra cost of Frw **44,835,337,938** above original projected cost.

- **Selling below cost:** The selling prices set are below cost and the total proceeds are projected at **Frw 92,972,866,034.** Compared to total projected cost to completion including value of phase 1 land at **Frw 107,670,708,884**, a deficit to the tune of **Frw**

14,697,842,850 is projected. Government has agreed to provide support in form of an infrastructure incentive to ease pressure on the project costs incurred by RSSB.

- **Low uptake for the houses:** The rate of bookings for the completed houses is still low. Only 78 houses out of 504 had been booked with sale contracts signed as at 29th September 2017. The remaining 426 houses had not been booked. This is an indicator of low likelihood to sell the houses over a reasonable period of time. The significant cost overruns mainly attributed to delay in completion of construction works have ultimately resulted in higher prices for the houses. It is envisaged that the low sales rate will result in prolonged investment pay-back period and further shrinking return on investment.

3.2 RWANDA REVENUE AUTHORITY (RRA)

3.2.1 Challenges with recoverability, tracking and management of tax arrears

- **High proportion of tax arrears:** RRA report on tax arrears shows total balance of **Frw 161,825,550,820** in tax arrears as at 30 June 2017. This represents **14.6%** of collections for the year and exceeds the **12% target** for 2016/2017 set by RRA in their strategic plan. Analysis of tax arrears made by RRA shows that **Frw 132,088,400,251** is recoverable and **Frw 29,737,150,569** is irrecoverable. The basis and rationale used by management to classify each of the balances as irrecoverable was not provided.

  RRA indicated that recovery procedures were ongoing in accordance with the existing tax administration procedures, with some taxpayers signing payment plans and Government being engaged for recovery of unpaid taxes from Government agencies. Despite these recovery efforts, the continuing delays in collecting these taxes denies Government cash flows needed to implement priority Government programmes.

- **Unreliable report of tax arrears**: On sample basis, the audit identified a total of **Frw 7,634,437,150** in tax arrears that were omitted from the report of tax arrears as at 30 June 2017. There is no evidence of follow up of these taxpayers to recover the taxes. Accordingly, the list of tax arrears maintained by management and provided for audit is incomplete. Hence a risk of failing to timely follow up unpaid taxes and an indicator of gaps in system of identifying and monitoring tax arrears.

3.2.2 Unreliable balances reflected on taxpayer tax accounts

- **Collections not allocated to individual taxpayers:** RRA maintains six (6) suspense accounts where unidentified collections on RRA bank accounts are recorded pending availability of information to identify the taxpayer and tax type. These collections are supposed to be reclassified to the correct taxpayer account. However, as at 30 June 2017, the unallocated collections had accumulated to **Frw 84,498,517,091** on 6 suspense accounts. This implies that taxpayers who have cleared their obligations still appear in arrears and may be attracting penalties and yet they already made payment to RRA. Management indicated that plans are underway to set up a taskforce to review the above transactions to allocate them to specific taxpayer accounts.

- **Un-updated payments in taxpayer accounts:** Cases were noted where declarations were not matched with the corresponding payments. This resulted into unpaid taxes and tax credit in the E-TAX system. Those cases relate specifically to public entities. RRA management stated that some taxpayers paid taxes using direct payments through BNR and yet the system does not capture these payments automatically. The exercise of matching declarations with direct payments is done manually in SIGTAS while declarations were done through E-TAX.

  Ultimately, a taxpayer may appear as not having paid in E-Tax and yet they have paid in SIGTAS. Management did not regularly reconcile these balances, hence differences between balances maintained in E-Tax and those maintained in SIGTAS for same taxpayer.

3.2.3 Gaps in tax audits and increasing trend of contested tax assessments

- **Gaps in follow up of risky cases identified for comprehensive and specific issue audits:** Out of the identified **1,210** risky cases identified by RRA Risk Management and Modernization Department, only **628 cases (52%)** were audited by the respective audit divisions. The number of audits carried out was based on available staffing in the tax audit divisions. This could be an indicator of inadequate staffing in the Tax audits divisions.

  Management did not provide documented evidence to show the compliance follow up actions taken to enforce compliance and address the risks identified for the remaining **582 risky cases (48%)** identified. Consequently, the identified risks may materialize and lead to loss of tax revenue if not timely followed up and addressed for specific taxpayers.

- **Increasing trend of contested tax audits and cancellation of significant tax amounts:** The appeal cases contesting RRA tax assessments are increasing; from **622** appeal cases during the year ended 30 June 2015 to **1,036 cases** during the year ended 30 June 2017 **(increased by 67%)**. Tax assessments disputed for the **1,036 cases** amounted to **Frw 39,516,819,236** representing **5% of all domestic taxes collected**, while the tax assessments disputed for the **622 cases** at 30 June 2015 amounted to **Frw 71,740,412,559** representing **10%** of the collections during the year ended 30 June 2015.

  Disputes resulted into cancellation of tax assessed totalling **Frw 8,206,981,884** in the year ended 30 June 2017 compared to **Frw 12,619,887,476** cancelled during the year ended 30

June 2015, hence a total of **Frw 20,826,869,360** in tax assessments cancelled during appeals process in the two years. This high proportion and increasing trend of contested tax assessments and ultimate waivers is an indicator of weaknesses in quality of tax audits and gaps in supervision of RRA tax audits which undermine credibility of the assessments.

3.2.4 Eligible Taxpayers not registered for some relevant tax types

Like in previous audits, **10,495 cases** were identified where taxpayers are registered for one tax type but could not be traced in other tax types where they are eligible taxpayers, as shown below:

Tax payers	Number of taxpayers not traced in relevant register per tax type
PIT/CIT taxpayers with turnover above **Frw 20,000,000** are not registered as VAT taxpayers	18
Taxpayers with turnover above **20 million** but could not be traced in EBM database.	708
Taxpayers registered for VAT but are not registered as PIT or CIT taxpayers.	997
Taxpayers registered for Pay As You Earn (PAYE) but not registered as PIT or CIT.	5,087
Companies registered and declaring PENSION contributions in RSSB but not registered for PAYE.	3,393
VAT registered taxpayers but could not be traced in EBM database.	292
Total	**10,495**

These cases show that RRA is not effectively utilising IT systems to monitor taxpayers and ensure those eligible for specific taxes are timely identified and followed up. Ultimately, RRA may be losing out revenue from some tax streams for the existing taxpayers.

3.2.5 Cases of unrecovered amounts relating to fraudulent input VAT declared

Investigations by RRA Revenue Investigation and Enforcement Department (RIED) identified cases of companies that issued fictitious EBM (VAT) invoices. The audit of these companies revealed falsely claimed input VAT amounting to **Frw 3,406,359,890** that had been utilised to suppress VAT amounts included in the VAT declarations. RRA started the recovery process from taxpayers involved in the fraudulent scheme. However, only **Frw 446,866,828** (representing **13%** of recoverable amount) had been recovered as at the time of my audit in September 2017. This has denied Government cash flows required to implement priority Government programs.

3.2.6 Inconsistencies in information generated by IT systems to support revenue collections

Management uses information on collections in the IT operational systems and bank statements to capture records in the cashbooks. The Revenue Accountability Statement (RAS) is generated from cashbooks. However, a comparison of collections per the IT operational systems, Intermediate Database (IMDB) and cashbooks revealed unexplained differences which had not yet been resolved at the time of finalising the RRA audit. Summary is shown in the table below:

Source	Revenue collected Frw	Collections per RAS Frw
IT operational systems	1,185,391,820,491	1,190,459,475,452
IMDB	940,175,408,8855	1,190,459,475,452
Cashbooks	1,190,459,475,452	1,190,459,475,452

The above cases are indicators of inadequate review of revenue collection transactions across the RRA revenue collection systems. This exposes RRA to a risk of incomplete records in respect to revenue collections.

3.3 INFRASTRUCTURE SECTOR

3.3.1 WATER AND SANITATION AUTHORITY (WASAC)

3.3.1.1 Unreliable financial statements for the year ended 30 June 2016

Financial statements prepared for WASAC had significant accounting errors and are not reliable. Errors include unsupported opening balance, unreconciled balances, irregular/unusual transactions and instances of unsupported transactions and balances processed through the books of account. Examples include:

- **Unreliable opening balances:** Balances in WASAC financial statements at 30 June 2015 were unreliable and could not be confirmed when OAG conducted the previous year audit (Disclaimer of Opinion). Management was required to undertake an exercise to establish correct balances at 30 June 2015 to form a reliable opening balance sheet for preparation of financial statements for the year ended 30 June 2016. However, the audit identified that management engaged a Consultancy firm to undertake this exercise, but the contract was terminated without establishment of correct balances at 30 June 2015. The opening balances carried in the financial statements are therefore unreliable.

- **Suspense accounts' balances presented in the financial statements:** Ordinarily, in accounting practice, suspense accounts are normally temporary accounts used to clear reconciling items during the course of the accounting year. They should have nil balances by the end of the year and should be cleared as part of year- end accounting and reporting procedures. However, financial statements of WASAC Ltd as at 30 June 2016 include suspense accounts' balances totalling **Frw 419,295,488**. These balances were not analysed to establish what they represent. No supporting documentation was provided by management to explain what they relate to.

- **Irregularities noted in bank reconciliation statements:** Review of bank reconciliation statements prepared for various bank accounts of WASAC as at 30 June 2016 revealed that, as at year end, there were outstanding deposits totalling **Frw 8,243,402,134** mainly relating to payment of water bills for 16 bank accounts. However, management did not provide any records to show whether these unreconciled deposits on WASAC bank accounts had been subsequently reconciled and cleared by the time of WASAC audit in September 2017 (1 year and 3 months after year- end). Analysis done by auditors for one bank account having most outstanding deposits (314,660 transactions totalling **Frw 6,347,519,255**) revealed that **16,486**, cash deposits amounting to **Frw 164,115,644** in July

2015 were recorded in the cash book and on the bank statement and yet they appear in the bank reconciliation statements as reconciling items. This is an indicator that bank reconciliation was not properly prepared.

- **Withdrawals/ fund transfers made from WASAC bank accounts which are not supported:** Review of bank reconciliation statements prepared for various bank accounts of WASAC as at 30th June 2016 revealed withdrawals/fund transfers (direct debits) made on WASAC bank accounts amounting to **Frw 437,976,041** which WASAC management could not explain and support. These direct debits had been outstanding for a period ranging from **1** to **364** days as at 30th June 2016 and could not be supported by the time of audit in September 2017.

- **Lack of detailed listing or reconciliation of customer deposits for caution fees:** WASAC financial statements include customer deposits amounting to **Frw 732,324,831** at 30th June 2016. Management indicated that these were related to caution fees collected in the previous financial years from customers at the time of connection to the national water grid. However, management was not able provide a detailed listing and reconciliation of these caution fees per customer by the time of WASAC audit in September 2017.

- **Unexplained differences between the reported trade receivables balance and the detailed debtors listing:** Trade receivables per the books of account and financial statements amounted to **Frw 7,570,806,167**. However, the detailed debtors' listing provided by management analyzing trade debtors amounted to **Frw 8,293,961,467**. Hence unexplained difference of **Frw 723,155,300**.

- **Unsupported other receivable balances:** "Other accounts receivable" of WASAC LTD as at 30 June 2016 include balances totaling **Frw 313,662,390** which are not supported by any verifiable document such as list of debtors, contracts, purchase orders, invoices/bills, letters of credit or any other documentation creating a collectable debt by WASAC Ltd. These have also been long outstanding from the previous financial year without any recovery.

- **Unsupported provision for bad debts**: WASAC financial statements include a provision for bad and doubtful debts of **Frw 1,908,333,980** as at 30th June 2016. However, management did not provide detailed workings and documentation to justify the provision.

- **Unsupported and long outstanding payables:** WASAC financial statements include a balance of **Frw 499,715,094** which was not supported by any verifiable document. This balance is carried forward from previous periods and has been long outstanding. There is no evidence for subsequent settlement of these liabilities by the time of audit in September 2017.
- **Unauthorised adjustments made under inventory accounts:** Review of a sample of inventory accounts revealed that adjusting entries totaling **Frw 8,670,630,432** were made to increase value of stock (debit entries) and Frw **25,150,345,367** were made to reduce the value of stock (credit entries). However, there was no evidence provided for prior authorization and approval to confirm validity of these adjustments. The net effect of these adjustments was unexplained reduction in inventory balances by **Frw 16,479,714,935.**
- **Adjustments for Stock count differences:** WASAC management identified missing stock valued at **Frw 553,426,491** during the physical count at 30 June 2016. The missing stock was written off from the stock balances and is reported as part of suspense account. The stock items had not been recovered by the time of WASAC audit. On the other hand, management identified some stock items valued at **Frw 860,442,368** which were not reflected in the books of account and yet they were physically held in the stores. Management did not provide documentation to explain the source of these extra stock but These could represent stock issued and returned but not updated in stock cards and stock management system. Adjustments were made to recognise these stock items in the books of account and financial statements.

3.3.1.2 High value of dormant, slow-moving and obsolete stock items

Physical count conducted at time of WASAC audit in September 2017 identified slow-moving and dormant stock items worth **Frw 1,721,024,312** (*i.e for which there was no or few movements in/out for long periods*) and obsolete stock items worth **Frw 137,957,553**. Hence total of **Frw 1,858,981,865** for dormant, slow-moving and obsolete stock items.

It should be noted WASAC management had made a provision for obsolete stock of **Frw 1,077,729,157** to cater for obsolete stock held by WASAC Limited as at 30th June 2016. This provision is expected to increase to **Frw 1,858,981,865**, an indicator that additional items worth **Frw 781,252,708** have become obsolete since 30 June 2016. Such high levels of

dormant and slow moving stock adversely affect cash flows since the stock items are not being utilized to generate revenue for WASAC Ltd. This is further an indicator that those items were procured without being necessarily needed for use or consumption in carrying out WASAC activities, hence no value for money was derived from their acquisition.

3.3.1.3 Loss of revenue due to a high volume of non-revenue water

WASAC continues to struggle with a problem of high level of Non-revenue water (NRW) which is processed for transmission and distribution but cannot be billed. Internal water production reports prepared by the WASAC directorate for Urban water and sanitation services shows that for the 12 months period from 1st July 2015 to 30th June 2016, WASAC Ltd produced **43,558,705 m^3** of water. However, internal reports prepared by the Directorate of commercial services show that only **25,765,792 m^3** (**equivalent to 59%**) was billed to customers during the same period. This resulted into unbilled water of **16,786,025 m^3** (after adjusting for authorized Non-Revenue water reported by WASAC of **1,006,888 m^3**).

The unbilled water represents **39%** of total water produced during the year (42% for year ended 30 June 2015). The value of unbilled water ranges between **Frw 5,421,886,075** (at the lowest selling price of Frw 323 per m^3) and **Frw 14,217,763,175 (**at the highest selling price of Frw 847 per m^3). Such high levels of non-revenue water if left unchecked in the long run may pose a threat to the financial viability of WASAC and deter the realization of the company's objective to become a self-sustaining profitable utility company.

3.3.1.4 Water treatment plants operating significantly below their full installed capacity

Out of 16 water treatment plants operated by WASAC, four (4) water treatment plants were operating significantly below their full installed capacity during the year ended 30 June 2016. These four (4) plants have installed capacity of **59,075 m^3** per day but produced **30,565 m^3 (52%)** during the year ended 30 June 2016. Major problem was at Nzove I water treatment plant which operated at 44% of installed capacity and failed to produce an average of 22,536 **m^3** of water per day during the year ended 30 June 2016. This is an indicator of inefficient operations and contributes to inability to meet the water demand. Further, this results into loss of revenue that would be collected from sale of additional water which is not produced. See summary table below:

No	Water treatment plant	Annual installed capacity in m³	Annual water treated(m³) for the year ended 30 June 2016	Average daily production for the year 2015-2016	Daily installed capacity	Production performance in percentage for 2015-2016
		A	B	C=B/365	D=A/365	E=C/D
1	Nzove I WTP**	14,600,000	6,374,360	17,464	40,000	44%
2	Mutobo	4,562,000	2,971,342	8,140	12,499	65%
3	Cyunyu	1,460,000	1,085,370	2,974	4,000	74%
4	Gisuma	940,240	725,173	1,987	2,576	77%
		21,562,240	**11,156,245**	**30,565**	**59,075**	**52%**

*** The annual of water treated (m³) of **10,171,105** for the year ended 30 June 2016 combining Nzove 1 and Nzove 2. The average used for water treated for Nzove 1 is for the month of August 2017.*

3.3.1.5 Planned rehabilitation for Nzove I water treatment plant abandoned

WASAC Ltd signed a contract with CULLIGAN International EACA on 17th December 2015, for rehabilitation of Nzove Water Treatment Plant I, upgrading of Nzove II Treatment plant and construction of forwarding infrastructure worth USD 28,854,270. However, the audit of WASAC identified the following:

- **Rehabilitation abandoned:** On **21st January 2016**, an addendum was signed changing the contract terms from the rehabilitation of the existing Nzove 1 water treatment plant to the construction of a completely new water treatment plant with capacity of 40,000m³/day expandable to 65,000 m³/day. While construction of a completely new water treatment plant is a step in the right direction for improving water supply, management did not provide a new rehabilitation plan for the old plant at Nzove (Nzove 1) which was commissioned in 2008 at a cost of USD 30,000,000 to Government and with an installed capacity of 40,000 m^3 per day. It is not clear whether this plant will be decommissioned and disconnected from water supply network after less than 10 years of operation. This would represent loss to Government since water treatment plants ordinarily operate for a useful life of 50 years.

- **Repairs are still required:** A site visit to Nzove water treatment plant (Nzove I) by the auditors on 22nd September 2017 identified that rehabilitation works were still required if this plant is to continue operating effectively. For example, eight (8) primary filters that had been procured are damaged and were not operating at their optimum capacity. Indeed, the six (6) secondary filters were being used as primary and secondary filters because the primary stage is almost not operational due to damage of the eight (8) filters. The management did not provide any plan for replacement or repair of the damaged filters. Consequently, the water production was dependent on six secondary filters.

Further, the concrete structures which support filters had severe cracks that expose Nzove WTP to the risk of being destroyed if no urgent action is taken.

3.3.1.6 Completed water infrastructure projects not put to use by intended beneficiaries

The audit of WASAC identified many instances of water infrastructure that had been constructed but was not in use by the time of the audits. The target beneficiaries are therefore not obtaining the water services envisaged from the investments made to build the infrastructure. See examples below.

- **Kadahokwa water retaining dam of 575,529 m³ completed but has no water:** Works related to the contract and various addenda signed between **MININFRA** and **China Geo-Engineering Cooperation (CGC)** for **"works for strengthening of the water supply system in Butare Township - Phase II**" at a total of **Frw 4,520,083,529** were completed. The works included construction of an earth water-retaining dam upstream **Kadahokwa river** in **Huye District**. The water dam was intended to ensure that enough water is stored and available for treatment and supply to Butare Township throughout the year.

  However, an audit site visit conducted on 29th September 2017 identified that the constructed water retaining dam with net water storage capacity of **575,529 m³** upstream Kadahokwa Water Treatment Plant (WTP) does not have water, as envisaged during the feasibility study. It is not clear why this dam has no water and this casts doubt on whether the intended project's objective of strengthening of the water supply system in Butare Township may not be achieved.

- **Failure to supply water to the intended beneficiaries after completing the water supply project in Nyarurenzi Cell, Mageragere Sector of Nyarugenge District:** Site visits made by the auditors identified that 10 months after the provisional handover, the intended local beneficiaries have never been supplied with water. Public taps were put in place but they had remained unused by the targeted local households in Nyarurenzi Cell, Mageragere Sector of Nyarugenge District as they did not have any running water.

- **Completed water reservoirs at Ruhunda and Mwurire have still not yet been put to use:** The final handover has not yet taken place almost 2 years after the provisional handover. Inquiries with management revealed that the reservoirs had not been put to use because the pumping station which was due to be put at Ruhunda has not yet been

constructed to pump water from the Ruhunda water reservoir to the water reservoir at Mwulire. In addition, the pipeline from St Aloys Secondary school to bring water to the water reservoir at Ruhunda has not been constructed.

- **Water supply system from Cyampirita and Matunguru water sources in Gatsibo District not fully operational:** A site visit by auditors on **25th September 2017** to the water supply system from Cyampirita and Matunguru water sources in Gatsibo District identified that one of the two installed pumping machines was not being used as it was not connected to electricity.
- **Completed 250 m³ reservoir at Cyanyirangegeni in Karangazi Sector, Nyagatare District not put to use:** A site visit by auditors on 25th September 2017 (23 months after provisional handover) to the 250 m^3 reservoir at Cyanyirangegeni in Karangazi Sector, Nyagatare District revealed that although constructed water tanks had been completed, they were not yet connected to the water pipeline. Accordingly, there was not water in the water tank.
- **Water pumps at Muhura sector office, Gatsibo district which have taken long to be installed because of insufficient electricity supply:** A site visit by the auditors on 27th September 2017 to the project and noted identified that two (2) motor pumps which cost **Frw 36,000,000** were supplied by WASAC Ltd but they were not yet installed. Instead, they are kept at Muhura sector office. Inquiries with management revealed that the pumps had not yet been installed because of the insufficient power supply from Muhura power generation plant.
- **Weaknesses noted in construction works for water supply system in Cyeza and Shyogwe Sectors in Muhanga district:** The audit identified that constructed water tanks were not yet connected to the pipeline and therefore they do not contain water. In addition, the audit identified that installed water pumps had different specifications from those in the bills of quantity per contract.
- **Acquired equipment (faecal suction trucks and garbage compactor trucks) not put to the intended use:** The LVWATSAN II project acquired 3 Garbage Compactor Trucks worth **Frw 521,125,443** and 3 Faecal Suction Trucks worth **Frw 224,415,204** for use in providing sanitation services and solid waste collection services in Kayonza, Nyagatare and Nyanza Districts. However, the equipment handed over to the Districts had not yet been put to use to carry out the intended activities by the time of project audit in

November 2017 (**22 months from the date of their handover to these Districts**). The trucks were lying idle/ parked at Kayonza and Nyagatare Districts' offices.

- **Constructed sanitation infrastructure which are not used:**
  - **Public toilets constructed in Nyanza, Kayonza and Nyagatare Districts:** On 8th and 9th November 2017 (**3 years and 3 months after completion of construction works and handover to the concerned Districts**), OAG conducted field visits for the sanitation infrastructure that were put in place through LVWATSAN II program in Kayonza and Nyagatare Districts.

    The audit identified that out of **30 public toilets** constructed under LVWATSAN II program, **14 public toilets (47%)** had never been used by the intended beneficiaries in Nyanza, Kayonza and Nyagatare Districts. The total contract for construction of 30 public toilets and storm water drainage systems in the three districts above was **Frw 2,985,475,525** whereby the amount relating to 30 public toilets was **Frw 1,717,561,887**.
  - **Landfills and faecal sludge treatment plants constructed but not used:** On 7th and 10th November 2017 (**7 months after their handover by the constructor**), OAG conducted field visits and noted that the two **(2) landfills** and two **(2) faecal sludge treatment plants** constructed in Kayonza and Nyagatare Districts were not yet put to use. The total contract amount was **Frw 11,965,032,874**, comprising **Frw 1,760,869,993** for landfills and **Frw 1,551,691,593** for faecal sludge treatment plants.

3.3.1.7 Delay in completion of contracts for water infrastructure projects

The audit identified cases of delayed completion of contracted works at WASAC. These include the following:

- **Failure to execute the project for water supply system in Bugesera District:** On **18th March 2016,** an agreement was entered into between WASAC Ltd and MINADEF/Reserve Force for the construction of water supply system in Bugesera District. However, a site visit conducted by auditors on **28th September 2017** (**9 months from the expected completion date**) in Bugesera District identified that no activities had been executed on the site where the project was to be implemented.

- **Delay in the execution of construction works for Kageyo - Ngororero town water supply system in Ngororero District:** A site visit carried out by the auditors on 28th September 2017 (**21 months after the planned completion date**) identified that construction works were not yet completed to benefit the targeted beneficiaries in Ngororero town. Accordingly, the water reservoirs and public taps in place did not contain water.

- **Delay in correcting defects noted during provisional handover of Giheke-Kamembe-Nkanka water supply system in Nyamasheke and Rusizi Districts:** A field visit on 27th by auditors on September 2017 (**6 months after provisional handover**) identified that the damaged water pumps which were among the defects noted at provisional handover had not been replaced at the time of field visit in September 2017.

- **Delay in completing the works for a water supply system intended for communities of Nemba and Gakenke Sectors in Gakenke District and lack of water in the public taps:** A field visit to the sites of this water supply system by auditors on **27th September 2017** (**22 months after provisional handover**) identified that there was no water in 6 public stand pipes put in place in **Nyamabuye**, **Kivumu** and **Kabaya Villages** of **Rusagara Cell** in **Gakenke Sector**, **Gakenke District**. Inquiries with the surrounding residents revealed that there has been no water in these public stand pipes since the provisional handover in November 2015.

- **Delays in the execution of construction works for water supply systems in Kamonyi District:** From 25th September 2017 (2 months to the planned completion date), the auditors carried out field visit to this project and noted that the works were far from completion.

- **Delays in Construction of water supply system Muyaga-Hakan peat power plant and Kibilizi-Nyange in Gisagara District in Gisagara District:** The works were expected to be completed by 22 September 2017. However, a site visit carried out by auditors on **27th September 2017** identified that the works were still ongoing. For the twenty six (26) km which were to be rehabilitated, new pipes were not yet installed. Other key project's activities not yet completed.

3.3.2 RWANDA TRANSPORT DEVELOPMENT AUTHORITY (RTDA)

3.3.2.1 Stalled construction works for One Stop Boarder Post (OSBP) at Gatuna Border

- Construction works of the establishment of Juxtaposed Gatuna one stop centre boarder post (OSBP) have been delayed and had not yet been completed by the time of RTDA audit in April 2018. The original contract which was supposed to end by 9th March 2016 was amicably terminated in July 2017. Total payments of Frw 3,111,035,492 had been made to the previous contractor at the time of terminating the contract.

- Due to the delays in completion of works, the total cost of the project has increased by 249% from Frw 6,345,986,395 to Frw **15,823,319,250 after a new contract of Frw** 12,712,283,758 was signed with NPD Contraco to complete the works, as shown below:

Contracts	**Amount (Frw)**
Original contract: Payments made to previous contractor by time of termination	3,111,035,492
New contractor	12,712,283,758
Total cumulative cost of the project	**15,823,319,250**
Original contract signed	6,345,986,395
Percentage increase	**249%**

- It should be noted that the works had not yet resumed by the time of RTDA audit in April 2018, despite the award of the new contract in October 2017. The new contract indicates that the new contractor should complete works by 16th August 2018 (7months from commencement order of 16th January 2018). See pictures below, for current status of the project.

Photo: No further works done by NPD Ltd on main building: (taken by OAG on 10th April 2018.)

3.3.3 RWANDA ENERGY GROUP (EUCL)

3.3.3.1 Delayed reporting and unreliable financial statements

There is still a problem of delayed financial reporting and unreliable financial statements at EUCL. Consolidated Financial statements initially prepared for REG Group for the year ended 30 June 2016 were not updated to reflect material changes made balances in EUCL financial statements. In addition, financial statements prepared for EUCL had significant accounting errors and are not reliable. Errors include unreconciled balances, unsupported transactions and balances and instances of omitted balances. Some of the errors were corrected during the audit and resulted in the audit taking significantly longer than planned.

3.3.3.2 Assets transferred from EDCL to EUCL recorded based on budgeted amounts rather than actual costs

The audit of EUCL identified that there are no proper records maintained to support costs accumulated for projects transferred from EDCL. Consequently, EUCL financial statements have a balance of **Frw 20,367,928,645** which is based on estimated costs budgeted to construct these works.

3.3.3.3 Inadequate tracking of loan obligations for completed projects transferred to EUCL

The audit identified that some of the assets transferred to EUCL on completion by EDCL are financed by a mix of grants and loans. However, at the time of transfer, EUCL considers the assets as fully financed by grants and does not recognise the loan obligations arising from those assets in their financial statements. Accordingly, grants reported by EUCL are overstated and loan obligations have been understated.

3.3.3.4 Debts inherited from EWSA not yet recovered

REG/ EUCL is struggling to recover debtors worth **Frw 13,598,656,949** that were inherited from EWSA at 1 July 2014. Management had been advised in previous audits to engage with MINECOFIN and MININFRA to support them in following up these old debts and ensure their recovery but only **Frw 333,259,223** has been recovered since July 2015. These debtors have

been fully provided for in the EUCL financial statements to illustrate the difficulties faced by management to recover these balances.

3.3.3.5 Inadequate documentation to support tax computation

EUCL revised the tax written down values carried forward at 1 July 2015 from **Frw 37,508,445,614** to **Frw 57,463,499,837** when computing taxes for the year ended 30 June 2016. However, management did not provide supporting documents to explain this difference of **Frw 19,955,054,223** that impacted computation of deferred tax at 30 June 2016. It should also be noted that management utilised tax losses of **Frw 4,778,949,016** from the year 2009 yet they are expired, being more than five years old. This overstated deferred tax by **Frw 1,433,684,705** *(being 30% of the expired tax loss)*.

3.3.3.6 Lack of agreed mechanism to compensate EUCL for revenue forfeited on public lighting

EUCL is providing services for public lighting across the Country. However, Government is not billed for electricity consumed for public lighting and neither is EUCL compensated for the cost incurred on providing public lighting. This denies EUCL revenue and increases the cost of operations and hence affecting its EUCL profitability. Total consumption for public lights amounted to **Frw 1,826,406,809** during the year ended 30 June 2016 and is reported as part of EUCL expenditure for electricity distribution.

3.3.3.7 Loss of revenue due to persistent power losses

The problem of high power losses highlighted in previous reports has not yet been resolved. For the year ended 30 June 2016, a total of **136,881,801 Kwh** of electricity *(representing **21.1%** of electricity produced)* was still unaccounted for in the billings. This is similar to the **21.18%** power losses reported in previous annual report. Therefore, EUCL continues to experience revenue leakages arising from technical problems, unbilled electricity and electricity theft. This ultimately erodes company earnings.

3.3.3.8 Power plants continue to operate below installed capacity

The Country continues to face a problem of expensive power from Thermal power plants and yet majority of Hydro power plants are operating below installed capacity. Out of the existing 33 power plants at 30 June 2016, only 6 power plants operating at more than 50% of their installed capacity. The remaining 27 power plants operated below installed capacity, with five (5) power plants generating no electricity during the year (Nshiri, Gashashi, Nyabahanga, Nyirabuhombohombo and Gatsata). It should be noted that expensive Thermal power of 25MW was procured by EUCL during the year to boost power supply for factory activities in Rusizi and at the Kigali Special Economic Zone.

3.3.4 RWANDA ENERGY GROUP (EDCL)

3.3.4.1 Unreliable financial statements

Financial statements prepared for EDCL had significant accounting errors and are not reliable. Errors include wrong accounting treatment for some transactions, unreconciled balances and instances of unsupported transactions and balances processed through the books of account. Some of the errors were corrected during the audit and resulted in the audit taking significantly longer than planned. Examples include:

- **Fuel expenditure for EUCL power plants recognised in EDCL books of account:** A total of **Frw 16,665,359,095** for fuel subsidies and related taxes related to EUCL was wrongly accounted for as grant income and expenditure in EDCL financial statements. These transactions should not have been recorded in financial statements of EDCL, hence misleading users.
- **Adjustments:** For example, adjustments totalling to **Frw 316,668,256,600** were made on various accounts to restate the opening balances without the approval of the Board of Directors. Out of these adjustments, management did not provide approved journal vouchers and support documents to justify adjustments of **Frw 296,921,737,161**.
- **Trade Creditors:** A balance of **Frw 11,137,363,157** for trade creditors ("Local supplier control accounts'') was not supported by any individual supplier ledger accounts.
- **Amounts due from related parties:** Management made some adjustments on balances for related parties without proper documentation and approval. Adjusting transactions totalling **Frw 2,293,387,359** were made to increase balance due from related parties

(EUCL). Other adjusting transactions totalling **Frw 9,891,201,699** were made to reduce the balance from related parties (EUCL). These unsupported adjustments reduced balance due from EUCL by **Frw 7,597,814,340** as at 30 June 2016.

3.3.4.2 Creditors written off without Board approval

EDCL management decided to write off from its books of account creditors amounting to **Frw 1,845,664,052.** However, there was neither board approval nor evidence to prove that all these creditors have forfeited their claims. There was no documentation provided to indicate that, prior to the write off, EDCL had undertaken and exhausted all actions and efforts to confirm inexistence of these payables.

3.3.4.3 Gaps in tracking costs for assets under construction

The audit of EDCL identified that there are no proper records maintained to track costs for each project under construction and to support costs accumulated for each project. Consequently, EDCL was unable to provide necessary support documents to support a balance of **Frw 171,063,717,470** reported as costs of works-in-progress in financial statements at 30 June 2016.

3.3.4.4 Increased cost of borrowing due to penalties charged for delayed loan interest repayments

As highlighted in previous annual reports, EWSA (now EDCL) has had challenges in making timely interest repayments for Bank of Kigali a loan of **USD 30,900,000** (equivalent to **Frw 19,500,000,000)** borrowed for the purpose of financing for construction of 15 MW Peat Power Plant at Gishoma at an interest rate of 15% per annum. This has resulted in additional cost on penalties to the tune of **Frw 531,413,356** as at 30 June 2016. The penalties represent 3% of the Loan principal and have therefore increased the cost of the loan to more than 15% of interest per annum.

3.3.4.5 Gishoma Power plant completed but not providing desired power capacity

- **Power plant stopped working after 4 months:** Government has invested **Frw 40,570,617,811** Gishoma Peat to Power plant whose construction started on 27 February

2013 and was expected to end on 30 May 2014 was completed in 2017. However, the power plant stopped production activities on 27 September 2017 after only 4 months of operations. This was due to the lack of enough quantity and quality of peat and insufficient supply of water and the breakdown in some parts of installed machinery. The continued stoppage of the power plant implies that envisaged electricity supply requirements are not being served during the period of stoppage. As such, there may be no value for money realised from this investment.

The breakdowns affected the following: main power transformer II which was not operating; Boiler Feeder Pump (BFP) which had crashed and poor quality Induced Draft Air Fans (IDF) which had been welded within such a short time of operation.

- **Power plant operated below contracted capacity of 15MW:** The daily production report of 27 September 2017 shows that the plant stopped working when the production capacity was at 5.28 MW per hour. This is far below the desired 15MW capacity envisaged in the contract for this power plant. It should be noted that by the time of EDCL audit in October 2017, Government had invested a total of **Frw 40,570,617,811** on construction of the 15MW Gishoma Power plant. Out of the total cost above, **Frw 10,664,313,735** represents interest and penalties and **Frw 19,795,245,604** represents principal for Commercial loan secured to construct the 15MW power plant.

  The above production capacity of 5.28 MW per hour instead of the 15MW implies that Government may not be realising value for money from its investment of **Frw 40,570,617,811** in Gishoma Peat power plant.

- **Insufficient water flow at pumping station affecting operations of the 15 MW peat power plant:** Implementation of the contract worth **USD 8,311,423** (**Frw 6,289,248,685**) signed with Runh Power Corp. Ltd on 28 April 2015 for water supply to Gishoma 15 MW Peat fired power plant was completed. However, the water flow from the pumping station constructed alongside Gihitasi marshland was not sufficient to fill the constructed 10,000m^3 reservoir tank at Gishoma power plant. Accordingly, the completed water supply project was not delivering sufficient water to the 10,000m^3 reservoir tank at the power plant to adequately support plant operations.

3.3.4.6 Unutilised water supply from Lake Karago to the abandoned Karisimbi drilling site

Government has not yet found alternative use for water supply system worth **USD 4,387,293 (Frw 2,741,462,984)** that was constructed over 3 years ago for drilling activities at Karisimbi Geothermal exploration site. The water supply system includes the water transmission network and three (3) water tanks with a capacity of 4,000 m³ each that were installed at the drilling site to keep water pumped from Lake Karago.

3.3.4.7 Potential loss of project funding for energy projects due to slow pace of implementation of project activities and low budget absorption

The audits of EDCL projects identified cases of low budget absorption during implementation of Government energy projects. Some projects audited may be at risk of failing to absorb their allocated funding ahead of the project completion dates unless they scale up their levels of implementation. Examples are highlighted below:

- **SEAP Project:** SEAP Project is being implemented over a duration of 5 years from August 2013 to August 2018 with a total approved budget of **USD 45,384,000** (**UA 11,871,000** equivalent to **USD 17,981,825.17** as a grant from AfDB and **UA 15,494,000** from AfDB equivalent to **USD 23,469,833.98** as a loan, and **USD 3,932,340.84** for counterpart funds by the Government of Rwanda.

  At the time of project audit in December 2017, the cumulative disbursement rate was **45.46 %**, **60.20%** and **8.84**% for the AfDB Grant, loan and Government contribution (counterpart funds) respectively. Hence an overall disbursement rate of **50.09 %**. Undrawn project funds from the AfDB amounted to **USD 22,732,004.93** (comprising of grant funds of **USD 9,806,677.14,** loan funds of **USD 9,340,448.47** and **USD 3,584,879.32** for counterpart funds by the Government of Rwanda**)**.

  Considering that the project's closing date is 30th August 2018 (i.e. the remaining project's lifetime is only nine months away), it is highly likely that SEAP may fail to draw down the remaining portion of the funds allocated to the Project. Therefore, there is a risk that the envisaged project activities would not be fully carried out within the remaining implementation period. Accordingly, this would adversely impact on realization of the intended project objectives.

- **Interconnection of Electrical Networks of Nile Equatorial Lakes Countries Project:** Total cumulative rate in (%) of disbursements up to my time of audit in December 2017 from African Development Bank (AfDB) and KfW to Interconnection of Electrical Networks of Nile Equatorial Lakes Countries Project-Rwanda Scope/EDCL was 88.61% and 85.60% respectively, implying that the remaining/undrawn balance in Rwandan Franc (Frw) was Frw **4,093,274,102** (UoA 3,470,288 *1,179.52) and Frw **5,178,286,812** (Eur 5,218,617.33*992.2718) respectively from AfDB and KfW and completion date of the project was 31 December 2017.

  Consequently, there is a high likelihood that all funds that are committed to Interconnection of Electric Grids of Nile Equatorial Lakes (NEL) countries project (Rwanda Component) will not be disbursed to the project. Hence a huge loss of fund to the Government of Rwanda to implement all planned activities.

- **Regional Rusumo Falls Hydropower Project-Transmission Lines component:** On 7 February 2014, Government of Rwanda signed an agreement with Africa Development Fund and Nigeria Trust Fund to implement the project of Regional Rusumo Falls Hydropower Project-Transmission Lines component. The project is under EDCL.

  The duration of the project is 5 years from 7 February 2014 up to 31 August 2019. The total approved loan is **Unit of Account(UoA) 25,384,000** comprising of **UoA 18,884,000** from Africa Development Bank (AfDB) and **UoA 6,500,000** from Nigeria Trust Fund (NTF). The loan is to be drawn upon progressively during the course of project execution. During the course of project execution, the project makes fund requests supported by certified invoices due for payment. These supporting documents are submitted to AFDB or NTF and paid directly by AFDB or NTF on behalf of the project.

  During the project audit for the year ended 30 June 2017, it was noted that out of **UoA 25,384,000** allocated to the project through implementation of the project, only UoA **421,312.31** (representing **2.28 %**) equivalent to **Frw 477,822,930** had been disbursed as 30 June 2017. Hence undisbursed funds amounted to **UoA 24,962,687** (representing **97.72 %)** equivalent to **Frw 28,310,932,207.31.**

- **SEDP (Solar water heaters programme):** Project implementation results and status report shows that a sub–project of Solar water heaters programme funded by a grant from the Nordic Development Fund (NDF) to the tune of **Euro 4 million** still has a slow rate of utilisation. The component started its activities 5 years and 10 months ago on 24 January

2012 but only **Euro 3,210,250** (representing **80%**) of the grant had been disbursed by 30 November 2017. A balance of **Euro 789,750** (representing **20%**) had not yet been disbursed by NDF.

It should be noted that as per Grant agreement signed between the Government of Rwanda and Nordic Development Fund on 11 April 2011, the projected number of beneficiaries was **10,000** customers over the project life time. However, since the start of the project on 24 January 2012 up to the time of the project audit in November 2017, the project only has only **2,173** beneficiaries (representing **21.7**%) of the targeted number of beneficiaries. This indicates that it is difficult for the project to meet the target with only one year remaining before project closure.

3.3.4.8 Concerns over service delivery and lack of value for money in execution of contracts for energy projects

There are various contracts implemented for energy projects that had either been delayed or abandoned by the time of the audits. This has denied the public, envisaged services within the planned time frames. Cases identified during the audits include:

- **Delays in completion of contracts for Plant design, supply and installation of Low Voltage and Medium Voltage lines and service connections in Burera, Musanze and Gakenke Districts:** On 27 July 2015, two contracts (Lot 1 and Lot 2) were signed between EDCL/EARP and SPENCON SERVICES Ltd for a total of **USD 6,343,921.33** for plant design, supply and installation of Low Voltage (LV) and Medium Voltage (MV) lines and services connections in Burera, Musanze and Gakenke Districts in Northern Province. The contracts were signed to deliver **9,387** projected new connections (**4,602** connections for Lot 1 and **4,785** connections for Lot 2).

  However, the above contracted works had not been completed by 31 December 2017 to deliver the **9,387** projected new connections. The audit identified that no activities were ongoing at the various sites in Burera, Musanze and Gakenke Districts by the time of audit in December 2017. Instead, the available information shows that the contractor (Spencon Services Ltd) failed to execute and finalise the works as expected and these contracts were consequently terminated by EDCL/EARP on 10 March 2017.

At the time of termination, topographical survey, design, supply and partial erection of wooden poles (MV and LV) had been done but cable stringing had not yet started. In some places, there were electricity poles grounded at sites without being erected. All other activities had not yet started. As a consequence, targeted beneficiaries in Burera, Musanze and Gakenke Districts were deprived from timely access to electricity. A total of **USD 3,103,819.13** which represents **49% of the total contract amount** had been paid to the contractor by time of terminating the contract in March 2017.

- **93.2 Km transmission line (220 Kilovolt (Kv)) constructed between Shango substation (Rwanda-Gasabo district) and Uganda border not in use for 2 years:** On 21st November 2013, Former Energy, Water & Sanitation Authority (EWSA) now Rwanda Energy Group Ltd (REG)/ Energy Development Corporation Ltd (EDCL) signed a contract with Bouygues Energies and Services for the construction of 220 Kilovolt (Kv) transmission line between Shango substation (Rwanda-Gasabo district) and Uganda border covering 93.2 Km.

  The project's cost was **USD 14,850,866** taxes exempted and **Frw 4,499,011,228** (taxes exclusive). The project was to be financed by a grant from African Development Fund and the construction works was to be executed in 18 months with expected completion date of 18th June 2015. The contract was amended on 16th October 2014 to include installation of the second circuit line. Completion date was extended to 4th October 2015. Works were completed on 8th December 2015 and operation acceptance certificate of works was issued to the contractor on 23rd February 2016.

  However, the audit identified that the transmission line was not in use by the time of audit in December 2017 (2 years after completion of works). Management explained that the delay in utilization of the transmission line was because Shango substation (Rwanda side) and Mirama substation (Uganda side) were not yet completed in order for line to be energized. It is not clear when these substations will be completed to enable utilization of the completed transmission line. Consequently, there is delay in realising intended benefits from the infrastructure put in place by Government.

- **Delay in execution of Lot 2 contract for construction of 179.6 Km transmission line system of 220 KV, Karongi-Rubavu-Kigali-Goma:** On 19th November 2013, the former EWSA signed a contract with KALPATARU Power Transmission Ltd India (KPTL) for construction of 220 Kilovolt (Kv) transmission lines: Karongi – Rubavu -

Goma-Kigali covering 179.6 Km. The project's cost was **USD 26,386,234.89** taxes exempted and **Frw 5,292,307,425** (including VAT). The cost of works was to be financed by the grant from African Development Fund (68.83%) and KfW (31.17%). The execution period was (22) months and the works were expected to be completed by 19th November 2015.

However, the audit identified that works had not been completed on schedule and were still ongoing at the time of audit in December 2017. The delays in completion of works range between 172 to 503 days. These delays imply that intended benefits were not being realized in the envisaged time frame.

- **Abandoned contract for the construction of Substations of 220 KV transmission system, Kibuye (Karongi)-Gisenyi (Rubavu)-Goma –Kigali:** On 19th November 2013, Former Energy, Water & Sanitation Authority (EWSA) signed a contract with ISOLUX INGENIERIA S.A for the construction of Substations of 220 KV transmission system, Kibuye (Karongi)-Gisenyi (Rubavu)-Goma –Kigali.

  The project's cost was **USD 11,567,214** and **Euro 7,430,437** taxes exempted and **Frw 7,989,510,523** (VAT inclusive), all totalling to an equivalent of **Frw 23,801,672,225**. The cost of works was to be financed by a grant from African Development Fund (**68.83%**) and KfW (**31.17%**). Execution period was 15 months for (Shango and Birembo substations) and 22 months for (Bwishyura, existing Karongi and Murambi substations) from the date of contract signature. The expected completion date for all substations was 3 October 2015.

  However, the audit identified that the contactor had abandoned the works. EDCL has not yet contracted another contractor to complete the abandoned works and hence no progress with construction of the substations. Completed works may start deteriorating and electricity is not being transmitted to some areas as it was envisaged due to incomplete substations.

- **Delayed completion of works for lot 7 of the electrification project in Ngororero District:** On 30 November 2015, Energy Development Corporation Ltd (EDCL) signed a contract with Angelique International Ltd for design, manufacture, test, install, complete and commission the works for the rural electrification project in Northern Zone (Lots 2, 7 and 16). The total project's cost was **US$ 11,807,266** inclusive of withholding taxes. The

execution period was eighteen (18) months from contract effective date. Therefore, the works were expected to be completed by 30 September 2017**.**

However, on 14 December 2017 (**2.5 months after the planned completion date**), an audit field visit to Nyabihu and Ngororero Districts to inspect works identified that constructed electrical lines were not yet energized to transmit electricity. According to the latest project supervision report dated 9 December 2017, the overall progress of works for lot 7 was estimated at **88%**. Accordingly, the intended objectives of providing access to electricity for the local population in Ngororero District were not timely attained.

3.4 EDUCATION SECTOR

3.4.1 WORKFORCE DEVELOPMENT AUTHORITY (WDA)

3.4.1.1 Incomplete financial statements due to missing information and transactions for operations of companies registered by IPRCs

IPRCs have registered and invested in six (6) companies: *IPRC North Consultancy Company* (for IPRC North), *IPRC – Kigali Private Consulting Company* and *RZ Manna Limited* (for IPRC Kigali), *IPRC South Engineering Company Limited* (for IPRC South), *Musanze Polytechnic Company Limited* (supervised by Musanze Integrated Polytechnic) and *IPRC East Engineering Company Limited* (for IPRC East). However, these investments had not been disclosed in the consolidated financial statements of WDA. Accordingly, WDA financial statements are incomplete.

3.4.1.2 Payment of other allowances not approved by both WDA board and MIFOTRA

WDA consolidated expenditure includes an amount of **Frw 207,607,432** for different allowances (**top up allowance**, **allowance for additional duties,** and **allowance for profit sharing)** which were paid by **IPRC KIGALI (Frw 35,177,319)**, **Tumba College (Frw 124,863,727)**, **IPRC South** and **Musanze Polytechnic (Frw 47,566,386)**. However, these allowances were paid without approval of the WDA Board and MIFOTRA and may be depriving critical WDA activities of funding and jeopardising the quality of service delivery.

3.4.1.3 Concerns over implementation of an agreement for establishment of the Hospitality Management Institute – Kigali

On 1st April 2015, Government of Rwanda and WDA signed a Memorandum of Understanding (MoU) with Gesthotel SARL (*Les Roches* International School of Hotel Management Bluche) - a limited liability Company domiciled in Switzerland for provision of advisory and support services to WDA in a project to establish a Hospitality Management Institute (HMI) in Kigali at a total service fee of **Swiss Francs (CHF) 1,289,000** (equivalent to **Frw 938,658,003**) for advisory services provided by *Les Roches* to WDA's HMI Kigali campus over the 4-year implementation period of the MoU. WDA guaranteed *Les Roches*

that construction of the HMI - Kigali campus would commence in April 2015 and the Kigali Campus would open in **January 2016**.

However, there are some concerns detailed below:

- **Delays in completing the construction of the building facilities to house the Hospitality Management Institute (HMI)- Kigali campus at Remera:** The contract for the construction of the HMI Kigali campus at WDA Head office was signed between **WDA** and **ROKO Construction (Rwanda) Ltd** on **27th February 2017 (**two years after the expected starting date) for **Frw 2,446,877,824.5**. The contract execution period was to be six (6) months after receiving the advance. The advance of **Frw 489,375,565** was paid by WDA on **26th May 2017** and thus the expected completion date was **26th November 2017**. This represents significant delay from the date of January 2016 agreed with *Les Roches.*

  It should be noted that as at the time of WDA audit in December 2017, the construction works were **44%** level of completion and yet works should have ended on 26th November 2017. The audit identified that works at the site have stopped by the time of site visit in December 2017. Correspondences with the contractor show that the contractor suspended the construction works on 16th November 2017 and has not resumed the works due to the failure by WDA to settle the last three (3) invoices issued by the contractor amounting to **Frw 456,511,841** for completed works certified by the supervisor.

  The delays in construction works have resulted in delayed commencement of institute by **two (2) academic years** from expected date for commencement per the MoU of **January 2016**. It should be further noted that the MoU has only 1 year and 4 months to expiry on 30th March 2019.

- **Payments made to *Les Roches* for phase two (2) yet HMI- Kigali is not yet operational:** The MOU envisaged that the school would start operations in January 2016 and service fee of **CHF 212,000** (equivalent to **Frw 174,637,020**) per year would be charged by *Les Roches* as consideration for advisory services provided by *Les Roches* to WDA. Accordingly, WDA made payment for service fees for two semesters of academic year 2016 (**CHF 212,000** equivalent to **Frw 174,723,644**). WDA was also processing payment of **CHF 212,000** equivalent to **Frw 174,637,020**) for services for two semesters of the academic year 2017. However, the **Hospitality Management Institute (HMI)** is

still under construction and had not started operations. This implies that payments made to ***Les Roches*** are being made without any service provided to WDA.

- **Equipment ordered for HMI – Kigali ready for shipment to Rwanda yet the building/premises for HMI – Kigali are not yet ready:** WDA signed contracts for the supply of various equipment to furnish the **HMI – Kigali Campus** in March 2017 for a total of **Eur 619,046.57 (equivalent to Frw 551,736,329.2)**. Delivery of the equipment was expected between July and September 2017. The equipment had not been delivered by the time of audit in December 2017. Construction works on the HMI Kigali premises in which they are supposed to be installed was still **44%** level of completion by December 2017. A total of **Eur 273,454.99** (equivalent to Frw **242,936,166**) had been paid on contracts for supply of equipment as at the time of WDA audit in December 2017.

3.4.1.4 Delays in commissioning the Rwanda Technical Teacher Institute (RTTI)

On **20th September 2013**, Korea International Cooperation Agency (KOICA) and the Ministry of Education signed an agreement to provide a grant of **USD 5,000,000** to implement the second phase of support to Integrated Polytechnic Regional Centre-Kigali (IPRC-K). The support would cover strengthening the capacity of technical education teachers in Rwanda through establishment of a **Rwanda Technical Teacher Institute (RTTI)** and its operations master plan *(including construction of premises to house RTTI at the IPRC Kigali Campus in Kicukiro)* and providing equipment to support the delivery of two (2) optional courses i.e. **production manufacturing technology** and **air conditioning and refrigeration** in department of mechanical engineering at IPRC Kigali. The building for RTTI with all necessary equipment was supposed to be ready for the first term in April 2016.

However, at time of WDA audit in December 2017, the Rwanda Technical Teacher Institute (RTTI) was not yet operational (1 year and 9 months from the expected starting date). The equipment necessary to start operations had not yet been delivered and installed. The contract with the supplier of equipment had been cancelled at the time of WDA audit in December 2017. Total expenditure incurred on this project to date amounts to **Frw 3,080,044,986** (equivalent to **USD 3,749,506.65**) on the construction of the building premises for RTTI.

3.4.1.5 Delays in completion of rehabilitation and construction works

The problem of significant delays reported in previous audits in respect to execution of **five (5) contracts** worth **Frw 2,769,963,706** for rehabilitation and construction works at **WDA Head office**, **IPRC East** and **Gishali Polytechnic** has not yet been resolved. Only one of these contracts worth **Frw 241,053,888** has reached provisional handover after significant delays. The remaining four (4) contracts worth **Frw 2,528,909,818** still have significant concerns below:

- **Abandoned contracts:** Three (3) of these contracts worth **Frw 1,453,206,438** covering construction of classroom and external works at Gishali Integrated Technology, construction works of workshop hall with a store and office for workshop assistants (Lot 2) at IPRC East and construction of one girl's dormitory with a capacity of 180 students (Lot 3) IPRC East, have since been abandoned by the Contractors.
- **Delayed contracts which are still ongoing:** A contract worth **Frw 1,075,703,380** for construction of Administration building, Workshops Kitchen Refectory and Latrine at Gishali Integrated Technology was still ongoing by the time of audit in December 2017 after **delay of 1,170 days (over 3 years)** from the initial completion date of 1st October 2014.

3.4.1.6 Delays in completion of construction works at Muhanga TVET

The audit identified delayed construction works for construction and rehabilitation works of TVET in **Muhanga and Nyabihu Districts** and **Rutongo Sector, Rulindo district**. The contract was signed between **WDA** and **MINADEF/RESERVE FORCE** for **Frw 7,320,162,697** and the expected completion date was 12th October 2017.

However, a site visit by auditors to the construction sites on 12th and 14th December 2017 (**MUHANGA TVET** on **12th December 2017**, **Nyabihu TVET** and **Rutongo TVET** on **14th December 2017**) identified that the works were far from completion at **Muhanga TVET**. Works are estimated to be at **42%** level of completion.

3.4.1.7 Delayed completion of construction works for Kabarondo VTC

It was reported in the previous audit report for the year ended 30th June 2015 that the contractor – **Senior Engineers Company Limited** had abandoned construction and

rehabilitation works for **Kabarondo Vocational Training Centre (VTC)** with a contract value of **Frw 1,106,242,920** after receiving payments amounting to **Frw 567,464,499** from WDA. The completion of works had been abandoned for **704 days** at the time of previous audit (October 2016). The initial completion date for these works was 19th September 2014.

WDA engaged the Ministry of Defence/Reserve Force on 28th November 2016 to complete the construction and rehabilitation works of Kabarondo VTC at **Frw 770,758,592** within five (5) months from 16th February 2017 (expected to end by 15th July 2017). However, a field visit to the construction site at Kabarondo VTC on **07th December 2017** (five (5) months after the expected completion date of 15th July 2017) identified that works had not yet been completed. The auditors learnt that the contractor - **MINADEF/RESERVE FORCE** had suspended works from **21st September 2017** because of delayed payments of outstanding invoices amounting to **Frw 308,303,437**

3.4.1.8 Abandoned construction and rehabilitation works reported in previous year not yet completed

Previous audit reports of WDA indicated that three (3) contracts worth **Frw 2,624,656,240** for construction works at **IPRC East**, **Kabarondo VTC** and **ESTB Busogo** had been abandoned for periods more than 1 year by the time of last audit report in October 2016.

Since then, one (1) contract worth **Frw 1,051,173,980** for Construction and Rehabilitation of hospitality centre at *Ecoles des Sciences et Technique de Busogo* (ESTB) has been completed and provisionally handed over, while the contract worth **Frw 1,106,242,920** for Construction and rehabilitation works for Kabarondo Vocational Training Centre (VTC) was awarded to the Ministry of Defence/Reserve Force on 28th November 2016 at **Frw 770,758,592** to complete the works as indicated in paragraph (76) above. However, **one (1) contract** for Construction of two floor administrative building at IPRC East worth **Frw 467,239,340** is still abandoned.

3.4.1.9 Idle assets at WDA and IPRCs

WDA continues to have idle assets and equipment which are not put to intended use. As at the time of my audit in December 2017, the idle assets identified from the audit had a purchase cost of **Frw 241,529,263** as shown below:

Location of asset	Description of asset	Cost of idle assets (Frw)	Period assets have been idle as at the time of my audit in December 2017
Head office	Various hospitality and culinary equipment	52,222,900	More than 3 years
IPRC West	Mechanical equipment	159,069,150	More than 3 years
IPRC Kigali	UKE-F Recirculation tank including filter	4,146,601	Unknown
IPRC Kigali	Atomic absorption spectrometer and its accessories	23,409,252	Unknown
Uwinkingi VTC	Carpentry equipment	2,681,360	More than 3 years
	Total	**241,529,263**	

It should be noted that there were more idle assets identified at **WDA head office**, **IPRC Kigali** and **Gishali Polytechnic** but their purchase value and period of idleness could not be ascertained by the auditors. See photographs below:

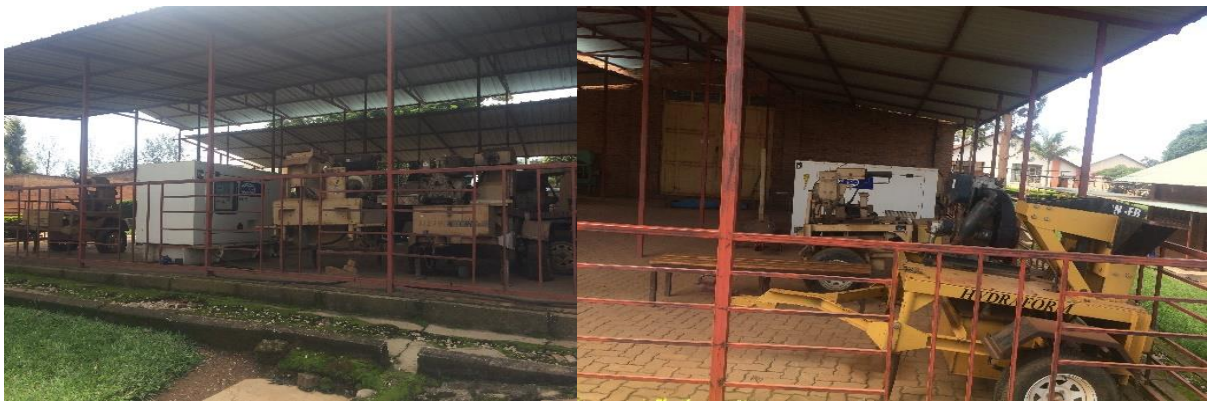


Photo 1: Hydra form machines kept idle in WDA compound (previously reported) (Photo taken by OAG on 1st December, 2017)

Photo 2: Idle/damaged machines at IPRC-Kigali stores (Photo taken by OAG on 14/12/2017)

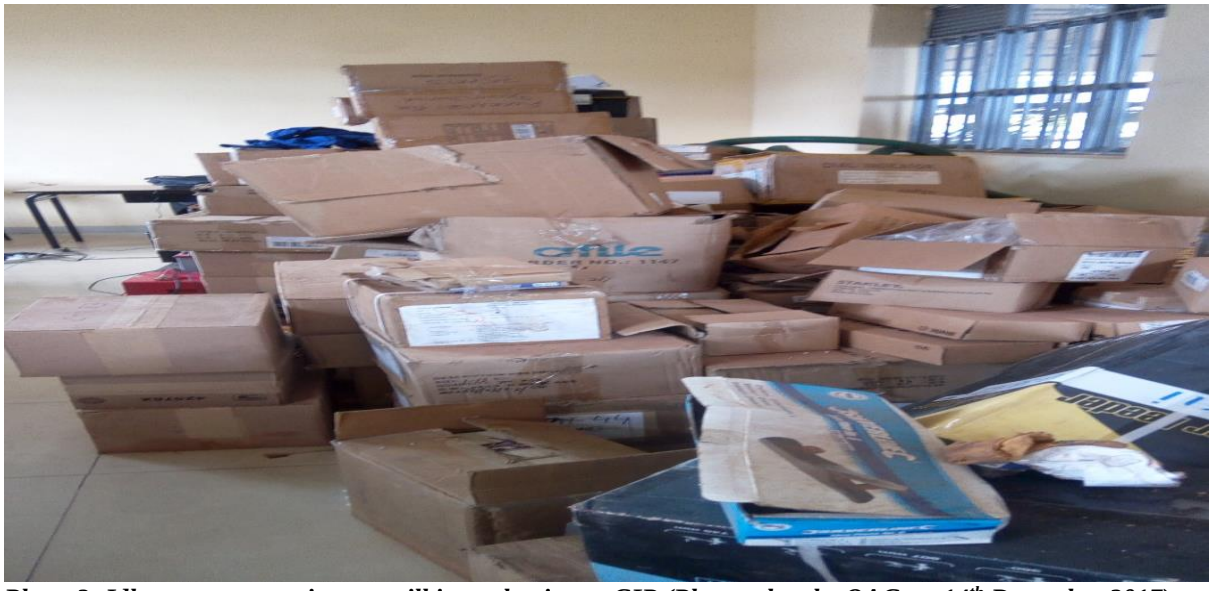


Photo 3: Idle carpentry equipment still in packaging at GIP (Photo taken by OAG on 14th December 2017)

3.4.2 RWANDA EDUCATION BOARD (REB)

3.4.2.1 Accounting errors in REB financial statements

The audit of REB financial statements identified accounting errors that resulted in an adverse audit opinion on financial statements. Some of the errors identified include:

- **Posting errors in REB books of account due to incomplete chart of accounts:** REB does not have an updated/extended chart of accounts to include all relevant ledger accounts necessary to match the evolving and diverse activities and transactions of REB. The current chart of accounts did not have separately identifiable ledger accounts for capturing expenditure incurred by REB to develop infrastructure and acquire scholastic materials in schools.

  Consequently, management was capturing transactions relating to schools in ledger accounts created for REB own transactions and hence misleading users of REB financial statements. For example, transactions totalling **Frw 24,054,190,727** relating to development of schools infrastructure and acquisition of scholastic materials were recorded as capital expenditure in financial statements of REB as if the assets were for use by REB.

- **Wrong treatment of amount recovered from ASI-D:** An amount of **Frw 1,955,459,059** recovered by REB from ASI-D for 10,512 laptops reported in the previous annual report was wrongly recognized as revenue in REB financial statements for the year ended 30

June 2017. This amount was wrongly expensed in previous financial year and its recovery should have been reversed against the opening balance carried forward from the previous year.

It should be noted that during the year ended 30 June 2017, additional expenditure of **Frw 2,240,914,405** was made by REB for purchase of **10,780 laptops** that were taken by ASI-D. This amount is recoverable by REB from ASI-D and should have been recognised in financial statements of REB as receivable at 30 June 2017 instead of being expensed.

3.4.2.2 Delays in rolling out the new Competence Based Curriculum (CBC)

The Government plan for implementation of the Competence Based Curriculum has the following phases:

Phase	Academic year to commence implementation	Grades for rolling out CBC
Phase I	2016	-Pre- primary schools (All grades) -Primary: P1, P4 -Secondary: S1, S4
Phase II	2017	-Primary: P2, P5 -Secondary: S2, S5
Phase III	2018	-Primary: P3, P6 -Secondary: S3, S6

Implementation of the Competence Based Curriculum requires REB to ensure that the new learning and teaching materials needed are available in schools before commencement of the academic year. However, the audit of REB identified major weaknesses that have delayed implementation the Competence Based curriculum in the phases envisaged. These weaknesses include:

- ***Delays in delivery of learning and teaching materials to schools:*** The audit identified that REB delayed to contract publishers to produce learning and teaching materials required under the new curriculum. Even after contracts were signed, some publishers delayed to deliver the learning and teaching materials to schools.

  As a consequence, learning and teaching materials for **phase 1** expected to be delivered in schools by 1st February 2016 for Phase 1 were delivered after delays ranging from 141 days to 428 days (more than 1 year). The final delivery was made on 4th April 2017 instead of 1st February 2016. For **phase 2 rollout**, delays in delivery of learning and teaching materials by some publishers ranged from 144 days to 325 days (almost 1 year), with the final delivery made on 22nd November 2017. **For phase 3 roll out** which should have started on 27th January 2018, learning and teaching materials had not been delivered by the time of the audit.

The above delays in delivery of learning and teaching materials implies that **phase 1 and phase 2** of CBC could not be rolled out to learners and teachers as envisaged in the roadmap. There is also a risk that **phase 3** may not be rolled out in 2018 as envisaged since the first term ended prior to delivery of the learning and teaching materials. The complete rollout of CBC is therefore being derailed by these delays.

- ***Text books for some subjects not developed:*** For **19 subjects**, publishers failed to meet technical specifications in tender documents to supply **46 textbooks** required for teaching these subjects under the new curriculum. REB is in the process of developing the **46 textbooks** internally and therefore these text books are not available for distribution to schools. Accordingly, teaching for these subjects cannot be rolled out due to lack of learning and teaching materials.

3.4.2.3 Lack of maintenance and replacement plan for laptops being distributed to both Primary and Secondary schools

The Ministry of Education (MINEDUC) undertook the OLPC initiative in Rwanda to support its efforts of enhancing quality of education in primary and secondary schools through ICT based education. The Rwanda Education Board (REB) is responsible for implementing the program. In 2008, the Government started distribution of XO laptops to various primary schools. In 2015, Government started purchase and distribution of other laptops (note books) to secondary schools, in addition to XO laptops being distributed to primary schools.

However, there is no proper and documented and approved maintenance plan for existing laptops and replacement plan once the current laptops become old. Available records show that Government has distributed **274,127** XO laptops worth **USD 55,373,654 (equivalent to Frw 47,621,342,440)** to primary schools between 2008 and 30 June 2017 and **54,065** other laptops worth **Frw 10,241,445,444** to secondary schools from 2015 to 30 June 2017.

3.4.2.4 Gaps in implementation of agreement that transferred the management of the student loan and bursary scheme to BRD

On 15 October 2015, Development Bank of Rwanda (BRD) and MINEDUC/REB signed an agreement for BRD to take over the management of student loans and bursaries from REB. Currently the student loans and bursaries scheme is fully funded by government and this arrangement is expected to continue for only the next ten (10) years. During this ten (10) year period, BRD and MINEDUC/REB are expected to put in place mechanisms that lead to the

expected self-sustainability of the scheme. However, the audit of REB identified gaps that need to be addressed to enhance proper management of the student loan and bursary scheme. These include:

- **Failure to sign the handover report:** MINEDUC/REB was required to provide to BRD all files and data on loan and bursary beneficiaries existing in REB. REB submitted to BRD a handover report for signature on 6 June 2017. However, on 2 October 2017, BRD replied that they will not be able to provide loan clearance letters or reimburse loan beneficiaries who overpaid on their loans when the scheme was still under REB (those that were cleared by REB prior to the handover to BRD). As a result, the final handover report was not yet signed by BRD by the time of REB audit in March 2018. Without the signature of both parties in the handover report, it is not clear whether REB and BRD have formally acknowledged the transfer of responsibilities for loan recovery of outstanding student loans.
- **Unreconciled differences in tuition fees and living allowances transferred by REB to BRD:** The audit identified a deficit of **Frw 913,510,458** between the total funds transferred from REB to BRD for tuition fees and living allowances during the year ended 30 June 2017 (**Frw 30,504,573,371)** and the funds requested by BRD (**Frw 31,418,083,829**). Management did not provide a reconciliation as to what constitutes the difference (deficit). This makes it difficult to confirm whether funds disbursed by REB covered all the eligible students.
- **Lack of utilisation/accountability reports for operational funds transferred to BRD:** Up to the year end 30 June 2017, REB had transferred a total amount of **Frw 2,202,499,996** to BRD relating to operational funds for Education Department. However, contrary to the requirements of the agreement, BRD did not submit utilisation reports showing how the funds obtained from REB were utilised. This demonstrates lack of accountability for operational funds by BRD and represents non-compliance with terms of the agreement.

3.4.3 KEY ISSUES OF SCIENCE LABORATORIES IN SECONDARY SCHOOLS

3.4.3.1 Slow pace in achievement of set targets in construction and equipping of science laboratories

Out of a target of 243 science laboratories that REB had to construct according to education sector strategic plan (ESSP) 2013/2014-2017/2018, only 119 had been constructed. This represents **48.9%** of the target set in the strategic plan. Only 82 of the 119 constructed laboratories had been equipped.

The slow pace in the implementation of strategic plan poses challenges to the quality education in teaching and learning science in secondary schools envisaged in EDPRS II.

3.4.3.2 Lack of science laboratories facilities in secondary schools

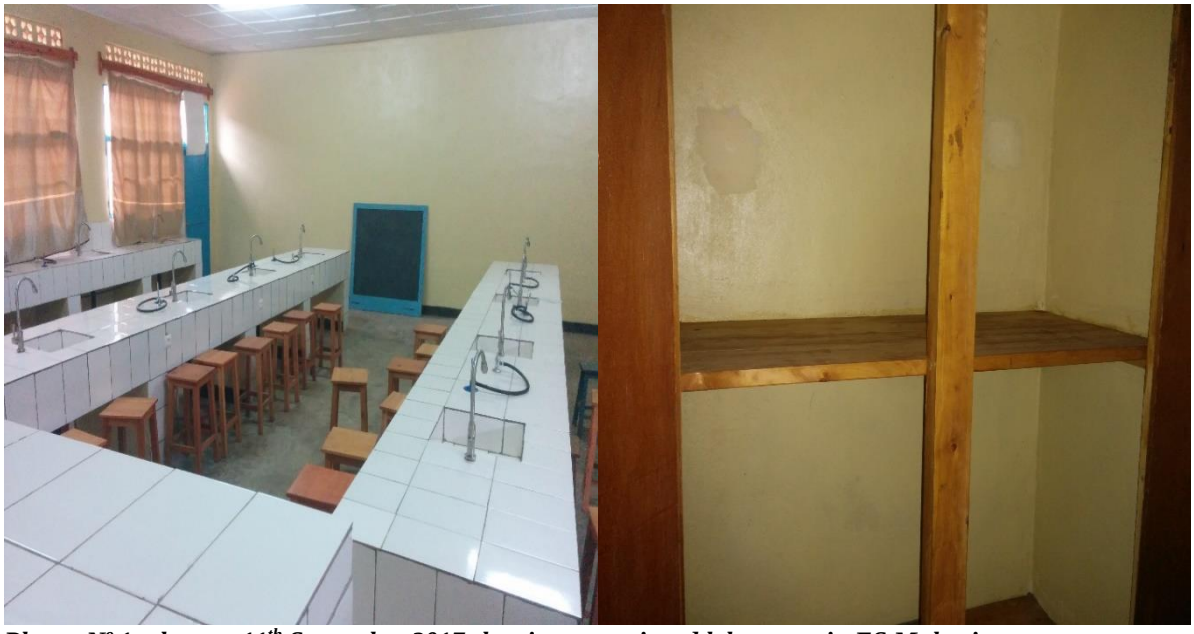
The audit indicated that 44 out of 73 visited secondary schools with total number of 20,137 students had insufficient apparatus and reagents. The insufficient apparatus and reagents in these 44 schools ranged from **13.7%** to **69.5%** of the minimum package required in laboratories.

Twenty five (25) of those secondary schools did not have science laboratories facilities. In the absence of those laboratories, alternatives are classrooms which combine the 3 subjects (biology, chemistry and physics).

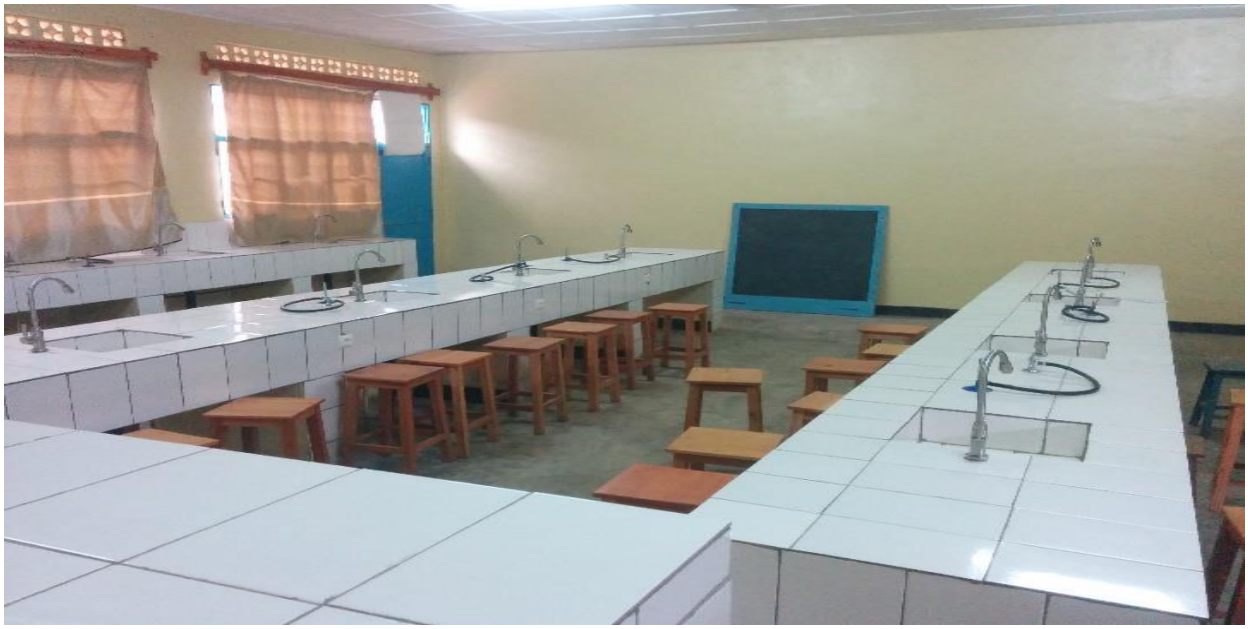
The absence of science laboratory facilities may lead to ineffective teaching of science subjects.

3.4.3.3 Idle science laboratories

Nine (9) science laboratories amounting to **Frw 299,355,963** were idle for a period ranging from 10 to 44 months due to lack of apparatus and reagents. These laboratories were constructed to three different secondary schools namely Lycée Notre Dame de la Visitation constructed in 2014 in Rulindo District, Ecole Secondaire Muhazi constructed in 2015 in Rwamagana District and Groupe Scolaire Tabagwe constructed in 2016 in Nyagatare District. ***For details, refer to photos Nº 1 and 2 below***



Photos Nº 1 taken on 11th September 2017 showing unequipped laboratory in ES Muhazi



Photos Nº 2 taken on 20th September 2017 showing unequipped laboratory in GS Rulindo

3.4.4 UNIVERSITY OF RWANDA (UR)

3.4.4.1 Accounting errors in UR financial statements

The audit of UR financial statements identified accounting errors that resulted in an adverse audit opinion on financial statements. Some of the errors identified include:

- **Omitted bank accounts from the UR books of account:** Direct confirmations received from National Bank of Rwanda revealed two (2) bank accounts whose transactions and balances were omitted from UR financial statements for the year ended 30 June 2017.

Although detailed transactions for the year were not provided, one (1) bank account had a **NIL closing balance** while another account had a closing balance of **322,812 (Euro)** at 30 June 2017.

- **Closed bank accounts still appearing in the books of account of UR:** On 01 September 2014, UR requested the Accountant General to authorise BNR and commercial banks to close its 45 bank accounts belonging to former Higher Learning Institutions (HLIs) and Nursing School and Midwifery.

  However, the audit of UR identified six (6) bank accounts and two (2) others for Rukara Campus (request for closure was sent to MINECOFIN by UR on 19 November 2015) which were still appearing in UR books of account as at 30 June 2017. These accounts had closing balances at 30 June 2016 and 30 June 2017 as shown below:

	No. of bank accounts	**30-Jun-17**	**30-Jun-16**
		Frw	**Frw**
Bank accounts with positive balance at 30 June 2017	2	8,877,710	5,540,960
Bank accounts with NIL balance at 30 June 2017	2	0	2,535,531
Bank accounts with overdrawn balance at 30 June 2017	4	(42,823,786)	(39,475,229)

- **Lack of individual students' ledger accounts**: UR receivables include students' receivable balance of **Frw 5,325,617,646** at 30 June 2017. However, UR did not maintain individual ledger accounts for these students. All student transactions were recorded in one ledger account. This makes it difficult to reconcile the student balances in order to confirm their accuracy.

- **Lack of an itemized list and supporting documents for debtors:** Included in receivables as at 30 June 2017 are debtors' balances totalling **Frw 5,489,481,917** (compared to **Frw 7,478,582,936** as at 30 June 2015) that were not supported by a list of individual debtors. These receivables were not supported by any source documents.

- **Unsupported accounts payable:** Included in UR financial statements for the year ended 30 June 2017 are payables amounting to **Frw 12,218,569,197**. However, the audit revealed that **Frw 3,795,932,355** out of these outstanding balances were not supported by an itemized list of creditors and are not supported by other relevant supporting documents.

- **Unsupported balance reported as returned payments:** Included in accounts payable as at 30 June 2017 are balances reported as returned payments of **Frw 244,273,810**. An amount of **Frw 200,675,047** relates to prior year but it is not supported by details of beneficiaries. The failure to repay these returned payments for such a long time casts doubt on the validity of these balances.

- **Unsupported balance reported for Student Living allowances:** Included in accounts payable as at 30 June 2017 are balances reported as student living allowances of **Frw 965,468,460**. This amount includes outstanding student living allowances totalling **Frw 947,298,960** for prior years but it is not supported by details of beneficiaries. It is not clear whether the balance represents genuine unpaid students living allowances that have remained outstanding for such a long time or it represents accounting errors that need to be reconciled and cleared to ensure accurate balance of payables.

- **Unsupported balance for Transit funds:** Included in accounts payable as at 30 June 2017 are balances reported as transit funds of **Frw 343,892,660**. However, management of UR did not provide a list of beneficiaries to whom this amount is owed. Accordingly, related beneficiaries could not be identified during the audit. It is not clear whether the balance represents genuine transit funds that have remained outstanding for such a long time or it represents accounting errors that need to be reconciled and cleared to ensure accurate balance of payables.

- **Unsupported balance of funds collected by UR for Student union:** Included in accounts payable as at 30 June 2017 is a balance reported as student union funds totalling **Frw 255,861,470**. These funds were meant to be transferred/paid to the UR Student union account. However, the audit identified that by the time of audit in February 2018, the above balance was not yet paid to UR Student union account.

3.4.4.2 Absence of teaching facilities for relocated programmes

The creation of UR have resulted into re-organization of colleges and shifting of programs to different campuses. However, cases were noted where programs were shifted to campuses without teaching facilities. These were observed in the following colleges:

i) **College of Science and Technology (CST):** UR in collaboration with Korea International Cooperation Agency (KOICA) built an ICT centre at the Huye Campus. This ICT centre was put in place to enable the enhancement of ICT skills of students, graduates of the University and Country in general. However, students of the school of

ICT who were supposed to use the equipment installed in the ICT centre were relocated to the Nyarugenge Campus in changes made in October 2017. This left the constructed facilities at Huye campus idle and increased pressure on facilities at the Nyarugenge Campus.

ii) **College of Education:** The college of Education was shifted to Rukara campus. However, there are no recreation facilities in Rukara campus yet the college has a programme of biology-physical education. This is the effect of relocating the college prior to obtaining the relevant relocation budget of **Frw 7,500,871,600** as funds necessary to equip Rukara campus with physical education and sport facilities, maintenance and repair of infrastructure, network installation, equipment purchase and construction of hostels among others.

iii) **College of Arts and Social Sciences (CASS):** The School of Journalism and Communication was relocated from Huye campus to the Nyarugenge campus in July 2011. However, the radio facilities were left in Huye. This created a challenge for Journalism students given that the radio which is a key learning facility remained in Huye. In an attempt to relocate the radio equipment and studio to the Nyarugenge campus, UR designated and rehabilitated space to the Nyarugenge campus and also acquired equipment worth **Frw 45,708,000**. Before the radio could be relocated to the Nyarugenge campus, the school of journalism was again shifted to the Gikondo campus in February 2017. The radio equipment and studio was still in Huye while students studied from the Gikondo campus at the time of the audit in November 2017. A budget of **Frw 11,500,000** for relocating the studio and equipment had been drawn but it was not clear of which location between Nyarugenge and Gikondo campus was being considered.

3.4.4.3 Idle infrastructure and facilities at UR as a result of re-organisation of colleges and campuses

The audit identified a number of buildings and facilities that were idle. This was attributed to re-organisation of colleges following creation of UR that involved relocating some of the colleges to new places and closure of some campuses. It is worth noting that while buildings and structures are idle in some campuses, UR is putting up new ones in other locations where

there is shortage of such facilities. Such a mismatch could be attributed to poor cost benefit analysis in planning the re-organisation and resulting relocations and closures.

The idle facilities identified are highlighted below:

i) **Nyagatare campus:** Following re-organization, the building "former Morning Star Hotel" located at Nyagatare campus acquired on 6/02/2013 for an amount of **Frw 510,000,000** was left idle**.** Only the conference hall was occasionally put to use. In addition, 13 classrooms with capacity to host 1,270 students, an auditorium with capacity to host 250 students and the former Nyagatare Nursing School buildings were left idle.

ii) **Huye Campus:** The audit also identified closed buildings and classrooms that were not being used mainly due to low student numbers admitted at the Huye campus. The idle structures are summarized in the table below.

Infrastructure Item	Capacity/Status	Cause
Ex-Rectorat building	4 Classes with the capacity to host 260 students	Low rate of students admitted
University extension (former law building: since April 2015)	Closed	Law students were transferred to the Nyarugenge campus
University Bookshop	Closed	This structure is in excess of the campus needs.
University newspaper building	Closed	UR is no longer publishing newspapers
Applied Science Building (Civil engineering block) located in Ruhande	Closed	Students were transferred to the Nyarugenge campus
Titanic and Vuba Hostels	Closed	Not properly maintained
Fish Ponds located at Rwasave	49 ponds were released to RDF Reserves Forces and only remained with 54 for research purposes.	Agriculture and Veterinary students who were to use the fish ponds for study purposes were transferred to the Nyagatare campus. There are no fish ponds at the Nyagatare campus.

For more details, refer to photos N° 9 and 10 below:

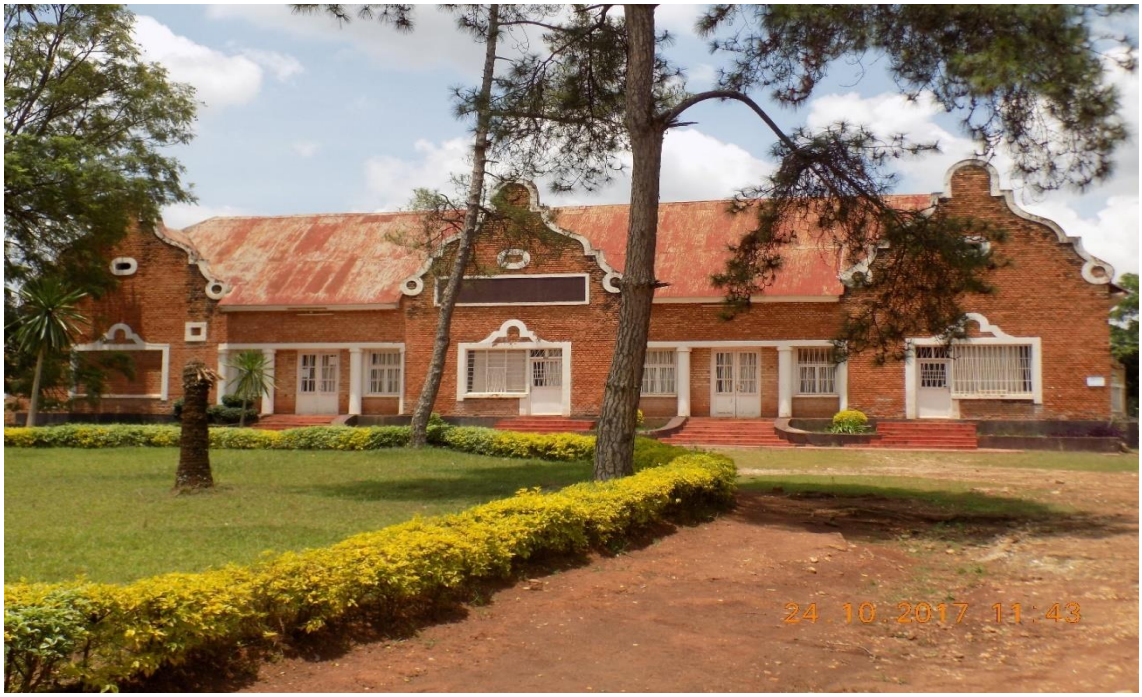


Photo Nº 9 taken by OAG on 24 October 2017 showing **University extension (former law building)** ***at Huye District that was idle at the time of the visit.***

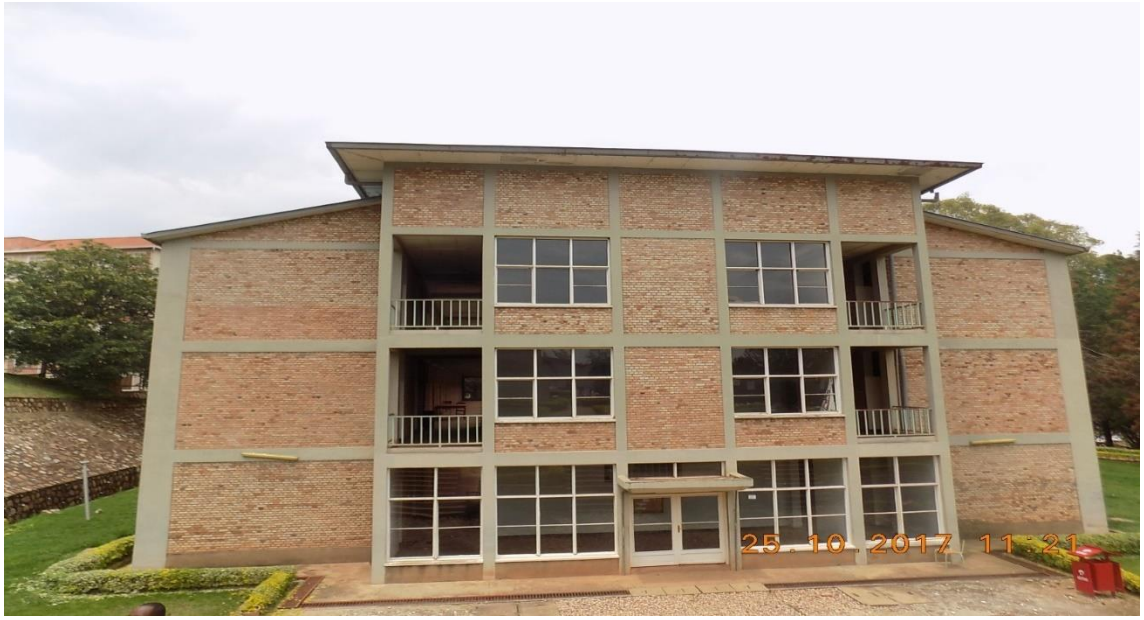


Photo Nº 10 taken by OAG on 25 October 2017 showing Titanic Hostel, Huye Campus that was closed.

3.4.4.4 Unutilized laboratory and workshop equipment due to lack of maintenance, repairs and supply of spare parts and reagents

At UR colleges and campuses, the audit identified 172 cases of laboratory and workshop equipment that were of out of service due to lack of maintenance and repair, spare parts,

training, reagents and chemicals required for their use. Since the creation of UR in September 2013, the institution had not entered into any maintenance contract for the laboratory equipment with a service provider.

The absence of functional workshop and laboratory equipment is hampering the delivery of science courses at the University of Rwanda. The examples of non-functional equipment are provided in the **photos No 3, 4, 5 below:**

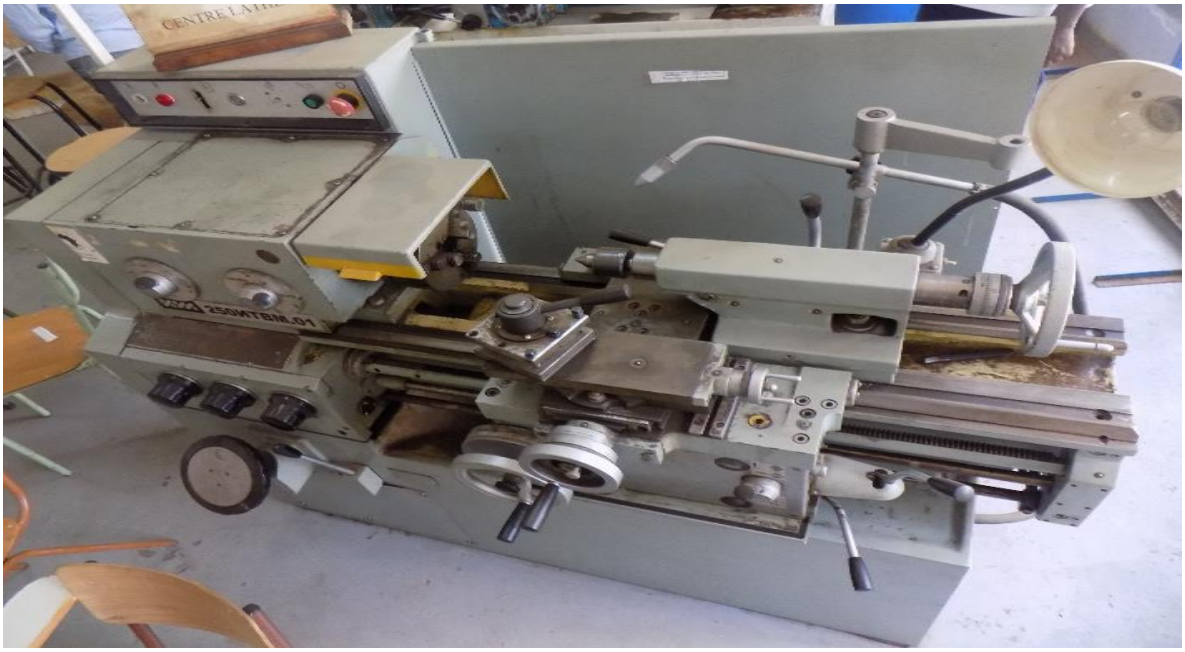


Photo No 3 taken by OAG on 11/10/2017 at UR-CST.Tour parallel centre lathe machine from the Tools Workshop that was not functional due to lack of maintenance and spare parts.

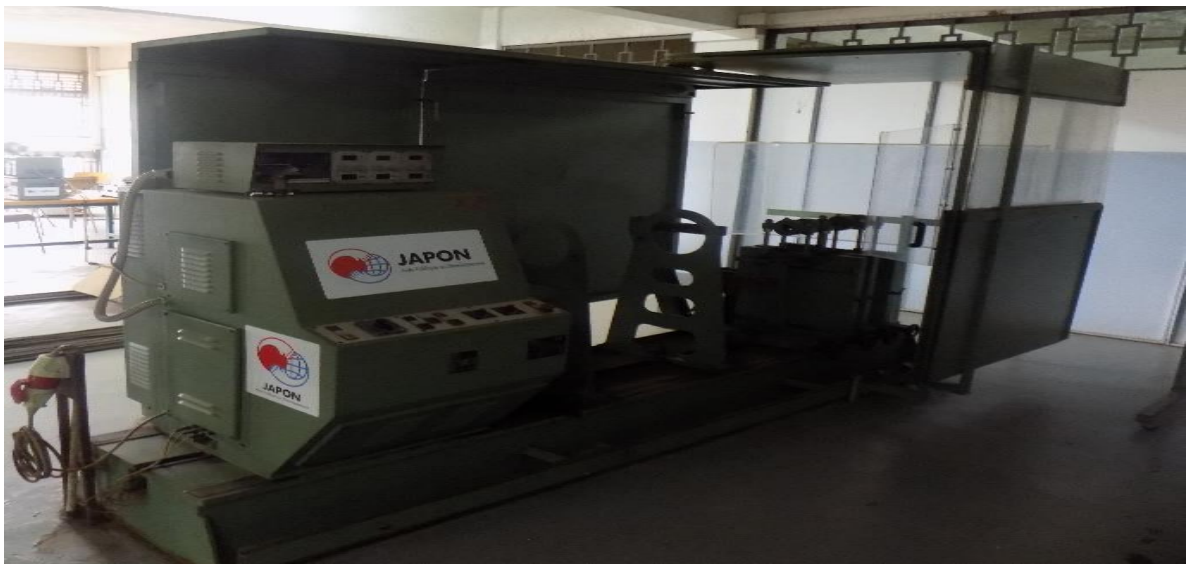


Photo No 4 taken by OAG on 13/10/2017 at UR-CST.Balancing machine for crankshafts in the Mechanical structural laboratory that was not functional due to lack of maintenance and spare parts.

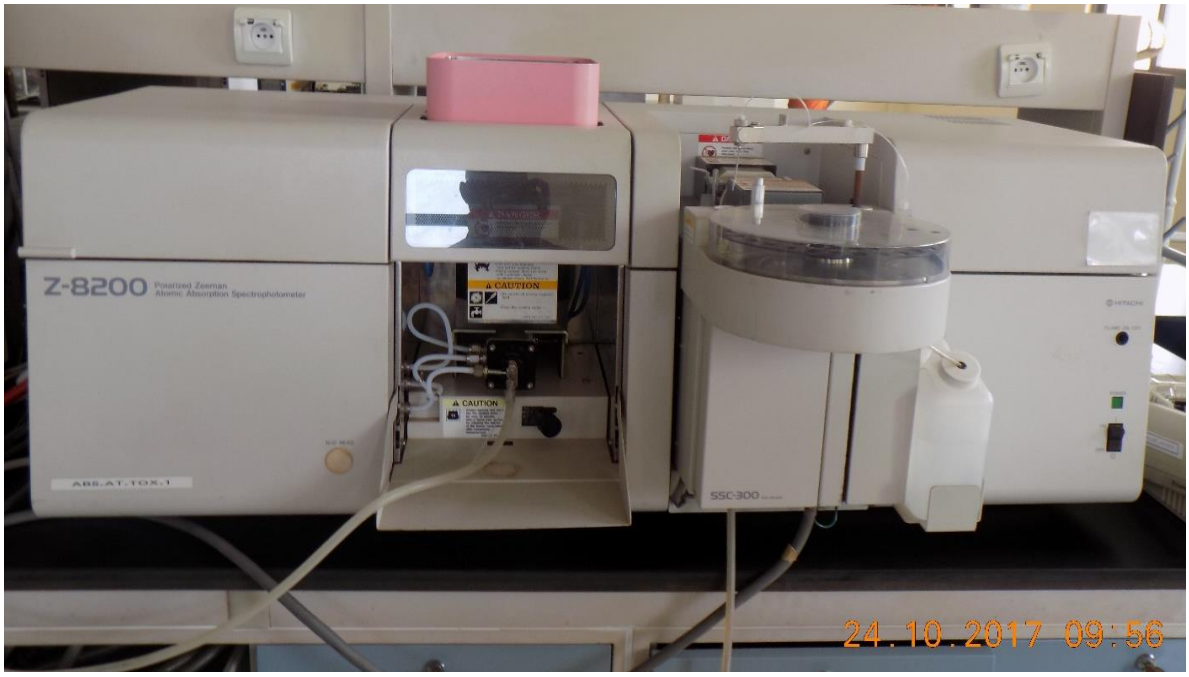


Photo No 5 taken by OAG on 24/10/2017 at CMHS/Huye campus.Atomic absorption spectrophotometer that was not working due to lack of maintenance and spare parts.

3.4.4.5 Other underutilised assets

i) Rukara College canteen infrastructure: On 14 October 2013, RUKARA College of Education signed a contract with JV ACOREBA/JOVIA BUSINESS & CO Ltd for construction works of the college canteen. The contract amount was **Frw 230,956,500** and the duration of contract was 7 months. The building was provisionally handed to the College on 16 September 2014. However, the canteen was not yet operational two (2) years after the provisional handover by time of audit in March 2018

ii) Integrated Educational Business Management Information System (IEBMIS): On 7 July 2011, the former National University of Rwanda (NUR) signed a contract worth **Euro 1,744,039** (equivalent to **Frw 1,067,961,235**) with Integrated Tertiary Solution (ITS) to supply and install the **Integrated Educational Business Management Information System (IEBMIS**) software and to train selected NUR staff on how to use the software. The IEBMIS software is made up of three main modules namely; student management solution, financial management solution and human resources management solution. IEBMIS software contains three modules and 18 sub-modules.

However, by the time of this current audit in February 2018, **only seven sub-modules** out of the **18 sub-modules** are being utilised and the remaining 11 sub-modules were not used by the University.

3.4.4.6 Slow pace of implementation of project activities

The audit identified some cases of delayed project implementation which has affected absorption for funds for some projects, as shown below:

- **School of Journalism and Communication (UR-SJC):** The project was expected to be implemented over four years starting from 01 March 2015 to 30 April 2019 at a total cost of **SEK 7,178,927** equivalent to **Frw 638,924,503**. However, the project which has been running for over two years, has so far utilised only **Frw 32,496,562** (representing **5%** of the total project budget). The remaining **Frw 606,427,941** is yet to be utilised. This slow pace of implementation indicates that the project may fail to implement all planned activities within the project life time.
- **Centre of Excellence for Biomedical Engineering and e - Health (UR-CEBE) Project:** On 8 December 2014, the Government of Rwanda signed a loan agreement worth **USD 21,276,750** (equivalent to **Frw 14,860,083,458**) with African Development Bank (AfDB) meant for the Centre of Excellence for Biomedical Engineering and e - Health (UR-CEBE) Project. The implementation period of the project is 5 years ending 7 December 2019. However, the audit identified that that the project only executed **3.41%** of its budget for the year ended 30 June 2017.

3.4.4.7 Cases of delayed and abandoned construction projects

The audit of UR identified cases of three (3) contracts which were delayed and one (1) contract abandoned project. The total contract value worth Frw **Frw 5,728,619,749** as shown below:

Project	Contract value (Frw)	Initial contract completion date	Status by time UR audit
Works related to renovation works of AVU block at UR-CST Nyarugenge	58,847,852	14-Dec-15	Up to the time of my audit on 21 February 2018**, 2** years and **2** months after the expected completion date, renovation works were not yet completed
Works relating to construction of the veterinary building complex	3,765,124,317	11-Dec-15	Works relating to the veterinary building complex were abandoned by the contractor since December 2015.
Finishing works for ex-Mutara Province building at Umutara Polytechnic	413,711,540	3 April 2013	On 3 April 2013, the contractor was recommended to test and commission the waste treatment plant within 2 months. Up to the time of the current audit in November 2017, almost 5 years after the provisional handover, the final handover had not been

			undertaken
Works for construction works of a classroom block at Rukara campus	1,490,936,040	9 February 2016	Although the contract was amended 3 times up to 30/06/2017 without documented reasons, by the time of physical verification carried out from 30 to 31 October 2017, I noted that the construction works were still not yet completed
	5,728,619,749		

For the **case of Rukara campus**, the delayed execution of works hampered realization of the intended objective of availing classroom facilities following relocation of college of education from Remera campus to Rukara campus.

3.4.4.8 Tenders cancelled due to inadequate budgets allocated during procurement planning

The audit identified cases where University of Rwanda cancelled tenders awarded because it had not adequately budgeted during procurement planning. For a total of six (6) tenders, management had estimated a budget of **Frw 710,017,963** but the final prices proposed by the bidders for these six tenders were totalling **Frw 4,067,992,383**. This required UR to obtain additional funding to finance the deficit of **Frw 3,357,974,420**. However, due to financial constraints, the tenders were consequently cancelled after investing significant time bids opening, evaluation and provisional notification. These cases demonstrate gaps in budgeting during procurement planning and show that UR did not carry out a market survey before making the budget estimates.

3.5 AGRICULTURE SECTOR

3.5.1 RWANDA AGRICULTURAL BOARD (RAB)

3.5.1.1 Seeds loaned to seed importing companies not recovered for distribution to target beneficiaries

The previous audits of RAB had identified that during the period between 2014 and 2016, RAB management loaned seeds imported for distribution to farmers, to the seeds importing companies. An internal investigation commissioned by RAB management after the previous OAG audit identified that seeds worth **Frw 428,117,117** had been loaned to **two (2) seed importing companies** but not recovered by RAB for distribution to the intended beneficiaries. Out of these loaned seeds, only **Frw 250,019,920** was recognized in the books of account of RAB as receivable.

It should be noted that RAB continued to procure seeds from these two companies without recovering the value of seeds loaned. Total payments made to the two companies during the year for invoices of supply of seeds and/or fertilizers amounted to **Frw 2,202,317,534**. RAB has therefore allowed Government resources to be used to finance the seed importation business of the private seed importers. The unrecovered loaned seeds represent diversion of Government resources and failure to ensure due care for funds allocated to RAB during the period between 2014 and 2016.

3.5.1.2 Losses incurred by RAB as a result of delayed distribution of seeds

- **Damaged seeds:** RAB management has started the process of destroying **225,640 kgs** of maize seed worth **Frw 90,256,000**. This quantity represents seeds which became damaged in RAB stores because they had been kept for long instead of being issued to the targeted farmers for planting since the beginning of implementation of the seed subsidy program which was launched in season 2015A in September 2014.
- **Loss at Rubilizi centre:** A review of stock records per stock cards further revealed that during the year ended 30 June 2017, RAB incurred a loss amounting to **Frw 31,670,390** relating to seeds kept at Rubilizi centre.
- **Stock distributed and yet it was below minimum quality standards:** The audit further identified that in September 2016, RAB issued stock of **14,582 kgs** of maize seed to farmers for planting and yet they had been tested and confirmed to have been damaged.

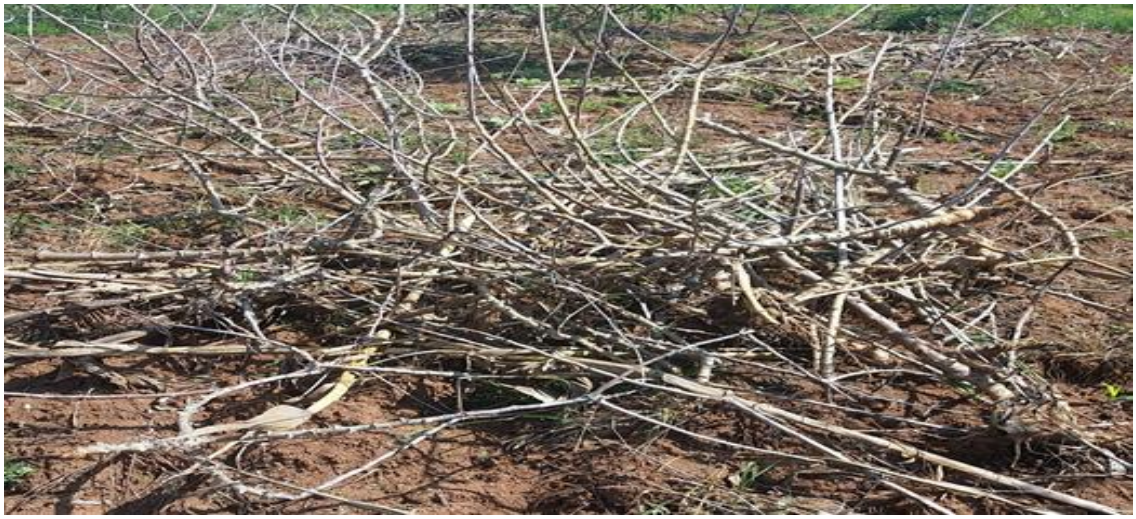
RAB laboratory test results issued on 12 April 2016 and 25 July 2016 indicated that the stock was below the minimum required quality standards. No explanation was provided by management on why such seeds were issued for planting and whether they were actually planted and provided yield.

3.5.1.3 Gaps in implementation of program for multiplication of Disease-free cassava cuttings in various districts

In December 2016, RAB received **10,000,000** disease-free cassava cuttings imported from Kawanda Agro Enterprises Ltd in Uganda at a total cost of **Frw 749,905,235** (comprising cost of cuttings of **Frw 264,115,045** and transportation cost of **Frw 485,790,190**). The cuttings were delivered to various districts to be distributed to farmers and planted for multiplication. A ministerial instruction nº 001/2017 was put in place to guide the distribution and multiplication of these cassava cuttings during season 2017.

However, the audit of RAB identified that cassava multication is not taking place as envisaged under this program. This has been caused by some of the following factors:

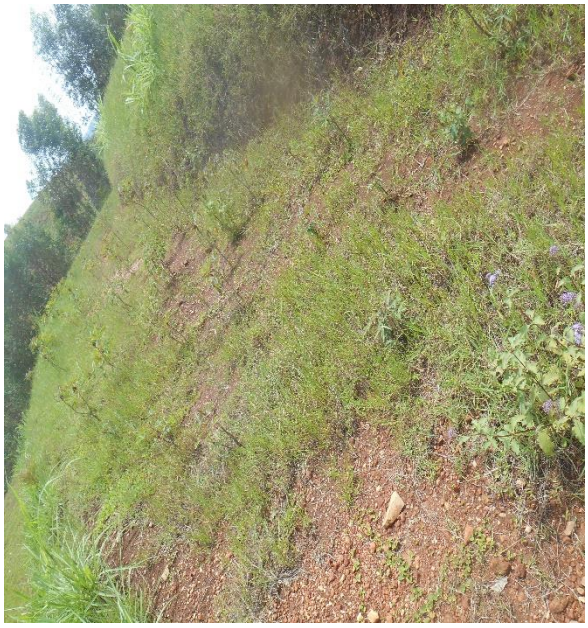
- **No proper records of beneficiary multipliers and farmers:** Lack of proper tracking of those beneficiaries who received disease-free cassava cuttings and those who subsequently received the cassava cuttings from the multipliers.
- **Multipliers failed to give back cassava cuttings:** Multipliers failing to give back targeted quantities of cassava cuttings to farmers after the harvest. Some of them left the cassava stems to dry in the gardens without distributing them further to other farmers for planting. See example in the photo below:



Cassava stems that were left to dry in the garden after harvest of the cassava crop in Rwempasha Sector, Nyagatare District. Photo taken by OAG on 9 March 2018.

- **Poor yields of the cassava cuttings:** At the time of RAB audit field visits, cases were identified where a number of planted cassava cuttings failed to grow or those which grew are of poor quality. Farmers explained that most of cassava cuttings failed to grow because they spent a long time before they were handed to them. At the time of hand over to the farmers, a number of these cuttings were found to have dried hence their germination capacity had decreased.

  There were also cases whereby the cassava plantations were bushy with undesirable grass due to failure to regularly weed them. The above factors contributed to the poor yields observed by the farmers. See examples of poorly performing cassava crop in the photos below:



Planted cassava cuttings which failed to grow or poorly grew at Karukungu site, Kamina Cell, Murundi Sector – Karongi District. Photo taken by OAG on 06 March 2018.

Bushy plantation with undesirable grasses growing with cassava at Karukungu site, Kamina Cell, Murundi Sector – Karongi District. Photo taken by OAG on 06 March 2018.

3.5.1.4 Tenders awarded at higher prices than the estimated budget in the approved annual procurement plan

The audit identified cases where various tenders worth **Frw 3,396,508,817** were awarded at higher prices than their estimated budgeted amounts totalling **Frw 614,560,000** in the annual procurement plan. This required RAB to obtain additional funding to finance the deficit of **Frw 2,781,948,817** (an increase of **453%**). These cases demonstrate gaps in budgeting during procurement planning and show that RAB did not carry out a market survey before making the budget estimates.

3.5.1.5 Irregularities in procurement

The audit identified some irregularities in the award of tenders for feasibility study for a proposed hillside and marshland irrigation project covering a gross area of 16,000 hectares in Gashora, Bugesera District. These irregularities were:

- **Failure to award lot 3 for the tender: In January 2016, a tender worth Frw 693,619,597 was awarded by the Internal tender committee for** an area of 5,100 hectares and invited the successful bidder for contract negotiation. In July 2016 (four months later), RAB decided not to contract the awarded bidder after learning information of the winning bidder's performance on another Government project.

  However, by the time of RAB audit in March 2018 (**two years after invitation for contract negotiation**), the successful bidder for lot 3 was not formally notified of the outcome of the negotiation and no contract for lot 3 has been signed to date. This has derailed the plan for work expected under Lot 3.

- **Failure to execute the full scope of work for lot 2:** RAB signed another contract worth **Frw 887,908,560** *(taxes inclusive)* for feasibility study for lot 2 covering a gross area of 4,797 hectares in Rweru area in Gashora, Bugesera District. However, review of the **final report** submitted to RAB by the contractor revealed that the contractor executed works over an area of 3,000 hectares (representing only **62.5%** of the contracted acreage). Works on the remaining area of 1,797 hectares (representing only **37.5%** of the contracted acreage) were not done. So, far RAB has paid the contractor **Frw 532,745,136** (representing **60%** of the contracted amount). There is a risk that RAB may pay the contractor the full contract amount yet the full scope of works was not done.

3.5.2 KEY FINDINGS ON FERTILISER DEBTORS UNDER POST-HARVEST HANDLING AND STORAGE TASK FORCE

The review of financial statements of Post-Harvest Handling and Storage Task Force (PHHSTF) for the year ended 30 June 2017 revealed that debtor balances amounting to **Frw 11,462,927,585** had remained un-recovered for long periods ranging from two (2) to seven (7) years.

However, as reported in previous year, there is slow rate of recovery for these debtors. The recoverability of outstanding debtor balances was at 0.2%, with only **Frw 18,758,925** out of

Frw 11,481,686,510 recovered during the year. The remaining debtors amounting to **Frw 11,462,927,585** (representing **99.8 %)** was still outstanding as at 30 June 2017.

3.6 HEALTH SECTOR

3.6.1 KEY FINDINGS FROM RSSB ON COMMUNITY BASED INSURANCE SCHEME (Mutuelle de santé)

3.6.1.1 Current Funding mechanism not able to sustain the CBHI scheme

The transfer of the CHBI scheme to RSSB management has come with realisation that the sources of the CBHI scheme income are not sufficient to cover the scheme expenditure as seen in the first financial year of management under RSSB. For the financial year ended 30 June 2016, CBHI total expenditure was **Frw 39,683,725,699** against total income of **Frw 26,847,131,655**. There was hence an unfunded deficit of **Frw 12,836,594,044**. RSSB management indicated that the deficit in the year ended 30 June 2017 was even higher at **Frw 14,120,443,274.** This current funding mechanism is not able to raise sufficient funds to cover CBHI scheme medical benefits and operational expenditure.

3.6.1.2 Contributions under CBHI scheme not allocated to individual members and benefits are not linked to contributing members

There is no comprehensive CBHI members' database to provide crucial information on how many members are enrolled under the scheme. Further, Members' contributions paid are not reconciled to any register or record of membership cards issued to provide assurance on completeness and accuracy of funds paid into CBHI accounts.

The audit had identified some inconsistence between data on category I of CBHI affiliates known to RSSB and those reported covered by RSSB. For example, for beneficiaries under Category 1 of UBUDEHE categorization beneciaries, LODA data has different number from that at RSSB and that at Ministry of Health. There is need to have a proper membership system and cards to minimize risk of ineligible members benefiting from *Mutuelle*.

3.6.1.3 Bank balances held on CBHI bank balances at handover to RSSB not fully accounted for by districts

CBHI bank and cash balances disclosed in District audit reports for the year ended 30 June 2015 amounted to **Frw 4,901,804,024** and should have been to RSSB accounts at handover. However, the audit established that only **Frw 2,271,603,813** was subsequently transferred to

RSSB. This left an amount of **Frw 2,630,200,211** unaccounted for by the Districts, the former custodians of the CBHI scheme.

3.6.2 DELAYS BY RBC IN MAKING DISBURSEMENTS FOR PROGRAM IMPLEMENTATION

Rwanda Biomedical Centre (RBC) coordinates implementation of various health sector programs and is responsible for ensuring timely transfer of funds required by Hospitals, Health Centres and civil society organisations to implement various programs. However, audits of some RBC programs identified that there were significant delays in making the transfers requested by the District hospitals to implement program activities. The delays ranged between **35 days** to **239 days**. In some cases, the transfers were received by hospitals after the quarter targeted had ended. This ultimately affects timeliness of implementation of planned activities.

3.6.3 DISTRICT HOSPITALS

District hospitals continue to experience weaknesses in accounting and management of funds put at their disposal. The 26 audited District Hospitals did not maintain proper accounting records resulting in twenty-one (**21**) hospitals audited getting adverse audit opinion on their financial statements and three (3) district hospitals (**Muhororo, Rutongo and Kabaya**) had a disclaimer of audit opinion. Key concerns with District Hospitals are highlighted below:

3.6.3.1 Errors in financial statements of District Hospitals

The audit of twenty six (26) District Hospitals identified a general problem of poor book keeping and errors in financial statements prepared by the District hospitals. Major concerns were with unexplained differences in opening balances which affected **nine (9) District Hospitals** and instances of omitted balances which affected **eleven (11) District Hospitals**. Receivables totalling to **Frw 1,080,476,695** were omitted from the financial statements of **eleven** (**11)** District hospitals while Liabilities totalling to **Frw 543,524,846** were omitted from financial statements of **nine (9)** district hospitals.

3.6.3.2 Cash flow concerns for hospitals with long outstanding receivables

Receivables amounting to **Frw 2,837,351,638** were long outstanding. This was noted in fourteen (**14)** District Hospitals. Long outstanding receivables deny the district hospitals the necessary cash flows for their effective operations. As a result, this adversely affect service delivery in district hospitals.

3.6.3.3 High cases of rejected claims which may threaten service delivery

The audit revealed high cases of rejected claims amounting to **Frw 343,429,142** as result of insurers adjusting some medical invoices due to mainly; billing for services that are not covered by the insurers, use of invalid insurance cards, overcharging of patients, lack of transfers, medical services provided which are not part of the insurance approved medical care etc.

While rejecting the claims is a right of insurers in line with insurance contracts, such a high amount of rejected claims implies that hospitals are not able to recover the cost of services provided to the affected patients. This is likely to strain existing hospital resources unless efforts are taken to address the causes of these rejected claims. This was noted in ten (10) district hospitals.

3.6.3.4 Irregular expenditure incurred by District Hospitals

The audits identified irregular expenditure of **Frw 1,040,622,663** that was incurred by some of the District Hospitals. This comprised **unsupported expenditure** (**Frw 690,354,382** in 11 Hospitals), **partially supported expenditure (Frw 158,178,217** in 4 hospitals) and **Wasteful expenditure (Frw 192,090,064** in 7 hospitals).

3.6.3.5 Corporate governance issues in District Hospitals

Audit of district hospitals revealed that the Boards of Directors were ineffective. Weaknesses identified include: failure to review financial reports and budget execution, failure to monitor the implementation of external and internal auditor's recommendations, lack of audit committees and gaps in Board composition. Further, most boards lacked at least a member with an accounting/finance background and there were no induction programs for the new board members. Mechanism for evaluating performance of Board members had not been put in place to enable performance evaluation for Board members.

3.6.3.6 Cases of idle assets and incomplete fixed assets registers

Audits identified cases of idle assets in eleven (11) district hospitals. The idle assets were mainly medical equipment. Examples included: Hospital beds, incubators, ultrasound, fetal monitors, Microscope, electronic micropipette accupipex, Electrocardiogram (ECG) etc.

In addition, cases of incomplete fixed asset registers were noted in fifteen (15) District Hospitals. The registers maintained lacked details on date of acquisition, acquisition value, supplier, location, tag number and condition of the assets.

There is need for the District Hospital management to improve on the quality of accounting records and ensure that proper books of account are maintained. In addition, necessary support should be provided by both the District and Office of Accountant General to ensure reliable financial statements are prepared by the district hospital management.

3.6 TRADE AND INVESTMENT

3.6.1 KEY FINDINGS AT MINEACOM

3.6.1.1 Delays in relocation of industries from Gikondo Industrial Park

Instructions of the Minister of Trade and Industry No 15/2012 of 23/04/2012 related to the relocation of factories and other facilities located in the Gikondo Industrial Park (GIP) required relocation of industrial park from Gikondo Industrial Park because it is a swamp zone and the activities carried out in that area are against the environment. A resolution of Cabinet meeting of 18 November 2011 had proposed that the expropriation exercise should not exceed four years, starting from January 2012. This would therefore have been completed by January 2016.

However, only fourteen (14) industries out of the ninety (90) eligible industries (representing 16 %) had been re-located from Gikondo Industrial Park (GIP) by the time of my audit in January 2018. The ministry has indicated that a new expropriation model for Gikondo Industrial Park is being considered to address the challenges encountered in the initial plan. Consultations with key stakeholders on the modalities for implementing the new expropriation model were ongoing. Once approved, this new expropriation model will enable phased payment of the owners of property in the Gikondo Industrial park and facilitate them to relocate from the Gikonko within a period of 2 years. I recommend the ministry to continue following up this issue, and ensure that Gikondo Industrial Park (GIP) is expropriated as approved by Cabinet on 18 November 2011.

3.6.2 RWANDA DEVELOPMENT BOARD (RDB)

3.6.2.1 Concerns over implementation of agreement for supply of laptops to Government by PBG Rwanda Limited (PBG)

As part of the agreement signed between the Government of Rwanda (GoR) and PBG Rwanda Limited (PBG), Government agreed to a purchase commitment to procure 40,000 devices per year from PBG Rwanda Limited (PBG) for four (4) years from year 2 through to Year 5 of the agreement at a value of **USD 9,600,000** per year. Laptops worth **USD 4,799,786** were supplied to REB under the OLPC program in the first half of the second year. A revised schedule was signed on 10th October 2016 for the balance of **USD 4,800,214** to be

utilized for 2 categories of laptops (i5 and i7 with RAM of 8GB) to be produced by PBG Rwanda Limited (PBG) in the 2nd year of the implementation agreement. Quantities and prices were agreed as follows:

Category	Quantity	Unit price in USD	Total price in USD
i5	5,638	596	3,360,248
i7	2,146	671	1,439,966
Total	**7,784**		**4,800,214**

However, the audit of RDB identified the following:

- **Lack of a needs assessment by RDB before ordering laptops:** RDB did not carry out any needs assessment before ordering **7,784 laptops** from PBG Rwanda Limited (PBG) for the second half of the 2nd year of the implementation agreement from January 2017 to June 2017.

Months	Category (i5)	Category (i7)	Total
January 2017	940	358	1,298
February 2017	940	358	1,298
August 2017	3,758	1,430	5,188
Total	**5,638**	**2,146**	**7,784**

- **Lack of distribution plan for laptops ordered:** By the time of the audit in February 2018, all the **7,784 laptops** were produced by PBG Rwanda Limited (PBG) and paid for by RDB. However, only **2,302 laptops (869 for i7 and 1,433 for i5)** representing **30%** of the total laptops ordered were distributed to different public entities leaving a balance of **5,482 laptops** not distributed.

  It is worth noting that in January 2018, RDB ordered additional **4,027 laptops i5** to be distributed to Government entities. There was no documented plan for the distribution of **9,509 laptops** with a purchase cost of **USD 5,763,139 (equivalent to Frw 4,884,747,443)** that are kept in the stock of PBG Rwanda Limited (PBG).

3.6.2.2 Concerns over sustainability of Government funding for CMU operations

In September 2011, Government of Rwanda signed an agreement with Carnegie Mellon University (CMU) to establish and operate the CMU in Rwanda (CMU-R). Funds to finance operations of the CMU were to be generated from fees paid by students and transfers from the Government of Rwanda. The Government portion of funding for operating expenses was expected to reduce progressively as more students enrolled to generate more internally generated revenue. Enrollment was expected to increase from an approximated 40 students in the initial class in 2012 to approximately 150 students by 2017. This targeted student

enrollment was expected to provide fees contribution of **USD 16,080,000 (equivalent to Frw 13,828,800,000** *at current exchange rate of 860 Frw*).

However, by academic year 2016-2017, the University had enrollment of only **75 students** and total fees contributed since the establishment of CMU-R in 2012 up to February 2018 is **USD 5,760,718 (Frw 4,954,217,480)**. This has resulted into Government funding most operating expenses of CMU, with cost accumulating to **USD 47,622,847.95 (equivalent to Frw 40,955,649,237** *at current exchange rate of 860 Frw*) as at 30 June 2017. This Government funding would have been reduced progressively if CMU been able to enroll the envisaged number of students to realize the fees revenue of **USD 16,080,000 (Frw 13,828,800,000)**.

3.6.2.3 Delays in execution of construction projects

The audit identified two major projects with contract value of **Frw 13,171,181,870** whose completion has been significantly delayed, after various extensions that extended the completion date by 8 to 16 months. Even with these extensions, the site visits made during the audit identified that these works were unlikely to be completed within these revised completion dates and may require further extensions, as shown in table below:

Project	**Contract value (Frw)**	**Initial contract completion date**	**Revised completion date-per approved extensions**	**Status by time RDB audit in Feb 2018**
Regional Information Communication Technologies Centre of Excellence Kigali Campus (CMU)	8,917,924,943	20th October 2016	28th February 2018	Construction works were at **85%** for initial works and at **50%** for additional works. **See photo 1 below.**
Contract for construction of factory unit for RDB in Kigali Special Economic Zone	4,253,256,927	27th July 2017	31st March 2018	Construction was still at foundation phase and the percentage of completion of works was at **42%**. **See photo 2 below.**
Total	**13,171,181,870**			

Ultimately, RDB is not able to utilize the factory unit and CMU Kigali campus facilities for envisaged activities. **See photos below:**

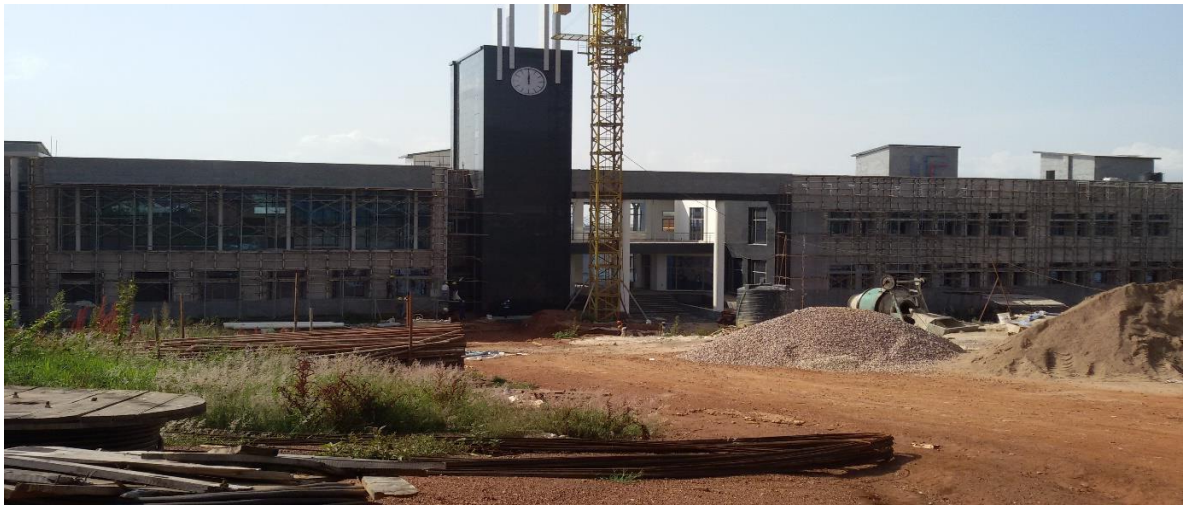


Photo 1: Construction of CMU by CCECC limited still ongoing (Photo taken by OAG on 02 February 2018

Photo 2: Construction of factory unit block 2 which is still at the foundation phase (Photo taken by OAG on 2nd February 2018)

3.7 LOCAL GOVERNMENTS

3.7.1 CONCERNS OVER IMPLEMENTATION OF VUP PROGRAMME

3.7.1.1 Slow recovery of VUP- Financial Services loans disbursed to beneficiaries through Local Governments between 2009 and 2015

As highlighted in the previous annual report, implementation of the VUP financial services programme that targeted to increase citizens' access to financial services is being affected by challenges of recoverability for loans disbursed through Local Governments between 2009 and 2015. Out of the **Frw 22,238,525,883** recoverable as at 30 June 2016, only **Frw 603,101,894** was recovered during the year ended 30 June 2017 to increase cumulative collections at 30 June 2017 to **Frw 14,311,119,688** had been recovered by 30 June 2017. This represents recoverability of **64%** and implies that the uncollected balance of **Frw 7,927,406,195** is not available for further lending to other needy citizens who require the financial services.

It should be noted that some of the loans in question have been in arrears for periods ranging from 4 to 10 years from the date of disbursement and may therefore not be recoverable. Accordingly, Government needs to undertake an assessment to identify the causes of this high level of unrecoverable loans and take necessary steps to ensure that those targeted get financial services but in a way that can allow them to implement feasible projects to enable them payback at affordable interest rates.

3.7.1.2 Declining rate of loan disbursement for VUP- Financial Services program

In the financial year 2015-2016, Government transferred the responsibility for management of VUP financial services program from Local Governments to SACCOs. The audits in Local Governments identified that the disbursements from SACCOs to target beneficiaries of VUP financial services are declining, as shown in examples below:

- **Nyarugenge District:** A review of disbursements in four (4) SACCOs revealed that out of the **Frw 112,229,971** available for loans, only **Frw 29,450,000** representing **26.2%** was disbursed by SACCO to VUP financial services beneficiaries. In SACCO Kigali, there is no record of any disbursement during the year while SACCO Nyamirambo disbursed only 9% of the available funds.

- **Nyanza District:** A total of **Frw 434,813,782** was available for granting financial services loans to eligible beneficiaries under VUP. However, only **Frw 123,230,000 (28%)** had been disbursed out of the available funds for target beneficiaries.
- **Muhanga District**: A total of **Frw 274,743,007** was transferred to three (3) SACCOs for granting financial services loans to eligible beneficiaries under VUP. However, only **Frw 32,737,000** (representing 11.9%) was granted as loans while **Frw 242,006,007** was not utilised.
- **Musanze district**: Funds totalling **Frw 172,771,309** were transferred to five (5) Umurenge SACCO for financial services. However, only **Frw 29,540,000** out of Frw **172,771,309** representing **17%** were disbursed as loans. The remaining **Frw 143,231,309** representing **83%** was still kept by SACCOs.
- **Gicumbi district**: Only **Frw 142,037,493** out of **Frw 570,204,360** availed to eleven (11) SACCOs representing 25% were disbursed as loans and the remaining balance of **Frw 428,166,867** representing 75% was still kept by SACCOs.
- **Kicukiro District:** Out of Frw 188,911,023 held four (4) Umurenge SACCO for disbursement as loans under VUP financial services in Kicukiro District, only Frw 58,390,000 representing 30.9% of available funds of Frw 188,911,023 were disbursed as loans. The balance of Frw 130,521,023 representing 69.1% was still kept by SACCOs
- **Nyaruguru District:** The District had Frw 611,327,892 available for VUP financial services loans in twelve (12) SACCOs. However, Frw 465,220,177 (76%) out of the available funds was not disbursed to the beneficiaries.
- **Ruhango District:** Funds amounting to Frw 661,571,365 were transferred to nine (9) Umurenge SACCOs to be disbursed as loans under VUP financial services. However, the loans disbursed to beneficiaries as at 30 November 2017 were only Frw 342,743,626 (representing 52 % of total funds transferred). The remaining balance of Frw 318,827,739 representing 48% of funds availed by the District was still kept by SACCOs.
- **Rulindo District**: Nine (9) Umurenge SACCOs had opening balance of Frw 204,135,880 arising from previous transfer and loans repayment (revolving fund). During the year under audit, the district transferred additional funds amounting to Frw 140,830,459. Hence, total amount of Frw 344,966,339. However, loans granted to VUP beneficiaries were **Frw 84,612,856** which represented only 25% of total funds available.
- **Rusizi District**: The district transferred VUP funds amounting to **Frw 469,905,641** to ten (10) SACCOs. However, only **Frw 184,990,000** (representing 39%) had been disbursed

to VUP financial service beneficiaries, leaving a balance of Frw 284,915,641 (representing 61%) that was not yet disbursed to the beneficiaries at the year-end.

- **Nyamagabe District**: An amount of **Frw 471,781,514** out of **Frw 539,505,514** available in twelve (12) SACCOs for disbursement (representing **87%** of total amount available for disbursement) was still on SACCOs' bank accounts as at 28th February 2018. This implies that only Frw 67,724,000 (representing 13%) had been disbursed to VUP financial services beneficiaries.

3.7.1.3 Concerns over affordability of interest rate charged to beneficiaries by SACCOs on VUP- Financial Services program

On 16 March 2015, LODA issued guidelines to implement the loan/financial services managed in partnership with Umurenge SACCO. Article 8 of the guidelines sets the interest rate of **11% per year** on the financial services loan managed in partnership Umurenge SACCOs to cover for SACCO Administration cost, Loan defaults and Profit. Article 10 also sets late repayment penalty of **5%** of the value of the late installment. The guidelines were circulated to Umurunge SACCO leadership on 1 April 2015 and have since been implemented by the SACCOs.

While the above guidelines were issued to facilitate VUP financial services program to grant loans to poor individuals in the bottom two of Ubudehe categories and third category of extremely poor individuals, there are concerns in Districts that the interest rate of 11% is preventing eligible beneficiaries from accessing the financial services. In many districts across the country, management has attributed the low disbursement of loans by SACCOs to the high interest rate of 11% (when compared to previous rate of 2%).

Government should consider alternative options of funding SACCOs' operations, to reduce the burden caused by the high interest on the poor beneficiaries of VUP loans. This among other initiatives, should facilitate improved access to funds availed to SACCOs for financial services and lead to increased disbursements to eligible beneficiaries to help them implement income generating activities and fight poverty.

3.7.1.4 Delays in payment of direct support to beneficiaries

Under the Vision 2020 Umurenge program (VUP) implementation framework and guidelines, payments for direct support should be made to beneficiaries at the beginning of every month. For public works, payments should be made every two weeks of the month (twice a month). However, audits of districts identified that during the year ended 30 June 2017, there were significant delays in making transfers for direct payments. The delays ranged from 10 days to 337 days across various districts as shown below:

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

3.7.2 CROSS CUTTING ISSUES FROM LOCAL GOVERNMENTS

3.7.2.1 Delays in execution of construction works affecting service delivery

As indicated in the section for contract management, districts continue to delay service delivery to the population due to weaknesses in contract management. Most districts had cases of delayed contracts. A total **70 contracts** with a value of **Frw 48,605,709,515** had either been delayed or abandoned in districts. Most of the affected contracts relate to works for improving roads, water supply systems, building the model villages, improving markets,

improving infrastructure for health centres, TVETs, classrooms and craft centers (Agakiriro), as well as projects to construct hotel/guest houses for revenue generation. See table below:

Service delivery affected by delayed contracts	Value of delayed and abandoned contracts	No. of contracts affected
Roads	19,555,384,169	17
Water supply system	9,515,333,603	8
Model village	2,384,401,436	6
Markets	3,956,910,549	3
Health centre	1,413,168,579	5
TVETs and classroom and craft centers (Agakiriro)	2,161,588,272	5
Survivor houses	405,817,396	4
Public lights	956,168,928	3
Electrification	873,919,011	4
Office admin building	1,021,185,233	1
Hotel/Guesthouse	4,925,646,990	3
Others	1,436,185,349	11
	48,605,709,515	**70**

Most of the delayed contracts were noted in Nyaruguru, Karongi, Burera and Nyagatare districts.

3.7.2.2 Failure to timely disburse capitation and school feeding grants to schools

Districts are expected to transfer capitation and school feeding grants to Public and Government aided schools in their respective districts every quarter to facilitate school operations and feeding of students. However, audits in Districts identified cases where some districts failed to transfer capitation and school feeding grants to schools for the last quarter (Q4) of the fiscal year ended 30 June 2017. In other cases, there were significant delays in making the transfers with some transfers being made after the quarter had ended. It is not clear how such schools operated and provided feeding to students before receiving the grants earmarked for respective quarters.

In **15 districts** below, total grants amounting to **Frw 3,070,951,102** were either delayed or not disbursed, hence affecting operations in the affected schools. See table below:

	District	Delays noted	Amount (Frw)
	Districts where transfers were not made		
1	Gakenke		117,933,393
2	Gicumbi		208,255,605
3	Huye		23,540,805
4	Nyamagabe		219,789,435
5	Nyaruguru		169,590,907

6	Rusizi		211,584,242
7	Rutsiro		126,380,215
8	Gatsibo		246,933,789
9	Nyamasheke		227,754,475
	Sub-total		**1,551,762,866**
	Districts where transfers were made but after delays		
10	Gakenke	44 to 174 days	350,155,795
11	Gasabo	16 to 48 days	25,173,612
12	Gicumbi	44 to 164 days	305,913,919
13	Kicukiro	55 to 141 days.	32,287,040
14	Nyamasheke	30 to 83 days	404,531,820
12	Rubavu	66 to 129 days	8,073,545
15	Rulindo	11 to 92 days	23,042,085
16	Rutsiro	49 to 128 days	23,768,405
17	Gatsibo	79 to 100 days	324,838,575
18	Kamonyi	463 days	13,637,160
19	Kayonza	52 to 111 days	7,766,280
	Sub-total		**1,519,188,236**
	Grand total		**3,070,951,102**

3.7.2.3 Concerns over performance guarantees not recovered

Cases were noted where various contractors failed to honour contract terms and districts failed to recover some of the guarantees provided by the contractors. Such cases were noted in the districts of Bugesera, Gicumbi, Gatsibo, Nyabihu, Nyamasheke, Rubavu, Rusizi and Rulindo where various performance guarantees amounting to **Frw 456,460,448** were not recovered from different issuing banks and insurance companies.

3.8 NATURAL RESOURCES AND ENVIRONMENT

3.8.1 RWANDA NATURAL RESOURCES AUTHORITY (RNRA)

3.8.1.1 Irregularities noted in supply of archiving equipment (filing cabinets and shelves) for 4 district lands offices

Field visits conducted by the auditors to Land Offices in districts from 17th to 21st September 2017 identified that some of the equipment reported as distributed to these sites had not been received. For example, **33 metallic filing cabinets** worth **Frw 3,465,000** were paid for as delivered but they had not been received in four districts of Gasabo, Gicumbi, Kirehe and Nyagatare. Another example is where the supplier was fully paid for delivering **111 items of equipment** comprising filling cabinets and shelves worth **Frw 11,760,000** to Kamonyi, Gatsibo, Muhanga and Karongi districts and yet these had not been assembled.

3.8.1.2 Tablet PCs either idle or not found

On 27th October 2015, former RNRA signed with **LEICA GEOSYSTEMS AG** a contract of **USD 1,994,873** equivalent to **Frw 1,467,779,435** for supply of 170 land surveying tablet personal computers and related services (**including purchase of software licenses and training**). Computer tablets were delivered to RNRA on 21st December 2015. However, the physical verification exercise undertaken during the audit from 17th to 21st September 2017 identified the following:

- **Idle tablets: Seventy two (72) tablets** worth **Frw 364,683,254** with their accessories were not yet in use since the date of delivery on 21st December 2015.

  Even for those distributed by RNRA to districts, the audits identified that in some districts, there are land surveying tablet personal computers which were not in use. This was noted for **17 tablets** with the cost of **Frw 146,777,932** in the following districts:

No	District name	Description	Number of item	Unit Cost Frw	Total cost Frw
1	Ngoma District	Land surveying tablet personal computers and accessories	1	8,633,996	8,633,996
2	Nyabihu District	Land surveying tablet personal computers and accessories	5	8,633,996	43,169,980
3	Rusizi District	Land surveying tablet personal computers and accessories	4	8,633,996	34,535,984
4	Nyaruguru	Land surveying tablet	2	8,633,996	17,267,992

No	District name	Description	Number of item	Unit Cost Frw	Total cost Frw
	district	personal computers and accessories			
5	Gakenke District	Land surveying tablet personal computers and accessories	2	8,633,996	17,267,992
6	Burera District	Land surveying tablet personal computers and accessories	3	8,633,996	25,901,988
	Total		**17**		**146,777,932**

- **Missing tablets: Five (5) tablet computers** worth **Frw 43,169,980** could not be traced. In addition, two (2) tablets received by Musanze district worth **Frw 17,267,992** were stolen.

3.8.1.3 Other IT equipment and their consumables acquired but not in use

On 24th October 2016, former Rwanda Natural Resources Authority (RNRA) signed a contract worth **Frw 216,434,730** with COMMUNICATION SOLUTION Ltd for supply of LAIS Equipment and their Consumables to Land Tenure Regularization support Project. These equipment and consumables were delivered on 21st November 2016 and the supplier has since been fully paid.

However, the physical verification exercise undertaken during the audit on 29th September 2017 identified that some equipment worth **Frw 13,599,490** were not yet put in use but were still packed in boxes and kept in the store. In addition, many cartridges worth **Frw 35,032,500** were supplied on 23rd December 2016 but only 2 cartridges have been issued within a period of 10 months since delivery. The remaining **48** cartridges worth **Frw 33,631,200** were still kept in stores of Rwanda Land Management and Use Authority (RLMUA).

3.8.2 KEY FINDINGS ON MANAGEMENT OF MUNICIPAL LIQUID WASTE IN THE CITY OF KIGALI

3.8.2.1 Untreated liquid waste being discharged in the environment

The audit identified cases of health facilities, industries, big buildings, garages, and slaughter house that are discharging untreated hazardous liquid waste in the environment. Untreated liquid waste may result in environmental degradation and put the life of the population in danger. For more details refer to the **photo Nº 20**

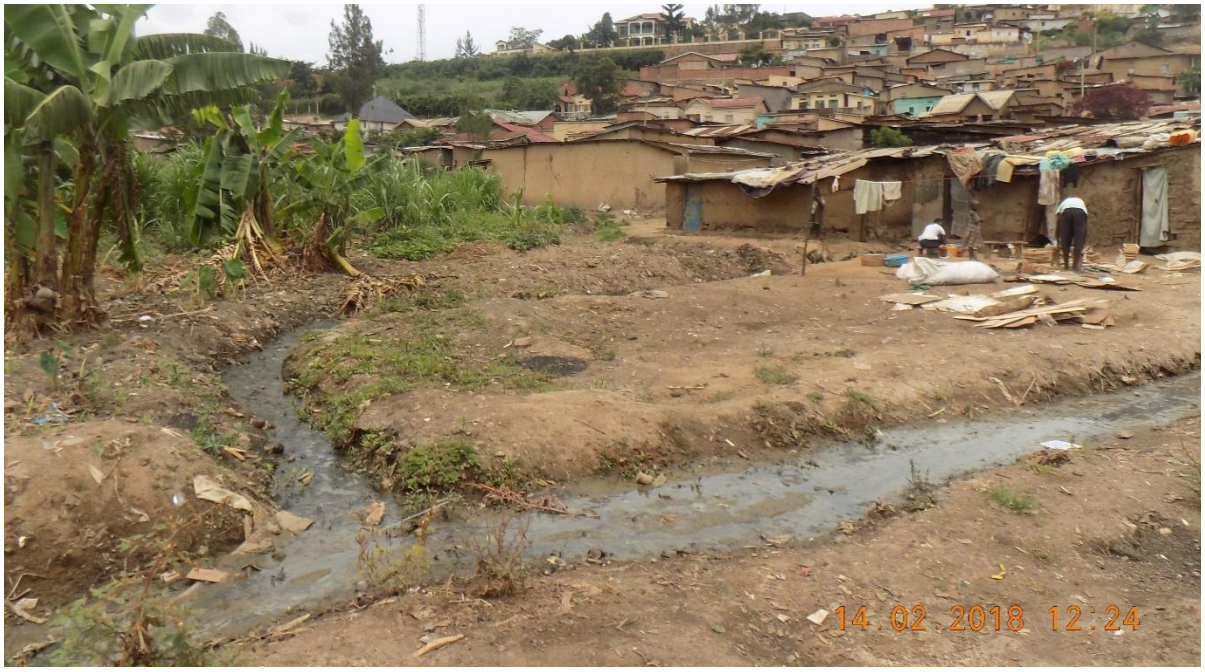


Photo No 20 taken on 14/02/2018: Houses constructed in Rwampara wetland, Kamutwa cell, Kacyiru sector, in Gasabo district.

3.8.2.2 Lack of an environmental management plan for Nduba disposal site

Nduba disposal site started operating in May 2012 without undertaking an environmental impact assessment and a feasibility study highlighting the soil investigation, flood protection and site design**,** alternatives in terms of capital, operation and maintenance costs of land; before establishing it as a disposal site. In my previous performance audit of May 2016, I recommended the CoK in liaison with stakeholders involved in waste management to carry out an environmental management plan in order to mitigate the environmental challenges that the disposal site was causing.

- However, during my audit in March 2018, I noted that the environmental management plan was not yet developed. In addition to that, the field visit conducted at Nduba disposal site, showed that the continued inappropriate liquid waste disposal practices (mixing different liquid waste in ponds without any treatment, ponds that are not subjected to any protection and not covered) are detrimental to the environment. This inappropriate management of Nduba disposal site may expose the Government to incur huge cost of maintaining the disposal site after its closure.

- The above case of potential huge costs at closure of the site was noted with the previous disposal site of Nyanza, which was also established without an EIA and feasibility study where the joint inspection carried out by the CoK and the Ministry of Defense showed

that, after getting filled, Nyanza disposal site had cracks which are likely to lead to the landslide or fire outbreak as they easily allow the water and air penetration in the waste. To fix these issues, short and long term activities have to be undertaken where only the short term activities cost are estimated to **Frw 399,524,000.** The long term activities estimated cost are not yet determined.

3.8.2.3 Lack of disposal site for hazardous liquid waste

The CoK has responsibility to indicate a place where waste shall be disposed off. Addition to this, no waste shall be disposed elsewhere except as specifically authorized by the City of Kigali. From the above, the CoK has established Nduba disposal site which has been operating since 2012. This disposal site was planned for solid and sewage waste generated in the City of Kigali.

However, in the interview with CoK management, I noted that there is no place designated for disposing of hazardous liquid waste generated in the CoK. This is due to lack of prioritization in management of hazardous liquid waste being generated in the CoK. Consequently, hazardous liquid waste are being disposed of at Nduba site inappropriately with non-hazardous liquid waste without any treatment which is detrimental to the environment and putting the life of the population at risk.

3.8.2.4 Inappropriate disposal of liquid waste at Nduba disposal site

(i) Mixed hazardous and non-hazardous liquid waste: In documentary review, interviews with waste generators and field visit to Nduba disposal site, I noted that liquid waste from industries, hospitals and health laboratories are disposed in the same ponds with sewage and waste water without considering their types and without any treatment. This is attributed to the lack of a designated place for disposing of hazardous liquid waste and other liquid waste other than the sewage. In addition, the controls in place cannot identify which type, source and handling strategies of liquid waste to be disposed off.

Consequently, hazardous liquid waste are being inappropriately disposed of. This will degrade the ground water and overall environment. In long run this may adversely affect human health and other living species.

(ii) Expired liquids disposed of in a pit at Nduba disposal site: For any expired liquid waste generated in the CoK, the owner should seek the permission to dispose it and when it is granted, the CoK will indicate a place to dispose it (Nduba disposal site).

However, during the field visit conducted on 22 February 2018, I noted that since the establishment of Nduba disposal site in May 2012, the expired liquids irrespective of their types and nature have been disposed of in pits at Nduba site without any treatment. This is due to lack of regulations on management of expired liquids and disposal site for any other liquid waste apart from sewage. Specific cases are shown below:

- On 30 May 2017, a company called Abahizi dushyigikirane ltd was granted authorization by REMA to dispose of expired water based adhesive glue and paint at Nduba disposal site.
- On 21 June 2017 Skol Brewery Ltd was granted authorization by REMA to dispose expired beer cans and they were disposed of without any treatment.

Disposing off expired liquids in unpaved pits nor subjected to any underground protection, may lead to the contamination of ground water and cause environmental hazards.

(iii) Inappropriate ponds for liquid waste disposal at Nduba site: During the physical verification conducted at Nduba liquid waste disposal site on 22 February 2018, I noted the following weaknesses:

- **Ponds are not paved nor subjected to a concrete protection:** This poses a risk of the contamination of ground water and other environmental hazards.
- **Filled ponds are not covered or subjected to any other protection:** In this situation, the disposal site is spreading flies and polluting the air which is a risk to the health of the neighboring population. Further, in case of heavy rain, the liquid waste may overflow out of the disposal site and may cause environmental hazards.

The above weaknesses were caused by lack of EIA, a feasibility study and environmental acceptable standards of treatment and disposal before establishing Nduba disposal site. For more details refer to the **photo Nº 26**.

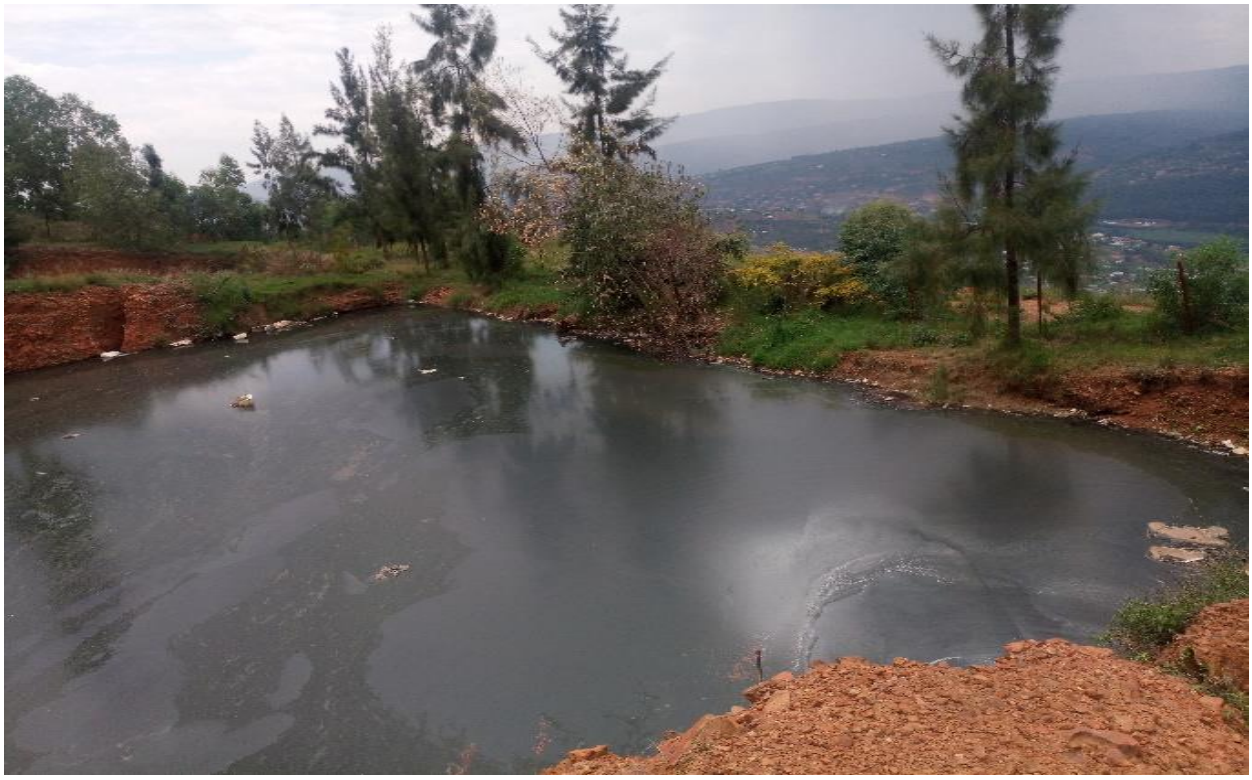


Photo No 26 showing inappropriate and not protected ponds full of liquid waste at Nduba disposal site. Photo taken on 22/02/2018

3.8.3 KEY FINDINGS ON PROTECTION OF WETLANDS

3.8.3.1 Absence of wetlands Master plan

The audit indicated that in 15 years since 2003 when the environmental policy was developed up to the time of audit 2018, no wetlands master plan has been developed to clearly indicate which wetland can be used for which purpose. Therefore, the Ministry of Environment (MoE) management may not be able to provide guidelines on the nature and structure of soil, type of allowed and prohibited activities to be carried out in every unprotected wetlands and; protective measures for protected wetlands for making rational decisions on proper management of wetlands. Hence, the use of wetlands in Rwanda may not be efficient leading to their degradation.

3.8.3.2 Non restoration of exploited wetlands after use

According to Article 19 of Organic law n° 04/2005 of 08/04/2005 determining the modalities of protection, conservation and promotion of the environment in Rwanda; Swamps with permanent water should be given special protection. Such protection should consider their role and importance in the preservation of the biodiversity. In addition to that, this law states that there is an obligation to rehabilitate in any possible way in order to restore the beauty of

the landscape or the natural systems modified by human activity, in accordance with a pre-established rehabilitation plan approved by the competent authority.

Moreover, the clay and sand should be extracted from one side of the wetland and the top soil should be kept to be used for rehabilitation after extraction to avoid the damage of the wetland that can lead to environmental degradation. However, the audit identified a number of wetlands damaged by clay and sand extraction but not restored to regain the beauty of the landscape or the natural systems modified as summarized in the table below:

Wetland Name	District	Sector	Cell	Village	Activity
Nyabarongo	Nyarugenge	Mageragere	Mataba	Rushubi	Clay extraction
Mwange	Rulindo	Kisaro	Kigarama	Runyinya	Clay extraction
Muyanze	Rulindo	Buyoga	Ndarage	Kibingo	Clay extraction
Nyarufunzo	Nyarugenge	Kigali	Rwesero	Rwesero	Clay extraction
Rwamabamba	Huye	Ngoma	Buremera		Clay extraction
Migina-Rwasave	Huye	Mukura	Rango A	Rwinuma	Sand extraction
Murufunzo Warufu Nyarukoni	Gatsibo	Nyagihanga			Clay extraction
Rugende	Gasabo	Rusororo	Rubaya	Rugende	Clay extraction

Refer to photos No 12 and 13 below for details.

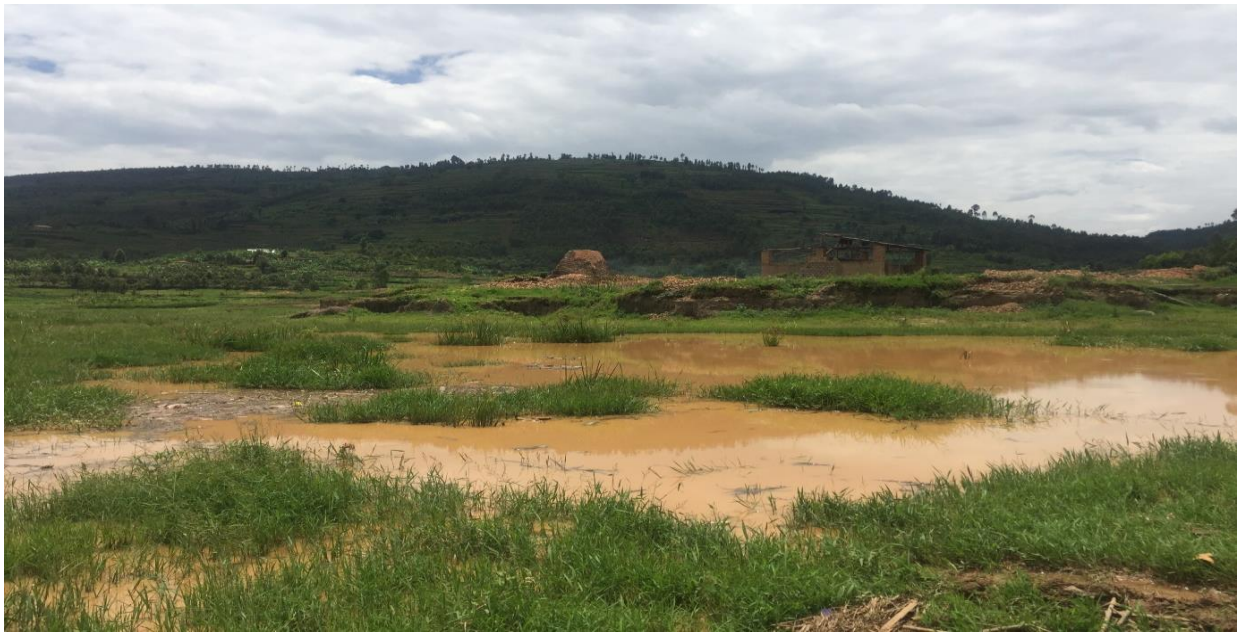


PHOTO NO 12 TAKEN ON 22/02/2018: DAMAGED WETLAND DUE TO CLAY EXTRACTION IN MWANGE WETLAND IN RULINDO DISTRICT KISARO SECTOR KIGARAMA CELL RUNYINYA VILLAGE, ABANDONED WITHOUT RESTORATION

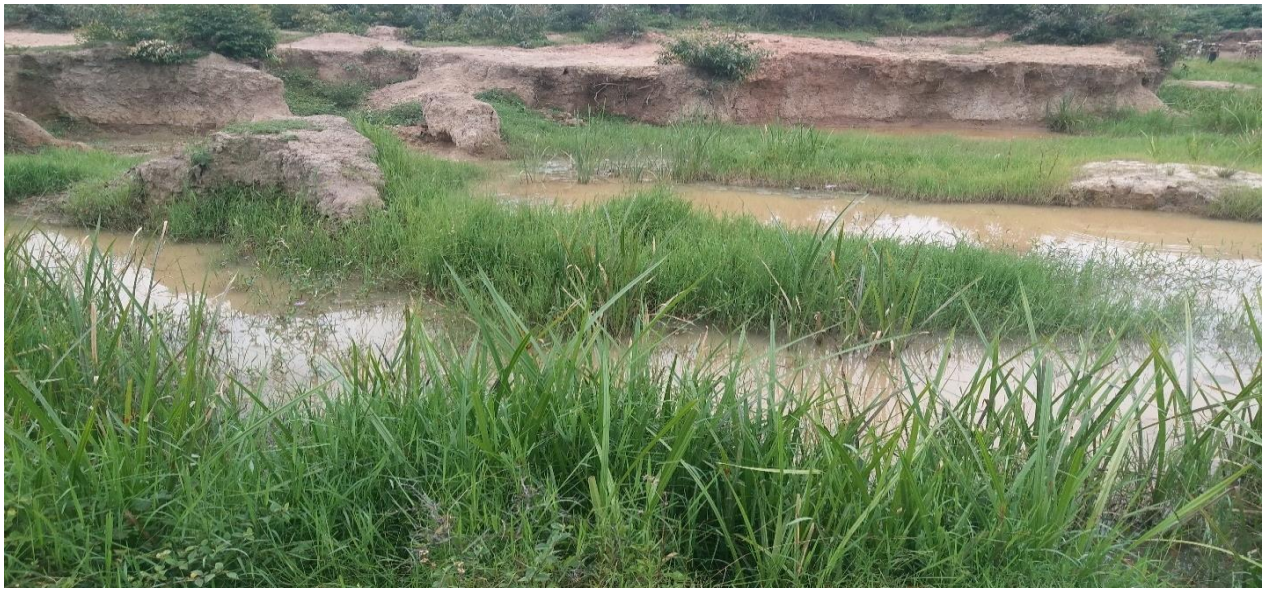


Photo No 13 taken on 20 February 2018: Non-restored wetland damaged due to clay extraction from Rwamabamba wetland located in Huye district in Tumba sector in Mpare cell.

Non restoration of wetlands after use were attributed to absence of pre-established rehabilitation plan and ineffective monitoring and follow-up by stakeholders involved in protection and conservation of the wetlands. Non restoration of wetlands may lead to their disappearance; hence negatively affecting biodiversity.

3.8.3.3 Waste dumped and channeled in the wetlands

The audit identified cases of waste being channeled and dumped in the wetlands. This is a threat to environment and may lead to contamination of water sources and soil, hence putting human life and other living species in danger. The dumping of waste in wetlands is a result of failure to use proper septic tanks and waste treatment plants for households and industries. This is also attributed to lack of proper follow up on the use of wetlands. ***For more details see the table below***.

S/N	Wetland	District	Sector	Cell	Village
1	Nyabugogo	Nyarugenge	Muhima	Nyabugogo	Icyerekezo
2	Yanze	Nyarugenge	Kanyinya	Nzove	Rutagara 2
3	Ndabukiye	Rwamagana	Muhazi	Karitutu	
4	Rugeramigozi (Misizi)	Muhanga	Shyogwe	Ruli	
5	Rwampara	Kicukiro	Kigarama	Rwampara	Gwiza

Refer to photos No 14, 15, 16, 17, 18 and 19 for details.

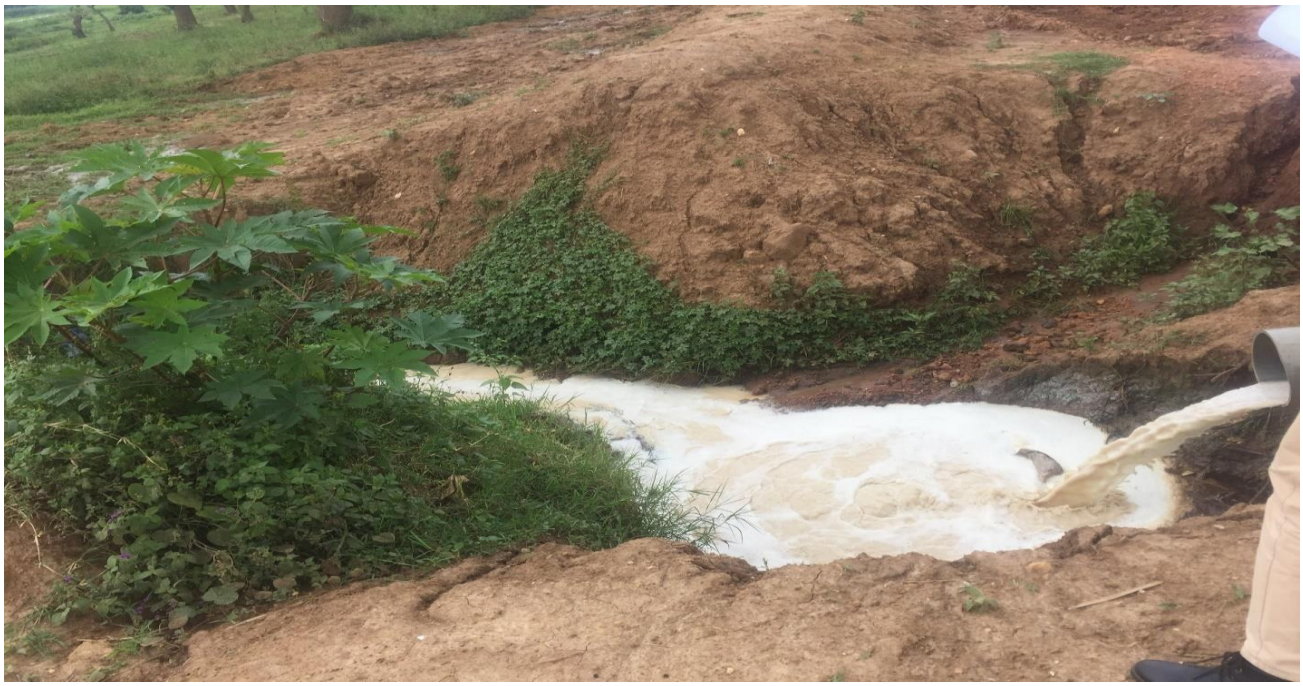


PHOTO NO 14 TAKEN ON 13/02/2018: SHOWING UNTREATED WASTE WATER FROM THE PIPELINE CHANNELLED IN YANZE WETLAND BY ONE OF THE COMPANY

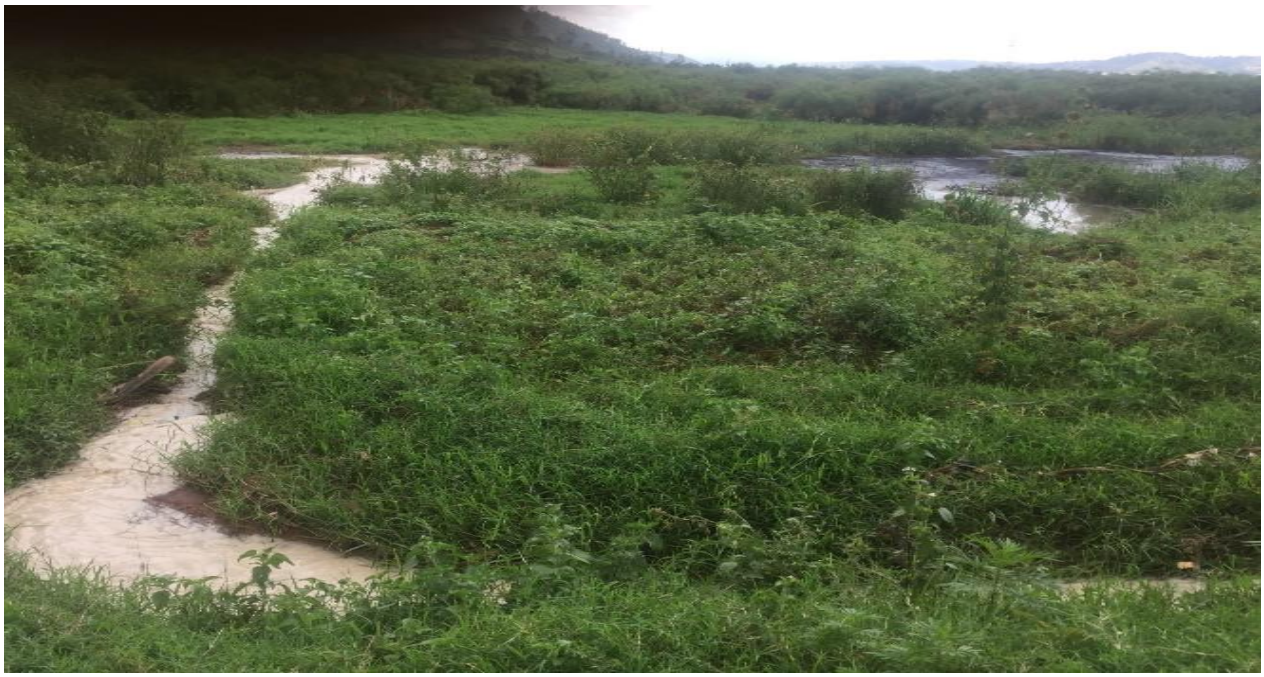


PHOTO NO 15 TAKEN ON 13/02/2018: EFFECT OF UNTREATED WASTE WATER CHANNELLED IN YANZE WETLAND AND AFFECTING WETLAND VEGETATION IN KANYINYA SECTOR, NYARUGENGE DISTRICT BY A COMPANY

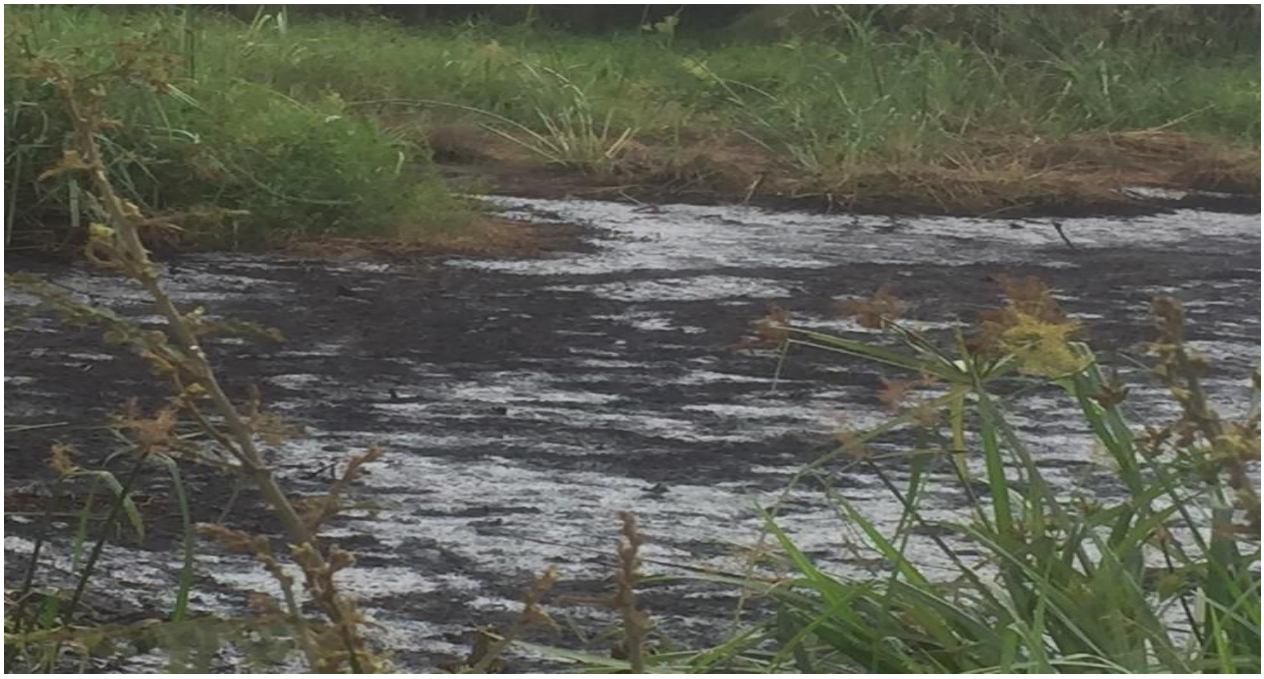


PHOTO NO 16 TAKEN ON 13/02/2018: EFFECT OF UNTREATED WASTE WATER CHANNELLED IN YANZE WETLAND AND AFFECTING WETLAND VEGETATION IN KANYINYA SECTOR, NYARUGENGE DISTRICT BY A COMPANY

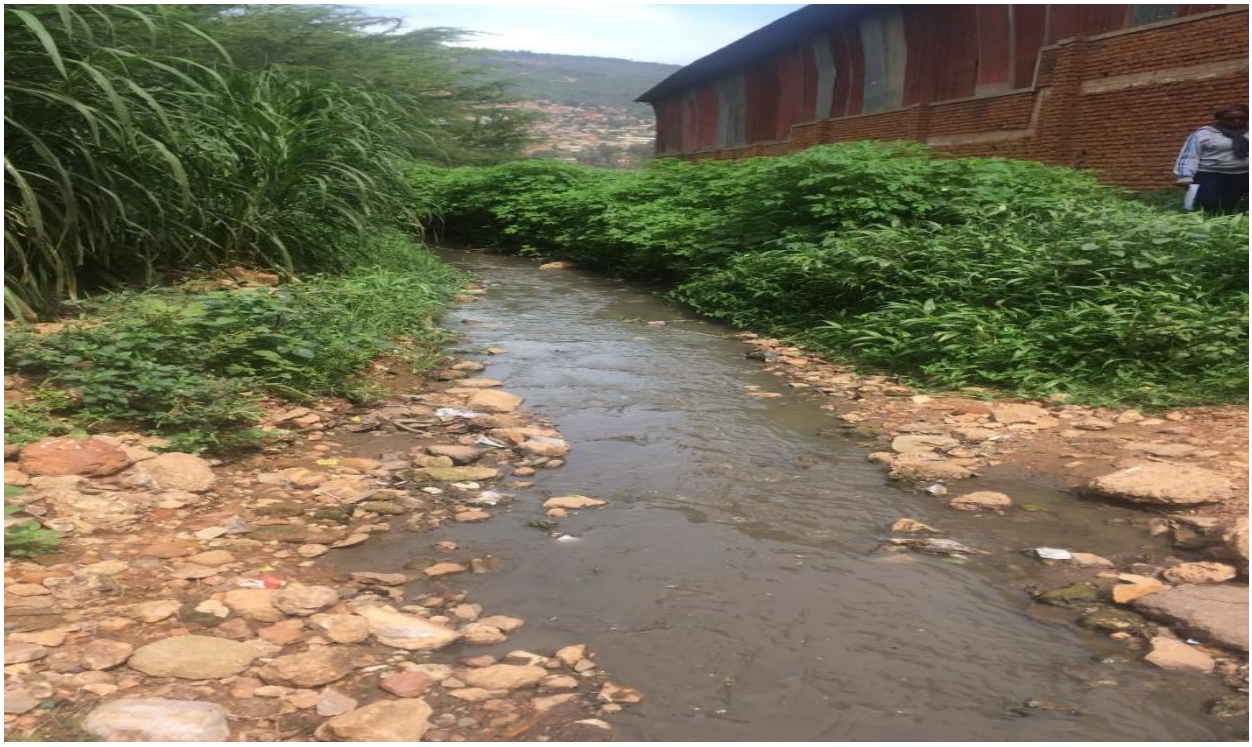


PHOTO NO 17 TAKEN ON 14/02/2018: WASTE WATER BEING CHANNELLED IN NYABUGOGO WETLAND IN MUHIMA SECTOR, NYARUGENGE DISTRICT

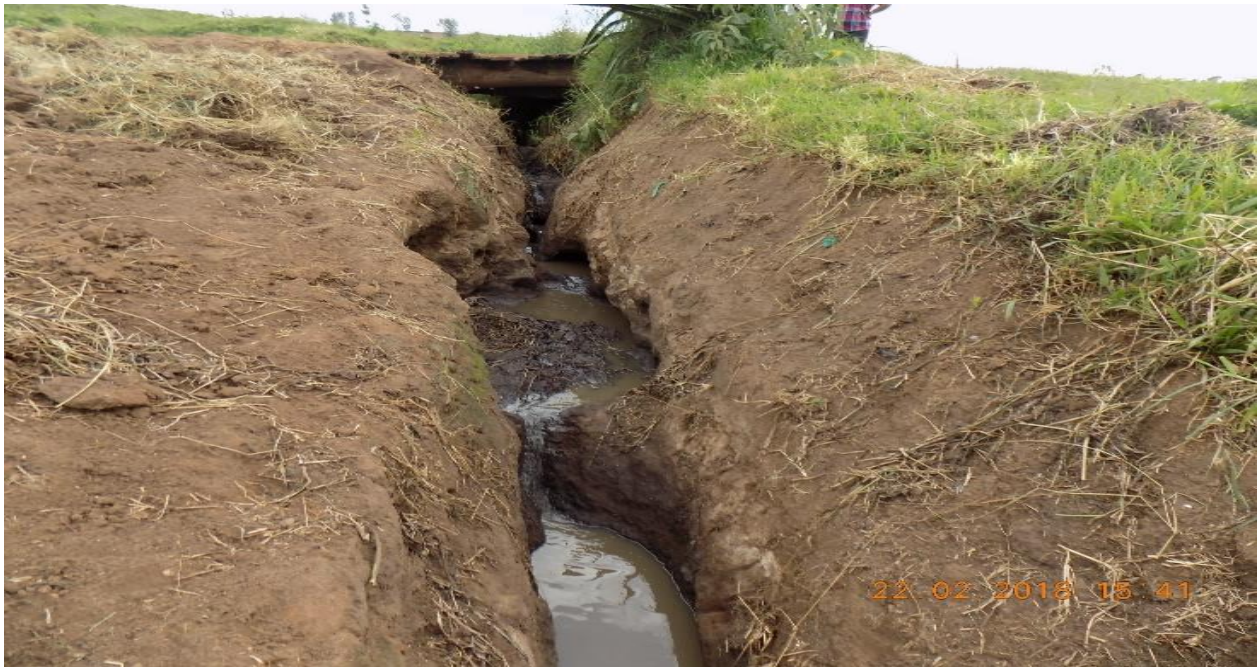


Photo No 18 taken on 22/02/2018: Sewage being channelled by Nsinda Prison in Ndabukiye wetland, Rwamagana District.

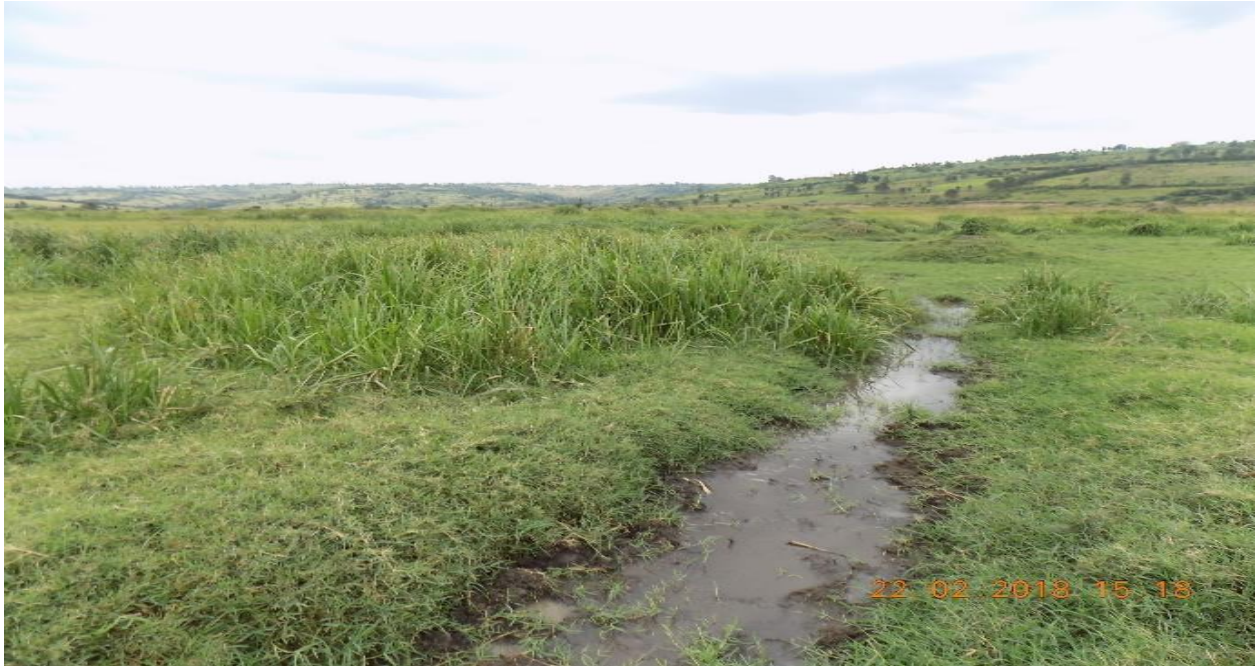


Photo No 19 taken on 22/02/2018: Sewage channelled by Nsinda Prison in Ndabukiye wetland, Rwamagana District.

3.8.3.4 Prohibited activities being implemented in wetlands

The physical verification conducted in February 2018 in sampled wetlands identified 110 residential houses, 18 commercial buildings, 12 industries and factories, 6 Garages, 5 Hotels, Bars and restaurants, 4 schools, 3 markets, 2 churches, 3 public buildings and 3 petrol station**.** For more details refer to the **photos No 20 below:**

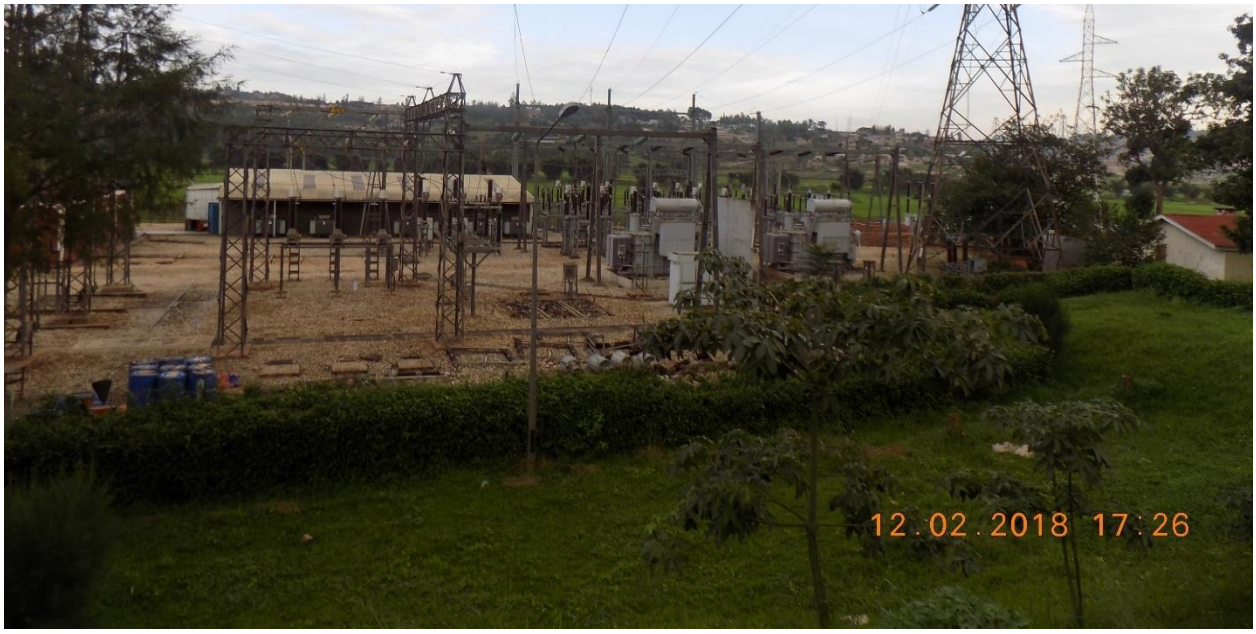


Photo No 20 taken on 19/02/2018: Jabana I thermal plant/EUCL constructed in Nyabugogo wetland, Gasabo district.

The prohibited infrastructures in wetlands may result in loss of lives in case of flood. Furthermore, unauthorised human activities in wetlands may lead to their disappearance and is a threat to wetland biodiversity.