Government of Rwanda (GoR)

2015 Local Government PEFA PFM Performance Assessment

Karongi District

Final Report

Prepared by AECOM International Team

of

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Basic Information

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

Karongi District

Location	Western Province, Rwanda
Government	Elected Mayor (Chief Executive) and District Council
Political arrangement	Administrative decentralization
HQs	Karongi
Industrial/Commercial Cities	None, Rural based district
Population	331,808 (2012 censés)
Area	993 km^2
Population Density	334 persons/km^2 (2012 census)
Official Languages	Kinyarwanda, English, & French

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

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

PEFA Secretariat
August 28, 2017

Disclosure of Quality Assurance Mechanism

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

1. Review of Concept Note

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

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

2. Review of draft report

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

3. Review of final draft report

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

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Acronyms and Abbreviations

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

Acknowledgements

Summary Assessment

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

Story Line

0.2 *The Karongi District PFM system posts an impressive picture of performance with top scores in 11 indicators cutting across the six core dimensions (Table 0.1).* However, several dimensions of some of these and other indicators do not apply at the district level, because the CG retains responsibility for them. For instance, the CG regulates public procurement and external audit and scrutiny. Districts' roles in them are to apply the regulations as made and to rectify flaws identified in audit reports to the extent of their authority. Notwithstanding this strong showing, several areas still need reform attention. Performance is uneven within the same core dimension, with the relatively poor showing of some indicators and dimensions capable of impeding the strong performance of the others and constituting overall risks to entire PFM system. This is the main message of this assessment that the integrated assessment below elaborates on.

Table 0.1: Summary of Performance of the PFM System

S/No	Score	Performance Indicators	Total
1	A	PIs 4, 5, 7, 11, 13, 16, 26, 28	8
2	B+		0
3	B	PIs 1, 12, 19,	3
4	C+	PIs 2, 21	2
5	C	PIs 6, 9, 10, 17, 20, 22	6
6	D+	HLG-1, 18, 24, 25	4
7	D	PIs 3, 15, 23,	3
8	NA	PI-8, 14	1
9	NR	PI-27	1
	Total		**29**

Integrated Assessment of PFM Performance and Their Impacts

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

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

Credibility of the Budget

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

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

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

Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
1. Aggregate expenditure out-turn compared to original approved budget	B				**B**	Expenditure deviation was higher than 10% only in FY 2011/2012 when it was 14.84%; the deviation was 9.8% in 2012/2013 and 2.3% in 2013/2014.
2. Composition of expenditure out-turn compared to original approved budget	C	A			**D+**	Composition variance was more than 15% in only one of the three years: 16.9% in 2011/2012, 11.3% in 2012/2013, and 13.1% in 2013/2014. The district provides for miscellaneous under each administrative head, rather than as a block unallocated vote.
3. Aggregate revenue out-turn compared to original approved budget	D				**D**	Actual domestic revenue was less than 92 percent of budget revenue in each of the three years.
4. Stock and monitoring of expenditure payment arrears	A	A			**A**	Accounts payable was 0.5% of aggregate expenditure in FY 2014); a reduction of 63.9% from its level at the end of FY 2013. Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made after formal closure of the books at yearend; the district pays off the invoices immediately at the beginning of the new year.

Comprehensiveness and Transparency

0.6 *Comprehensiveness and transparency also presents a mixed performance picture (Table 0.3).* The areas that assessed very highly are those areas where CG guidance and oversight are most prominent, i.e., through the existence of clear legislation or template for districts to implement. These include classification of the budget, reporting on operations of NBAs, and transferring funds to sectors. The district was unable to resolve weaknesses in other areas, including in budget documentation to the District Council, monitoring of NBAs, and public access to fiscal information. These are areas with limited CG guidance on approach.

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

Table 0.3: Key Crosscutting Issues: Comprehensiveness and Transparency

Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	A				**A**	Budget classification uses administrative, economic, and functional categories; the program category fits into functional classification at the sub functional level. The general ledger records budget execution on the IFMIS using the same categories in formulation, but reporting is by economic category.
6. Comprehensiveness of information included in the budget	C				**C**	Only one of applicable four items provided to the District Council.
7. Extent of unreported government operations	A	NA			**A**	Financial reports disclose all fiscal information of the district's government and donor cash contributions in the main accounts and key fiscal information on the 202 non-budget agencies in the notes. Information disclosed on subsidiary entities include opening cash balance, transfer from the District, other revenue, expenses, fund balance at the end of the period, bank balances, cash balance, accounts receivables, accounts payables, fund balance. In line with PEFA Secretariat's guidance, dimension (ii) does not apply to districts, since districts do not directly contract loans/grants. The CG does
8. Transparency of inter-governmental fiscal relations	NA	NA	NA		**NA**	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.
9. Oversight of aggregate fiscal risk from other	C				**C**	Most NBAs submit financial reports to the District on a monthly basis, and the Director of Finance consolidates overall fiscal

Table 0.3: Key Crosscutting Issues: Comprehensiveness and Transparency						
Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
public sector entities						risk in the District's annual financial statement. The number of NBAs (202) pose serious challenge to effective fiscal monitoring; internal and external audit are on a limited sample basis of necessity and proper scrutiny of their monthly financial reports is currently impractical.
10. Public access to key fiscal information	C				**C**	Three out of eight applicable elements are accessible to the public, through various means, including website and noticeboards:, audit reports, user charges and fees, and service delivery information.

Policy-Based Budgeting

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

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

Table 0.4: Policy-Based Budgeting						
Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
11. Orderliness and participation in the annual budget process	NA	NA	A		**A**	Districts do not prepare independent budget calendars and call circulars, but rather apply those issued by the MINECOFIN, as all other budget entities do. The CG (MINECOFIN) issues two call circulars to all budget entities, including districts. The first announces commencement of the budget season and provides planning guidelines; the second conveys firm and clear expenditure ceilings. Budget approved before the commencement of the fiscal year on July 1: June 26 2015 for FY 2016, on June 26, 2014 for FY 2014/2015, and June 26, 2014 for FY 2013/2014.
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. Karongi District Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not recurrent costs) for all sectors and links with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF and budget. The link between investment and recurrent expenditure costing is weak; the two are separate activities.

Predictability and Control in Budget Execution

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

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

Table 0.5: Predictability and Control in Budget Execution

Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY2014, collects them on behalf of district governments. Prior to this takeover, the appeal process was not independent, as it required recourse to the same assessment authority and to the court. However, the district government publicizes the taxes and procedures through a variety of means: website, public noticeboards, tax enlightenment campaigns, meetings and seminars in localities, and a helpdesk.
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NA**	This indicator is not applicable in its entirety with the takeover of tax registration and collection responsibilities by the RRA in FY 15.
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 68%; Frw 15,418,475.00 of the Frw 22,418,357.00 tax arrears owing in FY 2013 collected in FY 2014. Karongi district no longer had responsibility of tax collection as at the time of assessment; the RRA had taken over this task. Audit evidence suggests failure to reconcile tax assessment and collections
16. Predictability in the availability of funds commitment of expenditures	NA	NA	A		**A**	The district does not do cash forecasting; the Ministry of Finance prepares economy-wide cash forecast, using expenditure / disbursement plans submitted by budget entities, including the district. The district is a budget entity and is user, not provider of, advance information on cash availability. The CBM reallocated 8 percent of capitation grants to school feeding in FY 2014 in accordance with Arts. 48, 49 of the OBL and the Transmission of Budget Reallocation Guidelines
17. Recording and management of cash balances, debt, and guarantees	NA	C	C		**C**	Debt comprise only accounts payables, incurred in routine course of business; the district does not borrow. The finance unit of the districts maintains good record of these payables. the monthly financial statements consolidate bank balances of the district's 9 main expenditure accounts at the BNR, and the bank balances of its NBAs separately, by category and showing a grand total (of NBA bank balances). The district does not have regulatory powers; the Minister

Table 0.5: Predictability and Control in Budget Execution						
Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
						of Finance does and must also approve district's borrowings (Arts 50 – 54); the Minister had not made any such regulations, as at the time of the assessment.
18. Effectiveness of payroll controls	A	A	B	D	**D+**	Personnel records and the payroll are the same, creating potential integrity issues. Changes to personnel records and the payroll happen simultaneously, occasioning no delays, because the two are the same. The executive committee approves changes to personnel records and the payroll and the mayor communicates the authorization to HR to effect. A system of periodic ex post review of the payroll is in place and involves the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general. No recent payroll audit has taken place.
19. Transparency, competition, and complaints mechanisms in procurement	B	D	B	A	**B**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. There is no information to assess extent of justification for use of noncompetitive procurement methods. The district provides access to procurement plans and bidding opportunities, but not to contract awards; there has not been any recent case of procurement complaints. Although the district has not had any recent complaint, it has set up a 7-member independent panel of both state (3 members) and non-state actors (4 members), and including 3 women.
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	Expenditure commitment controls are in place, but their partial use lead to 'excess commitments' in 2013/3014 and 2012/2013. Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; cases of violations at the district level led to several fraud cases in FY 2014. The level of compliance with rules for recording and processing transactions is significant; however, disturbing cases of use of 'shortcuts' in recording revenue transactions led to important cases of misstatements in the financial reports in 2013/14.
21. Effectiveness of internal audit	C	B	A		**C+**	Internal audit does not involve accounting work; it focuses on ex post audit of expenditures, revenues, and systems. However, limited staff capacity adversely affects its scope and effectiveness. Internal auditors prepare reports for the auditee and quarterly reports for the DC, copied to the MINECOFIN, MINALOC, and the Province. Management takes prompt action on IA reports; the auditee, the executive committee (EC), and the District Council, all follow up on audit recommendations.

Accounting, Recording, and Reporting

0.12 *This is probably the weakest area of the district's PGM system.* Bank reconciliation and the quality of financial statements were not good, reflecting the fact that the district had had no accountant for some time up to the time of the assessment. In-year budget reporting and information on resources available to service delivery units also assessed poorly. This weakness is due to the use of a template provided by the CG, which does not show budget commitment, although the information is available on the IFMIS.

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

Table 0.6: Accounting, Recording, and Reporting						
Indicator	2015 Assessment					
	Dimension Ratings				Overall Score	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
22. Timeliness and regularity of accounts reconciliation	C	NA			**C**	Regular bank reconciliation takes place at district level and NBA levels within two weeks of the month end, but the quality of district reconciliation is poor. The district does not use suspense accounts or operational advances.
23. Availability of information on resources received by service delivery units	D				**D**	The district has not comprehensively collated data on cash and in-kind resources available to primary schools and health centres in the last three years, although the system is capable of generating the information.
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports capture expenditure at the payment stage only and comparison between budget and outturns is possible only by economic categories. Monthly budget execution reports are part of the financial reports issued by the middle of the next month. There are no material concerns affecting accuracy of the IFMIS-based budget execution reports.
25. Quality and timeliness of annual financial statements	D	A	A		**D+**	The 2013/2014 financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, but numerous highlighted in the audit report adversely affect they completeness. FY 2014 financial statements submitted to the for audit on October 10, 2014. The modified cash standard used is broadly compatible with IPSAS reporting requirements.

External Scrutiny and Audit

0.14 *This area posted a strong showing, despite the non-availability of information on time taken by the DC to approve the budget.* The only apparent weakness is the scope of legislative scrutiny of the budget, which currently does not cover budget policy. Other dimensions of the legislative budget scrutiny follow the provisions of the law, as do the other indicators. The high level of audit performance merely indicates that the district implements audit recommendations. It does not say that the quality of audit is good, since audit is a CG function.

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

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

Table 0.7: External Scrutiny and Audit

Indicator	2015 Assessment					
	Dimension Ratings			Overall Score		Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
26. Scope, nature, and follow-up of external audit	A	B	A		**A**	Audit covers 100 percent of the operations (revenues, expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards. The SAI submitted the 2013/2014 audit report to the district council on April 30, 2015, i.e., more than six months after receiving the financial statements. The level of implementation of previous audit findings was 75 percent in each of 2011/2012 and 2013/2014, but 47 percent in 2012/2013 (the off-colour year).
27. Legislative scrutiny of annual budget law	C	B	NR	A	**NR**	The DC reviews details of revenue and expenditures, but it cannot change policy decisions already made the CG, which finances up to 90% of the budget. Simple procedures for review exist, requiring the economic committee of the DC to review details of proposals (usually in a 2 or 3-day retreat) and present to the DC for approval, but the date of submission of the draft budget to the DC is unclear. Presentation to the DC is by PPT presentation, approval does not involve serious debate and is usually a formality. The budget approval process begins with the retreat after receipt of the first budget call circular from MINECOFIN; the retreat for 2015/16 budget held on Feb. 19 – 21, 2015 and it involved the entire DC, four months to the commencement of the budget year. The date of submission of the draft Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.
28. Legislative scrutiny of external audit reports	A	A	A		**A**	The District Council completes examination of audit reports within three months of its receipt from the AC. The district of not in not in arrears of review of audit report. The AC holds hearings and invites indicted persons as necessary before making recommendations to the DC. The DC issues recommendations and there are multiple layers of follow up. The CBM, Treasury Management Team, and internal auditors, all follow up on implementation progress.

Prospects for Reform Planning and Implementation

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

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

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

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

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

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

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

Section 1: Introduction

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

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

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

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

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

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

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

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

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

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

Table 1.8: Scope of the Assessment

Institutions	Number of entities	Total public expenditures (FY 2014) - Frw	Percent
District government	1	11,430,063,986	100.0%
Non- budget agencies (NBA[1]	202	9,955,936,396	87.1%

[1]NBA spending not consolidated into district public expenditures, but reported separately in the annex to the financial statements.

Source of Data: District's audited Financial Statements for Year Ended 30 June, 2014

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

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

Section 2: Profile of Karongi District

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

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

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

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

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

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

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

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

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

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2012
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided to SN entity for inclusion in the latter's budget.	Actual HLG transfers fell short of estimate by more than 15% in only FEEL; however, the performance does not meet the requirements for a "B" rating, since the deviation was also above 10% in FEEL.	C	(i) In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 15%.	Approved district's budgets and financial statements.	Not assessed	
(ii) Annual variance between actual and estimated transfers of earmarked grants	Variance in earmarked transfers exceeded deviation in total transfers by more than 10% in each of the three years.	D	(ii) Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in at least two of the last three years			
(iii) In-year timeliness of transfers from HLG (compliance with timetable for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year	Disbursement does not experience delay; districts access transfers through the IFMIS in accordance with a quarterly cash / disbursement plan made by the Ministry of Finance & Economic Planning and locked on the IFMIS.	A	(iii) A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed e			
Score (Method ME)		**D+**				

Rationale for the Score

<u>General Background</u>

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

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

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

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

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

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

3.6 The transfers are through the following instruments

- Block Grants – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. Its helps to finance administrative expenses, including salaries, running costs, and supervision of activities in ensuring service delivery. Block grants comprise five percent of the domestic revenue of the CG in the preceding year distributed among qualifying districts. Generally, urban based districts are not eligible for block grant support, because of the expectation for them to be able to generate sufficient own revenues to fund their recurrent spending.

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

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

  - monitoring and evaluation mechanism, and
  - disbursement mechanism for each transfer depending on outputs or activities involved, etc.

- Capital Block Grants - intended to assist districts undertake local development projects. The grant is not from any specific line ministry. Districts have some discretion in determining the development projects to undertake with these resources.
- Common Development Fund - provided under *article 12 of Law 62/2013 of 27/08/2013* to the Local Administrative Entities Development Agency (LODA) for disbursement to districts to assist them with their development programs. The fund comprises, at least ten percent (10%) of the Cog's domestic revenues (calculated based on the preceding year's budget) and funds provided by development partners. LODA assists districts in planning the use of these funds and monitors the programs and activities.

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

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

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

3.9 *Actual HLG transfers fell short of estimate by more than 15% in only FEEL; however, the performance does not meet the requirements for a "B" rating, since the deviation was also above 10% in FEEL.* The deviations were 4.9 percent in FY 2012, 16.7 percent in FY 2013, and 14.5 percent in FY 2014; the raw data as shown in *Table 3.9*. The applicable rating is, "C". The sources of the data for the calculation are the originally approved budgets and audited financial statements of the district for the affected years. The original budgets are the most authentic source of information on transfers advised by the CG since both the district and Ministry of Finance & Economic Planning sign off on them, *de facto*. The District Council must adopt the budget by legal requirements *(see PI-27)*; the approved budget is also the basis of districts expenditure plan required by law to inform the Ministry's cash planning and forecasts (see *PI-16* below).

Table 3.9: Annual Provision of Earmarked Grants - Budgeted and Actual

	2011 / 2012		2012 / 2013		2013 / 2014	
Administrative or functional head	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Block Grants - Non-earmarked	887,725,376	755,110,913	1,072,517,59	1,062,952,82	1,216,951,79	1,096,259,199

Table 3.9: Annual Provision of Earmarked Grants - Budgeted and Actual						
	2011 / 2012		2012 / 2013		2013 / 2014	
Administrative or functional head	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
			8	1	3	
Admin & Support Services	24,687,192	18,234,993	17,482,338	2,385,054	-	-
Good Governance & Justice	63,256,183	58,550,431	48,747,898	41,807,723	159,451,788	160,444,991
Education	2,750,984,029	2,823,551,787	3,677,272,628	3,063,938,660	3,596,136,679	3,575,320,220
Health	954,367,169	1,001,883,604	1,707,497,100	1,509,497,877	1,663,830,634	1,824,288,030
Social Protection	477,294,384	417,526,975	658,742,188	552,782,152	688,266,683	672,408,274
Youth, Sport, & Culture	7,785,684	6,502,350	14,960,235	12,513,464	14,696,771	8,202,740
Private Sector Development	87,741,585	81,269,421	470,869,280	301,357,575	66,003,197	64,104,251
Agriculture	142,100,000	132,187,111	222,773,453	182,077,504	267,678,687	323,678,107
Environment & Natural Res	24,947,934	13,210,054	34,157,119	27,859,494	44,000,000	270,632,301
Energy	-	-	134,394,148	79,055,381	695,711,140	262,419,750
Water and Sanitation	32,625,000	32,465,745	316,221,526	108,670,860	-	-
Housing, Urban Debt, & Land Mg	-	-	124,018,951	296,879,126	344,250,163	213,198,268
Transport	116,728,957	59,259,440	294,353,755	82,432,418	42,334,846	41,742,345
Community Development	768,073,018	627,824,975	48,374,708	42,591,078	-	-
Total Earmarked & Non-earmarked	**6,338,316,511**	**6,027,577,799**	**8,842,382,925**	**7,366,801,187**	**8,799,312,381**	**8,512,698,476**
Overall Deviation	4.9%		16.7%		14.5%	
Composition Variance (on basis of (PI-2))	10.1%		12.4%		14.5%	
Source of Data: Rwanda Ministry of finance & Economic Planning						

Annual variance between actual and estimated transfers of earmarked grants

3.10 Variance in earmarked transfers exceeded deviation in total transfers by more than 10% in each of the three years, as *Table 3.9* shows. The variance in earmarked grants was more than overall deviation 10.1 percent in FY 2012, 12.4 percent in FY 2013, and 14.5 percent in FY 2014. The applicable rating is, "D".

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

3.11 Delays occasioned from the CG end is minimal and occasional. An example of such delays occurred in FY 2013/2014 and involved transfer of some development funds from LODA. Information in the 2013/2014 audit report shows arrears of revenue transfer to the district of Frw 4,605,000. Some of the funds disbursed by LODA are contributions from international development partners. Delays in the partners remitting their contributions can affect the timing of transfers.

3.12 Usually however, transfers are virtual rather than physical. Access to transfers is by districts making commitments and payments on the IFMIS according to a quarterly expenditure plan approved in advance by the Ministry of Finance and Economic Planning and locked into the IFMIS. The Ministry prepares a quarterly cash plan in advance of or at the beginning of the beginning of each quarter. The approved budget is the main basis of the cash plan, but the Ministry also takes inputs from budget entities. The cash plans become binding and locked unto the IFMIS, once approved. Procurement, commitments, and payments are on the IFMIS, in accordance with the approved funds. Districts issue payment orders on their through bank accounts to the Banque National du Rwanda (BNR), which maintains the country's treasury single account (TSA) system. The BNR pays, once the district has a credit balance.

3.13 Much of the delays in accessing funds arise from the inability of the District to meet the requirements for accessing the funds. This cause of delay is typical in the district, as elaborated on in PI-1 below.

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

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

Score Box 3.2: Primary Budget Performance of Ruhango State						
Dimension	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	Aggregate expenditure deviated from budgeted expenditure by 14.8% in FY 2012, 9.8% in FY 2013, and 2.3% in FY 2014	B	B In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 10% of budgeted expenditure.	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual data from budget execution reports (unaudited)	Not assessed in 2010	

Rationale for the Score

3.15 *Budget and actual spending data exist in both electronic and hard copies, but budgeting and reporting do not follow the same format.* The nationwide *Integrated Financial Management Information System (IFMIS)* holds the data in electronic form, but hard copies of the financial statements are also available in the district. The Ministry of Finance and Economic Planning (MINECOFIN) in the capital in Kigali hosts the IFMIS, but decentralized entities access it from their locations and do their planning and other transactions on it. The budget presents information according to economic, administrative,[7] and functional classifications, while

[5] i.e., excluding debt service obligations and donor commitments, over both of which government has little control during the year.
[6] This definition excludes supplementary budgets passed midstream
[7] The segment classified as 'program' in the budget corresponds to administrative divisions of the district; they are not 'development programs' by general description. There are currently about 13 such 'permanent' programs, each headed by a director or such other senior official. These 'programs' are (i) Admin & Support Services, (ii) Good Governance & Justice, (iii) Education, (iv) Health, (v) Social Protection, (vi) Youth, Sport, & Culture, (vi) Private

financial statements report information only according to economic classification, although the IFMIS can also the report by administrative breakdown. It was thus not possible to get information on administrative breakdown of spending from the audited financial statements or from the district. This analysis therefore relied on actual expenditures data 'Budget Execution Reports' with administrative classification specifically generated for the assignment from the IFMIS by MINECOFIN.

3.16 *Aggregate primary expenditure outturn deviated from the original budget by 14.8 percent in 2011/2012, 9.86 percent in 2012/2013, and 2.3 percent in 2013/2014.* The district management explained that deviations arise usually from the development budget; the recurrent budget (block grants and recurrent portions of earmarked transfers) do not usually record much deviation. Several factors contributed to these deviations, including delays in transfer of some development funds from LODA. Information in the 2013/2014 audit report shows arrears of revenue transfer to the district of Frw 4,605,000 *(pp. 29 -31).*

3.17 However, the principal cause of deviation is inability of contractors to execute contracts according to schedule and time required to terminate and rearward non-performing contracts. For good reasons, the law stipulates due process in doing so; however, this takes time and budgeted funds lie idle in the meantime. The role of the procurement process in occasioning these delays is the requirement to use 'the lowest responsive price' to enhance value for money. It often happens that the lowest successful bids fail to perform the contract. The *2013/2014 audit report (pp. 9-10)* confirm several cases of delays in execution of contracts. An example is the case of construction of Kabure Hospital, initially contracted out for 12 months, later extended for another 134 days (five months) through a formal contract amendment, but delivered 295 days later (10 months) from the initial 12 months date. This delay affected the disbursement of funds. It also lead to payment of higher (unbudgeted) supervision costs of Frw 45,823,330 (i.e., at the agreed rate of Frw 4,582,333 per month) to the consulting firm recruited to supervise the construction. Other contributory factors include poor performance of own revenue *(see PI – 3)*, annual budget revisions exercises in December *(see PI – 2, PI- 16, PI -20, and PI – 27).*

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

3.18 *PI-2* measures budget composition variance in expenditure using functional or administrative allocations, i.e., the extent to which **actual** expenditure on major budget heads respects budgeted allocations to those heads. Significant variation in the sub-aggregate composition of actual expenditure from the original budget limits the usefulness of the importance of the budget as a statement of policy intent. The calculation uses the main budgetary heads (votes) in the approved budget. In addition, dimension (i) excludes contingency vote(s) set aside for unforeseen events. Dimension (ii) recognizes the "good practice" of not charging contingency vote(s) expenditures directly to the contingency vote, but viring them to those votes responsible for the unforeseen expenditure. The dimension assesses the volume of expenditure recorded against contingency votes, since they represent a deviation from policy intent. *Score Box 3.3* below presents the scoring. As with *PI-1*, the calculation uses primary expenditure.

Sector Development, (vii) Agriculture, (viii) Environment & Natural Resources, (ix) Energy, (x) Water & Sanitation, (xi) Housing, (xii) Urban Development & Land Management, and (xiii) Transport *(see PI-5 below).*

4 Score Box 3.3: Composition of Expenditure Out-turn v Composition of Original Approved Budget

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	Composition variance was more than 15% in only one of the three years (FY 2012).	C	C Variance in expenditure composition exceeded 15% in no more than one of the last three years.	Fiscal Decentralization Unit of MINECOFIN (budget from approved budgets of districts and actual data from budget execution reports (unaudited)	Not assessed in 2010	
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	The district budgets for 'miscellaneous' under some administrative heads, rather than as a block unallocated vote.	A	**A.** Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.			
Score (Method ME)		**C+**				

Rationale for the Score

3.18 *Extent of variance in expenditure composition during the last three years, excluding contingency items* – variance in expenditure composition was 16.9 percent in 2011/2012, 11.3% in 2012/2013, and 13.1 percent in 2013/2014. The applicable rating is C. Sources of data for this indicator are the same as with *PI–1* above. The regulations permit both 'informal' budget during implementation and formal budget revision. *Article 46* of the OBL permits chief budget managers of entities to reallocate "funds from one program [administrative unit] to another up to a cumulative maximum of 20 percent of the total budget for the program". However, reallocation of more than 20 percent or between recurrent and development budgets must be with the approval of the Minister of Finance, while parliamentary approval (Chamber of Deputies) is necessary for both reallocation "from employee costs to other categories of expenditure" and from one public entity to another. In addition, *Article 41* permits decentralized entities to revise the budget once a year based on the mid-year budget execution report. Budget revision requires the approval of both the District Council and the Chamber of Deputies.

3.19 *Karongi District explained that authorized reallocations and revisions explain the composition variance, although they do not necessarily cause shortfalls in service delivery.* Reallocations, as defined above, affect only own revenues and portions of block grants, but not earmarked-transfers and development grants. Block grants are CG allocations to districts for staff salaries (up to 95 percent of the grant) and operating costs. *Art. 46 of the OBL* 'ring fences' the salary component, as explained above.[8] The district 'mixes' the operating costs component with its own resources in the district's Operations Bank Account at the Banque National du Rwanda (BNR). The district reallocates this as necessary during budget implementation.

[8] The salary component of block grants has been 'earmarked' for salary; thus, the law treats it as sacrosanct and protects it from reallocation.

Earmarked transfers are not subject to reallocation, because they are resources of specific CG ministries earmarked for specified grassroots activities. The district is only an agent to these ministries with responsibility to implement the programmes. The same goes for development transfers coordinated by the Ministry of Local Government (MINALOC) through the Local Development Agency (LODA). These funds are mostly donor funds targeted towards particular tasks. Earmarked transfers and development grants are however, regular candidates for the midterm ritual of budget revision, which happens in December. Revisions involve moving funds among budget heads, while maintaining the budget size (envelope).

3.20 *The average amount of expenditure actually charged to the contingency vote over the last three years* – it is not easy to assess this dimension due to the way the district provides for contingencies in the budget. The district does not have a general vote for unforeseen events, from which it reallocates to administrative budget lines to meet emergencies as they happen. Instead, the district provides votes for 'miscellaneous' lines under specific heads, such as 'social benefits', 'disease control', etc., to meet emergencies in those specific areas. Staff controlling the sector initiate expenditure on the votes by submitting requests to the chief budget manager (CBM) who presents it to the executive committee for approval. The district accounts for the expenditure under the same budget code of 'miscellaneous' specific to the main budget head.

3.21 The district has not started implementing the provisions of *Art. 30* of the OBL, which authorizes the District Council "to establish a budgetary line" (emergency budget reserve) not exceeding "three percent (3%) of the entity's own revenues" to meet urgent and unexpected expenditure". The OBL requires that the "Chairperson of the Executive Committee of the decentralized entity, in consultation with other members of the relevant Executive Committee, shall authorize the use of such amount and report quarterly to the Council on its use". The assessment could not ascertain whether the Minister of Finance has issued the Order determining "the modalities for application and use of the emergency budget reserve as well as the purpose of the application" as required under the article.

3.22 The rating of "A" awarded here therefore, does not necessarily indicate good practice. It is rather a default rating, since the template provided by the Secretariat returns '0.0%' amount of virement from contingency to administrative units to meet unforeseen events.

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

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

Score Box 3.4: Percentage Domestic Revenue Budget Performance (% Revenue Collected vs. Budget)						
Dimension	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
Actual domestic revenue compared to	Own revenue was above 116 percent every year from	D	D Actual domestic revenue was below 92% or above 116%	District budgets, financial statements, &	NA	Not assessed in 2010

Score Box 3.4: Percentage Domestic Revenue Budget Performance (% Revenue Collected vs. Budget)						
domestic revenue in the originally approved budget	FY 2013 to 2014, i.e., 118.7% of prediction in FY 2012, 154.1% in FY 2013, and 126.4% in FY 2014		of budgeted domestic revenue in two or all of the last three years.	audit reports for FY 2012, 2013, & 2014		

3.24 *Actual domestic revenue was higher than 116 percent of budgeted revenue in each of the three years (Table 3.10).* The applicable score is D.

Table 3.10: Budget & Actual Own Revenue Calculations			
	FY 2012	**FY 2013**	**FY 2014**
Budgeted own revenues	577,908,562.00	523,881,932.00	587,371,976.00
Actual own revenues	685,757,305.00	807,310,464.00	742,291,147.00
% Own Revenue Collection	118.7%	154.1%	126.4%

Rationale for Scoring

3.25 Inability to predict revenue performance accurately contributed to the expenditure deviation in *PI-1* and composition variance in *PI-2* above, because the district does not have policy of reserving excess collections until the future. However, this poor performance of domestic revenues does not fully explain the deviation and variance, since own revenues constitute only a very small faction of the district's resources. Own revenue sources averaged only 7.1 percent in the three years *(Figure 3.1).*

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

Analysis of District Revenues				
	2011/2012	**2012/2013**	**2013/2014**	**Average**
Total Own Revenue	-	**807,310,464.00**	**742,291,147.00**	**516,533,870.33**
Operating Revenues, of which	-	*807,310,464.00*	*742,291,147.00*	516,533,870.33
Tax Revenue	-	49,686,301.00	24,102,666.00	24,596,322.33
Fees, fines, penalties and licenses	-	757,624,163.00	718,188,481.00	491,937,548.00
Capital Receipts	-	-	-	-
Transfers from the CG & Other Sources	-	**9,748,705,922.00**	**10,449,192,334.00**	**6,732,632,752.00**
Total Revenue	-	**10,556,016,386.00**	**11,191,483,481.00**	**7,249,166,622.33**
Own Revenue % of Total Revenue	**#DIV/0!**	**7.6%**	**6.6%**	**7.1%**
Source of Data: Karongi District Fianncial Statements, 2011/2012 - 2013/2014				

3.26 *A CG law describes and establishes the sources of revenue and property of decentralized entities in Rwanda and their management arrangements.*[9] *Article 4* lists 10 sources of revenue, seven of which are own revenue sources. The own revenue sources are

- taxes and fees
- funds obtained from issuance of certificates by decentralized entities and their extension
- profits from investment by decentralized entities and interests from their own shares and income-generating activities

[9] Law N° 59/2011 of 31/12/2011 - Law establishing the sources of revenue and property of decentralized entities and governing their management (Art. 1).

- fines
- fees from the value of immovable property sold by auction
- funds obtained from rent and sale of land of decentralized entities
- all other fees and penalties that may be collected by decentralized entities according to any other Rwandan law[10]

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

3.28 *District revenues consists of taxes and fees.* Taxes comprise fixed asset tax, rental income tax, and trading license tax. Taxes accounted for an average of 4.7 percent of own resources in the two years of FY 2013 and 2014. Fees constitute the bulk source of own revenues by a large proportion, about 96.3 percent in the period. The district collects many different types of fees; fiscal 2013/2014 approved budget lists 19 different types.

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

PI-4: Stock and Monitoring of Expenditure Payment Arrears

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

Score Box 3.5: Stock and Monitoring of Expenditure Payment Arrears						
Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the	Accounts payable was 0.5% of aggregate expenditure in FY 2014); a reduction of	A	A The stock of arrears is low (i.e. is below 2% of total expenditure).	Audited financial statements / audit reports - FY 2012 – FY	NA Dimension not assessed in 2010	

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

Score Box 3.5: Stock and Monitoring of Expenditure Payment Arrears					
corresponding fiscal year) and any recent change in the	63.9% from its level at the end of FY 2013.			2014	
Availability of data for monitoring the stock of expenditure payment arrears	Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made after formal closure of the books at yearend; the district pays off the invoices immediately at the beginning of the new year.	A	A: Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).		
Score (Method ME)		**A**			

Rationale for the Score

3.31 *Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock* – the Organic Law on State Finances and Property[11] regulates expenditure commitments and payments, and the IFMIS helps to enforce. Generally, the OBL disallows payments not backed with prior commitment[12] *(Art. 47)*; it requires budget entities to make commitment based on approved the quarterly or monthly expenditure plan (Art. 43), prepared based on the approved budget *(Art. 42)*. The cutoff date for expenditure commitments is May 15,[13] but payment for committed expenditure may continue to the end of the fiscal year on June 30 *(Art. 48)*. In addition, the CBM must ensure the sufficiency of bank balances before authorizing payment *(Art. 61)*, although this rule does not really prevent the creation of payment arrears, since the arrears would have occurred at the time of authorizing or failing to authorize payments. The IFMIS gives effect to these rules, because it embeds financial policies to secure adherence. Thus, the IFMIS limits expenditure plans to the approved budget, commitments to approved expenditure plans, and payments to commitments and cash availability. The IFMIS automatically disallows override of these limits, except with due authority of the Minister as provided by the OBL.

Figure 3.2: Analysis of Expenditure Payment Arrears

Karongi District: Analysis of Expenditure Payment Arrears			
Fiscal Year	Payment Arrears	Total Expenditure	% of Expenditur
2011/2012	27,279,702	8,614,724,951.00	0.3
2012/2013	172,279,569	11,405,999,384.00	1.5
2013/2014	62,269,480	11,430,063,986.00	0.5

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

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

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

'accounts payable', which financial statements report. The district settles the accounts payable immediately on commencement of business in the new fiscal year. Audit reports[14] confirm that the accounts payable *(Figure 3.2)* "mainly relate to invoices for goods and services which were outstanding on the date of the closure of the fiscal year" and "recognized as liabilities for that specific fiscal year" in line with the Modified Cash Basis of Accounting in use. Accounts payable amounted to only 0.5 percent of aggregate expenditures in fiscal 2013/2014.

3.33 *Availability of data for monitoring the stock of expenditure payment arrears* – audit reports include a detailed schedule of accounts payable (taken from the notes to the financial statements). These are usually invoices for small purchases made after formal closure of the books at yearend. The schedule compares values of all outstanding payment for the current and preceding year, thus affording opportunity for monitoring the age of debt. Audit reports reproduce the same schedules *(see for instance, 2013/2014 audit report, p. 31)*. However, the district does not record unpaid invoices in the general ledger (GL), because the configuration of the IFMIS is to the accounting system in use, i.e., (modified) cash basis, which does not have the functionality of accrual accounting recording.

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

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

PI-5: Classification of the Budget

3.35 *PI-5* assesses the robustness and consistency of the budget and accounts classification and its conformity with international standards. A robust system allows the tracking of budget and reporting of expenditure data on administrative, functional/sub-functional, economic, and programme categories. The Government Finance Statistics (GFS) classification provides a recognized international framework for economic and functional classification of transactions. The GFS classifies revenues into three levels and expenditures into four. The functional classification applied in GFS is the UN-supported Classification of the Functions of Government (COFOG), which has 10 main areas at the highest level[15] (nine for subnational governments) and 69 at the second (sub-functional) level. The indicator has only one dimension, assessed in *Score Box 3.6* below.

Score Box 3.6: Classification of the Budget				
Classification	**Extent of Conformity with GFS/COFOG**		**Information Source**	**2010 Score**
	Budget Formulation	**Budget**		

[14] See for instance, 2013/2014 Audit Report, *p. 24*
[15] I.e., (i) general public services, (ii) defence, (iii) public order and safety, (iv) economic affairs, (v) environmental protection, (vi) housing and community amenities, (vii) health, (viii) recreation, culture, and religion, (ix) education, and (x) social protection.

		Execution		
Administrative	Compatible - the category described as 'program' in the budget is indeed administrative/organizational classification at the district level or sub organizational when viewed from the CG / national perspective	Reflected in the General Ledger (GL) kept on the IFMIS, but not in actual reporting; the IFMIS can generate when queried	MINECOFIN / District Administration: Annex II-6: 2016 - 2018 Budget by Agency Programmes, & Sub Programmes; Budget Execution Reports, & Annual Financial Statements	NA – not assessed in 2010
Economic	Compatible, but; employee compensation not fully attributable to administrative categories, except in Education & Health sectors. This design is useful to control of costs at the CG level, for which the district as a whole is a single administrative/budget entity. Teachers and health workers are staff of the Ministries of Education & Health respectively, which pay their salaries through earmarked transfers to the district. This explains why the budget shows their remuneration costs separately.	Compatible; default mode of reporting execution	MINECOFIN / District Administration: 2015/16 Budget By Economic Classification, & Annual Financial Statements	
Functional	Compatible at both main and sub functional levels	Not reflected in actual reporting, but available on the IFMIS; system can generate it upon query	MINECOFIN / District Administration: 2013/2016 Approved Budget – Annex II-3: 2013/16 Expenditures by EDPRS Category & Annex II-4: 2015-2018 Expenditure By Division And Groups	
Program	The program correspond to administrative divisions of the district, but the budget maps them to COFOG at the sub-functional level		MINECOFIN / District Administration: 2015/2016 Approved Budget – Annex II-3: 2013/16: Budget by Programme, Sub Programme, & Economic Category	
2015 Score: Method ME		**A**		

Rationale for the Score

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

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

PI-6: Comprehensiveness of Information Included in Budget Documentation

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

Score Box 3.7: Comprehensiveness of Information Included in Budget Documentation

		2015 Assessment		2010 Score	Explanation of Change since 2010
Item		Whether Provided	Source of Information		
1.	Macro-economic assumptions, including state level estimates of economic growth in the SNG jurisdiction, etc.	Not applicable		Not assessed in 2010	
2.	Fiscal deficits (where relevant)				
3.	Deficit financing, describing anticipated composition (where relevant)				
4.	Debt stock, including details, at least for the beginning of the current year (where relevant)				
5.	Financial assets, including details, at least for the beginning of the current year	Not provided			
6.	Prior year’s budget out-turn, presented in the same format as budget proposal	Not provided	**No evidence to substantiate the districts assertion that it provides this**		
7.	Current year’s budget (either the revised budget or the estimated out-turn), presented in the same format as the current budget	Not Provided	**No evidence to substantiate the districts assertion that it provides this**		
8.	Summarized budget data for both revenue and expenditure according to main heads of classification, including data for the current and previous year	Not provided	**No evidence to substantiate the districts assertion that it provides this**		
9.	Explanation of budget implications of new	**Provided**	In tariff statement		

Score Box 3.7: Comprehensiveness of Information Included in Budget Documentation					
		2015 Assessment		2010 Score	Explanation of Change since 2010
Item		Whether Provided	Source of Information		
	policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programme				
	Score (Method ME)	**C**	**Four elements applicable, one provided**		

Rationale for the Score

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

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

3.41 *Deficit financing* – not applicable

3.42 *Debt stock* – not applicable, the district does not borrow and thus does not have any debt stock. The law allows districts to borrow to finance development projects with the approval of the Minister of Finance *(Article 50 of the OBL)*; however, the district does not use that power.

3.43 *Financial assets* – **not provided**. The district has owned 350,000,000 worth of shares in the Western Province Investment Corporation (WESPIC) for two years now. The discloses the information exists in the financial statements, but does not provide it as budget document to the District

3.44 *Prior Year's budget outturn* – **not provided.** The district did not provide evidence to support its assertion that it provides the information.

3.45 *Current year's budget outturn* – **not provided.** The district did not provide evidence to support its assertion that it provides the information.

3.46 *Summarized budget data according to the main heads for both revenue and expenditure according to the main classifications used, including for the current and previous year* – not provided; the district did not provide evidence to support its assertion that it provides the information.

3.47 *Budget implications of new government policies* – **provided – implications of new tax policies explained in budget documents**.

PI-7: Extent of Unreported Government Operations

3.48 *PI-7* assesses the extent to which fiscal reports include all budgetary and extra budgetary[16] activities. Extra budgetary operations (EBOs) are activities of government not included in the annual budget, for example, those funded through extra budgetary funds (EBFs).[17] EBFs carry out specific government functions outside of the main stream, sometimes to ensure efficient and effective service delivery, e.g., state owned tertiary educational institutions. Usually, the special laws or regulations establishing EBFs, authorize them to follow different accounting rules, classification systems, or even different fiscal years. However, concern for comprehensiveness requires that annual budget estimates, in-year budget reports, year-end financial statements, etc. meant for public consumption cover all government operations (including extra budgetary revenues and expenditure) to allow a complete picture of revenue, expenditure, and financing across all categories. The coverage may be by consolidation into the fiscal report or by disclosure in the notes to the reports or other document referenced by the report. *Score Box 3.8* scores the two dimensions of this indicator.

Score Box 3.8: Extent of Unreported Government Operations						
Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
The level of extra budgetary expenditure (other than donor funded projects) which is unreported, i.e., not included in fiscal reports	Monthly and annual financial reports disclose key fiscal information of the district's government in the main accounts and of the 202 subsidiary entities (AGAs, i.e., schools, health institutions, and administrative sectors,) in the notes.	A	A. The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).	District's monthly and annual financial statements for FY 14, 13, and 12	Dimension not assessed in 2010	
Income/expenditure information on donor-funded projects included in fiscal reports	The financial statements use a template provided by the Ministry of Finance to report receipts from donors; the budget integrates the	NA	In line with PEFA Secretariat's guidance, this dimension does not apply to districts, since districts do not	District's monthly and annual financial statements for FY 14, 13, and 12		

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

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

Score Box 3.8: Extent of Unreported Government Operations					
	expenditures.		directly contract loans/grants. The CG does.		
Score (Method ME)		**A**			

Rationale for the Score

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

3.49 The district has many extra budgetary entities, referred to as non-budget agencies (NBAs).[18] These comprise of administrative sectors, the district pharmacy, hospitals, health centres, health insurance institutions (mituelle du sante), primary and secondary schools, and vocational training centres. The FY 2014 annual financial statement lists 202 of these institutions and their key fiscal information, as summarized *Table 3.11).*

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

Summary of NBAs as at June 2014			
	Category	**Number**	**Fund Balance (Frw)**
1	Phrmacie du District	1	220,680,997
2	Health Centres	21	292,451,443
3	District Hospitals	3	378,188,806
4	Section de Musa	21	37,776,745
5	District Mutual Fund	1	-162,474,221
6	District VUP	1	15,126,878
7	Secondary Schools	51	193,903,168
8	Primary Schools	90	50,068,075
9	Sectors	13	-67,024,252
	Total	202	958,697,639

Source of Data: District Financial Statements 2013/2014 – Disclosure on

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

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

3.51 The template for monthly and annual financial reports/statements includes a section on (donor) grant in the notes,[19] which reporting entities must complete. The auditor reports confirm

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[18] See Section 2 of the Consolidated Report for a description of the status of NBAs.
[19] See for instance, page 16 of 2013/2014 Financial Statements

that these grants "are funds received from donors … recognized as revenue when the district receives the cash from the donors".[20] The District received grants of Frw 46,720,844 in FY 2014/2014 and Frw 245,920,449 in FY 20122013, as shown in *Figure 3.3*. The district keeps detailed information on the flow of donor funding in the General Ledger maintained on the IFMIS. However, the GL and the financial statements do not hold information on donor assistance not received in cash, i.e., on projects directly implemented by the donors, but plan them with the district. The district also monitors the progress of implementation, and submits regular reports to the District Council on their progress. An example of donors jointly implementation their projects is the Joint Action Development Forum (JDF).

Figure 3.3: Income from Donors

6 Grants

Name of Donor	12months to 30 June 2014 Frw	12 months to 30 June 2013 Frw
Rwandese Association of Local Government Authorities/ RALGA	46,720,844	17,397,489
Switzerland	-	209,250,000
Health sector support/united nations population fund – UNFPA	-	19,272,960
Total	**46,720,844**	**245,920,449**

Source: 2013/2014 Audit Report, p. 26

PI-8: Transparency of Inter-Governmental Fiscal Relations

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

Score Box 3.9: Transparency of Inter-Governmental Fiscal Operations

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from the central government (both budgeted and actual allocations)	District transfers to administrative sectors are according to a clear and transparent rules-based distribution formula, i.e., 50% of district fees collected by the sector plus 10% of previous year's own revenues shared equally among the sectors and paid in equal monthly	NA	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.	District administration Art. 7, 8 of Ministerial Order No. 01/09 of 25/02/2009 Determining the Use of Funds Allocated at Sector Level	Not assessed in 2010	

[20] 2013/2014 Audit Report, p. 24

Score Box 3.9: Transparency of Inter-Governmental Fiscal Operations					
	instalments.				
(ii) Timeliness of reliable information to SN governments on their allocations from central governments for the coming year	The district is the lowest level of government for development planning purposes. Sectors and cells are their non-budget agencies.	NA			
(iii) Extent to which financial information (at least on revenue and expenditure) is collected and reported by the general government according to sectoral categories	The district is the lowest level of government for development planning purposes. Sectors and cells are their non-budget agencies.	NA			
Score (Method M2)		**NA**			

Rationale for the Score

3.53 *The context* - Rwanda's decentralized administrative entities comprise the City of Kigali, districts, sectors, cells, and villages; the Ministry of Local Government (MINALOC) supervises and monitors their functioning and management.[21] However, sectors, cells, and villages have very limited autonomy, being affiliates or subsidiary entities funded and supervised by districts *(Arts. 123 & 184 of Law No. 87/2013).* Subsidiary entities do not have legal personalities as the City of Kigali and districts do *(Arts. 3 & 4 of Law No. 87/2013).* The OBL defines a subsidiary entity as *"a public entity without legal personality and administrative and financial autonomy supervised and funded through the Central Government or a Decentralized Entity to which it is affiliated".*[22] Sectors, cells, and villages cannot hire personnel, since they lack legal personalities; therefore, the district performs human resource management (HRM) functions on its behalf *(Art. 182 of Law No. 87/2013).* Subsidiary entities cannot discipline staff, since they do not have the HR function, instead, sectors and cells may send back personnel to the District for "degrading behavior" and inability to "carry out his/her duties properly or … fulfil his/her responsibilities."

3.54 *Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from the central government (both budgeted and actual allocations)* – from the foregoing, districts constitute the lowest tier of real subnational government in Rwanda's decentralized system; sectors, cells, and villages do not strictly qualify as Songs. However, the legal regulations enjoin districts to allocate resources to districts to help them implement their expenditure plans. A Ministerial Order[23] details such allocations as follows

[21] See Art. 2 of "Law Nº 87/2013 of 11/09/2013: Law determining the organisation and functioning of decentralized administrative entities", i.e., the Decentralization Law

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

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

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

3.55 Following these provisions, Karongi District makes the following allocations to its sectors

- Revenues collected on behalf of the district by the sector (excluding fines and fees) - 50 percent, paid in half-yearly; the District Council acceded to representations from sectors for bi-yearly allocations, since monthly allocations were too small to be meaningful
- District's own revenue - 10 percent of the preceding year's collection shared equally among the 13 sectors, also paid half-yearly

3.56 Provincial sectors must deposit all revenues *(Art. 3)*,[24] including revenue from fines and civil registration services rendered by the sector *(Art 7)* into the joint account of the district opened to receive revenues *(Art 5)* within seven days from the date of receipt *(Art 5)*. Sectors of districts in the City of Kigali deposit their collections on behalf of districts in the joint account of the District and the City of Kigali. The district and sectors keep and use records of the collections for calculating and reconciling entitlements due to sectors. Payments are with a one-year time lag, in accordance with the Ministerial Order, i.e., collections in *year n* are the basis of payment in *year n + 1*. Actual disbursement used to be monthly, but is now quarterly, to make for more sizeable distribution and to accord with the quarterly expenditure planning in use at all levels of the Rwanda government.

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

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

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

[24] Of the Ministerial Order requires

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

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

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

Score Box 3.10: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Extent of the SG's monitoring of AGAs and PEs	NBAs submit unaudited monthly financial reports to the District, which the Finance Unit consolidates into an overall report and includes as an annex in the District's monthly, quarterly, and annual financial statements. The large number of NBAs (202) makes effective monitoring difficult. Internal and external audit are both on a small sample basis; the district has only three internal auditors. The auditor general audits a sample of the 202 NBAs annually as part of the annual audit exercise. The limited accounting personnel of district is also unable to cope with effective review of financial statements submitted by the NBAs effectively.	C	C. Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete.	District administration	Not assessed in 2010	
(ii) Extent of the SGs' monitoring of LGs' fiscal position	The district is the lowest tier of formal government.	NA	NA – Not applicable: in the case of a dimension, then the dimension is excluded from any			

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

Rationale for the Score

Extent of the SG's monitoring of AGAs and PEs –

3.60 *Art. 19 of the OBL requires the CBM "to supervise and ensure proper use of public funds at the disposal of subsidiary entities under his/her responsibility".* The district thus supervises and monitors the activities of its 202 subsidiary entities, i.e., non-budget agencies (NBAs) as tabulated in *PI-7* above. These NBAs comprise autonomous, quasi autonomous, and non-autonomous entities. Sectors, cells, and villages are non-autonomous administrative units of districts, while schools, health institutions, and universities are either autonomous or quasi autonomous. The NBAs submit unaudited monthly financial reports with supporting documents to the District; the supporting documents include bank reconciliation statements, bank statements, and assets register. The Finance department of the District summarizes and consolidates these reports into an overall report, and includes it as an annex in its monthly, quarterly, and annual financial statements submitted to the Ministry of Finance. The summary is under the following headings: (i) opening balance, (ii) transfers of funds from the District, (iii) other revenues of the NBA, (iv) expenses of the NBA, (v) Fund balance at the end of the period, (vi) bank balances, (vii) cash balance, (viii) accounts receivables, (ix) accounts payables, and (x) fund balance.

3.61 *A number of additional measures designed to improve the integrity of fiscal monitoring are in place, but the large number of NBAs and capacity shortages in the district undermine their effectiveness.* District internal auditors review NBA processes and procedures; however, the district's only three internal auditors can only do this on a small sample basis *(see PI-21 below)*. Similarly, the auditor general who has responsibility to audit NBAs as part of the annual audit process also only reviews a small risk-based sample. Third, the district accountants review, but do not effectively scrutinize the monthly reports submitted by NBAs, because the district's usual two accountants cannot effectively combine this with their other responsibilities as district accountants. In fact, the district had no accountant at the time of the assessment; another employee was acting in that capacity.

3.62 *Further, monthly PFM meetings/inspections hold at the sector level, where schools and health centres to discuss PFM issues identified in internal / external audit reports.* In addition, annual PFM inspections/meetings also hold at sector level mainly to review the extent of implementation of outstanding audit recommendations ahead of the annual visit of the auditor general. Directors of schools, mituelle managers, accountants of hospitals and health centres, tender committees of NBAs attend these meetings. The meetings go through a checklist provided by the auditor general. Following this, the district/sector organizes detailed inspection/check of a sample of NBAs, which representatives of related NBAs attend. The representatives go back to conduct similar detailed check in their institutions.

3.63 *Notwithstanding these elaborate arrangements, monitoring of NBAs is still not effective, as close observation of the financial statements and the issues raised in the audit reports show.* For instance, the 2013/2014 Audit Report observe that, "There was no evidence that Karongi District reviewed NBAs' reports and supporting documents for disclosed transactions and balances to confirm their validity, completeness and accuracy" *(p. 5).*[25] Further, 2013/2014 financial statements shows that sectors have an aggregate negative fund balance at the end of the year of Frw 67,024,252, contrary to legal provisions not to commit expenditure above the budget and cash availability *(see PI-4* and *PI-7).* Altogether, at least, 18 NBA had negative funds positions at the end of the year of a cumulative Frw -241,841,995, 11 of them, sectors. No NBA had a negative opening balance. The 2013/2014 audit report highlights the case of the "Mituelle de santé at District level", whose accumulated liabilities increased "from Frw 91,714,775 to Frw 199,538,068 … compared to financial assets of Frw 37,063,847", leaving "net liabilities of Frw 162,474,225. This is an indicator that mituelle de santé at the district level does not have the financial capacity to settle their obligations as they fall due" *(p. 14).* This scenario shows that NBAs were making commitments above cash availability.

3.64 *Besides, audit reports demonstrate materialization of potential fiscal risks to the district resulting from inadequate monitoring of NBAs through incurrence of judgement debts.* An example is the case of a contractor paid out of contractual time by a secondary school successfully sued the district for **penalties** amounting to Frw 9,023,571. The district paid the judgement debt *(see Case 3.1).*

Case 3.1: Loss to the District Arising from Inadequate Monitoring of NBAs

- My review of court cases in which the district of Karongi was sued revealed payments amounting to Frw **9,023,571** paid by the District resulting from court decisions in favour of a supplier. This occurred because one secondary school "Gasenyi Secondary School" failed to pay the supplier for delivery of food stuff to the school. Refer to the table below:

Reception date	Reference	Description	Beneficiaries	Amount Frw
06/05/2014	OP 3066148	No RCOM0110/14/TC/MUS Claim by Alimentation Le Sapin for delivery of food stuff to Gasenyi secondary school and this school delay payment (interest and damages paid to the plaintiff).	Alimentation Le Sapin	9,023,571
Total				**9,023,571**

Expenditure incurred by the district resulting from court decisions paid to the supplier who won the case against the district amount to wasteful expenditure as this expenditure could have been avoided had the district exercised due care in its operations. Such payments are a diversion of district resources from implementation of bonafide district activities.

Source: FY 2013/2014 Audit Report, p. 8

3.65 *Audit further highlights the presence of frauds in NBA dealings in FY 2014.* For example, the accountant of a section Mutual Health Insurance Scheme successfully various amounts totaling "Frw 430,000 from account No 511-1153443-11 at the BPR fraudulently … by forging the signature of Section Manager and the President of management committee of Mutual Health Insurance Scheme Section".[26]

3.66 *Among the factors responsible for this scenario are inadequate human capacity in districts, as already identified above.* However, lack of trained accounting personnel in schools

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[25] The district explained that this observation stems from the district's failure to include a checklist (template) of actions it took in monitoring NBAs, including in reviewing their monthly reports.

[26] See 2013/2014 Audit Report, pp. 14 - 15

and non-participation of NBAs in the IFMIS. School personnel in charge of accounting and procurement are not professionals, but teachers selected to prepare monthly reports and implement procurement. The district provides training and induction for schools personnel involved in these activities, but this has not proved adequate in resolving the issues of proper keeping of accounting and tendering records. The district cannot address these problems effectively, because they are outside its mandate. Measures to address some of these are underway (see below).

Extent of the SN governments' fiscal position

3.67 *The district does not have any SNG below it (see PI-8 above).* Sectors, cells, and villages are part of the district's administration and the district integrates their financial position into its fiscal reporting. Sectors, cells, and villages have very limited autonomy, being affiliates or subsidiary entities funded and supervised by districts *(Arts. 123 & 184 of Law No. 87/2013).*[27] Subsidiary entities do not have legal personalities as the City of Kigali and districts do *(Arts. 3 & 4 of Law No. 87/2013).* The OBL defines a subsidiary entity as *"a public entity without legal personality and administrative and financial autonomy supervised and funded through the Central Government or a Decentralized Entity to which it is affiliated".*[28] Sectors, cells, and villages cannot hire personnel, since they lack legal personalities; therefore, the district performs human resource management (HRM) functions on its behalf *(Art. 182 of Law No. 87/2013).* Subsidiary entities cannot discipline staff, since they do not have the HR function, instead, sectors and cells may send back personnel to the District for "degrading behavior" and inability to "carry out his/her duties properly or … fulfil his/her responsibilities."

PI-10: Public Access to Key Fiscal Information

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

Score Box 3.11: Public Access to Key Fiscal Information

	Item	Whether Accessible	Rationale for the Score	Source of Information	2010 Score	Explanation of Change since 2010
1.	Annual budget documentation: the public can obtain a complete set of documents (including the items listed under *PI-6*) through appropriate means when it is submitted to the Approving Authority	Not accessible	Current legislation provides as follows, "When the draft budget of a decentralized entity is approved by the Council, it shall be made public through appropriate media, including public on the entity website" (Article 40 of the OBL).		Yes	Not assessed in 2010

[27] See Art. 2 of "Law Nº 87/2013 of 11/09/2013: Law determining the organisation and functioning of decentralized administrative entities", i.e., the Decentralization Law

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

2.	In-year budget execution reports: routinely made available to the public through appropriate means within one month of their completion	Not accessible			Yes	
3.	Year-end financial statements: available to the public through appropriate means within six months of completed audit	Not accessible			Yes	
4.	External audit reports: all reports on consolidated central government operations made available to the public through appropriate means within six months if completed audit	**Yes**	Summary published by the OAG as part of the GoR consolidated audit report on its website, www.oag.gov.ng	Auditor General's website	Yes	
5.	Contract awards: that the SG publishes award of all contracts with value above US $ 100,000 equivalent at least quarterly through appropriate means	Not accessible[29]	Annual procurement report published on district's website includes detailed information on contract award: amount, vendor, etc.	.	Yes	
6.	Resources available to primary service units: the SG publicizes information through appropriate means at least annually, or available on request, for primary service units, e.g., hospitals	Not available	The district asserted that it publishes the information at the level of sectors; however, it had not yet provided the evidence in support at the time of this report.		No	
7.	Fees and charges for major service organizations are posted at the service delivery site and in other appropriate locations/media	**Yes**	The fees and charges authorized for every Sectors posted in the District's website and service delivery units, i.e., health centers and District hospital, and through recognized local media	District website, www.karongi.gov.rw District government	Yes	
8	Services provided to the community, e.g., potable water, sewage, street lighting, etc.	**Yes**	Services provided to the community detailed in service charter and posted in notice boards on District and sector noticeboards.			
Score (Method ME)			**C**	**Three out of 8 elements accessible to the public**		

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

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

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

PI-11: Orderliness and Participation in Annual Budget Process

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

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

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Existence and adherence to a fixed budget calendar	The district does not prepare an independent budget calendar, but rather applies that issued by the MINECOFIN, as all other budget entities do.	A	A. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	MINECOFIN / District Government		
(ii) Clarity / comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	The CG (MINECOFIN) issues two call circulars to all budget entities, including the district. The first announces commencement of the budget season and provides planning guidelines; the second conveys firm and clear expenditure ceilings.	A	A. A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.	MINECOFIN / District administration		
(iii) Timely budget approval by the District Council (within the last three years)	Budget approved before the commencement of the fiscal year on July 1: June 26 2015 for FY 2016,	A	A. The legislature has, during the last three years, approved the budget before the start of the fiscal	Approved District budget books		

Score Box 3.12: Orderliness and Participation in the Annual Budget Process					
	on June 26, 2014 for FY 2014/2015, and June 26, 2014 for FY 2013/2014.		year.		
Score (Method M2)		**A**			

Rationale for the Score

Existence and adherence to a fixed budget calendar

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

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

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

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

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

Timely budget approval by the District Council (within the last three years)

3.74 The combined effects of *Article 79 of the 2003 Constitution* as amended to date and *Article 35 of the OBL* require approval of the Finance Bill (budget) by June 30 each year. Karongi District complies with this provision and consequently approves the budget before the commencement of the next fiscal year on July 1. Budget approval dates for the last three fiscal years is as follow: FY 2016 on June 26, 2015; FY 2015 on June 26, 2014; and FY 2014 on June 26, 2013.

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

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

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

Score Box 3.13: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Preparation of multi-year forecasts and functional allocations or programs	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. The forecasts are the basis of ceilings to CG ministries, which use them to prepare more detailed expenditure forecasts that include earmarked transfers to districts.	A	A. Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.	MINECOFIN / District administration and budgets	Not assesses in 2010	
(ii) Scope and	Karongi District has no	NA	See	Karongi		

Score Box 3.13: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting					
frequency of debt sustainability analysis (DSA)	need for a DSA; it does not borrow; its only debts are accounts payable consisting mainly of unpaid invoices caught up with by financial yearend routine.		"Supplementary Guidelines for the Application of the PEFA Framework to Subnational Governments", *p. 21*	district government / annual financial statements	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditures	Karongi District Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not the recurrent cost component) for all sectors and links with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF (although with some modifications) and budget.	B	A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.	Karongi District DDP 2013 - 2018	
(iv) Linkages between investment budgets and forward expenditure estimates	The link between investment and recurrent expenditure costing is weak; the two are separate activities. The budget has a line on Public Infrastructure Maintenance to cater for the upkeep of public assets. The budget also has provisions for staff compensation and goods and services, but not tied to specific investment or program activities. The CG budgets and funds most of the development and investment activities, and some personnel costs; district's own revenues contributes largely to their recurrent expenditures. This dichotomy introduces complications to any effort to link the investment and recurrent expenditure.	D		The District administration / district budgets / district financial statements	
Score (Method M2)		**B**			

Rationale for Score

Preparation of multi-year forecasts and functional allocations or programs

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

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

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

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

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

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

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

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

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

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

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

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

Figure 3.5: Resource Allocation in the BFP (1)

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

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

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Source: MINECOFIN

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

3.82 Resource Allocation in the BFP per EDPRS sectors

Figure 3.6: Resource Allocation in the BFP (2)

Table 16: Economic Transformation Resource Allocation (RWF)

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

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

Scope and frequency of debt sustainability analysis (DSA)

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

Existence of sector strategies with multi-year costing of recurrent and investment expenditures

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

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

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

- *Overview of the District* – a discussion of economic context, activities, and achievements, key challenges, priorities not achieved in previous DDPs, main poverty and other issues, and focus of planning for the next five years
- *Strategic Framework* – description of links to EDPRS 2 and thematic areas
- *District Development Plan Implementation* – explanation of roles, coordination mechanisms, and assumptions, risks, and risk management
- *Monitoring and Evaluation approaches* – description of cross sectoral linkages, roles (including of the Joint Action Development Forum), data storage, and progress reporting
- *Costing and Resource Mobilization* – review of strategies for resource mobilization and summary of estimated costs DDP *(Figure 3.7)*; costing details are in an Excel link, but costing covers only investment/development projects, but not recurrent cost implications.

Figure 3.7: Karongi DDP - Total Cost and Source of Funds by Year
Source: Karongi District Development Plan, 2013 – 2018 (PDF Version, p. 79)

Table 3 **Estimated total costs of the DDP**

RWF '000	2013/14	2014/15	2015/16	2016/17	2017/18	Total for EDPRS 2
Own Funds Available						
Government block grants	9,410,354	9,880,872	10,374,915	10,893,661	11,438,344	**51,998,146**
Own taxes and fees	523,881	550,075	577,579	606,458	636,781	**2,894,773**
Donor projects	2,073,429	2,177,100	2,285,955	2,400,253	2,520,266	**11,457,004**
Private sources						
Other sources						
Total	12,007,664	12,608,047	13,238,450	13,900,372	14,595,391	**66,349,923**
Existing Baseline Expenditure						
Available funds for DDP Priorities	12,007,664	12,608,047	13,238,450	13,900,372	14,595,391	66,349,923
Total Projected Cost of DDP Priorities	**15188827.57**	**32744565.35**	**21289872.03**	**9456215.201**	**5132328.55**	**83,811,809**
Overall Deficit/Surplus	**-3,181,164**	**-20,136,518**	**-8,051,422**	**4,444,157**	**9,463,062**	**-17,461,885**
% Surplus/deficit	*-21%*	*-61%*	*-38%*	*47%*	*184%*	*-21%*

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

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

The district management provided the evidence of a planning document (Project Profile Document) intended to demonstrate that it links related development and recurrent costing. However, the document indicated an estimated recurrent cost only for the education project, but not for the others projects in the plan, i.e., agriculture, water and sanitation infrastructure, roads, health, energy development and electricity provision, natural resources, urban and rural settlement, and market oriented infrastructures project. Those other projects indicated only investment costs.

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

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

PI-13: Transparency of Taxpayer Obligation and Liabilities

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

Score Box 3.14: Transparency of Taxpayer Obligations and Liabilities						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Clarity and comprehensiveness of tax liabilities	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY 2014, collects them on behalf of district governments.	NA		Law No. 59/2011 on sources of revenue and property for decentralized entities / RRA website, www.rra.gov.rw	Not assessed in 2010	
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	The district government uses a variety of means to provide taxpayers access to tax information: website, public noticeboards, tax enlightenment	A	A. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and	District administration		

Score Box 3.14: Transparency of Taxpayer Obligations and Liabilities					
	campaigns, meetings and seminars in localities, and a helpdesk.		the RA supplements this with active taxpayer education campaigns.		
(iii) Existence and functioning of a tax appeals mechanism	The RRA has taken over tax administration responsibilities. Prior to this though, the appeal process was not independent and it required recourse to the tax authority and to the court.	NA			
Score (Method M2)		**A**			

Rationale for the Score

Clarity and comprehensiveness of tax liabilities

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

Taxpayers' access to information

3.89 Karongi district administration uses various means to ensure taxpayer access to information on tax liabilities. Including enlightenment campaigns in the 13 sectors of the district, sector notice boards, and a good governance hotline (No. 4096) on which citizens may ask any question, including tax related questions. Sectors also have tax offices, which engage with and render different services to taxpayers, including dissemination of tax information. The enlightenment campaigns involve personnel of both the District and sector office where the campaign is holding, especially the director of finance, sector executive secretary, and local (sector) revenue collectors. Communication is in the local Kinyarwanda language.

<u>Existence of a functioning tax appeal mechanism –</u>

3.90 *A*ggrieved persons should appeal in writing to the district government within one month of receiving the notice of assessment and thereafter, to a competent court of law, if not satisfied with the decision of the district government.[31] However, the district government does not appear to have any more role in the matter with the takeover of tax administration duties by the RRA. Prior to this, the practice in Karongi district was for the aggrieved party to appear first, to the official in charge of collections at the sector level. Subsequent appeals lie to the official in charge of taxes at the district level, the district executive secretary, the executive committee, and to the district council in that order. ..

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

3.91 *PI-14* measures effectiveness of systems for registering taxpayers and facilitating tax administration to enhance assessment and boost tax revenue. Taxpayer registration is a compulsory civil obligation, often governed by law with penalties for non-compliance. A good registration system creates a comprehensive taxpayer database with control features, including a unique taxpayer identification number (TIN) linked to/combined with other government registration systems involving taxable turnover of assets[32] and occasional surveys of potential taxpayers, e.g., by selective, physical inspection of business premises and residences. *Score Box 3.15* summarizes performance of this indicator.

Score Box 3.15: Effectiveness of Measures for Taxpayer Registration and Tax Assessment						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Controls in taxpayer registration system	Tax registration is a responsibility of the CG, not the district.	NA		Tax registration is a responsibility of the CG, not the district.	Not assessed in 2010	
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014	NA		This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014		
(iii) Planning and monitoring of tax audit programs	This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014	NA		This dimension no longer applies to the district with the takeover of tax collection by the RRA in FY 2014		
Score (Method M2)		**NA**				

Rationale for the Score

[31] *Arts. 20* and *21* of No. 59/2011 of December 31, 2011- Law establishing sources of revenue and property for decentralized entities
[32] Issuance of business licenses, opening of bank accounts and pension fund accounts, etc., for instance

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

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

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

PI-15: Effectiveness in Collection of Tax Payments

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

Score Box 3.16: Effectiveness of Collection of Tax Payments						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at beginning of a fiscal year, which was collected during that fiscal year (average of last two fiscal years)	Collection rate of arrears in FY 2014 was 68%; Karongi District collected Frw 15,418,475.00 of the Frw 22,418,357.00 tax arrears owing as at 1 July 2013, leaving a balance of Frw 6,999,882.00 Frw as at 30 June 2014.	D	D. The debt collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (i.e. more than 2% of total annual collections).	2013/2014 Financial Statements and 2013/2014 Audit Report	Not assessed in 2010	
(ii) Effectiveness of transfer of collections to the Treasury by the revenue administration	Karongi district no longer had responsibility of tax collection as at the time of assessment; the RRA had taken over this task	NA				
(iii) Frequency of complete accounts reconciliation	Audit evidence suggests failure to reconcile tax	D	D. Complete reconciliation of tax assessments,	2013/2014 Audit Report		

Score Box 3.16: Effectiveness of Collection of Tax Payments					
between tax assessments, collection, arrears records, and receipt by Treasury	assessment and collections		collections, arrears and transfers to Treasury does not take place annually OR is done with more than 3 months" delay.		
Score (Method ME)		**D**			

Rationale for the Score

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

3.96 The critical time/period for this dimension is the last two financial years, during which time the district still had jurisdiction over tax administration. The Ministry of Finance provides districts with a template for financial reporting. The template reports revenue arrears as a note to the financial statements under the general heading of "accounts receivables". The note distinguishes between outstanding receipts from third parties and employees (if any) for the preceding and current years. Analysis of information in the 2013/2014 audit report shows outstanding third party receipts[33] of Frw 6,999,882.00 on June 30, 2014 and Frw 22,418,357 on June 30, 2013, i.e., a collection rate of 68 percent.[34] The information shows no new tax arrears for FY 2014, probably because of the takeover of tax administration by the RRA in the year; the balances collected in FY 2014 were all existing in the books as at end of FY 2013. Twelve (12) of the 71 natural debtors[35] existing in the books at the end of fiscal 2013 had not settled their debts as at the end of FY 2014. Eleven (11) of the outstanding debts were unchanged, indicating that the debtors made no payments at all during FY 2014. One outstanding debt declined from Frw 2,747,368 in FY 2013 to Frw 2,390,268 in FY 2014, showing some payment.[36]

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

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

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

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

[33] These are outstanding receipts from third parties contracted to collect revenues from the district. It is not exactly clear whether these relate to entirely taxes or whether they are/include fees.
[34] This differs from the collection rate of 78% suggested by the district during the field meetings, i.e., arrears of Frw 3,826,629 in FY 2014 and Frw 17,416,095 in FY 2013.
[35] The remaining two are Isata Project and LODA, which was in arrears of Frw 4,605,000 as at July 30, 2014
[36] 2013/2014 Audit Report, pp 29 - 31

3.99 Available evidence shows failure to reconcile assessments and collections. This dimension is now a joint responsibility of the district and the RRA with the takeover of tax administration and collection duties by the RRA *(see PIs 3, 13, and 14 above)*. The district needs to reconcile receipts into its revenues accounts with assessment and the taxpayer database. However, audit evidence reports the district's failure to explain the difference "of Frw 5,122,932 between the total expected income per taxpayer's database (Frw 30,228,340) and actual earned revenue recorded in district books of account (Frw 25,105,408)" or record the amount as receivables in the books. Audit evidence also reports failure of the district "the databases for Property / Fixed assets, Plots and Land taxpayers and tenants for rented office buildings" to confirm the income of Frw 57,829,696 received therefrom was the full expected amount" or maintain "schedule showing the taxpayers amount paid and what was outstanding if any"*(see also Case 3.2)*. This implies lack of proper assessment records.

Case 3.2: Failure to Reconcile Tax Assessment with Collections

(3) Unexplained differences between expected revenue and figures as per books of account

- I noted unexplained difference of Frw **5,122,932** between the total expected income per taxpayer's database (Frw **30,228,340**) and actual earned revenue recorded in district books of account (Frw **25,105,408**). The management was unable to provide explanations on the difference noted. In addition, this amount was not disclosed as a receivable in books of account of Karongi District. Hence, the revenue and receivables are understated.
- The District collected income totalling Frw **57,829,696** from property/fixed asset tax, lease fees (plots and land) and rent of commercial and office buildings but the databases for Property / Fixed assets, Plots and Land taxpayers and tenants for rented office buildings was not provided to confirm whether the income that would be expected from them was fully collected. In addition, no schedule showing the taxpayers amount paid and what was outstanding if any was maintained. ***See details below:***

Category	Amount collected as per District books of account Frw
Property / Fixed assets tax	21,595,037
Lease fees (Plots and Land)	8,657,861
Rental income (office building)	27,576,798
	57,829,696

Source: FY2013/2014 Audit Report, page 6

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

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

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

Score Box 3.17: Predictability in the Availability of funds for Commitment of Expenditures						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Extent to which cash flows are forecast and monitored	The district does not have its own independent treasury and cannot forecast cash inflows, except for its own resources, which average about 7% of its total expenditure. The district prepares and submits expenditure plans as input into the MoF's overall cash forecasts	NA			Not assessed in 2010	
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	The district cannot provide commitment authorization information on CG funded projects to districts, being a budget entity for budget implementation; it also does not provide commitment information on own revenues, but sectors are able to calculate their expectations from the district.	NA		MINECOFIN / District administration / the OBL		
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	The CBM reallocated 8 percent of capitation grants to school feeding in FY 2014 in accordance with *Arts. 48, 49 of the OBL* and the *Transmission of Budget Reallocation Guidelines*	A	A. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	District administration		
Score (Method ME)		**A**				

Rationale for the Score

<u>Extent to which cash flows are forecast and monitored</u>

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

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

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

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

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

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

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

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

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

3.109 *The CBM also occasionally reallocates the budget in line with Art. 46 and 49, as the need arises*. Recent examples of this include a reallocation of 8 percent of capitation grant to school feeding in FY 2014; a similar reallocation happened between the two items in FY 2013.[37] The explanation provided for this reallocation is usual overestimation of capitation fees and underestimation of school feeding costs. The overestimation results from the discordance between the fiscal year (July to June) and school year (January to December). The district does not know the exact number of pupils that will register in the different classes for the next school year; this will become clear only in January when schools resume for the year. Meanwhile, it has already used projections to establish capitation grants back in the preceding July. It is not clear whether the same explanation apply to underestimation of school feeding.

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

3.110 *PI-17* evaluates the quality of debt management. Effective debt management helps reduce unnecessary borrowing, debt service costs, and fiscal risks. Maintenance of a Treasury

[37] These reallocations are indeed within the same education program, not between programs as envisioned in Art. 46 and 49; however, they do not detract from the principle.

Single Account (TSA), centralization of all bank accounts, or regular consolidation of cash balances does the same. Proper management of guarantees through accurate recording and reporting of guarantees issued by the government and a single entity to approve all guarantees are also useful tools of debt management. *Score Box 3.18* assesses the three dimensions of this indicator.

Score Box 3.18: Recording and Management of Cash Balances, Debt, and Guarantees						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Quality of debt data recording and reporting	The district has no debt, except for small amounts of accounts payable, caught up in yearend accounts closing formalities. The district quickly pays them off in the new fiscal year.	NA			Not assessed in 2010	
(i) Extent of consolidation of the government's cash balances	The district consolidates bank balances of its 11 main accounts at the BNR monthly in the financial statements sent to MINECOFIN. It consolidates and discloses bank balances of its NBAs separately by category and grand total in the annex to the financial statements.	C	C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances.	District administration		
(iii) Systems for contracting loans and issuance of guarantees	The district does not have regulatory powers; the Minister of Finance does and must also approve district's borrowings *(Arts 50 – 54);* the Minister had not made any such regulations, as at the time of the assessment.	C	C. Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.			
Score (Method M2)		**C**				

Rationale for the Score

Quality of debt data records

3.111 *Debt comprises accounts payables, incurred in the routine course of business; the district does not borrow.* Although districts have the power to borrow for development project financing with the approval of the Minister of Finance, *(Article 50 of the OBL)*, Karongi does not exercise that power. Accounts payable "mainly relate to invoices for goods and services … outstanding on the date of the closure of the fiscal year … [and] recognized as liabilities for that specific fiscal year",[38] in line with the modified IPSAS cash basis of accounting the district uses. Accounts payable stood at Frw 62,269,480 on June 30, 2014 and 19, Frw 172,279,569 a year earlier.[39] The finance department of the district maintains good records of the accounts payable.

3.112 However, these records do not include those of subsidiary entities (schools and health institutions) under its supervision. Failure to integrate these into its accounts has been the subject of negative audit findings over the years. The district's response is that it discloses transactions of NBAs "in the notes to the Financial Statement as required by MINECOFIN. They were not recorded in the District books of account as per the current structure of the district[.] One accountant is not enough to cover all the work involved in consolidating all transactions in the district financial report. We are also faced with difficulties on how to integrate the transactions initiated by these NBAs into the accounting system since there is no clear guidance about the entries that should be posted".[40] NBAs are not the national IFMIS platform.

<u>Extent of consolidation of the government's cash balances –</u>

3.113 The district consolidates bank balances of its main accounts at the BNR in its monthly financial statements and bank balances of its NBAs by category as well as in (grand) total, in the notes to the statements, as required by MINECOFIN. The district maintains 11 expenditure accounts at the Banque National du Rwanda (BNR)[41] and one revenue account at the Banque Populaire du Rwanda (BPR); monitored regularly by the district. The CBM and Director of Finance give specific instructions to transfer balances monthly to the appropriate expenditure account in the BNR.

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

3.114 The district does not have powers to regulate debts and issue guarantees, as already explained. That power belongs to the Minister of Finance *(Arts 50 – 54 of the OBL)*. However, the district stands in *de facto* guarantor status for NBA debts, since subsidiary entities do not have legal capacities. Potential risks from this status do crystallize into reality sometimes, as a case reported in the *2013/2014 audit report (p. 8)* illustrates. A contractor successfully sued the district for penalties for delayed payment for supplies made to a secondary school in that case. The district paid the judgement debt *(see PI-9 above)*.

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

[38] See Karongi District Audit Report for the Year Ended 30 June 2014, p. 5
[39] See Karongi District Audit Report for the Year Ended 30 June 2014, p. 21
[40] See Karongi District Audit Report for the Year Ended 30 June 2014, p. 44
[41] Which is the central bank

> “The Minister shall be the sole person with the authority to borrow or to permit borrowing for purpose of financing the Central Government budget deficit or to raise loans for other public entities.
>
> “The Minister shall also be the sole authority to give and approve guarantees and security for the loans granted to public institutions by financial institutions.
>
> “For decentralized entities, the Council of each entity may borrow loans only for development projects upon authorization of the Minister. However, the Minister shall, by use of instructions, determine the maximum amount that the Council may borrow without prior authorization from the Minister.
>
> “The members of organs of decentralized entities shall not have powers to give guarantees but may pledge securities for a debt. An Order of the Minister shall determine the procedures for giving and approving guarantees and pledging securities by decentralised entities.
>
> “Public institutions may borrow, but with authorization of the Minister.”

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

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

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

PI-18: Effectiveness of Payroll Controls

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

Score Box 3.19: Effectiveness of Payroll Controls						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Degree of integration and reconciliation between personnel records and payroll data	Districts can only apply the Integrated Personnel and Payroll System (IPPS) as designed and given by the Ministry of Labour & Productivity (MIFOTRA) and cannot make changes to it. Personnel database and payroll are not just integrated, but are the same, creating potential integrity issues. Personnel records and payroll data are the same, maintained and processed by the same official.	A	A. Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.		Not assesses in 2010	
(ii) Timeliness of changes to personnel records and the payroll	Changes to personnel records and the payroll happen simultaneously, occasioning no delays, since the two are the same.	A	A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).	District administration		
(iii) Internal controls of changes to personnel records and the payroll	The executive committee approves changes to personnel records and the payroll (which are the same) and the mayor communicates the authorization to HR to effect. A system of periodic ex post review of the payroll is in place and involves the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general.	B	B. Authority and basis for changes to personnel records and the payroll are clear.	District administration		
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	No recent payroll audit has taken place.	D	D. No payroll audits have been undertaken within the last three years. "Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments", *p. 24*	District administration		
Score (Method ME)		**D+**				

Rationale for the Score

Degree of integration and reconciliation between personnel records and payroll data

3.120 The GoR operates a uniform Integrated Personnel and Payroll System (IPPS) for both the CG and decentralized entities, which the district cannot change. IPPS merges the human resource management (HRM) and payroll functions into one; it does not just integrate them through the process of sharing a common information database.[42] Thus, the same officer keeps personnel records in the files, maintains the staff list on the IPPS, and uses the staff list to prepare the payroll at month end. This system potentially poses serious risks to the integrity of the payroll, as was the case recently in the Rwanda Revenue Authority (RRA). The personnel in charge of HR and payroll successfully manipulated the IPPS to add and pay ghost employees over time to the tune of more than 85 million francs *(see Case 3.2).* Financial audit of the Karongi District for FY 2014 also reveal a case of payroll fraud, possibly facilitated by this merging of HR and payroll functions. The district conitnued to pay a former executive secretary of a cell eight (8) months after he had left the service of the District. The payment continued even after the replacement executive secretary resumed office.[43] Separating personnel from payroll functions adds an additional layer of control that makes occurrence of such errors more difficult.

3.121 *The district operates three different payroll processes, each with its own database, but changes to personnel records in all three reflect in the payroll during payment, because the payroll draws directly from the personnel records, as explained above.* The first process is for the district's core personnel, including staff of sectors and cells. The district directly payrolls and pays these personnel. The second process is for health services personnel. The district does not payroll these workers; the health institutions do this directly, but the district headquarters has the information. The third process is for teachers and covers 2,336 personnel. The district prepares the teachers' payroll and sends to the MINECOFIN to pay them directly. All three payroll systems use the same software deployed by the Ministry of Public Services of the CG, i.e., the Integrated Personnel and Payroll System (IPPS).

3.122 *The Executive Secretary is responsible for staff management, but delegates the responsibility to the Human Resource (HR) department under the Director of Administration (DA).* The payroll routine for district's direct employees is as

Case 3.3: Payroll Fraud in the RRA

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

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

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

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

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

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

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

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

in use in some other countries, ions (and records) into one, , even though they share a n overarching agency say, the nominal roll/personnel This separation of functions g an important layer of control, follows. The HR prepares the payroll, the DA verifies, and the ES approves, after which the Finance unit pays by e-direct payment to staff bank accounts. The routine for teachers' payroll is the same, except that actual payment is by the MINECOFIN, instead of the district's finance department. The rationale is that the Ministry of Education own, controls, and manages the fund for teacher's salaries, which it allocates to districts through the budget. The practice for health workers' salary is that the Ministry of Health makes annual commitment for the salary of health workers, divided into four quarters. The district prepares and submits quarterly disbursement proposals based on information on its database to the MINECOFIN. The ministry then transfers the (quarterly) funds to the health institution. Health institutions have independent HR, administration, and finance units, which prepare, verify, process, and pay their personnel directly through e-direct payments. Health institutions submit quarterly payroll reports to the district for control purposes. The district crosschecks, reviews, and uses the information in preparing the next quarterly request from MINECOFIN.

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

<u>Timeliness of changes to personnel records and the payroll</u>

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

<u>Internal controls of changes to personnel records and the payroll</u>

3.125 The mayor authorizes changes to personnel records and the payroll (which are the same) and communicates the authorization to HR to effect. Thus, the mayor must sign promotion letter, approve resignation, etc., in writing for the HR officer to effect the changes in the IPPS; the mayor's signature is vital. For instance,

- For promotion, the HR sends the promotion letter submitted by the promoted staff to the Director of Administration for verification and then to the mayor for signature. The HR officer then confirms the records of service and the terms of promotion, effects the change, and reports it to MIFOTRA. The change automatically reflects in the next payroll

- For resignation, the unit head reports forwards the resignation letter (usually addressed to the mayor) to the District headquarters. The mayor confirms the staff's record of service with the HR unit before responding to the resignation letter, stating the staff's applicable entitlement and obligations. The mayor copies the approval to the administration unit, which then obtains a handover note from the departing personnel and deletes the name from personnel records. This deletion will automatically reflect in the next payroll.

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

3.127 As noted above, financial audit revealed payroll fraud in the district in FY 2014, caused by a breach of existing controls. The breach was due to the failure of the HR and ES to exercise the necessary oversight over the payroll prior to approving payment. The oversighting officials trusted the accountant and did not do serious crosschecking, as required by the regulations. The district has introduced changes to strengthen controls, following the incident. First, it dismissed the erring accountant and began the process of his prosecution. Next, the HR officer now ticks the names on the payroll against attendance, after the accountant has raised payment instructions. Finally, the ES also now crosschecks before giving final authorization for payment.

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

3.128 No recent payroll audits have taken place in the district. However, the district installed an electronic finger printing technology in the headquarters to clock and record staff movement, although the records do not play any role in payroll processing and control. Records of this device would be very useful in any payroll audit exercise.

PI-19: Transparency, Competition, and Complaints Mechanism in Procurement[44]

3.129 *PI-19* assesses the quality and transparency of the public procurement process. It measures the extent of preference for open and fair competition in procurement and extent of justification for use of less competitive options. Public procurement is vital because, "Few activities create greater temptations or offer more avenues for corruption than public procurement. Damage from corruption is estimated at normally between 10% and 25%, and in some cases, as high as 40 to 50%, of the contract value."[45] The PEFA PFM Measurement Framework consequently pays close attention to the procurement process. Other indicators associated with procurement include *PI-4, 10, 12, 16, 20, 21, 26,* and *28*. The indicator *(PI-19)* has four dimensions, assessed in *Score Box 3.20*. Dimension (i) deals with the scope of the legal and regulatory framework, the other three dimensions focus on how the system operates practice.

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement					
Dimension	2015 Assessment			2010 Score	Change since 2010
	Score	Items/Explanation	Information Source		

[44] This is the new title of the indicator following an amendment in September 2010. The old title was, "Competition, Value for Money, and Controls in Procurement"

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

Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement							
Dimension		2015 Assessment				2010 Score	Change since 2010
		Score	Items/Explanation		Information Source		
			The legal and regulatory framework for procurement should	***Tick***			
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	**B**	• be organized hierarchically and precedence is clearly established	√	See Ministerial Order on Public Procurement *(Articles 23, 34)*[46]	Not assessed in 2010	
			• be freely and easily accessible to the public through appropriate means	√	*Art. 5* of the PPA		
			• apply to all procurement undertaken using government funds	√	Except items for national defence & security items, or items covered by internal treaties or agreements Art 2, 3 of PPA 2007		
			• make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	√	*Art. 23* of PPA, 2007		
			• provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	X	*Art. 5* provides that, "This Law, orders, standard bidding documents, and contracts, shall be made available to the public". Arts. 3 & 60 of the Ministerial Order mandate public access to procurement plans and decisions of the independent review panel.		
			• provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature		*Art 21* of PPA		

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

<table>
<tr><th colspan="8">Score Box 3. 20: Transparency, Competition, and Complaints Mechanism in Procurement</th></tr>
<tr><th colspan="2" rowspan="2">Dimension</th><th colspan="4">2015 Assessment</th><th rowspan="2">2010 Score</th><th rowspan="2">Change since 2010</th></tr>
<tr><th>Score</th><th colspan="2">Items/Explanation</th><th>Information Source</th></tr>
<tr><td>(ii)</td><td>Use of competitive procurement methods</td><td>D</td><td colspan="2">The District did not provide documents to assess the extent of justification for using noncompetitive procurement method.</td><td></td><td rowspan="10"></td><td rowspan="10"></td></tr>
<tr><td>(iii)</td><td>Public access to complete, reliable and timely procurement information</td><td>B</td><td colspan="2">The district posts procurement plans and bidding opportunities on its and RPPA’s websites, some national newspapers, and its notice board, but treats contract award and conflict resolution as confidential, non-public details. However, there have not been any recent procurement complaints; the last one was in FY 2012</td><td>District’s website, www.karongi.gov.rw; www.rppa.gov.rw</td></tr>
<tr><td rowspan="7">(iv)</td><td rowspan="7">Existence of an independent administrative procurement complaints system</td><td rowspan="7">A</td><td colspan="2">Are complaints reviewed by a body which</td><td></td></tr>
<tr><td>• is not involved in any capacity in procurement transactions or in the process leading to contract award decisions</td><td>√</td><td rowspan="6">District management - An independent appeal panel of 7 members established in line with Art. 49 of the Ministerial Order of Feb. 19, 2014 establishing the Regulations on Public Procurement exists, including three women. Four members are non-state actors, including the vice president of the PSF (NGO), a female private sector engineer, and a businessman. The public-sector representatives include the district’s public relations officer (a female). The regulations equip the panel with authority to suspend the procurement process, if necessary. The panel must issue decisions within three weeks of receiving the complaint. However, no complaints have yet come before the panel that would test its powers to suspend a procurement process, timeframe of decision, and the extent to which its decision is binding.</td></tr>
<tr><td>• does not charge fees that prohibit access by concerned parties</td><td>√</td></tr>
<tr><td>• follows processes for submission and resolution of complaints that are clearly defined and publicly available</td><td>√</td></tr>
<tr><td>• exercises the authority to suspend the procurement process</td><td>√</td></tr>
<tr><td>• issues decisions within the timeframe specified in the rules/regulations</td><td>√</td></tr>
<tr><td>• issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority)</td><td>NA</td></tr>
<tr><td></td><td>Score (Method M2)</td><td colspan="3">B</td><td></td><td></td><td></td></tr>
</table>

Rationale for the Score

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

3.130 This dimension is not applicable to the district, because the CG regulates public procurement in the entire country, including districts. It makes procurement laws and regulations, which all public procuring entities (including districts) apply and cannot change. The extant legal and regulatory framework for public procurement include the Public Procurement Act (PPA) 2007[47] and the Ministerial Order on Public Procurement of February 2014.[48] Features of the framework with regard to this dimension is as follows.

- *Hierarchical organization* – the Ministerial Order establishes thresholds for use of procurement methods.

    - The threshold for use of single-source is three hundred thousand (300,000) Rwandan francs *(Art. 23)*; however, "the procuring entity shall not … split tenders in a manner aimed at avoiding the normal procurement methods provided for by the law".

    - The threshold for requesting expression of interests in consultancy contacts is tenders in excess of fifty million (50,000,000 Rwf) Rwandan francs *(Art. 34).*

    - The threshold for performance security (guarantee) for non-consultancy services is generally ten million Rwandan francs (10,000,000 Rwf) and above;[49] tenders for consultancy services do not require performance security *(Art. 33).*

- *Free and easy public access* – provided for in the PPA in *(Art. 5),* which provides for public access to "the Law, orders, standard bidding documents, and contracts".

- *Scope of applicability* – applies "to all procurement of works, goods, consulting services or other services carried out by the procuring entity except the procurement provided for in Article 3 of this Law." *Art. 3* excludes "procurement of classified items meant for national defence and security" and procurement under a multilateral or bilateral treaty, which provide for use of different rules.

- *Open competitive bidding as default procurement method* – provided for under *Art. 23*, which provides that, "Except where provided otherwise by this chapter, the procuring entity shall apply open competitive bidding to supplies, works, goods, and other services. Bidders from different foreign countries shall be allowed to participate in the Open Competitive bidding if they are willing to do so".

- *Public access to key procurement information* – mandated by the PPA and Ministerial Order. The PPA requires public access to "the Law, orders, standard bidding documents, and contracts" (*Art. 5),* while the Ministerial Order provides for publication of "Some of

[47] Law N° 12/2007 of 29/03/2007 - Law on Public Procurement
[48] Ministerial Order N° 001/14/10/TC of 19/02/2014 Establishing Regulations on Public Procurement, Standard Bidding Documents and Standard Contracts
[49] However, the performance security may not be required depending on special nature of the tender whose characteristics does not show any risk of poor performance

the elements of the procurement plan namely title and quantity of the tender, method of tendering, source of funds, expected publication and execution dates" by posting the information on procuring entity's notice board, its official website and that of RPPA, and advertisement in "at least one newspaper of wide circulation, which may be national or international" (*Art. 3).* The Ministerial Order also provides for "Publication of the decisions of the Independent Review Panel" by posting it "on the official website of the procuring entity, … the RPPA official website and … the procuring entity's notice board" (*Art. 60)* and for audit of the independent review panel by the RPPA (*Art. 62).*

- Independent administrative procurement review process – provided for under Article 21 of the PPA and Article 49 of the Ministerial Order. The panel shall comprise "seven (7) members appointed for a one period of four (4) years, and drawn for the public sector, private sector and civil society; however, "members from the public sector shall not exceed three (3)". Members of tender committees and persons not qualified to serve on tenders committees are not eligible to serve on the panel. The independent review panel shall submit quarterly reports to the district Council *(Art. 61).* The RPPA shall appoint a full time official as secretary of the panel *(Art. 50).*

Use of competitive procurement methods

3.131 The district did not provide any documents to establish the extent of use of and justification for noncompetitive procurement methods. However, the Rwanda procurement system emphasizes open competition as default at both the central and decentralized levels. However, the PPA provides for the use of five noncompetitive procurement methods under certain circumstances, as specified below.

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

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

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

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

3.136 Community participation *(Art. 57)* - this involves the beneficiary community participating in delivery of services within the context defined by the procurement regulations. The condition is that use of the method will contribute to the economy, create employment, and involve the beneficiary community.

Public access to complete, reliable and timely procurement information –

3.137 The district posts procurement plans, bidding opportunities on its website (www.karongi.gov.rw) and that of the Rwanda Public Procurement Authority (www.rppa.gov.rw) and its notice boards, as well as public it in some newspapers. The district regards information on both contract award and complaints resolution as confidential information not appropriate for public disclosure. However, there has not been any recent procurement complaint. The latest case was in fiscal 2011/2012, which is too remote for this assessment, since the 'critical period/time' for this dimension is "at the time of assessment".[50] Consequently, the assessment treats public access to resolution of complaints as not applicable, raising the rating to "B", instead of "C".

Existence of an independent administrative procurement complaints system

3.138 The district established an independent revenue panel of seven persons in line with *Art. 49* of the Ministerial Order of Feb. 19, 2014 establishing the Regulations on Public Procurement. The panel comprises three women and four men. Four members are non-state actors, including the vice president of the PSF (NGO), a female private sector engineer, and a businessman. The public sector representatives include the Distrct's public relations officer (a female). The regulations equip the panel with authority to suspend the procurement process, if necessary. The panel must issue decisions within three weeks of receiving the complaint. However, no complaints has yet come before the panel that would test its powers to suspend a procurement process, the timeframe of decision, and the extent to which its decision is binding.

[50] See the 2012 Fieldguide, p. 115

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

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

Score Box 3.21: Effectiveness of Internal Controls for Non-Salary Expenditure						
Comments	**Current Assessment (2015)**				**2010 Score**	**Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Effectiveness of Expenditure Commitment Controls	Expenditure commitment controls are in place, but they do not cover all expenditure and are partially effective leading to 'excess commitments' in 2013/2014 and 2012/2013.	C	C. Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.	Treasury, IFMIS & Decentralization units at the MINECOFIN / District Administration	Not assessed in 2010	
(ii) Comprehensiveness, relevance, and understanding of other control rules/procedures	Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; cases of violations at the district level led to several successful frauds in FY 2014.	C	C. Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures	District management		
(iii) Degree of compliance with rules for processing and recording transactions	The level of compliance with rules for recording and processing transactions is significant; however, disturbing cases of use of 'shortcuts' in recording revenue transactions led	C	C. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern	2013/14 audit report		

Score Box 3.21: Effectiveness of Internal Controls for Non-Salary Expenditure					
	to important cases of misstatements in the financial reports in 2013/14.				
Score (Method ME)		**C**			

Rationale for the Score

3.140 *Effectiveness of expenditure commitment controls* – the CG-controlled IFMIS platform helps to enforce established expenditure commitment and payment policy. This policy limits commitment to the approved expenditure plan, expenditure plans to the approved budget, and payments to expenditure commitments and cash availability.[51] The OBL requires that budget entities, "In accordance with the authorization issued by the Minister, make commitments based on the approved expenditure plans for the quarter or the month as the case may be. In making commitments, the chief budget manager shall comply with this Organic Law and other related laws as well as the regulations issued by the Minister *(Art 43 OBL)*. Consequently, the IFMIS locks the budget on the system, allowing access only to the amount transferred by MINECOFIN in accordance with the approved expenditure plan.

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

3.142 However, it is not clear that the District respects this policy with regard to its own resources.[52] Otherwise, it is difficult to explain that the District has reported deficits in its Statements of Revenue and Expenditure in the last two financial years. Reported deficit was Frw 238,580,505 for the 2013/2014 financial year and Frw 849,982,998 for the preceding year, 2012/2013.[53] The last time the district did not report a deficit balance on its revenue and

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

[52] i.e., proceeding on the assumption that commitment above the cash availability is not possible with funds transferred from the CG, as the District insisted on during the assessment

[53] See 2013/2014 Audit Report, p. 20.

expenditure account was in Fiscal 2011/2012, when it showed a surplus of Frw 688,416,784.[54] It is difficult to explain these deficits other than as 'excess commitments'. These 'excess commitments' represent 32.1 percent of reported own revenues in 2013/2014 and 105.3 percent in 2012/2013, even though they constitute only 2.1 percent and 8.1 percent of total revenue of the District in 2013/2014 and 2012/2013 respectively.

3.143 Consequently, existing expenditure commitment controls procedures 'are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated".[55] This is the case for a 'C' rating.

Comprehensiveness, relevance, and understanding of other control rules/procedures

3.144 PFM laws and orders include comprehensive rules and procedures on authorization, approvals, delineation of roles, verifications, access and custody of resources, etc. Core district personnel clearly understand these rules, but there is some evidence of non-adherence. For instance, repeated violation of control and verification procedures occasioned loses totaling Frw 31,219,830 in 2013/2014 *(see Case 3.4).* The audit also reports another case of fraudulent manipulation of records leading to a loss of Frw 8,861,296 *(see also Case 3.4).*

3.145 Inadequate understanding and application of rules in NBAs pose additional challenges. For example, the district delegates some procurement functions to schools, which do not have dedicated procurement units or properly trained personnel. This delegation is of necessity, because of the limited personnel position of the district and the large number of schools and their procurements. The district provides some training for the teachers selected for this purpose, but this has not sufficient to enable them properly interpret and apply procurement rules. In addition, the district complains of difficulties in effectively monitoring, supervising, and verifying NBAs operations and finances, due to the large number (202 in 2013/2014), capacity constraints in the district (one Director of Finance and two accountants), and use of different accounting and recording system in schools[56].

[54] See 2012/2013 Audit Report, p. 9.
[55] See the rating criteria in the PEFA Bluebook (PI 20 (i)).
[56] See District's comments on auditor general's findings in the Audit Report for 2013/2014, p. 44

Case 3.4: Violation of Control Rules Occasioning to Financial Losses

(i) Payments made on the basis of forged signatures and falsified documents

The former accountant of Karongi District withdrew Frw **31,219,836** from the district bank account No 1210370 in the BNR fraudulently. The Accountant was able to make these fraudulent payments by forging the signature of the District Executive Secretary and Director of administration. See the details in the table below:

Date of preparation of cheque	Date of clearing	Reference	Beneficiary	Amount Frw
26/06/2014	07/07/2014	3065619	Nibyobyiza Michel	6,799,836
31/07/2014	13/08/2014	3041340	Ndatimana Laurent	1,170,000
20/10/2014	29/10/2014	00000034	Nibyobyiza Michel	5,985,000
16/09/2014	22/09/2014	00000003	Nibyobyiza Michel	6,431,000
10/06/2014	10/06/2014	3041357	Nibyobyiza Michel	8,674,000
4/11/2014	4/11/2014	3004995	Uwimana Joseph	2,160,000
				31,219,836

Source: FY 2013/2014 Audit Report, p. 7

(ii) Payments made by altering the names and bank accounts of beneficiaries on pay list

I noted that the same accountant of Karongi District made payments of Frw 8,861,296 from the district account No 1210370 in the BNR fraudulently. This was done when district paid some of returned payments existing as at 30 June 2014. At that time, given the hard copies of pay list which were approved by district authorities, the accountant took the related soft copies that are presented together with hard copies to BNR for payment. Through soft copies pay list the correct names and bank accounts of the beneficiaries were changed by the accountant by inserting ineligible beneficiaries for his personal gain. Public funds were used for personal gain, and accordingly, district activities for which these funds were meant for were not undertaken.

Degree of compliance with rules for processing and recording transactions

3.146 the Manual of Government Procedures: Financial Management & Accounting, Vols 1 – 4 published by MINECOFIN sets out details of rules and procedures for recoding transactions, among others. The District complies with the provisions of the manual in a significant majority of cases; however, there are inexplicable instances of use of simplified/emergency routines leading to misstatement of facts. Neither the internal audit unit, specifically nor the PFM system at large compiles the error or rejection rates. However, the 2013/14 audit report notes a number of errors in recording and posting transactions, sometimes leading to misstatement of facts in the financial statement *(see examples in Case 3.4 below)*. These include several instances of entries in the revenue ledger not supported by bank account records. Amounts involved total Frw 863,318. There was also the case of the books failing to sufficiently trace the back and forth movement of an attempt to effect payment of a debt of Frw 5,955,464, leading to unfair reporting the “balance for revenue, expenditure, bank, and payables” in the financial statements.

Case 3.5: Examples of Payment Errors from Failure to Comply with Rules & Procedures

5.3 Posting errors

Observations

During the review of Karongi District the following posting errors were highlighted:

- Included in revenue ledger account are transactions amounting to Frw **863,318**. However, these transactions could not be traced on the district bank account. Therefore, these are fictitious revenue. ***See details below:***

Date	Description	Reference	Amount Frw
18/09/2013	Deposit by customer /Income	T9918750	114,000
30/12/2013	Deposit by customer at BPR	BPR 39987	122,000
17/12/2013	Deposit by customer /Income	1030000	39,105
31/12/2013	Deposit by customer /Income	BPR38818	30,000
05/05/2014	Deposit by customer at bank	FT14125INBW6/BNK	558,213
			863,318

- An amount of Frw **5,955,464** was wrongly recorded as repaid in the year under audit. However, I noted that this amount was deposited back in the year ended 30 June 2013 and again repaid on 27 June 2013. ***See detail in the table below:***

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Date	Description	Reference	Amount Frw
05/07/2013	Returned back payment fees of *'ubudehe* community project	2789486	5,955,464

Risk

The above posting errors imply that the balance for revenue, expenditure, bank and payables reported in the district financial statements are not fairly stated.

Recommendation

Management of district should ensure that appropriate effort is dedicated to the proper recording and review of transactions in the general ledger. Necessary adjustments should be made to correct the errors.

Management comment

The findings are considered and necessary adjustment will be done

Source: 2013/2014 Audit Report, pp. 45 - 46

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

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

PI-21: Effectiveness of Internal Audit

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

Score Box 3.22: Effectiveness of Internal Audit						
Comments	**Current Assessment (2015)**				**2010 Score**	**Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Coverage and quality of internal audit function	Internal audit does not involve accounting work; it focuses on expenditures, revenues, transactions, and some system work. However, limited capacity adversely affects its scope and effectiveness.	C	C. The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.	District administration / Internal Auditors / 2013/14 Report of the Auditor General	Not assessed in 2010	
(ii) Frequency and distribution of reports	Internal auditors prepare reports for the auditee, and quarterly reports for the DC, with copies to MINECOFIN, MINALOC, and the Province, but not the auditor general, except on request.	B	B. Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	District administration / Internal Auditors		
(iii) Extent of management response to internal audit findings	Management takes prompt action on IA reports. The auditee responds to the findings according to the agreed implementation plan with the executive committee (EC) following up. The AC reviews quarterly reports and reports to the DC, which gives directives and obtains	A	A. Action by management on internal audit findings is prompt and comprehensive across central government entities.	District administration / Internal Auditors		

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

Score Box 3.22: Effectiveness of Internal Audit					
	follow up reports.				
Score (Method ME)		**C+**			

Rationale for Score

Coverage and quality of internal audit function

3.150 The district has three internal auditors, who report to the District Council. Internal is administratively independent of the district executive committee; the mayor and the executive secretary do not control the hiring and discipline (including dismissal) of internal auditors. Internal auditors interact with the executive management, but report to the Audit Committee of the District Council. Audit personnel hold Bachelor's degree at the point of entry into service, and they are currently undergoing training for professional accounting qualification under the sponsorship of MINECOFIN.

3.151 Internal audit does not involve accounting work such as ex ante checking and approval of vouchers (so-called prepayment audit). Analysis of the 2014/2015 *(see Table 3.12)* internal audit workplan shows that audit comprises systems audit, financial and compliance audit, review of financial information, and procurement audit. 'Systems audit" takes place at the district headquarters and comprises mostly of review of implementation of recommendations of previous internal and external audit findings. Financial and compliance audit sometimes appear as separate tasks in the workplan and together sometimes. Financial audit includes audit of revenue collections. Audit of NBA is mostly compliance (and financial) audit. Procurement audit involves 100 percent review of all awarded tenders.

Table 3.12: Summary of Analysis of Scope of Work done in 2014/2015 Internal Audit Workplan

		Number of Days of Internal Audit Work					
		Quarter 1	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Total**	**Average Time-taken**
1	Systems Audit (in District HQs -mostly review of implementation of previous IA and AG audit recommendations)	5	10	10	11	36	15.2%
2	Review of financial information	10	10	10	11	41	17.3%
3	Financial / compliance audit*	25	41	33	41	140	59.1%
4	Procurement audit	10	0	0	10	20	8.4%
	Total	**50**	**61**	**53**	**73**	**237**	**100.0%**

*Financial and compliance audit appear sometimes as separate tasks with separate time allocations in the audit workplan, and together at other times

3.152 Capacity shortages severely constrains the scope of audit work to a "representative" sample of auditable entities selected based on analysis of potential risks. The 2014/2015 audit workplan shows there were 247 auditable entities in Karongi District in that year, comprising the District HQs and 246 NBAs, including 13 *(see Table 3.13)*.[58] The risk assessment uses numbers assigned to risk factors to classify the potential riskiness as high, medium, or low. The 2014/2015 audit workplan devotes a lot of time to the high-risk areas, but also includes a number of low risk areas. It did not include any medium risk area. The audit covered 16 NBAs comprising nine health institutions (hospitals and health centres),[59] five sectors,[60] the District Pharmacy, and the District level health insurance institution. The workplan did not indicate that IA would cover any of the 58 secondary or 125 primary schools, and there is no indication that it did.

Table 3.13: Analysis of Auditable Entities in Karongi in the 2014.2015 Audit Workplan

Entities	Numbers
District	1
Sectors	13
Hospitals	3
Health centers	21
Mutual Health Insurance Sections	21
Mutual Health Insurance District Level	1
District Pharmacy	1
Secondary Schools	58
VTC (Vocational Training Center)	2
Primary Schools	125
Transit Center	1
Total	**247**

Source: Karongi District: Internal Audit Plan for the Year 2014- 2015

3.153 The 2013/2014 external audit report indicates that internal audit does not meet international professional standards. The report states that, "I noted that the internal audit function does not prepare audit program showing the test performed during the audit and does not have sampling working paper on the work performed. Furthermore, there is no documented audit approach to be followed while conducting the audit and the internal audit staff did not maintain properly referenced and cross referenced working papers for all the evidence and conclusions reached."[61]

Frequency and distribution of reports

3.154 Internal auditors prepare two types of reports. First, the auditors prepare and submit draft internal audit reports to the auditee to comment on before finalization. The finalized reports include the auditee's comments and an agreed implementation plan for the recommendations. Second, internal auditors prepare consolidated quarterly internal audit reports for the District Council with copies to the Ministry of Finance (MINECOFIN), Ministry of Local Government (MINALOC), and the Province. The auditor general is not on the routine distribution list, but gets a copy on demand, usually at the commencement of external audit.

Extent of management response to internal audit findings

[58] This number differs from the 202 NBAs reported in the 2013/2014. It is not clear whether the District added new NBAs in the one-year interval.
[59] Mugonero Hospital, Gatare HC, Mpembe HC, Kabure, Mukungu HC, Musango HC, Kinda Hospital, Mwendo; Rugabano; Karora
[60] Gishyita Sector, Mutuntu Sector, Murambi, Murundi, and Rwankuba
[61] 2013/2014 Audit report, pp 111 – 112

3.155 District officials at various levels act on internal audit findings within the scope of their authority. The auditee implements recommendations based on the agreed plan in the audit report. The executive committee (EC) takes appropriate administrative action to follow up with the auditee on implementation, including by demanding progress reports on extent of implementation. In addition, the audit committee of the DC sits on the quarterly report, reviews the findings taken by both the district and the auditee to implement them, and reports to the DC at its next meeting. The DC reviews the findings and implementation action already taken to correct them, takes action on issues beyond the powers of the executive committee, sets deadline for completion of action on outstanding issues, and obtains follow up report from the executive committee at its next meetings.

3.5 Accounting, Recording, and Reporting

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

PI-22: Timeliness and Regularity of Accounts Reconciliation

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

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

Score Box 3.23: Timeliness and Regularity of Accounts Reconciliation			
Score (Method M2)	**C**		

Rationale for the Score

Regularity of bank reconciliations

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

3.158 However, the quality of reconciliation at the district level is in doubt, going by findings in the financial audit reports for 2013/2014.[62] For instance, the audit report two transactions of "Unsupported transactions cleared through the bank and did not appear in the district books of account" on page 11. The transactions involve "Frw 8,902,374 and Frw 5,135,365 for the year ended 30 June 2014 and six months subsequent to the year ended 30 June 2014 (July to December 2014)". The district bank account cleared these transactions, but they did not appear in the district cash books, neither did they "even appear under unreconciled difference on the bank reconciliation statement." The district also not provided the related supporting documents during the audit. The auditor report concludes thus, "In absence of proper details and support documents for the transactions that cleared through the bank but did not appear in the district books of account, I was unable to confirm the accuracy of the bank balance reported in the financial statements. The bank reconciliation statements are incorrect and unreliable for the users."

3.159 The audit report also highlighted other cases demonstrating further issues that the quality of bank reconciliation *(see Case 3. 6 below)*. These include payment orders of Frw 85,430,417 (salary), Frw 45,083,200, and another Frw 85,430,417 (salary), credited in the district's cashbook, but not in the bank statements, and not shown in the bank reconciliation statement as outstanding bank debits. There were also other cases of bank Frw 40,721,513 and Frw 22,716,378 debited by the bank that were still appearing in the bank reconciliation statements as unreconciled items. Finally, there was the case of recording of 18,874,000 as outstanding in the bank reconciliation statement for June 2014, when the correct amount should have been Frw 4,605,000.

[62] See pp. 11 – 13 of the audit report for 2013/2014

Case 3.6: Failure to Reconcile Internally Generated Revenue to Source Documents

(12) Review of bank reconciliation statements

(i) Bank reconciliation statements not properly prepared

- On 28/05/2014, Karongi District paid staff salary (Frw **85,430,417**) for the month of May 2014 through its operational bank account (BNR-1210370) and this payment order/OP, though the beneficiaries received their salary, the bank account was not debited (had not cleared) by BNR up to the time of my audit in February 2015. The bank reconciliation statements prepared by the district from May 2014 to September 2014 did not show this OP as outstanding reconciling item. Inquiries made to management revealed that the amount has not been debited by BNR on the district bank account.

- Similarly, 20th June 2014 Karongi District made a payment of **45,083,200 (ref** OP no 3059925) through Karongi District/CDF bank account (BNR-1210372). Though the beneficiaries received their money, this payment order/OP was not cleared to the bank account up to the time of my audit in February 2015. I noted this was presented as outstanding OP in the bank reconciliation statements prepared by the district in June 2014 but did not appear in the bank reconciliation statement for the month of September 2014. After I raised an audit query in February 2015, the district management made follow up with BNR and the amount was debited on the district bank account. This is an indicator of inadequate follow up by the district management.

- Further, on 26/06/2014 Karongi District paid its staff salary (Frw **85,430,417**) for the month of June 2014 through its operational bank account (BNR-120370). I noted that this salary, though cleared by the bank (27th June 2014), the district cancelled it in its books of account by debiting bank account and crediting employees costs. However, this amount did not appear under un-reconciled difference in the bank reconciliation statements prepared by the district from June 2014 to September 2014 yet the amount had been debited by BNR but reversed in the books of account.

(ii) Reconciling items without supporting documents

The bank reconciliation statement for June 2014 for CDF district bank account includes outstanding deposit of **Frw 18,874,000.** Further analysis carried out on above outstanding deposit revealed that the only amount that should have been recorded as outstanding deposit was **Frw 4,605,000**. Subsequent to the year end, **Frw 4,605,000** was credited to the district

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bank account on 05/12/2014. Accordingly, bank reconciliations contain errors and are not reliable to the users.

(iii) Transactions that had been cleared through the bank but still appearing on the bank reconciliation statements as reconciling items

During the review of bank reconciliation statements, I noted that the OP and cheques totalling Frw **40,721,513** and Frw **22,716,378** were paid by the district through its bank accounts: operational bank account (BNR-1210370) and Karongi District/CDF bank account (BNR-1210372) respectively but these OP and cheques were presented under reconciling items in the respective bank reconciliation statements for the month of June 2014 as outstanding payments while they had already cleared through the bank.

Owing to the above anomalies regarding bank balances, I was unable to confirm the completeness and accuracy of the balances reported at 30 June 2014. Consequently, the financial statements of district are not fairly stated. ***Refer to section 8.2***

Source: 2013/2014 Audit Report, pp. 12 - 13

<u>Regularity of reconciliation and clearances of suspense accounts and advances</u>

3.160 The district does not use suspense accounts or operational advances (travel or imprest) in its activities.

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

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

Score Box 3.24: Availability of Information on Resources received by Service Delivery Units						
Dimensions	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
Collection and processing of information to demonstrate resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to overall resources made available to the sectors(s) irrespective of which level of government is responsible for the operation of the funding unit (i) Regularity of bank reconciliations	The district has not comprehensively collated data on cash and in-kind resources available to primary schools and health centres in the last three years, although the system is capable of generating the information.	D	D. No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	District administration	Not assessed in 2010	
Score (Method ME)		**D**				

Rationale for the Score

3.162 *Karongi District has not comprehensively collated data on cash and in-kind resources available to primary schools and health centres in the last three years, although the system is capable of generating the information.* The district administration explained that the current system in use requires non-budget agencies (NBAs) to show cash resources (including cash gifts) from all sources, but not in-kind gifts. NBAs provide such reports monthly and the district collates and discloses the information in the notes to its monthly financial reports and annual financial statements. The district explains that it has a policy requiring intending donors to primary service delivery units to channel their donations through the District administration for proper coordination and monitoring. However, some donors do not respect this policy, creating difficulties for the district, which must then rely on the recipient units to report such donations. There is a template for reporting all such cash donations, but not for in-kind donations. It is not exactly clear that even reports on cash gifts is complete and reliable.

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

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

Score Box 3. 25: Quality and Timeliness of In-year Budget Reports						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Scope of reports in terms of coverage and compatibility with budget estimates	Monthly budget execution reports capture expenditure at the payment stage only (not also at commitment); comparison between budget and outturns is possible only by economic categories, and not by administrative headings, as well	D	D. Comparison to the budget may not be possible across all main administrative headings.	The district government / monthly financial reports	Not assessed in 2010	
(ii) Timeliness of issues of the reports	Budget execution reports issued as part of monthly financial reports not later than the middle of the next month. Real-time record keeping on the IFMIS system makes this possible.	A	A. Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	The district government / monthly financial reports		
(iii) Quality of information	There are no material concerns affecting accuracy of IFMIS-based monthly budget execution reports.	A	A. There are no material concerns regarding data accuracy.	The district government / monthly financial reports		
Score (Method ME)		**D+**				

Rationale for the Score

<u>Scope of reports in terms of coverage and compatibility with budget estimates</u>

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

Timeliness of issues of the reports

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

Quality of information

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

PI-25: Quality and Timeliness of Annual Financial Statements

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

Score Box 3.26: Quality and Timeliness of Annual Financial Statements

Comments	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Completeness of the financial statements	The 2013/2014 financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District are in the main statements, but numerous	D	D. A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor	District administration / FY 2014 audit report	Not assessed in 2010	

Score Box 3.26: Quality and Timeliness of Annual Financial Statements					
	highlighted in the audit report adversely affect they completeness		to enable audit. See also "Supplementary Guidelines for the application of the PEFA Framework to Sub-National Governments", *pp. 28 -29*		
(ii) Timeliness of submission of the financial statements	FY 2014 financial statements submitted to the for audit on October 10, 2014.	A	A. The statement is submitted for external audit within 6 months of the end of the fiscal year.	District government / FY 2014 audit report	
(iii) Accounting standards used	The modified cash standard used is broadly compatible with IPSAS reporting requirements	A	A. IPSAS or corresponding national standards are applied for all statements.	FY 2014 audit report	
Score (Method ME)		**D+**			

Rationale for the Score

Completeness of the financial statements –

3.168 The Ministry of Finance provides districts with a format / template for financial statements/reporting. The format comprises statements and notes sections. The financial statements itself comprise three main sections: the statements, notes to the financial statements, and important disclosures.[63] The statements are three, i.e., statement of revenues and expenditure, statement of financial assets and liabilities, and cash flow statement. The notes show details of 23 items relevant to the financial position of the district, and include information on accounts payable, accounts receivables.[64] Items shown as disclosures include these four (i) statement of contingent liabilities, (ii) statement of investments, (iii) undrawn loan and grant balances, and (iv) disclosure on subsidiary entities financial results.

3.169 The district did not provide a copy of its financial statement; it is difficult therefore to make specific comments on the quality and scope of coverage. However, the auditor general issues an unfavorable audit opinion on the statement, thus,

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

"In my opinion, in view of matters raised in paragraphs (1) to (20) above, proper books of account have not been maintained and the financial statements do not give a true and fair view of the state of the financial affairs of Karongi District as at 30 June 2014 and of its receipts and expenditure for the year then ended and do not comply with the existing laws and regulations."

3.170 The numerous "matters raised" in the audit report include the following sample

- "Unexplained postings to opening balances" (p. 6 and section 5.2)
- "Unexplained differences between expected revenue and figures as per books of account" (p. 7 and section 6.2)
- "Payments made on the basis of forged signatures and falsified documents" (p. 7 and section 7.1)
- "Payments made by altering the names and bank accounts of beneficiaries on pay list" (p. 8 and section 7.1)
- "Unsupported transactions cleared through the bank and did not appear in the district books of account" (p. 12 and section 8.1)
- "Transactions that had been cleared through the bank but still appearing on the bank reconciliation statements as reconciling items" (and section 8.2):

There also several cases of fraud and other issues in NBA, including the District Pharmacy, hospitals, and health insurance scheme, etc.

3.171 The district has no accountant as at the time of this assessment, because the former accountant absconded following the instances of fraud he committed, some of which the audit report highlighted.

<u>Timeliness of submission of the financial statements</u>

3.172 Budget entities must submit their financial statements to the Ministry of Finance for comments by July 31 each year for review. The entity incorporates observations of the Ministry before submitting the revised financial statements to the auditor general. Evidence of acknowledgement of receipt of the financial statements by the OAG supplied by the district shows that it submitted FY 2014 financial statements submitted for audit on October 10, 2014, little more three months from yearend.

<u>Accounting standards used</u>

3.173 The GoR prepares financial statements using the IPSAS cash basis, but modified to allow disclosure of some information considered key by the GoR. These include accounts payable and receivable. The District complied with this.

3.6 External Scrutiny and Audit

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

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

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

Score Box 3. 27: ***Scope, Nature, and Follow-Up of External Audit***						
Comments	**Current Assessment (2015)**				**2010 Score**	**Explanation of Change since 2010**
	Evidence Used	**Score**	**Framework Requirement**	**Information Source**		
(i) Scope/nature of audit performed (including adherence to auditing standards)	Audit covers 100 percent of the operations (revenues, expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards.	A	A. All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.		Not assessed in 2010	
(ii) Timeliness of submission of audit reports to legislature	The SAI submitted the 2013/2014 audit report to the district council on April 30, 2015, i.e., more than six months after receiving the financial statements	B	B. Audit reports are submitted to legislature within 8 months of end of period covered and in the case of financial statements from their receipt by the auditor.			
(iii) Evidence of follow-up on audit recommendations	The level of implementation of previous audit findings was 75 percent in each of 2011/2012 and 2013/2014, but 47 percent in 2012/2013 (the off-colour year).	A	A. There is clear evidence of effective and timely follow up.	Audit reports for FY 2012, 2013, & 2014		
Score (Method ME)		**A**				

Rationale for the Score

3.176 *Background: Dimensions (i) and (ii) are not applicable to district, because external audit is not a function of district governments, but that of the Central Government.* The OBL[65] and the Decentralization Law[66] define the role of district administrations in external audit. The OBL requires the chief budget manager "to provide any other information as … required by the Ministry and the Office of the Auditor General of State Finances" and to "implement the audit recommendations of the Ministry and Auditor General of State Finances". The Decentralization Law defines the duties of district councils to include, "to monitor the implementation of recommendations contained in the report of the Auditor General of State Finance". Thus, the responsibility of districts is only to implement audit findings, making only dimension (iii) of this indicator relevant.

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

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

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

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

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

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

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

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

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

3.182 *What legislation regulates external audit (including organization of SAI)?* – external audit is a constitutional function in Rwanda, as stated above. The Supreme Audit Institution (SAI) is the Office of the Auditor General for State Finance. The office audits both CG and in LG entities. The objective of the audit function in districts is as usually summarized in annual audit reports, i.e., to ascertain that

- the district has kept proper books of account and the financial statements prepared therefrom give a true and fair view of the state of the financial affairs of the district for the financial year and of its receipts and expenditure for the year then ended and comply with existing laws and regulations
- the district observed controls put in place to safeguard the receipt, custody and proper use of public funds and the laws and regulations in force
- The expenditure incurred was necessary and in conformity with the laws and regulations in force and sound management, and
- The district acquired and utilized human, material and financial resources economically, efficiently and effectively[67]

3.183 *What % of total expenditure of central government was achieved in audit coverage for last FY audited (50% or less, over 50%, over 75% or 100%)?* – the 2013/2014 audit covered 100 percent of expenditures of the district headquarters. This percentage "refers to the amount of expenditure of the entities covered by annual audit activities, not the sample of transactions selected by the auditors for examination within those entities".[68]

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

3.185 *What is nature of external audit performed (audits of transactions or audits of systems)?* – the 2013/2014 audit comprised both transactions and systems audit. The systems audit comprised an early review of the internal control system (including internal audit) and procurement processes to help inform the audit procedures. The transactions audit aspect carried out a test examination of evidence supporting amounts and disclosures in the financial

[67] See Karongi District Audit Report for The Year Ended 30 June 2014, p. 4
[68] *See the Fieldguide. p. 148*

statements. The audit also assessed the accounting principles used and significant estimates made by management, and evaluated the presentation of financial statements. The 2013/2014 audit report includes findings on all these elements.

3.186 *Are performance audits performed in addition to financial audits?* The 2013/2014 audit also involved some performance and value for money audit, although only on a limited basis. For instance, the report includes a section on *"Physical Verification"*[69], which reports the case of "Delayed occupation and operating of Kabure hospital". The report also noted that the lift and water treatment plants were not yet operational (cost" Frw 203,194,500), as well as the presence of cracks on some walls and pavements, and broken tiles. In addition, the report reviewed cases of Abandoned works, defective works relating to Gashali Water layouts and supply, and constructed health posts not yet utilized. The audit discussed the risks that these situations pose, and how they constitute inefficient use of public resources.

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

Timeliness of submission of audit reports to legislature

3.188 Evidence from the Office of the Auditor General shows that it submitted the 2013/2014 audit report to the District on April 30, 2015.[70] This was more than six months after receipt of the financial statements for audit on October 10, 2014. The score is, "B".

Evidence of follow-up on audit recommendations

3.189 Audit reports include a section on "Implementation of Previous Year Audit Recommendations". The 2013/2014 audit report shows that that the District has fully implemented 75 percent or 12 of the 16 recommendations in the preceding year's report. The district had not only partially implemented one of the findings, while it had not implemented three at all 75%.[71] The level of full implementation in 2012/2013 was 47 percent.[72] In 2011/2012, the level of implementation reported was also 75 percent, i.e., 21 out 28 findings.[73]

[69] See 2013/2014 audit report, *pp. 81 – 97*
[70] See transmittal memo No. 215/04/15/DCA/OAG, dd 30 AVR, 2015, title, re: Final Report for the Year Ended 30 June 2014
[71] See pp. 98 of FY 2014 audit report; 44 of FY 13 audit report, and 38-39 of FY 14 audit report
[72] See page 52 of the 2012/2013 audit report
[73] 2011/2012 audit report, pp. 46, 60 – 74.

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

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

PI-27: Legislative Scrutiny of Annual Budget Law

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

Score Box 3.28: Legislative Scrutiny of the Annual Budget Law

Dimensions	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
(i) Scope of Legislatures Scrutiny	The DC reviews details of revenue and expenditures, but it cannot change fiscal policy decisions already made by the CG, which finances over 90% of the budget	C	C. The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	District administration / MINECOFIN / OBL 2013	Not assesses in 2010	
(ii) to which Legislature's procedures are well-established and respected	Simple procedures for review exist; the Economic Commission reviews details of proposals and present to the DC for approval. The Commission interacts with the CBM and other technical staff of the District in the process.	B	B. Simple procedures exist for the legislature's budget review and are respected.	District administration		
(iii) Adequacy of time for the Legislature to provide response	The date of submission of the draft budget to the district council is unclear, but approval	NR		District administration		

Score Box 3.28: Legislative Scrutiny of the Annual Budget Law					
to budget proposals, both to detailed estimates, and where applicable, for proposals on macro fiscal aggregates earlier in the budget cycle (time allowed in practice for all stages combined)	of the 2015/2016 budget was June 26, 2014.				
(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature	The OBL 2013 and relevant regulations set out clear rules for in-year budget amendments. Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.	A	A. Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.	Legislations supplied by the MINECOFIN / the District administration district accounts	
Score (Method ME)		**NR**			

Rationale for the Score

3.192 *Scope of Legislatures Scrutiny* – the District Council reviews and adopts the budget of the district in accordance with extant legal provisions; however, its review has a limited scope. *Articles 5* of OBL and *125(3)* of the Decentralization Law[74] require the District Council to adopt the budget of the District Council. *Article 11* emphasizes that only the District Council may adopt the budget of the district, but before doing so, "members of the Decentralized entity Council shall consider and provide comments on the Budget Framework Paper" (BFP). However, the DC only provides comments to the cabinet, as other decentralized entities and the Chamber of Deputies do as well. It does not approve the Budget Framework Paper (BFP). The Minister of Finance prepares the BFP for the cabinet to approve *(Art. 32, OBL)*. The BFP sets the tone of the MTEF and the budget. The law requires that expenditure estimates of the district be "in conformity with medium term strategies established by the State" in the BFP *(Article 36 of the OBL)*. In reality therefore, the district does not make fiscal policies and forecasts; the GoR

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

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

3.193 *Extent to which Legislature's procedures are well established and respected* – the district follows well-established procedures in adopting the budget. The DC holds an annual planning meeting, during which it reviews the BFP and discusses projects for funding in the budget at the beginning of the planning period, even though the session is not solely a budgeting process. In the budget process, the district administration shares budget proposal and other documents for review in advance with DC. The Economic Commission[75] of the DC holds sessions to review the documents in some detail, interacting with the executive committee and technical personnel in the process. This is an established tradition, based on the legal provisions. *Art. 11* of the OBL provides that, "The Council of the decentralized entity shall have the authority to require members of the Executive Committee and chief budget manager to appear before it and explain policies, programs and utilization of the budget of the concerned decentralized entity". The Commission then presents its findings to the DC to consider and adopt.

3.194 *Adequacy of time for the Legislature to provide response to budget proposals* – review of the draft budget begins after receipt of the first budget call circular. The DC approved the 2014/2015 budget on June 26, 2014.[76] The exact date of commencement of the budget process is not clear, although the district administration suggests that the approval process usually takes about three months from the submission of the initial documents.

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

PI-28: Legislative Scrutiny of External Audit Reports

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

[75] Established under Art 46 of **Law Nº 87/2013 of 11/09/2013** on Decentralization
[76] See "The District Council Decision N° D1 2014/2015 of 26th June 2014, determining the district finances for Fiscal Year 2014/2015"

Score Box 3.29: Legislative Scrutiny of External Audit Reports						
Comments	Current Assessment (2015)				2010 Score	Explanation of Change since 2010
	Evidence Used	Score	Framework Requirement	Information Source		
Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	The District Council completes examination of audit reports within three months of its receipt from the AC. The district is not in not in arrears of review of audit report.	A	A. Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.	District Administration	Not assessed in 2010	
Extent of hearings on key findings undertaken by the Legislature	The AC holds hearings and invites indicted persons as necessary before making recommendations to the DC.	A	A. In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.			
Issuance of recommended actions by the Legislature and implementation by the executive	The DC issues recommendations and there are multiple layers of follow up. The CBM, Treasury Management Team, and internal auditors, all follow up on implementation progress.	A	A. The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.			
Score (Method ME)		**A**				

Rationale for the Score

Timeliness of examination of audit reports by the Legislature

3.197 *T*he parliamentary Public Accounts Committee (PAC) reviews audit findings, hold public hearings, invites indicted persons, and makes recommendations. However, these hearings are of necessity, on a representative basis, given the impracticality of holding hearings on the findings of all 30 districts, for instance, in addition to the numerous other public entities. The DC has parallel arrangements for reviewing audit findings, which begins with receipt of the audit report. Procedurally, the auditor general submits the audit report to the mayor of the district, who is both the elected political head of the district and a member of the District Council. The mayor promptly submits the report to the audit committee (AC) of the District. The mayor also places the report before the executive committee (EC) of the district under the mayor’s headship and which includes the two deputy mayors and the executive secretary.

3.198 The AC reviews the findings of the report and presents its findings to the DC. Both the AC and the DC complete their hearings and issue formal recommendations within three months of the receipt of the audit report. It was not possible to confirm the exact date of the completion of hearing during the field visit to the District. However, the district administration explained that that the document headed as follows *"Issue tracking report Q2, 2014-2015 (OAG) - Audited period :2012- 2013" for "Quarter ending: 31st December, 2014 (Q2), Date submitted: 19th January, 2015)"* shows that the DC had completed its hearings and actions taken and reported to the DC before preparing that report. The report refers to actions taken pursuant to DC resolutions in several places. For example, the report contains this entry, "An amount of 9,770,441Rwf has been exonerated by the District Council resolution of 25/9/2014 for different justifiable purposes whereas 4,350,398 Rwf has been already paid and some measures have been taken actually to recover the only 1,137,556 Rwf remaining as soon as possible". Reference to the date of 25/9/2014 suggests that date as the date the DC adopted resolutions on the 2012/2013 audit report.

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

<u>Extent of hearings on key findings undertaken by the Legislature</u>

3.200 The AC first reviews audit findings based on a technical analysis done by internal auditors. The internal audit analysis specifies the issues, identifies necessary remedial actions, and indicates who should take them. The AC holds hearings and invites the CBM and indicted persons to appear before it, as necessary.

<u>Issuance of recommended actions by the Legislature and implementation by the executive</u>

3.201 The DC issues recommendations. The PAC may also issue recommendations. The district's management implements these recommendations, follows up on progress, and reports the same to the DC quarterly. The follow-up takes place at several levels, including the DC quarterly tracking reports submitted by the CBM, the Treasury Management Committee (TMT)[77] initiated to discuss technical PFM issues, internal auditors,[78] the MINECOFIN (through periodic financial reporting), and the auditor general (during the next audit visit). The periodic "Issue Tracking Report" prepared by the district is in tabular format with the following seven headings, (i) "serial number", (ii) "title and description of the finding", (iii) "risk rating (high, low, medium)", (iv) "recommendations", (v) "describe briefly what have been done on fully and partially implemented recommendations", (vi) "status", and (vii) "age in days". It also includes summary of issues resolved and not resolved.

[77] Comprising of the internal auditors, the legal officer, engineers, the procurement team, finance officials, directors, etc.
[78] Who prepare the Issues Tracking Report for the CBM to crosscheck and approve

3.7 Donor Practices

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

D-1: Predictability of Direct Budget Support

3.203 D-1 assesses the predictability of flow and timing of direct budget support. Direct budget support is an important source of revenue for many aid dependent countries. Predictability is therefore as important for fiscal management as predictability of other revenues is. Poor predictability can transmit shocks into the revenue performance and shortfalls may affect ability to implement the budget as planned. Delays in in-year distribution of aid flows also have similar serious implications. *Score Box 3.30* assesses the two dimensions of this indicator.

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

Rationale for the score

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

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

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

Score Box 3. 31: Financial Information provided by Donors for Budgeting and Reporting on Project and Program Aid				
Dimension		**Score**	**Comments**	**Information Source**
(i)	Completeness and timeliness of budget estimates by donors for project support	Not applicable		
(ii)	Frequency and coverage of reporting by donors on actual flows for project support.			
Score (Method ME)				

Rationale for the Score

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

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

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

Score Box 3. 32: Proportion of Aid Managed by Use of National Procedures				
Dimension		**Score**	**Comments**	**Information Source**
(i)	Overall proportion of aid funds to central Government managed through national/district procedures	Not applicable		
Score (Method ME)				

Rational for the Score

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

Appendixes

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

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
HLG-1 Predictability of Transfers from Higher Level Government						
Predictability of Transfers from Higher Level Government	C	D	A		**D+**	Actual HLG transfers fell short of estimate by more than 15% in two years, i.e., 18.3% in FY 2012, 30.4% in FY 2013, and 5.0% in FY 2014. Variance in earmarked transfers did not exceed deviation in total transfers in any of the three year. Actual HLG transfers fell short of estimate by more than 15% in only FEEL; however, the performance does not meet the requirements for a "B" rating, since the deviation was also above 10% in FEEL. Variance in earmarked transfers exceeded deviation in total transfers by more than 10% in each of the three years. Disbursement does not experience delay; districts access transfers through the IFMIS in accordance with a quarterly cash / disbursement plan made by the Ministry of Finance & Economic Planning and locked on the IFMIS.
A. PFM Outturns: Credibility of the Budget						
1. Aggregate expenditure out-turn compared to original approved budget	B				**B**	Expenditure deviation was higher than 10% only in FY 2011/2012 when it was 14.84%; the deviation was 9.8% in 2012/2013 and 2.3% in 2013/2014.
2. Composition of expenditure out-turn compared to original approved budget	C	A			**C+**	Composition variance was more than 15% in only one of the three years: 16.9% in 2011/2012, 11.3% in 2012/2013, and 13.1% in 2013/2014. The district provides for miscellaneous under each administrative head, rather than as a block unallocated vote.
3. Aggregate revenue out-turn compared to original approved budget	D				**D**	Actual domestic revenue was less than 92 percent of budget revenue in each of the three years.
4. Stock and monitoring of expenditure payment arrears	A	A			**A**	Accounts payable was 0.5% of aggregate expenditure in FY 2014); a reduction of 63.9% from its level at the end of FY 2013. Notes to the financial statements include detailed schedule of accounts payable, usually invoices for small purchases made after formal closure of the books at yearend; the district pays off the invoices immediately at the beginning of the new year.
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	A				**A**	Budget classification uses administrative, economic, and functional categories; the program category fits into functional classification at the sub functional level. The general ledger records budget execution on the IFMIS using the same categories in formulation, but reporting is by economic category.
6. Comprehensiveness of information included in the budget	C				**C**	Only one of applicable four items provided to the District Council.
7. Extent of unreported government operations	A	NA			**A**	Financial reports disclose all fiscal information of the district's government and donor cash contributions in the main accounts and key fiscal information on the 202 non-budget agencies in the

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
						notes. Information disclosed on subsidiary entities include opening cash balance, transfer from the District, other revenue, expenses, fund balance at the end of the period, bank balances, cash balance, accounts receivables, accounts payables, fund balance. In line with PEFA Secretariat's guidance, dimension (ii) does not apply to districts, since districts do not directly contract loans/grants. The CG does
8. Transparency of inter-governmental fiscal relations	NA	NA	NA		**NA**	NA – this indicator is not applicable, since sectors are not autonomous entities of the district.
9. Oversight of aggregate fiscal risk from other public sector entities	C	NA			**C**	Most NBAs submit financial reports to the District on a monthly basis, and the Director of Finance consolidates overall fiscal risk in the District's annual financial statement. The number of NBAs (202) pose serious challenge to effective fiscal monitoring; internal and external audit are on a limited sample basis of necessity and proper scrutiny of their monthly financial reports is currently impractical.
10. Public access to key fiscal information	C				**C**	Three out of eight applicable elements are accessible to the public, through various means, including website and noticeboards:, audit reports, user charges and fees, and service delivery information.
C. Budget Cycle						
C (i). Policy-Based Budgeting)						
11. Orderliness and participation in the annual budget process	A	A	A		**A**	Districts do not prepare independent budget calendars and call circulars, but rather apply those issued by the MINECOFIN, as all other budget entities do. The CG (MINECOFIN) issues two call circulars to all budget entities, including districts. The first announces commencement of the budget season and provides planning guidelines; the second conveys firm and clear expenditure ceilings. Budget approved before the commencement of the fiscal year on July 1: June 26 2015 for FY 2016, on June 26, 2014 for FY 2014/2015, and June 26, 2014 for FY 2013/2014.
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	A	NA	B	D	**B**	The CG (MINECOFIN) makes three-year rolling fiscal forecasts for the entire country along the main economic categories (wage, nonwage, development/capital, domestic and foreign funds, etc.) and allocations to the main sectors. Karongi District Development Plan (DDP), 2013 – 2018 has detailed costing for development projects (but not recurrent costs) for all sectors and links with the EDPRS 2 (2013 – 2018). The DDP is also the basis for the MTEF and budget. The link between investment and recurrent expenditure costing is weak; the two are separate activities.
C (ii). Predictability and Control in Budget Execution						
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	Tax legislation is the responsibility of the CG, which also makes procedures for their collection, and from FY2014, collects them on behalf of district governments. Prior to this takeover, the appeal process was not independent, as it required recourse to the same assessment authority and to the court. However, the district government publicizes the taxes and procedures through a variety of means: website, public noticeboards, tax enlightenment campaigns, meetings and seminars in localities, and a helpdesk.
14. Effectiveness of measures for taxpayer registration and tax	NA	NA	NA		**NA**	This indicator is not applicable in its entirety with the takeover of tax registration and collection responsibilities by the RRA in FY 15.

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
assessment						
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Collection rate of arrears in FY 2014 was 68%; Frw 15,418,475.00 of the Frw 22,418,357.00 tax arrears owing in FY 2013 collected in FY 2014. Karongi district no longer had responsibility of tax collection as at the time of assessment; the RRA had taken over this task. Audit evidence suggests failure to reconcile tax assessment and collections
16. Predictability in the availability of funds commitment of expenditures	NA	NA	A		**A**	The district does not do cash forecasting; the Ministry of Finance prepares economy-wide cash forecast, using expenditure / disbursement plans submitted by budget entities, including the district. The district is a budget entity and is user, not provider of, advance information on cash availability. The CBM reallocated 8 percent of capitation grants to school feeding in FY 2014 in accordance with Arts. 48, 49 of the OBL and the Transmission of Budget Reallocation Guidelines
17. Recording and management of cash balances, debt, and guarantees	NA	C	C		**C**	Debt comprise only accounts payables, incurred in routine course of business; the district does not borrow. The finance unit of the districts maintains good record of these payables. the monthly financial statements consolidates bank balances of the district's 9 main expenditure accounts at the BNR, and the bank balances of its NBAs separately, by category and showing a grand total (of NBA bank balances). The district does not have regulatory powers; the Minister of Finance does and must also approve district's borrowings (Arts 50 – 54); the Minister had not made any such regulations as at the time of the assessment.
18. Effectiveness of payroll controls	A	A	B	D	**D+**	Personnel records and the payroll are the same, creating potential integrity issues. Changes to personnel records and the payroll happen simultaneously, occasioning no delays, because the two are the same. The executive committee approves changes to personnel records and the payroll and the mayor communicates the authorization to HR to effect. A system of periodic ex post review of the payroll is in place and involves the Ombudsman, MIFOTRA, the Province, internal audit, and the auditor general. No recent payroll audit has taken place.
19. Transparency, competition,, and complaints mechanisms in procurement	B	D	B	A	**B**	The PPA is a CG Law applicable to the district; the law meets 4 out of the 6 required provisions. There is no information to assess extent of justification for use of noncompetitive procurement methods. The district provides access to procurement plans and bidding opportunities, but not to contract awards; there has not been any recent case of procurement complaints. Although the district has not had any recent complaint, it has set up a 7-member independent panel of both state (3 members) and non-state actors (4 members), and including 3 women.
20. Effectiveness in internal controls for non-salary expenditure	C	C	C		**C**	Expenditure commitment controls are in place, but their partial use lead to 'excess commitments' in 2013/3014 and 2012/2013. Other PFM laws and regulations are comprehensive and understood at the district level, but not at the NBA level; cases of violations at the district level led to several fraud cases in FY 2014. The level of compliance with rules for recording and processing transactions is significant; however, disturbing cases of use of 'shortcuts' in recording revenue transactions led to important cases of misstatements in the financial reports in 2013/14.
21. Effectiveness of internal audit	C	B	A		**C+**	Internal audit does not involve accounting work; it focuses on ex post audit of expenditures, revenues, and systems. However, limited staff capacity adversely affects its scope and effectiveness. Internal auditors prepare reports for the auditee and quarterly reports for the DC, copied to the MINECOFIN, MINALOC, and the Province. Management takes prompt action on IA

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
						reports; the auditee, the executive committee (EC), and the District Council, all follow up on audit recommendations.
C (iii). Accounting, Recording, and Reporting						
22. Timeliness and regularity of accounts reconciliation	C	NA			**C**	Regular bank reconciliation takes place at district level and NBA levels within two weeks of the month end, but the quality of district reconciliation is poor. The district does not use suspense accounts or operational advances.
23. Availability of information on resources received by service delivery units	D				**D**	The district has not comprehensively collated data on cash and in-kind resources available to primary schools and health centres in the last three years, although the system is capable of generating the information.
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	Monthly budget execution reports capture expenditure at the payment stage only and comparison between budget and outturns is possible only by economic categories. Monthly budget execution reports are part of the financial reports issued by the middle of the next month. There are no material concerns affecting accuracy of the IFMIS-based budget execution reports.
25. Quality and timeliness of annual financial statements	D	A	A		**D+**	The 2013/2014 financial statements report revenues, expenditures, bank balances, accounts payable, and accounts receivables of the District in the main statements, but numerous highlighted in the audit report adversely affect they completeness. FY 2014 financial statements submitted to the for audit on October 10, 2014. The modified cash standard used is broadly compatible with IPSAS reporting requirements.
C(vi). External Scrutiny & Audit						
26. Scope, nature, and follow-up of external audit	A	B	A		**A**	Audit covers 100 percent of the operations (revenues, expenditures, assets, liabilities) of the district headquarters; it also includes a sample of NBAs. The process involves transactions, systems, and some elements of performance audit, and accords with international standards. The SAI submitted the 2013/2014 audit report to the district council on April 30, 2015, i.e., more than six months after receiving the financial statements. The level of implementation of previous audit findings was 75 percent in each of 2011/2012 and 2013/2014, but 47 percent in 2012/2013 (the off-colour year).
27. Legislative scrutiny of annual budget law	C	B	NR	A	**NR**	The DC reviews details of revenue and expenditures, but it cannot change policy decisions already made the CG, which finances up to 90% of the budget. Simple procedures for review exist, requiring the economic committee of the DC to review details of proposals (usually in a 2 or 3-day retreat) and present to the DC for approval, but the date of submission of the draft budget to the DC is unclear. Presentation to the DC is by PPT presentation, approval does not involve serious debate and is usually a formality. The budget approval process begins with the retreat after receipt of the first budget call circular from MINECOFIN; the retreat for 2015/16 budget held on Feb. 19 – 21, 2015 and it involved the entire DC, four months to the commencement of the budget year. The date of submission of the draft Arts. 48, 49 of the OBL permit the CBM to do up to 20% reallocation between programs (administrative units) during budget execution, but prohibits reallocation economic categories without authorization of the Minister of the Finance and the Parliament, as the case may be.
28. Legislative scrutiny of external	A	A	A		**A**	The District Council completes examination of audit reports within three months of its receipt from

Indicator	2015 Assessment					
	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
audit reports						the AC. The district of not in not in arrears of review of audit report. The AC holds hearings and invites indicted persons as necessary before making recommendations to the DC. The DC issues recommendations and there are multiple layers of follow up. The CBM, Treasury Management Team, and internal auditors, all follow up on implementation progress.
D. Donor Practices						
D-1. Predictability of Direct Budget Support						
D-2. Financial information provided by donors for budgeting and reporting on project and program aid						
D-3. Proportion of aid that is managed by use of national procedures						

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

Table 2

Data for year =	2011/2012					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	1,661,500,814.00	1,478,646,094.00	1,414,877,481.63	63,768,612.37	63,768,612.37	4.5%
Good Governance & Justice	163,256,183.00	139,246,736.00	139,023,402.89	223,333.11	223,333.11	0.2%
Education	2,812,984,029.00	2,885,548,842.00	2,395,441,353.56	490,107,488.44	490,107,488.44	20.5%
Health	3,125,105,426.00	2,079,812,309.00	2,661,233,300.47	(581,420,991.47)	581,420,991.47	21.8%
Social Protection	502,294,384.00	455,808,999.00	427,736,782.96	28,072,216.04	28,072,216.04	6.6%
Youth, Sport, & Culture	57,785,684.00	38,865,609.00	49,208,319.59	(10,342,710.59)	10,342,710.59	21.0%
Private Sector Development	95,741,585.00	89,142,245.00	81,530,271.63			
Agriculture	142,100,000.00	201,908,571.00	121,007,518.29	80,901,052.71	80,901,052.71	66.9%
Environment & Natural Res	192,947,934.00	180,312,613.00	164,307,886.37	16,004,726.63	16,004,726.63	9.7%
Energy	-	-	-	-	-	#DIV/0!
Water and Sanitation	178,273,000.00	40,272,545.00	151,811,212.58	(111,538,667.58)	111,538,667.58	73.5%
Housing, Urban Devt, & Land Mgt	-	21,511,580.00	-	21,511,580.00	21,511,580.00	#DIV/0!
Transport	116,728,957.00	59,259,440.00	99,402,402.53	(40,142,962.53)	40,142,962.53	40.4%
Community Development	1,219,711,589.00	1,073,909,180.00	1,038,664,830.51	35,244,349.49	35,244,349.49	3.4%
			-	-	-	#DIV/0!
15			-	-	-	#DIV/0!
16			-	-	-	#DIV/0!
17			-	-	-	#DIV/0!
18			-	-	-	#DIV/0!
19			-	-	-	#DIV/0!
20			-	-	-	#DIV/0!
21 (= sum of rest)			-	-	-	#DIV/0!
allocated expenditure	10,268,429,585.00	8,744,244,763.00	8,744,244,763.0	-7,611,973.4	1,479,278,691.0	
contingency						
total expenditure	10,268,429,585.00	8,744,244,763.00				
overall (PI-1) variance						14.8%
composition (PI-2) variance						16.9%
contingency share of budget						0.0%

Table 3

Data for year =	2012/2013					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	1,827,824,752.00	1,868,256,922.00	1,648,745,768.1	219,511,153.9	219,511,153.9	0.133138
Good Governance & Justice	86,747,898.00	127,054,083.00	78,248,874.6	48,805,208.4	48,805,208.4	0.623718
Education	3,677,272,628.00	3,091,424,063.00	3,316,996,160.1	-225,572,097.1	225,572,097.1	0.068005
Health	3,875,245,728.00	3,434,095,900.00	3,495,573,078.0	-61,477,178.0	61,477,178.0	0.017587
Social Protection	698,742,188.00	603,922,274.00	630,283,742.6	-26,361,468.6	26,361,468.6	0.041825
Youth, Sport, & Culture	119,859,495.00	63,364,642.00	108,116,401.7	-44,751,759.7	44,751,759.7	0.413922
Private Sector Development	470,869,280.00	455,971,179.00	424,736,415.2	31,234,763.8	31,234,763.8	0.073539
Agriculture	238,773,453.00	252,904,696.00	215,379,904.3	37,524,791.7	37,524,791.7	0.174226
Environment & Natural Res	97,998,233.00	94,235,097.00	88,396,971.2	5,838,125.8	5,838,125.8	0.066044
Energy	134,394,148.00	79,055,381.00	121,227,039.2	-42,171,658.2	42,171,658.2	0.347873
Water and Sanitation	316,221,526.00	196,082,002.00	285,240,093.3	-89,158,091.3	89,158,091.3	0.312572
Housing, Urban Devt, & Land Mgt	124,018,951.00	379,858,976.00	111,868,339.9	267,990,636.1	267,990,636.1	2.39559
Transport	294,353,755.00	141,223,518.00	265,514,791.5	-124,291,273.5	124,291,273.5	0.468114
Community Development	120,914,708.00	111,947,078.00	109,068,231.5	2,878,846.5	2,878,846.5	0.026395
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0.0	#DIV/0!
17			0.0	0.0	0.0	#DIV/0!
18			0.0	0.0	0.0	#DIV/0!
19			0.0	0.0	0.0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	12,083,236,743.00	10,899,395,811.00	10,899,395,811.0	0.0	1,227,567,052.6	
contingency						
total expenditure	12,083,236,743.00	10,899,395,811.00				
overall (PI-1) variance						9.8%
composition (PI-2) variance						11.3%
contingency share of budget						0.0%

Table 4

Data for year =	2013/2014					
Administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Admin & Support Services	2,650,873,440.00	2,475,770,289.00	2,650,873,440.0	-175,103,151.0	175,103,151.0	0.066055
Good Governance & Justice	194,438,672.00	186,477,439.00	194,438,672.0	-7,961,233.0	7,961,233.0	0.040945
Education	3,596,136,679.00	3,575,320,220.00	3,596,136,679.0	-20,816,459.0	20,816,459.0	0.005789
Health	2,076,065,113.00	2,097,437,489.00	2,076,065,113.0	21,372,376.0	21,372,376.0	0.010295
Social Protection	703,266,683.00	677,074,874.00	703,266,683.0	-26,191,809.0	26,191,809.0	0.037243
Youth, Sport, & Culture	29,696,771.00	21,858,023.00	29,696,771.0	-7,838,748.0	7,838,748.0	0.26396
Private Sector Development	66,003,197.00	64,104,251.00	66,003,197.0	-1,898,946.0	1,898,946.0	0.028771
Agriculture	275,478,687.00	324,775,267.00	275,478,687.0	49,296,580.0	49,296,580.0	0.178949
Environment & Natural Res	94,000,000.00	609,957,934.00	94,000,000.0	515,957,934.0	515,957,934.0	5.488914
Energy	695,711,140.00	262,419,750.00	695,711,140.0	-433,291,390.0	433,291,390.0	0.622804
Water and Sanitation	-	-	0.0	0.0	0.0	#DIV/0!
Housing, Urban Devt, & Land Mgt	344,250,163.00	213,198,268.00	344,250,163.0	-131,051,895.0	131,051,895.0	0.380688
Transport	107,532,607.00	80,331,505.00	107,532,607.0	-27,201,102.0	27,201,102.0	0.252957
14			0.0	0.0	0.0	#DIV/0!
15			0.0	0.0	0.0	#DIV/0!
16			0.0	0.0	0	#DIV/0!
17			0.0	0.0	0	#DIV/0!
18			0.0	0.0	0	#DIV/0!
19			0.0	0.0	0	#DIV/0!
20			0.0	0.0	0.0	#DIV/0!
21 (= sum of rest)			0.0	0.0	0.0	#DIV/0!
allocated expenditure	10,833,453,152.00	10,588,725,309.00	10,833,453,152.0	-244,727,843.0	1,417,981,623.0	
contingency						
total expenditure	10,833,453,152.00	10,588,725,309.00				
overall (PI-1) variance						2.3%
composition (PI-2) variance						13.1%
contingency share of budget						0.0%

List of Karongi District Officials that Participated in the Assessment

1	MUNEZERO Eric	KARONGI
2	UMURUNGI Marie Claudine	KARONGI
3	NIYIBIZI Evase	KARONGI
4	MURAGIJIMANA Aron	KARONGI
5	UGIRASHEBUJA Prosper	KARONGI
6	NTWAYINGABO Olivier	KARONGI
7	NZABARINDA Vicent	KARONGI
8	MUKAMANA Claudine	KARONGI
9	KARASANYI Nicolsa	KARONGI
10	NIKUZE Marcelline	KARONGI
11	MUNYANDEKWE Geturde	KARONGI
12	IMANASHIMWE Bernard	KARONGI
13	MUGABO Alexandre	KARONGI
14	MUKASINE Pretty FEZA	KARONGI
15	HARERIMANA Freddy	KARONGI
16	DUSABUMUREMYI Pascal	KARONGI
17	NYIRAMAKUTA Esperance	KARONGI
18	MUHIRE Emmanuel	District Executive Secretary/Chief Budget Manager, KARONGI
19	RANGIRA Jimmy	MINECOFIN
20	MUREKUMBANZE JD	MINECOFIN

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

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

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

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

See Table A.14 below.

Table A.14: Overview of Subnational Governance Structure in Country

	Government Level / Administrative Tier	Corporate Body?	Own Political Leadership?	Approves Own Budget?	No. of Jurisdictions	Average Population[t]	% Consolidated Public Expenditures FY 2014	% Consolidated Public Revenues (FY 2014)	%. Funded by Intergovernmental Transfers
Central Government	Government of Rwanda	Yes	Yes	Yes	Four (4) provinces, plus the City of Kigali; 30 districts	10,537,222	73.21%	71.86%	0.00%
Provinces	Western Province	No[1]	No	No	Seven Districts: Karongi Rutsiro Rubavu Nyabihu Ngororero Rusizi Nyamasheke	2,471,239	Counted as part of CG expenditures and revenues		
Districts	Karongi District	Yes	Yes	By law, the District Council (DC) must approve the district's budget, but a large proportion of it relates to CG line ministries programs delegated to the district for implementation, which the DC cannot alter.	Thirteen administrative sectors: Bwishyura, Gishyita, Gishari, Gitesi, Mubuga, Murambi, Murundi, Mutuntu, Rubengera, Rugabano, Ruganda, Rwankuba and Twumba.	331,808	0.64%	0.70%	91.0%

[t] Fourth Population & Housing Census, Rwanda 2012, Thematic Report, Population Size, Structure, & Distribution, published in January 2014 by the National Institute of Statistics of Rwanda (NISR), Ministry of Finance & Economic Planning

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

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

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

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

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

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

This section of the report relies heavily on the report of the 2012 population census.[79] The 2012 census established the Eastern Province as the most populated with a population of 2,595,703 inhabitants. The Southern ranks with 2,589,975 inhabitants; the

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

Northern Province is third with 1,726,370, and the Western Province fourth with 2,471,239. The city of Kigali has the smallest population with 1,132,686 inhabitants. Gasabo district is the most populated with more than 500,000 inhabitants and the least populated is Nyarugenge district, which has less than 300,000 inhabitants.

Table A.15: Population Specifics of Western Province

	Population	Density	Growth Rate Average Annual Growth Rate (2002-2012)
Rubavu	403,662	1,039	3.3
Rusizi	400,858	418	2
Nyamasheke	381,804	325	1.7
Ngororero	333,713	491	1.7
Karongi	331,808	334	1.7
Rutsiro	324,654	281	2
Nyabihu	294,740	555	1
Western Province	**2,471,239**	**420**	**1.9**

Source of Data – 2012 Census

The executive summary of the report states as follows,[80] "The population density in 2012 was 415 inhabitants per square kilometer. Compared to neighbouring countries: Burundi (333), Uganda (173) or Kenya (73), Rwanda is the highest densely populated county in the region. It was only 183 persons per sq. km in 1978, and 321 in 2002. In general, urban districts have the highest densities of population, especially the districts of Nyarugenge 2,124 inhabitants/ km^2, Kicukiro (1,911 inhabitants/ km^2), Gasabo (1,234 inhabitants/km^2), and Rubavu (1,039 inhabitants/km^2), and those with the lowest density are Bug sera (280 inhabitants/ km^2), Gatsibo (274 inhabitants/km^2), Nyagatare (242 inhabitants/km^2), Kayonza (178 inhabitants/ km^2) …."

"The population of Rwanda is young, with one in two persons being under 19 years old. People aged 65 and above account for only 3% of the resident population …. The mean age of the population of Rwanda is 22.7 years. The mean age of females is higher than that of males (23.5 vs. 21.9). At the provincial level, the Southern Province and Northern Province have the highest mean ages."[81]

Karongi is a rural district with an annual population growth rate of 1.7 percent compared to the Western Province's 1.9 percent average and the country's 2.6 percent.[82] Western Province is the third most populated in the country with a population share of 24.6%, second only to the Eastern Province with 24.7%.

5. Main functional responsibilities of the sub-national government

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

Districts are very important in service delivery, exercising both devolved and delegated authority. Devolved authority involves powers and functions, constitutionally and legally transferred by the central government to districts and exercised through

[80] See *p. xv*
[81] See *pp. xv - vxi*
[82] See the Executive Summary of the **Fourth Population & Housing Census, Rwanda 2012, Thematic Report, Population Size, Structure, & Distribution**, published in January 2014 by the National Institute of Statistics of Rwanda (NISR), Ministry of Finance & Economic Planning

institutionalized structures and processes. Examples include powers transferred to districts "empowering them by law to determine local taxes, raise own revenue and decide on how to use it". Districts deliver local services through devolved authority, for which they account directly to their local populations through a system of elections and indirectly to the Central Government through periodic reporting. Devolved authority accounts for a relatively small proportion of the expenditure of rural-based districts, including seven of the eight districts in this assessment sample; Kicukiro is the only urban based district in the sample.

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

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

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

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

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

See Table A.16 below.

Table A.16: Distribution of Functions and Responsibilities in Rwanda's Decentralization System	
Level/Units	**Functions and Responsibilities**
Central (1)	• Policy Formulation; Resource mobilization; Capacity building; M&E
Provincial (4)	• Planning coordination function decentralized to Districts in collaboration with central government • Co-ordinate District planning; Promote citizens centred governance; alignment with national policies, laws and regulations and research

Table A.16: Distribution of Functions and Responsibilities in Rwanda's Decentralization System	
Level/Units	**Functions and Responsibilities**
City of Kigali (1)	• City master plan; Capacity building to city Districts and Sectors; City development programmes; Vital statistics on socio-economic development; Mobilise investments in the City
District (30)	• Coordination of medium term development planning; building and maintenance of service facilities; in-kind transfers for the poor; acquisition and maintenance of heavy machinery • Capacity building for sectors to enable them to provide services to the population; • Develop and implement District Development Plans; • Co-ordinate and analyse vital statistics on socio-economic development; Management of public resources; • Mobilization of funds; Research in districts; Promote ICT and social welfare.
Sector (416)	• Provision of basic services; facilitate participation of citizens in participatory planning; Conflict and problem solving among the populace; Collection of basic statistics; Sensitization of the population; • Coordinate and promotion of specific Government programmes such as TIG, ICTs.
Cell (2,148)	• Coordination of the village activities and linking with Sectors; collection of basic data and information for the Sectors; • Assessing challenges facing the population and resolving conflicts; Promotion of positive social development.
Umudugudu /Village (14,975)	• Collect basic statistics and deliver them to institutions which analyse, utilise and keep them; Promote ICT; Promote peace and security. • Villages will mainly play a community mobilization role.

6. Sub-national budgetary systems

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

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

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

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

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

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

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

see Table A.17

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

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

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

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

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

Districts procure their own supplies and infrastructure within the regulatory framework provided by the CG. The CG makes procurement laws and regulations, which all public procuring entities (including districts) apply and cannot change. The extant legal and regulatory framework include *the Public Procurement Act (PPA) 2007*[83] and *the Ministerial Order on Public Procurement of February 2014*.[84]

7. Sub-national fiscal systems

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

(See Table A.17)

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

The CG makes laws on the revenues of decentralized entities; *Law N° 59/2011* establishes *"the sources of revenue* and *property of decentralized entities in Rwanda and their management arrangements"*.[85] *Article 4* of the Law lists 10 sources of revenue, seven of which are own revenue sources. These are

- taxes and fees
- funds obtained from issuance of certificates by decentralized entities and their extension
- profits from investment by decentralized entities and interests from their own shares and income-generating activities
- fines
- fees from the value of immovable property sold by auction
- funds obtained from rent and sale of land of decentralized entities

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

[85] Law N° 59/2011 of 31/12/2011 - Law establishing the sources of revenue and property of decentralized entities and governing their management (Art. 1).

- all other fees and penalties that may be collected by decentralized entities according to any other Rwandan law[86]

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

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

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

Law N° 59/2011 of 31/12/2011[87] defines CG transfers to decentralized entities. Article 63 of the Law deals with Government "subsidies". The article provides as follows*, "Central Government entities shall each fiscal year plan activities to be implemented by decentralized entities and earmark related funds that shall be included in the budgets of the decentralized entities.*

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

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

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

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

[86] Article 4 also provides that, "All revenue projections of decentralized entities shall be included in their annual budget"
[87] - Law establishing the sources of revenue and property of decentralized entities and governing their management

The CG makes the transfers through the following specific instruments:

- Block Grants – local administrative budget support funding mainly to bridge the fiscal gap in the recurrent budget of eligible entities. Its helps to finance administrative expenses, including salaries, running costs, and supervision of activities in ensuring service delivery. Block grants comprise five percent of the domestic revenue of the CG in the preceding year distributed among qualifying districts. Generally, urban based districts are not eligible for block grant support, because of the expectation for them to be able to generate sufficient own revenues to fund their recurrent spending.

- Earmarked Grant Transfers – these are project-tied grants for each delegated function. The delegating line ministry regulates the transfer mechanisms, reporting requirements and the formula for allocation. This framework does not allow decentralized entities any discretion on how to use the funds. The Budget Framework Paper prepared by the Minister of Finance and approved by both the cabinet and the Parliament must include "the guidelines on earmarked transfers to decentralized entities" *(Art. 32 of the OBL 2013)*. In addition, the Ministry of Finance and Economic Planning issues an annual document titled, "Districts' Earmarked Transfers Guidelines". The document specifies the following eight items, among others

    - objectives of each earmarked program or subprogram
    - expected outputs / activities that the district should achieve or implement
    - allocation formula by subprogram / output
    - performance targets set by the transferring line ministry
    - reporting obligations of the decentralized entity and frequency
    - monitoring and evaluation mechanism
    - and disbursement mechanism for each transfer

    - depending on outputs or activities involved, etc.

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

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

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

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

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

Table A.17: Overview of Karongi Government Finances (2013/2014)

Expenditure/Revenue Item	**Amount (Frw)**	**Per capita (Frw)**	**As % of total**
Wage expenditures	4,948,221,844	14,912.91	44.2%
Non-wage recurrent administration	1,421,863,707	4,285.20	12.7%
Transfers to Reporting Entities	30,345,700	91.46	0.3%
Other recurrent expenditure	1,830,037,954	5,515.35	16.4%
Capital expenditures	3,199,594,781	9,642.91	28.6%
Total expenditures	**11,430,063,986**	**34,447.83**	**102.1%**
Own source revenues	742,291,147	2,237.11	6.6%
Intergovernmental fiscal transfers	10,449,192,334	31,491.68	93.4%
Other revenue sources (as appropriate)	0	-	0.0%
Total revenues	**11,191,483,481**	**33,728.79**	**100.0%**
Deficit	**-238,580,505**	**(719.03)**	**-2.1%**

8. Subnational institutional (political and administrative) structures

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

District Councils comprise directly and indirectly elected representatives, as follows *(Art. 126 of the Decentralization Law)*[88]

i. the councilors elected at the Sector level
ii. the members of the Bureau of the National Youth Council at the District level

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

iii. the Coordinator of the National Women's Council at the District level
iv. the female members to the Council who make up at least thirty percent (30%) of members of the District Council
v. the Coordinator of the National Council of Persons with Disabilities at the District level
vi. the Chairperson of the private sector federation at the District level.

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

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

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

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

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

Reviewers' Comments and Responses

GOR Review Comments on the Local Government (Ruhango & Karongi districts) draft PEFA Reports.

Ruhango District

Draft PEFA report - 2011 framework.

General Comments

Specific Comments

Comment	Response
1. A lot of editorial fixing is still required of the report that has many gaps and missing information. The report also has several typos that should be avoided through proper QA measures.	The typos have been corrected
2. There is need to ensure that the summary assessment and the details in the score boxes are consistent with each other. Also, in a number of cases, the overall score has not been provided.	Noted and corrected
3. Financial Years rather than calendar years should be used consistently.	Accepted and reflected
4. Standard sections expected of a PEFA report such as "acknowledgements'' and list of abbreviations/acronyms", are missing/not completed.	This comment is not in line with the terms of the ToR and is imposing requirements not envisaged. The ToR requires that the assessors "Prepare a full LG PEFA report - **including annexes for the review of 8 districts** and a separate analysis of the progresses of the LGs which were assessed in 2010 highlighting good practices which emerge" (emphasis added). The drafts submitted for review were Sections 3 (detailed assessments of the districts) and their relevant appendixes that would serve as the **annexes** to the "**full LG report**." The Consolidated Report was going to include the other sections with common information, relevant to all districts. It is unnecessarily laborious to do what you are asking, especially given the limited resourcing for this assignment. This new requirement has **UNFAIRLY** expanded the scope of this already grossly under-weighted and under-resourced assignment. We have included the information requested to avoid further back and forth on this task, but we wish to place on record our unhappiness at this unnecessary expansion of the scope of work. However, we will alert our principals about

Comment	Response
	this.
5. The consultant should ensure that the source of all the data and information included in the tables in the report is quoted.	This comment is surprising and we do not understand it. The draft submitted duly included information on all sources and acknowledged all sources in the report. We suggest that reviewers should ensure to read the 'rationales for the scores' and not only the 'score boxes' before commenting.

Specific Comments

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
1	Page 2 S 3.2; PI-HLG 1: Predictability of Transfers from Higher Level of Government Score Box 3.1: Predictability of Transfers from a Higher Level of Government	Reference is made to different types of transfers that need to be described briefly. The score Box 3.1 has missing information and should be completed.	Please address accordingly.	The report of HLG -1 had not been written at the time of submitting the draft due to conflicting issues that have now been resolved. The assessment of the indicator is now complete.
2	Page 3 – S 3.7; PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget	The source data for the calculation of the percentage deviations in Score Box 3.2 (Primary Budget Performance of Ruhango District) have not been provided.	Please include the source data for the percentages in score box 3.2.	Please, clarify – all sources of information are in the report.
		It is also indicated that score box 3.2 summarizes the performance of GoR on the indicator PI – 1 from 2007 to 2009. The periods stated are not correct. Also as indicated in the general comments, reference should be made to financial years and not calendar years.	Please review the stated periods	Error noted and corrected

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
3	Page 3; PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget; Rationale for the score	Under Section 3.8, it is stated that Electronic data are on the national Integrated Financial Management Information System (IFMIS) hosted at the Ministry of Finance and Economic Planning (MINECOFIN) in the capital in Rwanda. This sentence may need to be rephrased so as not to create the impression and confusion that budget preparation is centralised at the centre rather than being decentralised. The users at the districts have access to the system to be able to prepare their budgets from their locations.	Please rephrase sentence accordingly. The words "in the capital in Rwanda" may perhaps be deleted.	Rephrased as, "The nationwide Integrated Financial Management Information System (IFMIS) holds the data in electronic form, but hard copies of the financial statements are also available in the district. The Ministry of Finance and Economic Planning (MINECOFIN) in the capital in Kigali hosts the IFMIS, but decentralized entities access from their locations and are able to do planning and other transactions on it."
		Under section 3.9, it is wrongly stated that the Aggregate primary expenditure outturn deviated from the original budget by 16.6 percent instead of 16.8 percent	Please correct error	Noted and corrected
4	Page 4 – S 3.10; PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget - Ongoing Reforms	In respect of the ongoing reforms, the following will be worth noting; Consultation meetings with Local Administrative Entities Development Agency (LODA)/MINALOC and central government (ministries/agencies) to ensure the linkage of their plan and priorities in order to have clear outputs and outcomes to be delivered. · Regular Economic cluster meetings to identify key issues on priority areas	Please incorporate the listed reforms as may be appropriate in the various sections of the draft report	Kindly provide documentation showing these as ongoing or new measures expected to improve performance as implemented

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
		for growth. · Government consultations with the private sector to identify their needs assessment ranging from infrastructure needs etc. to be addressed during planning process. District Public Investment advisory committee headed by Ministry of Finance and Economic Planning that brings together District Executive Secretaries and Provincial Executive Secretaries to advise and ensure quality District investment. Increasing discretionary revenue Increase tax base. Government has also embarked on the implementation of an online procurement system (RONEPS), which is expected to go a long way in addressing issues relating to procurement and contractual delays arising from untimely performance by contractors.		
5	Page 4 – S 3.11; PI-2(i): Extent of variance in expenditure composition during the last three years, excluding contingency items (%)	It is indicated that the composition variance was more than 15% in each of the three years. This is not correct. The variance was more than 15% on only one occasion.	Please review	Noted; the statement should read, “Composition variance was more than 10% in all of the three years.”. The rating remains “C”.
6	Page 5 – S 3.15; Score Box 3.3: Domestic Revenue Performance (% Revenue Collected vs. Budget)	Need to use financial years instead of calendar years and this should be done consistently.	Please make the PFM roles and responsibilities of the different institutions/actors explicit.	Noted
		For the FY 2013/14, the budgeted own revenues fell dramatically which is quite unusual.		Corrected; budgeted and actual figures were swapped in the Word document during copying from the excel worksheet’

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
		In the summary the overall score was put at "A". Need to ensure consistence.	Please review.	Corrected
		The percentages for Own Revenue Collection appear to have wrongly been calculated. Refer also section 3.16.	Please review. Please review.	The percentages are correct. The apparent error is from juxtaposition of budget and actual figures, while copying from Excel to Word, now corrected
7	Page 5 – S 3.17; PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget – Rationale for the score	No need to state that this is a CG law. Rather highlight the legal and regulatory framework of laws and make appropriate references.	Please review accordingly.	No harm done by referring it as a CG law. However, statement has been rephrased as follows, "The CG makes laws on the revenues of decentralized entities; Law N° 59/2011 establishes the sources of revenue and property of decentralized entities in Rwanda and their management arrangements"
8	Page 6 - S 3.20; PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget – rationale for scoring	*It is stated that* the CG transferred responsibility for collection of district taxes (but not fees, yet) to the Rwanda Revenue Authority (RRA) in 2014. This is not true. The CG cannot transfer a responsibility it does not have.	Please review.	How is this incorrect when the CG is enacting a law to give effect to the arrangement? The CG prepares the legal basis for fiscal decentralization – this is undeniable. However, the sentence is rephrased as follows, "The CG prevailed on districts to transfer responsibility for collection of district taxes (but not fees, yet) to the Rwanda Revenue Authority (RRA) in 2014."
		Also The districts simply engaged the RRA to act as an agent and collect the district revenues on their behalf. The CG transferred responsibility for collection of district taxes (but not fees, yet) to the Rwanda Revenue Authority (RRA) in 2014		This is incorrect. The districts did not simply engage, the GoR initiated the process of transferring tax collection to RRA and for good reasons.
9	Page 11 –S 3.27; PI-6: Comprehensiveness of Information Included in Budget Documentation	In respect of the statement for financial assets it is stated that "The district suggested that it provided it; however, the 2015/2016 PowerPoint Presentation to the District Council submitted in evidence does not support the assertion." The tone of this section is that of a discussion or dialogue and needs to be	Please review and update accordingly.	The basis of this criticism is unclear. We respectfully regard "unsubstantiated claims" as suggestions, not confirmed evidence. We have rephrased the comment as, "For example, the 2015/2016 PowerPoint Presentation to the District

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		rephrased. What is needed is for the consultant to be precise and indicate whether the relevant evidence was available or not.		Council submitted in evidence does not support the assertion made by the district that it provided it"
10	Page 14 - S 3.45; Table 14: Grants from Official Donors to the District of Ruhango (In Frw) ns	The table needs to be formatted properly and where there are no figures, Zeros should be used instead.	Please review	We inserted the table as extracted (without amendment) from the district's financial statements and duly indicated that.
11	Page 14 – S 3.54; Ongoing reforms	The following reforms are worth noting: *Developing intergovernmental fiscal relations framework*: this will be done by conducting an expenditures assignment study to clarify tasks responsibilities between CG and LG. Clarification and delineation of expenditure assignments is important to ensure that there is: clear accountability (everybody knows who is responsible and it is possible to follow-up), a clear link between tasks and financing hereof; that the decentralization process, including the sector guidelines are coordinated and integrated, and; that the tasks are carried out at an appropriate level and by units with the sufficient capacity and as close to the citizens as possible. In addition, assessment of existing formula for transfers of resources from CG to LG is being done to explore where they can be reviewed for more transparent and equitable transfer systems. *Capacity building strategy for local governments whereby a five-year strategy (2011-2015)* has been developed with the aim of identifying required capacities at local level and investing in collaborative initiatives to capitalize upon and further develop capacities in a sustainable manner across the core work of LGs. To achieve this mission, the strategy proposes five key objectives which include: (i) developing a comprehensive and coordinated capacity building framework at LG; (ii) establishing capacity building quality assurance and standardization system; (iii) strengthening Capacity	Please update section accordingly.	This is not a reform either. What are the strategic elements of the reform and what are they expected to change? Reforms are ongoing programs of action expected to improve the status quo upon completion. We will gladly reflect such reforms in the report, if given the necessary documentation. However, the statement the GoR wants us to insert is proposed reform, at best. It states, "this will be done by conducting an expenditures study …"

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		building planning at LG; (iv) ensuring capacity building is embedded in the development process; and (v) enhancing LG capacity to attract, recruit, motivate, and retain a critical mass of technical and professional skills		
12	Page 17 – Score Box 3.4: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities sector entities	There is need to improve on the rationale for the score for PI – 9(i) by making reference to the requirements under the PEFA methodology so that it is clear why higher scores were not obtained.	Please update section.	The rationale for score is very elaborate on the issues, in our view. Please, provide more specific information on what is lacking
		It is not clear why PI – 9(ii) has not been evaluated given the relationship between a district and its NBAs.	Please review.	NBAs are not subnational governments. PI-9(ii) deals with subnational governments. We have inserted the following note, which is already in PI-8 of the report. "Sectors, cells, and villages have very limited autonomy, being affiliates or subsidiary entities funded and supervised by districts (Arts. 123 & 184 of Law No. 87/2013). Subsidiary entities do not have legal personalities as the City of Kigali and districts do (Arts. 3 & 4 of Law No. 87/2013). The OBL defines a subsidiary entity as "a public entity without legal personality and administrative and financial autonomy supervised and funded through the Central Government or a Decentralized Entity to which it is affiliated". Sectors, cells, and villages cannot hire personnel, since they lack legal personalities; therefore, the district performs human resource management (HRM) functions on its behalf (Art. 182 of Law No. 87/2013). Subsidiary entities cannot discipline staff, since they do not have the HR function,

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				instead, sectors and cells may send back personnel to the District for "degrading behaviour" and inability to "carry out his/her duties properly or … fulfil his/her responsibilities.""
13	Page 17 – S.3.55; PI-9: Oversight of Aggregate Fiscal Risks from Other Public Sector Entities – Rationale for the score	It is not clear why a higher score than "C" cannot be obtained considering that the Finance department of the District summarizes and consolidates the NBA reports into an overall report, which it includes as an annex in its monthly, quarterly, and annual financial statements submitted to the Ministry of Finance. Is the annex not sufficient?	Please review	The requirement for a "B" is that AGAs should submit audited annual reports to the district, which is currently not the case.
14	Page 19 – S.3.62 Score Box 3.5: Public Access to Key Fiscal Information	For item 1, it is indicated that the budget documentation was not accessible. Without necessarily having to change the score, it would be useful to put the comments in context by showing that indeed the budget documents for 2013/14 had been published on the district website. The 2014/15 however had not been posted.	Please review supporting narrative accordingly.	The Framework requirement is for the draft budget documents to be accessible; the requirement is not about the approved budget. The district does not make the draft budget and its supporting documents available to the public, whether on its website or by any other means.
15	Page 20 – S.3.65 Score Box 3.6: Orderliness and Participation in the Annual Budget Process	There is no overall score for Score Box 3.7: Orderliness and Participation in the Annual Budget Process. Please ensure consistence	Please review all score boxes and ensure overall scores are provided.	Noted and corrected
16	Page 22 – S.3.71; PI-12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting	It is indicated that PI -12 (i); Preparation of multi-year forecasts and functional allocations or programs is not applicable and this appears incorrect. Reviewing the requirements under the PEFA methodology, it is quite evident that the dimension in question is applicable to districts as well.	Please Review	The basis of the assessment is information provided by the government, central or district. We did not receive any information on forecast made by the district, but will be glad to reflect such information now, if provided. Under existing regulations, however, districts do not have the responsibility for fiscal projections. In practice, they rely on projections by the Department of National Planning at the MINECOFIN. The text explained this and cited the regulatory framework for this. Please, check the rationale for the scoring.
17	Page 23 – S.3.73.; Multi-	Reference is made to a BFP that is prepared and	Please clarify.	The relevance of the BFP is that it contains

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	year Perspective in Fiscal Planning, Expenditure Policy and Budgeting	submitted and includes basic macroeconomic indicators. It is not clear how this relates to the score of the indicator.		macroeconomic forecasts, which inform the fiscal projections that the indicator and dimension deal with.
18	Page 25 – S3.79; Ongoing reforms	Please consider some of the reforms highlighted in (4) above.	Please update section on reforms accordingly.	Refer to our comments above.
19	Page 25 – S 3.81; PI-13: Transparency of Taxpayer Obligation and Liabilities	It is indicated that PI–13 (i); Clarity and comprehensiveness of tax liabilities – is not applicable. It is a considered that this dimension be evaluated since the districts still have the ultimate responsibility for the collection of their taxes.	Please review.	PI-13 does not deal with collection of taxes; it deals with clarity of tax laws and procedures. These are issues for which the district is not responsible.
20	Page 34 – S 3.106; PI-18: Effectiveness of Payroll Controls	Under Score Box 3.8: Effectiveness of Payroll Controls, it is indicated that for PI-18(i) Districts can only apply the Integrated Personnel and Payroll System (IPPS) as designed and given by the Ministry of Labour & Productivity (MIFOTRA). It is very important to note that the districts have primary responsibility for the management of their payroll through appropriate access rights to the IPPIS. The consultants may need to seek further clarification from MIFOTRA to clarify further how the IPPIS is operated in in processing the district payrolls.	Please review accordingly.	The consultants and the CG PEFA team held meetings with MIFOTRA before beginning the missions to districts. The meeting was with Samuel Mulinda (the permanent secretary), Migabo Roger (IPPS manager), and Gaspard Musonere (manager of the Single Project Implementation Unit). The consultants also requested and observed practical demonstrations of how the IPPS works in Namable and Bug sera districts. The demonstrations were on the computers of the responsible officers.
		Also “MIFOTRA” should be changed to “MIFOTRA”		Noted, and corrected.
21	Page 41 – S 3.120;	For PI – 28 (ii); Comprehensiveness, relevance, and	Please enhance the	This comment probably refers to PI-20(ii),

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
	PI-20: Effectiveness of Internal Controls for Non-Salary Expenditures	understanding of other control rules/procedures – has a score of "C". It would be more useful for the supporting narrative to be more explicit in the challenges that the NBAs have.	supporting narrative to bring out clearly the various challenges faced by the NBAs.	not PI-28(ii). The narrative already includes examples of the challenges faced by NBAs.
22	Page 48 - S 3.144; PI-25: Quality and Timeliness of Annual Financial Statements	Reference is made to Acknowledgement stamps on Metter ref. No. 1696/0206/DR/06. "Metter" should be "letter".	Please correct typo.	Noted and corrected.
23	Page 50 - S 3.150; PI-26: Scope, Nature, and Follow-Up of External Audit	PI – 26 (i); Timeliness of submission of audit reports to legislature has not been evaluated indicating that it not applicable. From the supplementary guidelines (page 29-30), the dimension in question should be evaluated regardless of whether the SN has own auditor or same auditor with CG.	Please review.	The section of the Framework cited clearly does not support the Rwanda case. External audit is the function of the central government; the role of decentralized entities in it is only to implement audit recommendations. The rationale for the scores clearly cites the law in this regard.
		It is also noted that PI -26 has not been given an overall score.		Noted and corrected
24	Page 52 – S 3.158; PI-27: Legislative Scrutiny of Annual Budget Law	There is no overall score for PI-27.	Please complete.	Noted and corrected
25	Page 54 – S3. 162 Figure 3.1: Analysis of Virement	Not completed.	Please complete.	Corrected; the table has been deleted
26	Page 54; PI-28: Legislative Scrutiny of External Audit Reports	For PI – 28(i), the sentence " The district of not in not in arrears of review of audit report" has a typo to be corrected.	Please correct typo.	Noted and corrected

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
27	Page 57 – S 3.194; D-3: Proportion of Aid Managed by Use of National Procedures	Since the text under S 3.194 has been lifted from the PEFA methodology, it is a good practice to make reference to its source.	Please review.	This comment is unclear. We don't find the paragraph referred to in the report. However, it appears the issue is about the heading of Indicator D-3. All the 32 indicators reported in the assessment were lifted from the Framework and headed as described therein. This is as expected. We do not appreciate the necessity for acknowledging PEFA in accordance with this indicator title, and not for the other 31 indicators and 74 dimension titles.
		It is also important for the consultant to carry out a proper analysis bringing out clearly why the PI has not been assessed.		Kindly clarify what type of analysis expected in a situation where the law prohibits districts from taking donor assistance.
28	Page 64 - List of Ruhango District Officials that Participated in the Assessment	Roles/Designations of the participants need to be provided as here below. 1. KAMBAYIRE Annonciate - District Executive Secretary/Chief Budget Manager 2. NSANZE G. Gabby-Director of Finance 3. KAYITESI Yvonne-Logistics Officer 4. MUSONERA Methusalem-Internal Auditor 5. HAVUGIMANA Gallican-Human Resource 6. MUKASEKIDENDE M. Chantal-Budget Officer 7. UMUKUNZI Lea-District Accountant 8. MAHIRWE Marc-Human Resource 9. MUNYANSANGA Saiba-Procurement Officer 10. KALISA Alphonse- District Council Permanent Secretary 11. NYILIMANA Felix-Procurement Officer 12. MUSABYEMARIYA – Assistant of the DES	Please update accordingly.	We requested for the positions; we ae grateful for the information and have inserted them.

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
		13. RANGIRA Jimm-Fiscal Decentralization Officer/MINECOFIN 14. MUREKUMBANZE Jean Damascene - Fiscal Decentralization Officer/MINECOFI		
Karongi District – In General, the above comments remain valid for the case of Karongi district. Additional Comments specific to Karongi Draft PEFA report are;				
29	Page 2; Score Box 3.9: Predictability of Transfers from a Higher Level of Government	Score Box is incomplete	Please complete.	Noted, see reaction to comment above.
30	Page 5 – S 3.14; Rationale for the score	"MINLOC" should be "MINALOC"	Please correct typo	Noted, corrected
31	Page 6; Score Box 3.10: Domestic Revenue Performance (% Revenue Collected vs. Budget)	Percentages of own revenue wrongly calculated.	Please review	Noted and corrected
32	Page 22; Score Box 3.11: Public Access to Key Fiscal Information	It is not clear how PI-10: Public Access to Key Fiscal Information is scored with a "B" with only three positive elements	Please review.	The appropriate rating is "C", corrected
33	Page 51; Score Box 3.12: Timeliness and Regularity of Accounts Reconciliation	For PI – 22(i); Regularity of Bank reconciliations it is stated that the reconciliations were poor. It would be useful to show why the reconciliations were rated as "Poor"	Please update accordingly.	The score box is only a summary; the rationale for the scoring immediately following the score box gave the reasons.
34	Page 56; Score Box 3.13: Quality and Timeliness of Annual Financial Statements	Comments against PI -25(i) have a typo. Also information source quoted for PI -25(ii) (*Acknowledgement stamps on Metter ref. No. 1696/0206/DR/06 of 30/07/2014)* appears to be the same for Ruhango District	Please correct typo. Please check as it is unlikely that the same reference can be shared.	Noted and corrected
35	Page 61; S 3.190; PI-27: Legislative Scrutiny of Annual Budget Law	It is noted that Karongi District should provide the evidence of the exact date of submitting the budget document to the DC to sustain the rating of "A"; otherwise, it will scale down to "NR".). Efforts should be made to get in touch with The Director of Fiscal Decentralisation Unit – MINECOFIN to get	Please follow up and update section accordingly.	We did all the follow-up we could during the field mission. The MINECOFIN and the District, in reviewing this report, should have provided the information required along with this comment.

Ref no.	Section and/or page no.	Issue	GoR Comments	Comments
		the clarifications and all the necessary information.		
36	Page 72 - List of Karongi District Officials that Participated in the Assessment	Update list with designations as follows;	Please update as here below;	Done.

MUNEZERO Eric	KARONGI: Director of Administration
UMURUNGI Marie Claudine	KARONGI: Internal Auditor
NIYIBIZI Evase	KARONGI: Internal Auditor
MURAGIJIMANA Aron	KARONGI: Director of Finance
UGIRASHEBUJA Prosper	KARONGI: Internal Auditor
NTWAYINGABO Olivier	KARONGI: District Accountant
NZABARINDA Vincent	KARONGI: Human Resource Officer (For Teachers only, contractual staff)
MUKAMANA Claudine	KARONGI: Human Resource Officer (Permanent Staff in charge of Teachers and Health Workers)
KARASANYI Nicolas	KARONGI: District Council Specialist
NIKUZE Marcelline	KARONGI: Procurement Officer
MUNYANDEKWE Gerturde	KARONGI: Human RESOURCE in charge of District Staff
IMANASHIMWE Bernard	KARONGI: District Statistician
MUGABO Alexandre	KARONGI: In charge of infrastructure
MUKASINE Pretty FEZA	KARONGI: District Intern
HARERIMANA Freddy	KARONGI: Logistics Officer
DUSABUMUREMYI Pascal	KARONGI: District Staff in charge of Information
NYIRAMAKUTA Esperance	KARONGI: District Intern
MUHIRE Emmanuel	District Executive Secretary/Chief Budget Manager, KARONGI
RANGIRA Jimm	MINECOFIN: Fiscal Decentralization Officer
MUREKUMBANZE Jean Damascene	MINECOFIN: Fiscal Decentralization Officer

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Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
HLG-1 Predictability of Transfers from Higher Level Government						
Predictability of Transfers from Higher Level Government						Missing, Unclear why not elaborated. Will include in the revised version. HLG -1 had not been assessed due certain conflicting issues that would be resolved with further consultations with the GoR
A. PFM Outturns: Credibility of the Budget						
1. Aggregate expenditure out-turn compared to original approved budget	B				**B**	Reform stated is not responding to the issue; the MoU signed concerns only 3 taxes while the district has a number of fees, licenses, fines and penalties that are collected which contributes more than the 3 taxes in rural areas as shown in figure 3.1 We can only state what has come to our knowledge. How are we supposed to know what we do not know? Please, provide the information. Do not forget that we had only two days in each district. There is a limit to what information we could have collected. Kindly give us any additional information (including documents) and we will gladly review and reflect. ~~Reform stated is not responding to the issue; the MoU signed concerns only 3 taxes while the district has a number of fees, licenses ,fines and penalties that are collected which contributes more than the 3 taxes in rural areas as shown in figure 3.1~~
2. Composition of expenditure out-turn compared to original approved budget	D	NR			**NR**	Comment 2 in the table does not actually respond to the indicator Explanation in para 3.13 could not be the only relied on to score this indicator; a thorough verification could have been done by the review team, using the budget execution report at different times in a year, which such information (in two days per district to discuss 29 indicators; this is an unfair criticism)
3. Aggregate revenue out-turn compared to original approved budget	D				**D**	The score in the report is "D" while in the summary table at the end of the report it is "A"; (our errors, we have corrected this) Reforms described address the poor taxes collection issue but nothing has been said on fees which by far are the main source of revenue for the district. (We cannot state what we do not know and has not brought to our knowledge. Please, give us the information on fees and we will kindly reflect.) Recent initiative to improve the framework for the fees (reflect underlying costs) might have been referenced. Yes, indeed, if we have the information, but we don't. The listed 'ongoing reforms' are hardly relevant on this indicator, since not addressing 'own revenues'
4. Stock and monitoring of expenditure payment arrears	A	A			**A**	

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	A				**A**	
6. Comprehensiveness of information included in the budget	C				**C**	Scoring is not clear since the vast majority of required documents was not provided. Kindly see the Subnational government guidelines, p. 20 for the scoring rationale. PEFA has a strict methodology and disallows arbitrariness on the part of assessors. Reviewers need to be familiar with the methodology.~~Scoring is not clear since the vast majority of required documents was not provided~~
7. Extent of unreported government operations	A	A			**A**	Further evidence to back up the scoring would eventually be helpful. Table 1 (para 45) not filled out sufficiently. What type of further evidence, please, specify, so we will know what to look for? The table in reference was lifted from the district's financial statements and duly acknowledged in the report. We cannot fill in a table we did not prepare and are merely reporting in support of the assessment.
8. Transparency of inter-governmental fiscal relations	A	NA	NA		**A**	It is unclear why the scoring of dimensions ii and iii qualifies for NA since the categories are still relevant and comments provided to not actually respond to the dimension, there seems to be a misunderstanding of SN government This statement is unclear. Dimensions (ii) and (iii) do not apply, because, sectors are not subnational governments. It is surprising to us that anybody would suggest that sectors are SN government, when the Decentralization Law clearly defines them otherwise, and prohibits them from employing staff or holding property. They do not initiate or deliver services; they are non-budget entities. Please see PEFA subnational guidelines on definition of Songs.
9. Oversight of aggregate fiscal risk from other public sector entities	C				**C**	Unclear whether Autonomous Government Agencies (AGA) actually should as per PEFA handbook refer to Non –Budget Agencies (NBA), or what else it refers to in the Rwandan context. the point made here is not clear and so, we are unable to address it.
10. Public access to key fiscal information	B				**B**	Some of the information in the scoring table is incomplete, or incorrect, for example the audit reports of the Districts are not available on the OAG website, only the aggregated summary report. (Kindly note that a summary report for large documents is admissible for this rating; see the narrative to PI-10 in the Fieldguide, p. 62, second paragraph. The idea is that anyone could request for the details upon seeing the summary.) There is also a misunderstanding with regard to the content of service charters at District level because they only cover administrative services. The "B" rating is somewhat contradictory to other known ratings on transparency of and access to fiscal information (our concern is not as much with other ratings as it is with the facts and PEFA methodology. Other assessments will arrive at their

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
						different conclusions if their definitions and methodologies differ from PEFA's)
						N120 million naira to be converted in Rwandan Francs; not as now, in Naira! (Our mistake. We will correct accordingly.) The audit report for Ruhango nor the volume III of the Annual Audit Report produced by OAG for Local Government are not published on OAG website The scoring may need to be revised accordingly. (already addressed above)
C. Budget Cycle						
C (i). Policy-Based Budgeting)						
11. Orderliness and participation in the annual budget process	NA	NA	A		**A**	Scoring of dimension (i) (ii) should be possible, adherence to the MINECOFIN budget calendar for example should be measurable. (Of course, districts generally adhere to the calendar made by the MINECOFIN. They also apply the ceilings in the budget call circular. However, the principle in the PEFA methodology is that, "In order to justify a particular score for a dimension or an indicator, ALL requirements specified for that scoring table must be fulfilled". 'Adherence' is not the only condition for scoring a budget calendar. Preparation is key (see the requirement for a "D" score). Kindly also refer to the Subnational Guidelines published in January 2013, p. 21, which recognize that, "Overall the authority/autonomy of the SN entity may be constrained" in this regard, and "The SN entity may be obliged to follow the calendar of the HLG (Ministry of Finance, Ministry of Local Government …. In any case, the issues of existence and adherence of a budget calendar should be clearly analyzed in the narrative. The context should be clearly presented as well". This is what we have attempted to do, to provide the context and analyze the situation. With regard to dim (ii) see also the Subnational guidelines, p. 21, where similar guidelines were given. ~~Scoring of dimension (i) (ii) should be possible, adherence to the~~

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
						~~MINECOFIN budget calendar for example should be measurable.~~
12. Multi-year perspective in fiscal planning, expenditure policy, and budgeting	NA	NA	B	D	**C**	Mistakes in the tables. It is unclear if the absolute or relative figures are accurate. Either way they don't match, for dimension (i) does this not also refer to expenditure projections, and projections in CG transfers (This comment is unclear, please, clarify) On the reforms, is GOR envisaging a new law allowing districts to finance their investments plans through bank loans and municipal bonds issuance? We can learn on this, but we gathered that the GoR is developing capacity in districts to be able to borrow for development purposes in line with the regulations made by the Minister under existing legislation, especially the OBL, Arts 50 – 54. In fact, we discover that Bug sera already does borrow from the Government Development Bank – a debt of 100,000,000 Frw contracted 2 years back. We gathered in some districts that some capacity building has already taken place in this regard.~~On the reforms, is GOR envisaging a new law allowing districts to finance their investments plans through bank loans and municipal bonds issuance ?~~
C (ii). Predictability and Control in Budget Execution						
13. Transparency of taxpayer obligations and liabilities	NA	A	NA		**A**	Insufficient reflection on ongoing legal reform. The tone of these donors' comments is unduly critical and condescending. We suggest that donors provide us with information to improve the draft, if they have it, rather than make such unfair remarks. The districts are still in charge because law 59 is still valid. Scoring "A" should be reviewed (we are willing to review if there is a basis for it. We do not see a case for such made here). Either the whole PI is not applicable or, more likely, the assessment should be based on the draft, yet to be approved, law transferring the responsibility to CG (a "draft, yet to be approved law" is 'ongoing' reform, which the PEFA methodology does not assess (kindly refer to pp. 61 – 62 of the PEFA Framework, Revised in January 2011 and p. 11 of the Fieldguide. We reiterate the need for reviewers to be familiar the PEFA methodology. ~~Either the whole PI is not applicable or, more likely, the assessment should be based on the draft, yet to be approved, law transferring the responsibility to CG~~
14. Effectiveness of measures for taxpayer registration and tax assessment	NA	NA	NA		**NR**	Why is this not assessed at all? because, the "critical time/period" for assessing this indicator is "as the time of assessment", as stated in the draft under review; see the Fieldguide, pp 86, 87, 88.) Districts still play an important role for taxpayers' registration and they provide the basis of the District taxpayers register to RRA. (This is not a basis for scoring in the PEFA methodology This should be scored. We

Indicator	2015 Assessment: Dimension Ratings i	ii	iii	iv	Overall Indicator Scoring	Remarks
						are unable to do this as we cannot fit it into the rating criteria, but will be happy to see how the reviewers would score it based on the rating criteria and justify it with the narrative.
						What about the database for fees collection? the narrative on this PI concentrated on tax while the following one PI 16 talked about taxes and fees (arrears for fees collected by district contractors as taxes were collected by districts staff not outsourced). PI-14 deals with taxes only, not fees as well. PI-16 deals with cash flows from all sources and affects all revenues and expenditures (see the PEFA methodology: Fieldguide, for instance)
15. Effectiveness in collection of tax payments	D	NA	D		**D**	Contradictory! (There is no contradiction here, but a misunderstanding of the PEFA methodology by the donor reviewers.) Why is the district being assessed in collection of tax payments when this is according to the consultants under RRA? (Because the critical period/time of assessment is **the last two completed fiscal years** (see the Fieldguide, p 91), during which time or at least, substantial part of it, the district was still in charge of tax administration.) In general, the role of the district is not sufficiently elaborated. If applied, the assessment should focus on those taxes which are retained under the local tax administrations to collect
16. Predictability in the availability of funds commitment of expenditures	NA	NA	A		**A**	What about prediction of cash flows from central government? Yes, considered in HLG 1, not in PI-16. For considerations in PI-16, please refer to the Subnational Guidelines, p. 23. That should also be considered, dimension (i) should be scored, the basis of scoring is the PEFA methodology and guidelines, as required in our ToR; other studies can define and use different ToRs) what does MDA refer to in this context? Not clear
						Why not scoring dim i) basing on the quality of that cash flow submitted to Minecofin and the extent of the gap between the actual expenditure with the cash flow plans for all the NBAs in the district? Scoring is on the basis of the degree of autonomy of districts on the activity (see the Subnational Guidelines, p. 23, as mentioned above). Besides, districts do not prepare 'cashflows' – receipt and expenditures; the produce their expenditure and disbursement plans, which forms the basis on which the MINECOFIN predicts cash flows – inflows and outflows. Adjustments to the expenditure plans submitted by districts may become necessary in the course of the MINECOFIN preparing the cash flow plans and cash budget. The overall scoring may need to be reviewed. We do not see any basis for review. The reviewers have based their comments on other requirements than PEFA.

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
17. Recording and management of cash balances, debt, and guarantees	A	A	NA		**A**	Dim i) should be NA and not "A" For 2012 OAG report, Ruhango had bank balances amounting to Frw 180,386,307 on their respective bank accounts which were not included in the financial statements of the district; does it mean that it is no longer an issue in the district? PI-17 (ii) does not assess the accuracy of the financial statements; it assesses whether the system consolidates bank balances. PI- 25 assesses the quality and completeness of financial statements and this is where this issue is relevant. Further, there was no evidence that the district obtained and reviewed all the bank reconciliations of its NBAs. Would this have an impact on the -scoring? The district consolidates NBA bank balances monthly; that is what is relevant here. Assessing the extent of review of NBA bank statements may be relevant to some other purpose, but not to this dimension. Review may also be useful under PI-9, as discussed there.
18. Effectiveness of payroll controls	NA	A	B	D	**D+**	Dimension (i) should be scored according to the comment provided, No please; this is wrong The assessment text on dim i) is identical to the text in the CG report. The scoring differs in the two reports. Kindly review, since the text cannot be identical? This is absurd and insulting! We have managed to see the CG report and there is no similarity in style and content. The reviewers should review the two texts again, and withdraw this comment, if they find that they are indeed wrong. We insist on this. In addition, the box on RRA seems not relevant in relation to this indicator on SN. The box shows want can go wrong with the IPPS in the districts, as it has in the CG. It is therefore relevant.
19. Transparency, competition, and complaints mechanisms in procurement	NA	A	A	A	**A**	Re dim iv: the review panel has not dealt with any cases. Would this have an impact on the scoring? The assessment is according to requirement of the indicator and dimension; please refer to the Framework.
20. Effectiveness in internal controls for non-salary expenditure	A	C	B		**C+**	At which level is dimension (ii) defined? District level? Or NBA? District, which includes their subsidiary entities (NBAs) The Audit report for 2014 noted that misposting is still a problem in many of the MDAs, the explanations to justify the rating did not mention anything along the occurrence of misposting although IFMIS limits the expenditure plan by line in local mode, it does not prevent anyone to post a transaction in a wrong budget line resultant in misposting /misclassification. We could not find any cases of "misposting" in the 2014 audit report relevant to this assessment. In any case, dimension (ii) does not deal with such items. For better understanding of what the dimension deals with, kindly refer to the Fieldguide, p. 122, which provides

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
						examples of what "other internal control measures" mean. Reforms are not enough nothing on capacity issue of Procurement (ITC of NBAs). Please, provide us the information, if you have available. We cannot manufacture reforms.
21. Effectiveness of internal audit	C	B	A		**C+**	The scoring based on the process explained by the district management but there is no evidence of basing on the factual data such as the usage of risk based approach in auditing and the extent of the implementation of the IA plan on dim i); (Yes, we score based on what information is available to us. The external audit report usually refers to situations where a district does not comply with the audit plan, e.g., in the case of Karongi and we have used that. We could not in two days of work in the district have done original investigations of everything, nor does the PEFA methodology expect us to. We are not auditors) the number of reports produced re-coverage of the approved audit plan in ii) and finally the % of implementation of the IA recommendations by district management and the extent of observance of the 15 days of producing the report by the IA
C (iii). Accounting, Recording, and Reporting						
22. Timeliness and regularity of accounts reconciliation	B	A			**B+**	On dim i) the scoring and the narrative are contradictory (Interesting, please, elaborate, how?) On dim ii) the narrative could include that in the modified cash basis accounting advances are expensed being for staff or the 20% of advance in P Procurement hence this would not be a NA instead? Unclear. Please, give us any evidence at your disposal and we will review and use as relevant.
23. Availability of information on resources received by service delivery units	D				**D**	
24. Quality and timeliness of in-year budget reports	D	A	A		**D+**	
25. Quality and timeliness of annual financial statements	B	A	A		**B+**	The same PI in CG is rated, C, A and C giving an overall score of C+ and it has the same issues as the SN; Why not restrict comments to whether our rating is in accordance with the methodology and guidelines. This is an independent assessment, nor supervised by the assessors of the CG PEFA. Could the CG ratings have been wrong, instead of ours? why that difference in scoring between the two reports, on CN and SN respectively?
C (vi). External Scrutiny & Audit						

Indicator	2015 Assessment					Remarks
	Dimension Ratings				Overall Indicator Scoring	
	i	ii	iii	iv		
26. Scope, nature, and follow-up of external audit	NA	NA	A		**A**	
27. Legislative scrutiny of annual budget law	C	B	A	A	**C+**	It is not true that policy decisions on SN level spending on investment are made by CG, just because they transfer funds, the comment on dimension (i) is misleading here Please, give us the correct situation, because we have supported our scores with the evidence at our disposal. We are ready to change the narrative, if we have the evidence to do so Figure 3.5 is not complete noted and corrected.
28. Legislative scrutiny of external audit reports	A	A	A		**A**	The narrative of the PI does not include relevant data to support the scoring such as on dim i)dates hearings took place ;dim ii) the number of people indicted and number of hearings conducted by the DC; on dim iii) the report mentions how the OAG recommendations are being implemented and the % of implementation has been shared however no such % of the DC recommendations implemented has not been shared ;further the OAG report included a list of some entities with discrepancies between the monthly reported % of implementation of its recommendations and the actual level assessed by OAG staff; does this issue not applying to Ruhango ?
D. Donor Practices						
D-1. Predictability of Direct Budget Support						
D-2. Financial information provided by donors for budgeting and reporting on project and program aid						
D-3. Proportion of aid that is managed by use of national procedures						