Annex 4: Rwanda PSG AF: FIDUCIARY SYSTEMS ASSESSMENT – ADDENDUM

Fiduciary Assessment Summary

1. An integrated Fiduciary Systems Assessment (FSA) for Priority Skills for Development Project (PSG) Program for Results was carried out in MINEDUC, CESB/NCBS (National Capacity Building Secretariat), UR, and WDA consistent with Operational Policy/Bank Procedure for Program-for-Results Financing. The assessment was completed in May 2017. The original Program was approved on July 5, 2017. This addendum to the FSA focuses on the existing performance of the program as it relates to fiduciary systems, status of the risks and mitigating measures, review of the existing Program Action Plan (PAP) and its adequacy regarding the implementation of proposed additional financing. This addendum covers areas on financial management, procurement system rule and procedures as well as Fraud and Corruption and compliant handling mechanisms.

Financial Management (FM) Assessment Addendum

2. Financial Management (FM). The FM arrangements for the proposed AF will follow the Public Finance Management (PFM) systems and structures that have been used under the original program. The program budget will be compiled by MINECOFIN following consultations with all the implementing entities for the original and the AF. The revised program budget will include the transition from the original program (NEP) to the new Government Program (NSDEPS). In this regard, the original program expenditure framework will be reviewed, and the expenditure framework updated to reflect the actual expenditure verses what was planned in the original program (as per the program expenditure framework in the PAD). New budget lines for the NSDEPS, are to be included in the updated expenditure framework as per any new indicators and new DLIs under the NSDEPS.

3. The two new implementing entities, RP and RDB – CSO, have both participated in the implementation of the original program. The program budget will be approved by Parliament as part of the national budget before deployment for execution by the respective implementing entities. Experience under the original program showed weaknesses in the execution of the final budget appropriated by parliament leading to significant variances. Credibility of the final approved budget was also undermined by an apparent lack of predictability for resources expected from externally funded programs. Furthermore, an assessment of the implementing entities highlighted the need to ensure better alignment of the annual budget allocations with the Medium Term Expenditure Framework (MTEF), procurement plan and DPs’ commitment. However, from a review of the program financial performance for the year ended June 30, 2019, it was noted that significant progress has been made in addressing these shortcomings. The program reported impressive budget execution rates of over 97 percent in 4 of the 7 implementing entities with BRD reporting having spent all the funds allocated for the financial year. The remaining three implementing entities should also seek to reach and maintain the 97 percent (+/-3% variance) performance level in order to ensure effective program implementation. It is noted that DP’s commitments for support in the Education sector were executed in line with the approved annual budget for FY19, which was noted to be well aligned with the MTEF. These arrangements will continue to be used and enhanced under the AF.
4. The SmartIFMIS, which was rolled out in various government agencies by MINECOFIN during the life of the original program will be used to capture the approved budget, record the resultant transactions and produce accurate and reliable financial reports for the AF. Under the parent program, the government system has been effective in maintaining accounting records and preparation of periodic financial reports. All the implementing entities except BRD use the mainstream government IFMIS which has been enhanced by incorporation of additional features. BRD maintains a tailor-made financial management system that addresses the unique activities it implements pursuant to its mandate. Similarly, the University of Rwanda (UR) uses IFMIS for the implementation of the government development budget but its regular operational budget is run through its own EBMIS system. The additional features in IFMIS include direct link with the Central Bank to ensure electronic funds transfer to beneficiary bank accounts without the need for delivery of manually prepared payment requests or remittance advices. The SmartIFMIS also ensures better budgetary controls such that funds allocated to particular activities or line items cannot be diverted to be spent on other activities. MINECOFIN is currently developing the inventory management module in the IFMIS to facilitate proper classification, recording and tracking of public assets. There is a reasonable level of accounting capacity in each of the implementing entities currently, but the number of professionally qualified accountants is still considered inadequate. Under the AF, the accounting capacity would need to be enhanced through deployment of qualified and experienced accountants as well as training and capacity building. One of the cross-cutting challenges in the portfolio has been noted to be the high turnover of accountants and internal auditors due to low remuneration in government. This is a long term issue which will be addressed through a comprehensive review of the entire public service compensation system.

5. The AF will also rely on the government internal control system involving structured approval and authorization of expenditure, segregation of functions in payment processing, internal check mechanisms and internal audit arrangements. All the implementing entities for the parent Program have established internal audit functions but there is need to strengthen their capacity through deployment of additional staff and training on current global trends in the practice of internal auditing. Similarly, each implementing entity has audit committees, but their effectiveness would need to be enhanced through regular periodic meetings and documented evidence of follow up of audit recommendations.

6. External audit of the AF will continue to be conducted by the Office of the Auditor General (OAG) which is the Supreme Audit Institution (SAI) with the constitutional mandate to audit all public funds in the country. The OAG is reasonably independent, adequately resourced and effective in executing its mandate. In the program audit reports for FY18, the Auditor General (AG) expressed unqualified (clean) opinion on the financial statements for Rwanda Development Board (RDB), Development Bank of Rwanda (BRD) and the Ministry of Education (MINEDUC). The AG however expressed adverse opinion on the financial statements of the University of Rwanda (UR) on the grounds of significant unsupported revenue and expenditure reported in the financial statements, errors and irregularities in the financial statements, and long outstanding receivables and payables. The auditor also issued qualified opinion on the financial statements for Higher Education Council (HEC), Rwanda Polytechnic (RP), Workforce Development Authority (WDA) on the grounds of unexplained differences in the financial statements, inadequate disclosure of financial information, unsupported expenditure and long outstanding receivables. The management letters also highlighted significant internal control weaknesses including ineffective recovery of loans and receivables, significant weaknesses in students’ tuitions fees and living
allowances monitoring and unsupported investments and ineffective Audit Committee. In the latest action plan discussed with the implementing entities, it was noted that good progress had been made in addressing the audit issues. However, there are long term actions whose successful implementation extends to June 2021 and will thus form part of the Program Action Plan for the AF (see Table 4.1). The program audit report for the year ended June 30, 2019 will indicate the level of progress made in addressing the weaknesses flagged in the previous report.

Table 4.1: FM Actions for the PAP under the AF

<table>
<thead>
<tr>
<th>No.</th>
<th>Action</th>
<th>Due Date</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ensure variances between approved budget and actual expenditure outturns are kept at +/- 3%</td>
<td>December 31, 2020</td>
<td>WDA, HEC, RP</td>
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<tr>
<td>2.</td>
<td>Enhance quality of the internal audit oversight through deployment of additional internal auditors and training and capacity building</td>
<td>July 31, 2021</td>
<td>All PSG implementing entities</td>
</tr>
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<td>3.</td>
<td>Ensure unqualified audit opinion on program financial statements</td>
<td>July 31, 2021</td>
<td>UR, WDA, HEC</td>
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<tr>
<td>4.</td>
<td>Strengthen the accounting capacity through deployment of adequate number of qualified and experienced accountants</td>
<td>July 31, 2021</td>
<td>All PSG implementing entities</td>
</tr>
<tr>
<td>5.</td>
<td>Ensure long outstanding payables and receivables in entity's books of account are cleared</td>
<td>July 31, 2021</td>
<td>UR, RP</td>
</tr>
<tr>
<td>6.</td>
<td>Strengthen the audit committees through proper composition, regular meetings and evidence of action on audit recommendations</td>
<td>July 31, 2021</td>
<td>UR, WDA</td>
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<tr>
<td>7.</td>
<td>Ensure disclosure of investments in the annual audited financial statements</td>
<td>December 31, 2020</td>
<td>UR, RP</td>
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<tr>
<td>8.</td>
<td>Ensure WDA, ZIGAMA Credit and Savings Sacco and Rwanda Investigation Bureau (RIB) work together to recover long outstanding receivables.</td>
<td>July 31, 2021</td>
<td>WDA</td>
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7. Overall, implementation arrangement and nature of the expenditure remain the same. However, the Program boundaries will be revised to reflect both the NEP and the NSDEPS. Under the AF, only UR and RP will have procurement activities. Procurement assessment of UR is already in the original program and hence there no change to the scope of the assessment to the fiduciary system. On the other hand, RP is newly created after the program was effective and was not part of initial assessment. Hence, there was need to conduct a rapid procurement assessment. In addition to the rapid assessment of RP, information gathered through the implementation support and supervision missions were utilized to draw conclusion on the program procurement system. The preliminary finding of the assessment reveals that the agency has adequate procurement legal framework, institutional arrangement and staffing. The FSA concludes that the examined program financial management and procurement systems are adequate to provide reasonable assurance that the additional financing proceeds will be used for intended purposes, with due attention to principles of economy, efficiency, effectiveness, transparency and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented. Appropriate systems to handle the risks of fraud and corruption, including effective complaint-handling mechanisms, have been agreed on and established.

8. The performance of the Program, the status of the fiduciary risks and proposed actions for the PAP is discussed below:
   a) Implementation arrangement. The existing institutional framework and implementation arrangements will continue in the additional financing, meaning the existing governance structures continue to apply. Rwanda Polytechnique (RP) has been included as a new implementing agency, whereas RDB-CSO has taken role of the NCBS and a supplemental FM and Procurement Assessment has been conducted.
   b) High value contracts. Under PSG, no International Competitive Bidding (ICB) contracts are envisaged. All contracts fall within the threshold of NCB & Shopping contracts. However, in case high value contracts emerge under the program during the implementation, these will be monitored during verification missions to ensure that the program is in conformity with the Bank’s policy on high value contracts in Program for-Results Financing.
   c) Fiduciary arrangements. The fiduciary systems arrangement for the AF remains the same as the original program. The arrangements and the performance to date are summarized below:
      • **Procurement:** The procurement profile of the AF shall remain the same as in the original program of the PSG. The procurement activities under the PforR program shall remain the same. The AF is also not expected to have procurement activities which are within the OPRC threshold. As procurement activities under the PforR program are to be carried out in conjunction with the original program a close follow-up and monitoring of procurement activities shall be carried out to ensure that no procurement activities within the OPRC threshold are carried out under the program.
      • **Fraud & Corruption:** As the main PforR operation, the World Bank will continue to rely on the Government’s system of fraud and corruption prevention and control, and at same time, Bank Guidelines on Preventing and Combatting Fraud and Corruption in PforR financing, Dated February 1, 2012 and Revised July 10, 2015 will apply to the AF. In case of conflict Bank Guidelines on Preventing and Combatting Fraud and Corruption in PforR financing prevails over the national.
9. **Program fiduciary performance and significant fiduciary risks.** Since Program effectiveness on 26 October 2017, implementation support missions have been conducted with the implementing agencies’ officers to follow up on progress and identify challenges regarding financial management, procurement and fraud and corruption under the PSG to check the implementation status of agreed action plans:

- **Procurement:** Based on the findings of the FSA, the PAP has identified key risks and risk mitigation measures. The major risks identified at the program preparation stage were:
  
  (i) **to avoid potential risk of participation of Bank debarred firms in the program procurement,** PAP by “Rwanda Public Procurement Authority (RPPA) to issue circular to all implementing agencies with reference to the Link to Bank debarred firms on RPPA website. MINEDUC take responsibility to communicate with RPPA and get it done. OAG to verify the implementation.” Recommended. RPPA has included the link on its website and sent out circular to all procuring agencies. However, the PSG PforR implementing agencies seem are not aware of this requirement. This means the PAP is partially implemented. Though this PAP was not implemented in full, the risk is unlikely to have had effect as all procurement activities of the program are small value that don’t attract foreign bidders. Nevertheless, to ensure maximum integrity of the Program, MINEDUC should ensure that all the agencies involved are aware and make sure this is included in OAG’s verification protocol;

  (ii) **additional procurement staffing** for “MINEDUC to hire one additional procurement officer and CESB to fill the position as per the then newly approved structure to effectively manage procurement of the program”. MINEDUC has hired the additional procurement officer as recommend and currently there are two procurement officers under the corporate service. CESB is merged in RDB as “Chief Skills Office” unit. RDB has a established procurement division lead my d
  
  (iii) **training** - in order to fill the identified procurement capacity gaps, a PAP was recommended that “MINEDUC to coordinate with RPPA to organize training to procurement staff of all IAs, at the effectiveness of the program and on annual basis then after”. This PAP is partially implemented. RPPA offers trainings on annual basis and the agencies are benefiting from this. However, no specialized training was provided on consultancy services and on large value goods procurement. There is a plan to conduct this training is for 2019/2020. The recommended trainings were supposed to be provided at the program effectiveness for maximum benefit from the training. However, this had not been the case though the program is in the second term. This PAP is not implemented.

- **Fraud and corruption:** The Article 633 of Organic Law No. 01/2012/OL of the Penal Code on corruption and several other laws to help fight, prevent, investigate and punish fraud and corruption. The Law establishing the Office of the Ombudsman was amended in 2013
(Law No. 76/2013) to enable the OM to prosecute cases of corruption in order to speed up the prosecution procedures. A Whistle Blowers’ Protection Act was passed in 2013 to provide incentives to report cases of fraud and corruption. One key innovation for deterrence is naming and shaming policy of those convicted of corruption whose names and offences are published in newspapers and at the website of the Office of the Ombudsman. It is concluded that (http://www.ombudsman.gov.rw).

10. The assessment covered the capacity of the governance systems and arrangements to handle risks of F&C at implementing entities, at the Program preparations stage was also assessed. Accordingly, the key oversight institutions for F&C, including the Office of the Ombudsman, the National Public Prosecution Authority and the OAG assessed at the program preparation and conclusions at the preparation that, (i) There are relatively strong institutions of accountability, integrity and oversight, including the Public Accounts Committee (PAC) of Parliament, the Office of the Ombudsman (OM) and the OAG who hold public institutions, including MINAGRI and other program implementers to account; (ii) The legal provisions for investigation, prosecution and prevention of fraud corruption and enforcement are quite strong; (iii) The OM has operational independence; the Chief Ombudsman is appointed for a five year term, renewable once, and two deputies are appointed for four year term each, renewable once. The OM reports to Parliament and the Office of the President and has independence in its operation; (iv) The Auditor General’s report provides pointers to potential cases of F&C, in addition to the public providing information through hot lines and other media; (v) There are multiple channels of making and recording complaints on F&C, including on procurement; and (vi) Procedures related to complaints on public procurement are stipulated in the procurement law and can come from bidders who have seven days to lodge a complaint or request a review are verified to be still in place.

11. No periodical report to the World Bank on cases/complaints/allegations regarding fraud and corruption were received during the program implementation, as there was no incidence of fraud and corruption nor complaint received throughout implementation of the program. However, the Borrower is required to regularly report to World Bank irrespective of whether there is incidence of fraud and corruption. This program action should be implemented under additional financing.

12. Conclusion. As can be noted from the above narration, although some actions are not yet due, most of the proposed risk mitigating measures under the original Program have been implemented. Hence the fiduciary risk of the Program remains moderate and proposed actions under the PAP that are not yet addressed remain valid. The two procurement related PAPs, namely, (a) potential risk of participation of World Bank debarred firms in the program procurement and (b) organizing procurement trainings in collaboration with RPPA which are not yet addressed will remain valid. Accordingly, (i) MINEDUC should aware all the agencies participating in the program and ensure this is included in OAG’s verification protocol and (ii) MINEDUC to avail the resource and organize a procurement training for all procuring agencies implementing the program to be conducted by RPPA, which should be done at the AF effectiveness stage.

| Table 4.2: Procurement Actions for the PAP under the AF |
1. To mitigate potential risk of participation of Bank debarred firms in the program procurement, MINEDUC should aware all the agencies involved and make sure it is part of OAG verification protocol, December 31, 2020, MINEDUC

2. MINEDUC should coordinate with RPPA to organize specialized trainings on procurement of large value goods and consultancy services, for all PSG additional financing implementing agencies, December 31, 2020, MINEDUC

3. MINEDUC should consolidate and periodically (every 6 month) report to Bank on cases/complaints/allegations regarding fraud and corruption incidence, regardless of whether there is incidence of fraud and corruption, December 31, 2020, MINEDUC

13. The updated assessment concludes that the: (i) fiduciary risk is “moderate”; and (ii) procurement and financial management arrangements are compliant with the World Bank Policy/Directive for Program-for-Results Financing and provide reasonable assurance that the financing will be used in an economical, effective and efficient manner to achieve the PDO. The assessment confirms there are no high value contracts with values exceeding the Operational Procurement Review Committee (OPRC) threshold in the program procurement plan.

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1 The laws include Organic Law No. 61/2008/0L of 10/9/2008 on leadership code of conduct, Organic Law No.23/2003 of 7/8/2003 Concerning Prevention, Organic Law No.12/2007 of 27/3/2007 on national procurement; Organic Law No.12/2013/OL of 12/09/2013 on government property and assets; Organic Law No.76/2013 of 11/9/2013 which is an amended law defining powers and mandate of the ombudsman, including the power to prosecute cases of corruption; Ministerial Order No.001/08/10/Min of 16 on national procurement.