



**EXTENT OF VALUE FOR MONEY (VFM) AUDITS OF PUBLIC FUNDS IN RWANDA CONDUCTED BY THE OFFICE OF THE AUDITOR GENERAL PERIOD OF STUDY: 2009-2013**

**A Research paper submitted to the School of Business as a partial fulfillment for the award of the Master of Science in Accounting by the University of Rwanda**

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## APPROVAL SHEET

This thesis entitled Extent of Value For Money (VFM) audits of public funds in Rwanda conducted by the Office of the Auditor general, period of study: 2009-2013, written and submitted by HAKIZIMANA Elie in partial fulfilment of the requirements for the degree of Master of Science in Accounting, is hereby accepted and approved.

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## **DECLARATION**

I, HAKIZIMANA Elie hereby declare, that this dissertation entitled “Extend of Value for Money (VFM) audits of public funds in Rwanda conducted by the Office of the Auditor General. Period of study 2009-2013” is my own work and it has not been submitted anywhere for the award of any degree.

Signature: \_\_\_\_\_

**HAKIZIMANA Elie**

Date : \_\_\_\_\_

## **DEDICATION**

To the Almighty God,  
To my wife Dancille and my children Aurore and Eloi,  
I dedicate this book to you

## ACKNOWLEDGEMENTS

I would like to acknowledge the contributions of the individuals who made it possible for me to write this thesis.

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## **ABBREVIATIONS AND ACRONYMS**

ACCA: Association of Chartered Certified Accountants  
AG: Auditor General  
CIA: Certified Internal Auditors  
CPA: Certified Public Accountants  
Es: Economy, Effectiveness and Efficiency.  
FA: Financial Auditing  
FAAA: Financial Administration Audit Act  
FRLs: Functional Responsibility Leaders  
GAAP: Generally Accepted Accounting Practices  
IMF: International Monetary Fund  
INTOSAI: International Organisation of Supreme Audit Institutions  
ISSAI: International Standards of Supreme Audit Institutions  
MBA: Master of Business Administration  
MSc: Master of Science  
OAG: Office of the Auditor General  
PA: Performance Auditing  
PAC: Public Accounts Committee  
Prof.: Professor  
SPA: Senior Principal Auditor  
SAI: Supreme Audit Institution  
SAICA: South African Institute of Chartered Accountants  
SPSS: Statistical Package of Social Sciences  
VFM: Value For Money

## **ABSTRACT**

Citizens are increasingly demanding better quality service delivery and accountability from their governments. Also referred to as Value For Money audit, performance auditing is a systematic, purpose-driven and objective assessment of the performance of government activities. As governments are required to provide meaningful information on the allocation of scarce resources as well as the outcomes of its programmes and projects, performance auditing has become essential to improving governance and performance in the public sector. Incidentally, many governments and public sector organisations have limited capabilities to implement impactful performance auditing.

The researcher distributed the questionnaires and their responses have been collected, compiled and analysed. Along with the questionnaires an interview was done and consulted various documents and audit reports to assess the nature and extend of VFM audits conducted by OAG.

The findings confirmed that if more VFM audits are significantly conducted there will be improvement of economic acquisition of resources, improvement of services and outcomes achieved, prevention of misuse and reinforcement of accountability of authorities for public funds. The responses collected also confirmed that with adequate resources and skills the number of VFM audits can be increased and that the increase in the number of VFM audits do not necessarily result from the increase of the number of Auditors but that it depends also on the use of adequate resources.

The OAG Rwanda should invest in both recruiting and training Performance auditors and acquiring adequate resources namely software to conduct more VFM audits for addressing growing public scrutiny.

# **CHAPTER ONE: INTRODUCTION**

## **1.1 Background of the study**

Managing performance is a key element in the delivery of services by the public sector. The importance of performance management in both the private and public sectors is recognized throughout the world (Performance-Based Management Special Interest Group 2001:i). In the private sector, performance evaluation is almost automatic, based as it is on profitability and the rate of return on capital. However, in the public sector there is no profit motive, and performance is measured in terms of value-for-money principles, namely economy, efficiency and effectiveness.

In some countries the constitution or legislation in force do not always confer on the Supreme Audit Institution (SAI) the authority to audit "effectiveness" or "efficiency" of the financial management of the Executive.

The Government of Rwanda has been appreciated by its Developments partners commonly known as donors and international financial institutions to be a country where accountability has been enforced. The audits both financial and performance conducted by the office of the Auditor general of States Finances of Rwanda from 2003 up to date has played a notable role in improvement of financial reporting and public finance management by government entities.

It could be reasonably assumed that in a state where there is a sound auditing a government is bound to financially perform well and funds are economically, effectively and efficiently utilized. This study aims to examine the status of performance audit in Rwanda and its nature and extend will be assessed.

## **1.2 Statement of Problem**

Increasing accountability is a key element in a wide variety of governance reforms, from national level, public sector restructuring, to anti corruption campaigns and to centralize

service delivery at local levels. (Van Wyk, 2002:311). In the private sector, performance evaluation is almost automatic, based as it is on profitability and the rate of return on capital. However, in the public sector there is no profit motive, and performance is measured in terms of value-for-money principles, namely economy, efficiency and effectiveness. Good governance encompasses concepts such as efficiency, transparency and accountability. United Nations, IMF and donors such as the World Bank are increasingly basing their activities on the condition that reforms ensuring governance are undertaken.

For some countries the constitution or legislation in force do not always confer on the SAI the authority to audit "effectiveness" or "efficiency" of the financial management of the Executive. ISSAI 100: INTOSAI [www.issai.org](http://www.issai.org) "*Basic Principles in Government Auditing*" Public accountability will be more effectively promoted where the mandate enables the SAI to conduct, or direct the conduct of, regularity and performance auditing of all public enterprises.

In order to ensure that accountability is met and that public funds are wisely utilized, the Auditor General of State Finances has been established by law no 05/98 of 1998 and the constitution of 2003 as amended to date under its article 183 recognizes the Office of the Auditor General (OAG) as the supreme Audit Institution (SAI). The OAG has been instrumental in holding government departments accountable for public funds. Alongside financial audits which dominated the OAG audits, the OAG is expected to conduct value for money, economy and efficiency audits in respect of expenditures by all public offices, local administration, public establishments and projects. To know how accurate the OAG is conducting this new field of auditing which requires special knowledge, this research is being conducted to assess the efforts made by the Government of Rwanda to reinforce public accountability by studying the nature and extend of VFM audits which greatly contribute to the protection of the public finances which their misappropriation will inevitably have great consequences to the nation.

## **1.2 Objectives of the study**

The main purpose of this study will among others include:

- To identify challenges encountered in initiating and conducting VFM audits
- To find out how far the qualifications of OAG auditors meet the standards to carry VFM audits
- To assess reliability of VFM audits methodology by OAG to International Standards on Auditing (ISA)

### **1.3 Research Questions**

- What challenges encountered and measures in place to enhance VFM audits?
- What are the special knowledge required by VFM audits and its methodology and procedures?
- How reliable is the VFM audit methodology used by OAG to International Standards on Auditing?

### **1.4 Statement of Hypothesis**

This research has the following hypothesis:

The VFM audits if meaningfully applied, will improve the services provided by the public sector and it will reinforce accountability of role-players in the public sector for resources used and outcomes achieved.

### **1.6 Rationale and significance of the study**

Amidst high mismanagement and misuse of public funds as well as fraud, there is need to investigate whether public funds are being accounted for adequately.

The Office of the Auditor General of State Finances being one of the major role players in ensuring public financial accountability should be investigated to find out if it is effective in



performing its duties and also discover some loopholes if there are any and suggest remedial means to the situation.

The research is significant in that it touches the core issue of the public sector which is finances. Corruption and misappropriation of public resources impose great consequences to the nation. Thus efficient, effective and economic management of resources occurs as a result of proper structures that result in accountability and transparency.

### **1.7 Scope and limitations of the study**

This study was restricted to the case study of the OAG of Rwanda by assessing the nature and extent of VFM audits carried out from its establishment by examining various published and unpublished literatures. Other primary sources of information also should be used in gathering wanted data.

### **1.8 Research methodology**

The methodology of this research has been a combination of observational and descriptive evidence and data were gathered and analysed for hypothesis testing.

Data were gathered primarily through a series of interviews and informal discussions with staff of the Office of the Auditor General. The statistical analysis has been carried out on data published by the OAG contained in the annual reports.

A literature search was conducted to review current legislation which governs the role of the OAG and to review the literature on VFM audits and public funds.

### **1.9 The layout of the study**

This study is organized in five chapters as follow:

Chapter 1 provides a background to the study and reflects on the research question, purpose and objectives of the study, hypothesis, rationale of the study and methodology.

Chapter two provides a theoretical literature in relation to the problem and highlights aspects used in the study.

Chapter three is the research methodology which outlines and justifies the research design to answer the research question, organization of methodology to address purpose and objectives.

Chapter four presents the research findings and discussions. This is the presentation and analysis of findings. The findings have been linked to the literature and some conclusions drawn.

Chapter five is provides a conclusion that ties all the major findings and the literature together and recommendations made.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

One of the cornerstones of democracy is external accountability, and one of the pillars of accountability is how swiftly government reports back to citizens, through Parliament, on how it has spent their taxes. The shorter the time lapse between the closing of the government's financial year and the reporting process, the greater the credibility of its claims to being accountable. By contrast, accountability delayed is accountability denied.

The Government of Rwanda has emphasized this need of accountability through regulatory framework put in place such as the constitution empowering the Auditor General the audit duties of public funds in promoting internal and external accountability, and thus strengthening democracy. This chapter starts by presentation of the concept of auditing of public funds, accountability and good governance followed by audit process and standards on auditing and lastly the legislative framework in relation to the subject matter will be discussed.

### **2.2 Auditing of public funds, accountability and good governance**

This section is identifying and discussing to types of auditing namely VFM auditing and financial auditing. It also presents the role of VFM audits on accountability and good governance.

#### **2.2.1 Financial (Regularity and Compliance) Auditing**

Traditionally, financial auditing has been concerned with financial control and accuracy of accounts (Power 2003). "The main objective of financial auditing is to provide an opinion on the fairness of the accounts and financial statements. It also examines compliance with applicable authority, regulations and rules".

According to the INTOSAI Auditing Standard, financial audit embraces; “Attestation of financial accountability of accountable entities which involves examination of financial record: cashbooks, ledgers, payment vouchers, cheque books, receipt books, bank statements; and expression of the Auditor’s opinion of these. It also includes attestation of financial accountability of the government as a whole; audit of financial systems and transactions; evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions and audit of the probity and propriety of administrative decisions taken within the audited entity. Reporting of any other matters relating to the audit that the Supreme Audit Institution (SAI) considers should be disclosed” (INTOSAI Auditing Standards 1992:18-19).

### **2.2.2 VFM auditing**

For the second type of auditing, Performance Auditing or VFM audit is a recent expansion in the scope of Financial Auditing. The function of Performance Auditing is to complement financial auditing through ascertaining how prudently [well] public operations were undertaken that is to say, to what extent intended results and effects have been achieved. The Objective of Performance Auditing is to promote effectiveness in the utilization of public resources based on three elements: economy, efficiency and effectiveness.

This interesting type of auditing in October 1977, the International Organization of Supreme Audit Institutions adopted the Lima Declaration of Guidelines on Auditing Precepts (available at [www.intosai.org/en/portal/documents/intosai/general/lima\\_declaration/](http://www.intosai.org/en/portal/documents/intosai/general/lima_declaration/)), which placed VFM audits on the same footing as financial audits or compliance audits. The first chapter of the declaration deals with what we now know as VFM auditing.

Various terms are used for audits that go beyond the traditional financial statement audit and cover matters of economy, efficiency and effectiveness. For instance the term “comprehensive auditing” is used, and according to Leclerc, Moynagh, Boisclair and Hanson (2006:228), this kind of audit “looks at how carefully an organisation has given attention to economy, efficiency and effectiveness”.

In the Financial Administration Audit Act (FAAA) 1995 of Western Australia (Western Australia Government), the term “performance examination” is used to refer to the examination of the efficiency and effectiveness of agencies and parts of agencies. In the same Act the terms “performance audits” and “value for money audits” are used to describe similar roles.

For the purposes of this study the term “value for money audits” will be used. The South African Institute of Chartered Accountants’ (SAICA) Guide on VFM audits in the Public Sector (SAICA 2006:4) defines this as follows:

A VFM audit may be described as an independent auditing process aimed at evaluating the measures instituted by management, or the lack of these measures; ensuring that resources have been acquired economically and are utilised efficiently and effectively, and reporting on the acquisition and use of resources to management or the relevant authority.

The “3 Es” framework, as referred to in practice, measures efficiency, economy and effectiveness. All these concepts measure performance by way of different, yet interrelated, measures. A variety of definitions exist for the “3 Es”. Some of these are provided here to give a broader description of the “3 Es” and, in so doing, of performance auditing.

With regard to efficiency, Shall (2010:13) explains that it tries to capture how productively resources are translated into service delivery and basically asks the question, “Did we perform the job without wasting resources” or, “Did we do things right?”

Effectiveness has to do with the degree to which objectives are achieved. Effectiveness measures ask: “Did the job achieve the desired results?”, or “Did we do the right thing?” (Shall 2010:14).

Economy denotes the cheapest possible option for the production of the output. Economy measures ask: “Was the service delivered at the lowest possible cost?” or “Did the service delivered cost more than comparable services elsewhere?” (Shall 2010:14).

The following are the definitions given by INTOSAI for the 3Es.

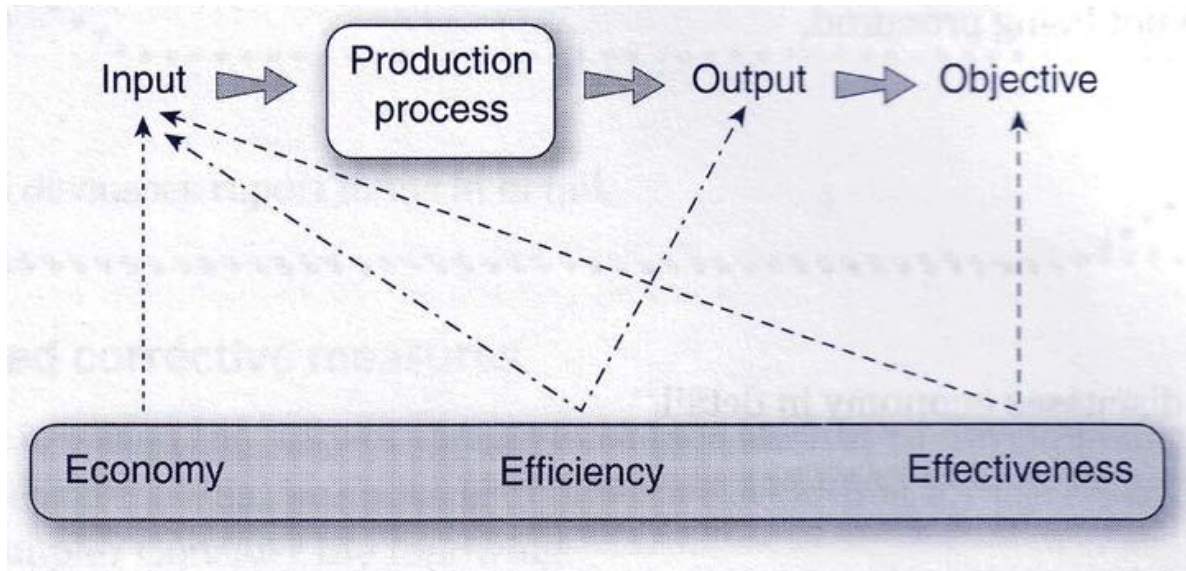
**Economy** in performance audit is about minimizing the cost of resources that will be needed or required in order to achieve an end. It also considers whether human, financial and material resources have been utilized economically. The idea is to spend less without necessarily compromising on the quality ([www.intosai.org](http://www.intosai.org)).

**Efficiency** on the other hand is the relationship between outputs and the goods, services and resources used to produce them. The idea here is to spend well and judge whether a certain amount of outputs can be produced given a certain amount of resources ([www.intosai.org](http://www.intosai.org)). In other words, “The balance or proportion between the benefits and the costs” (Gasper, 2002:1)

**Effectiveness** is the relationship between intended and achieved results of public spending. Effectiveness basically assesses whether objectives have been met by the means employed, outputs produced and whether the impacts really are a result of policy rather than other circumstances. The idea is to spend wisely and check the degree of achievement of objectives ([www.intosai.org](http://www.intosai.org)).

The following figure graphically demonstrates the relationship between the 3 Es:

**Figure 2.1. Relationship between the 3 Es**



Source: Prinsloo, J. and Roos, M., *Performance Auditing A step-by-step approach*, (Pretoria:Van Schaik Publishers, 2008:9).

The “3 Es” measures cannot be used in isolation or separately from one another. It is not possible to get a complete picture of performance if one establishes that the service delivered was the cheapest but the fact that the service was not effective is overlooked. It is also of little use if information about effectiveness is available but there is no information about its cost.

A summary of the link between the different definitions could be as follows: One of the main reasons why government departments and public entities exist is to make a positive impact on citizens and communities (outcomes). In order to achieve these desired outcomes, a mix of goods and services (outputs) are provided and to generate these service delivery outputs, financial, human and other resources are required (inputs). To convert inputs into service delivery outputs a number of processes have to take place within departments. The first is the strategic planning process which reflects policy priorities. Operational plans are then drawn up within the framework of the overall corporate plan and budgets are compiled to reflect the resourcing of the strategic and operational plans. Once the planning phase is completed the implementation phase starts during which there should be continuous

monitoring and evaluation processes, which should feed back into the planning phase (ACCA BPP book on Business analysis 2012: 24).

### **2.2.3 VFM audits Vs Financial audit**

The difference can be obtained by answering the question of Why the need for Performance Auditing. To fully understand the need for VFM auditing in the public sector, the role of financial auditing in the private sector needs to be examined concurrently.

Providing assurance on the financial information of companies seeking external financing is essential to the operation of our economic system. Investments made by the private sector to strengthen such assurance following recent financial scandals clearly testify to this fact. Economic agents need this assurance to maintain the climate of trust required to carry out financial transactions in a market economy. The availability of financial information whose quality has formally been attested to helps ensure that resources are allocated to the top-performing companies. This means private companies have no choice but to enhance their productivity and profitability to avoid being forced out of the market.

The public sector operates differently as resources are allocated under the direction of a publicly elected body. Even when funded in large part by users, government organizations are often in a monopoly position and “customers” have to accept the service provided whatever the quality or price.

Even when the audited financial statements of a government organization show a stable position or a positive balance, it does not mean the organization provides services that adequately meet the public’s needs at the best possible price. In this context, elected officials who allocate resources and are mandated to ensure their sound use must have more information to assess the actual performance of government entities. VFM auditing was introduced to meet the need for additional information.

Since the primary objective of financial auditing is to express an opinion on the accuracy and fairness of the financial statements. In this process of expressing an opinion, the auditor



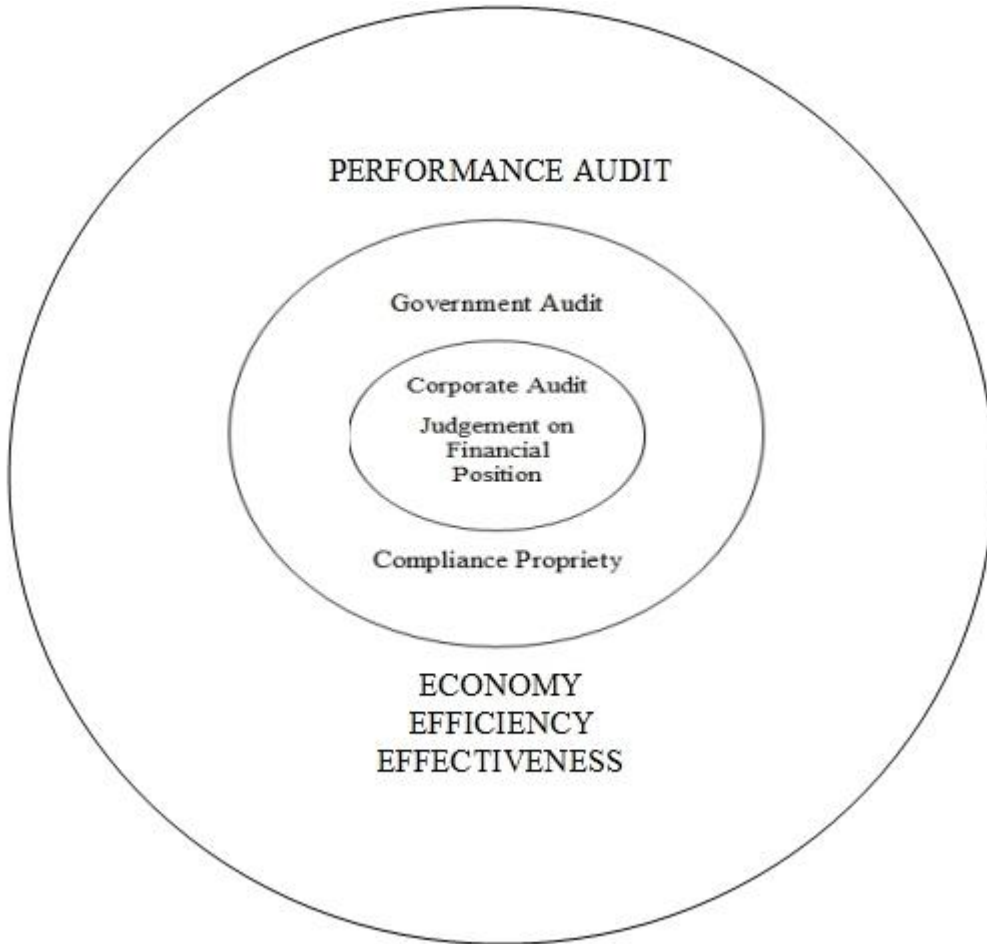
will report on the degree of compliance to existing financial regulations. Therefore, it is not within the scope of traditional financial auditing to account for the economy, efficiency and effectiveness with which resources were utilized. This necessitated the adoption of Performance Auditing across many governments the world over, in order to comprehensively address these issues. This shortcoming in the financial audit was compounded by the global trend of taxpayers and donors demanding greater accountability and transparency in the utilization of their resources. Therefore, governments became compelled to account for not only the use of these resources as intended but to also give assurance that they were utilized in the most economic, efficient and effective manner.

Financial Auditing is a well-established field, which has been in existence longer than Performance Audit field. This probably explains why the Financial Auditors have over the years developed the Generally Accepted Accounting Practices (GAAP) on which they are able to base their conclusions. In terms of Performance Audits, there is no much scholarly work that has been done. This makes the work of Performance Auditors more difficult because there are no standard criteria. The Auditors have to tailor specific criteria for each audit assignment, on which to base their conclusions (Pollitt et al, 2009). Performance Audit involves evaluating management activities, appropriateness of policy pronouncements, efficiency, effectiveness and economy of operations (Pollitt 2003; Power 2003). Performance Audits do not query political goals; it pinpoints and shows the negative effects of a given policy. Therefore the auditors have to study the details of certain operations. For example when carrying out an audit on an energy project, the audit criteria would need standards for such activities as fuel inputs for electricity generation, the cost of power per unit generated, how much it costs to maintain the whole capital investment, how many households would be supplied with power and so on.

Not until the Auditors familiarise themselves with such operations of the energy project then they would not be able to set an audit criteria. Much as the Auditors make an effort to study the operations, it becomes inevitable to seek technical knowhow. Thus “....Auditors should engage with the professional knowledge base of the auditees as far as possible.....”(Power 2003:199). This is an example of a situation, which suggests that Performance Audits may

require a combination of technical experts apart from just knowledge in accountancy (Khan 2000).

**Figure 2.2. The Expanding Scope of Audit**



*Source: Department of the Auditor General of Pakistan (1993)*

The above drawn figure, illustrates how performance audit covers a broader scope and embraces judgment of financial position, compliance to regulations and the efficient, effective and economic use of public funds and resources.

The main differences and similarities between VFM audits and financial auditing are summarized in the table below.

**Table 2.1. Similarities and differences between Performance and Financial auditing**

<b>Aspect</b>	<b>Performance Auditing(PA)</b>	<b>Financial Auditing(FA)</b>
Purpose	Assess whether the auditee is Effective	Assess whether the accounts are true and fair
Focus on	The organization/programme and its activities	The accounting and Management System
Academic base	Economics, political science, Development studies, Sociology (Social Sciences)	Accounting
Methods	Varying from project to project	More or less standardized
Assessment criteria	More subjective unique criteria for the individual audit	Less subjective, Standardized criteria suitable for all audits
Reports	Varying structure and content. Published on ad hoc basis.	More or less standardized and Published on regular basis.

*Source: Swedish National Audit Office, 1999:23*

“Both Performance Audits and Financial Audits assess the performance of the auditee. Although the Performance Auditors focus on effectiveness, the Financial Auditors focus on the correctness and fairness of the accounts. Financial and Performance Auditors both have mandate to carry out the audits, the same obligations to the client and the same type of support in the shape of international co-operation, standards and discussions”(Swedish National Audit Office 1999:23).

#### **2.2.4 Role of VFM audits in accountability and good governance**

NWEKE and UNEGBU (2001), views auditing to be a form of stewardship where the messenger is expected to account for what was left under him by the shareholders so as to know, if it actually increased, or reduced and if they were the way they gave it to them, just as the case in, in the Holy Book of Matthew Chapter 25:14-30.

When the citizens put government into office, they entrust government with the responsibility of governing and managing public resources. This actually constitutes a contract of external accountability between citizens and government. Citizens therefore have the right to know what government intends to achieve and what it has actually accomplished. Performance information from government will assist citizens, managers in the government service and legislatures to assess government performance in the following ways:

- Citizens can assess the impact that the government has had on their lives, what has been achieved with their tax money, whether their money and limited resources have been spent wisely, and whether their money has been used in a way that gives them the best value. Information on government performance can also assist citizens in holding government accountable for the way in which it has carried out its mandate.
- Managers in government will be able to determine how they are doing – where they are succeeding, and where they are not succeeding; what is working and what is not, and how limited resources can be used in the most relevant, economic and effective manner. (<http://www.psc.gov.za/docs/reports/1999/mechanism.html>)

Good governance is classified as being participatory, transparent, accountable, effective, compliant with the rule of law, and responsive to the needs of the people. An effective auditor can play an important role in ensuring that some of these key attributes of good governance are maintained by the government. By auditing public finances, auditors do not only demand accountability of the government but in turn add credibility to the government's public financial policies and practices. By making their audit findings available to the public, auditors provide a critical window on transparency in public finance

management and assess whether government agencies have complied with national and/or local laws, regulations, and their annual budgets ([www.internationalbudget.org](http://www.internationalbudget.org)).

Auditing is an integral part of an institutional framework supporting good governance and the realisation of a country's welfare measures and poverty eradication goals. Social welfare programs and other targeted poverty eradication programs in developing countries are characterised by their access to limited resources. To achieve their goals, therefore, these programs depend greatly on the efficient and effective utilisation of these limited resources. Within this framework, the role of the public auditor in monitoring the utilisation of program resources is critical. A vigilant auditor can contribute greatly to the achievement of social development programs by limiting corruption and strengthening the accountability of responsible agencies. ([www.internationalbudget.org](http://www.internationalbudget.org)).

A VFM audit as a systematic, purposeful, organized and objective examination of government activities provides Parliament with an assessment on the performance of public activities; with information, observations and recommendations designed to promote answerable, honest and productive government; and encourage accountability and best practices.

For François Boisclair (2007:71), VFM auditing truly helps elected officials to improve the quality of public services. Value-for-money (VFM) auditing, also called management auditing, examines the ability of government organizations to discharge their responsibilities and control their costs by ensuring that resources are managed at the lowest cost and that activities are organized efficiently.

It also deals with accountability in these areas. The mission of the Office of the Auditor - General is to be a leader in facilitating effective internal and external accountability through auditing on behalf of the taxpayer, and also ensuring that the accounting officers are held accountable on the use of public funds. Public confidence is fostered through the Auditor - General's reporting responsibilities to Parliament. By conducting world class, cost effective and technology advanced independent audits, the AG strives to promote clean and

transparent administration, the effective and efficient utilisation of resources and good governance (Nombembe:2011).

The Auditor -General acts as a 'watchdog' on behalf of the government. A 'watchdog' is a guardian, a defender against theft or illegal waste and practices. The AG therefore, recommends corrective action where non-compliance is reported or where departments require help.

Further, performance audits assist government by contributing through the impacts arising as a result of the audit exercise, for example the Controller and Auditor General of Bangladesh (2000) points out that Performance Audits impacts on audited institutions in the following ways; Reducing costs, resulting in financial savings; The SAI is able to caution audited entities on the efficient ways of using resources.

This serves as a deterrent for possible misuse of funds. Management will be able to identify waste and will promote qualitative improvements. Creating awareness of the need for good accountability and transparency in the use of resources; values are instilled in public officials by laying bare the benefits of accountability and transparency. Improving efficiency and the quality of services provided; auditees will set indicators that will point towards better productivity thus achieving the organisation's aims and objectives more cost effectively.

Strengthening management and organizational processes; this means that the audit will have provided the audited organization with new insights on prudent management practices and achieve best results. Developing policy; by auditing the appropriateness of policy, management is able to improve existing policy or to design new, relevant and sustainable policies. It also helps policy makers to attach value during policy design.

Performance Auditing contributes in:

- Drawing attention to obstacles to the effective and efficient use of public resources;
- Providing Parliament and Ministries with a basis for making policy and other decisions, concerning improved effectiveness measures;

- Encouraging the public sector management to introduce processes for reporting on performance to contribute to more accountability.
- Identify good practice and suggest ways in which public services could be improved.
- provide the Assembly with independent information and advice about how economically, efficiently and effectively departments, agencies and other central government public bodies have used their resources;
- encourage audited bodies to improve their performance in achieving value for money and implementing policy.

Performance Auditing provides Parliament with independent information, assurance and advice about the economy, efficiency and effectiveness in the management of public revenues and expenditures. It also helps the management of the audited entities to streamline their processes and control for ensuring economy, efficiency and effectiveness in their operations. This promotes public accountability on the performance of state and state-financed activities. Upon consideration of these findings, Parliament might make a reassessment of priorities which may even involve policy changes at the highest level.

## **2.3 Audit conduct standards and audit process**

There are standard processes that are followed when conducting a Performance Audit to ensure consistency in the performance auditing practices.

### **2.3.1 Due care**

Due care requires the auditors to carry out their audit work diligently, conscientiously and with rigour. It requires that the audit be performed in accordance with professional standards. Following professional standards means that auditors exercise sound judgment when deciding the audit objective, what and when to audit, the basis for measuring performance, the audit approach and methodology, the extent of audit, the issues to be reported and the overall audit conclusions. Due care also requires that those supervising the audit work and providing review and challenge on the major audit decisions exercise similar vigilance.

### **2.3.2 Objectivity and Independence**

Auditors must maintain an objective state of mind. This means that the auditor does not direct the audit toward areas of personal interest or prejudices findings. The findings and report can be influenced only by evidence obtained and assembled in accordance with the other audit standards and guidance contained in the audit manual. The auditor needs an unbiased point of view when making decisions about scope, criteria, audit evidence, significance of observations, and conclusions. Independence requires that the Office and members of the audit team, whether staff or contract personnel, be free of any hindrances to their independence that could impair (or be seen to impair) their impartiality in carrying out their work, making judgments, forming opinions and conclusions or making recommendations.

VFM Audit Manual 18 (2000)

Audit staff are encouraged to develop and maintain good relations with officials and staff in the audited organization. The audit standards require the auditor to recommend corrective actions when reporting deficiencies. This conduct is to be carried out in a way that does not impair the independence of the Office or the auditor.

### **2.3.3 Competence of the audit team**

The audit team must have collective knowledge of their subject matter and auditing proficiency necessary to fulfill the requirements of the audit. The audit team leader *should* identify at an early stage in the planning process if specialized or technical skills, not available on the audit team, are required to complete the audit. The early identification will allow the necessary lead time to acquire suitable staff from within the Office or to obtain persons under contract.

The quality of a VFM audit is directly related to the people assigned to the audit. An audit procedure that requires the exercise of judgment beyond the ability of the person expected to make the judgment will likely end in failure. The Office has an obligation to Parliament, the audited organizations, and the other stakeholders to ensure that competent personnel conduct



audits. This requires the audit team to possess, or collectively possess, the knowledge, disciplines, skills and experience to carry out the audit effectively.

The audit team should have:

- knowledge of VFM audit concepts and techniques and the ability to apply the knowledge;
- experience and technical skills to effectively deal with the subject matter of the audit;
- knowledge of the audit entity; and
- A general knowledge of the government environment.

The audit team should consult with functional responsibility leaders (FRLs) and other support groups in the Office to obtain expert advice, where necessary, as well as with FRLs when attempting to identify persons with appropriate skills to work in specialized areas of the audit.

Audit advisors should have the appropriate background and knowledge to effectively review and challenge the key decisions of the audit. Where appropriate competence is not available, the audit should be redefined or deferred until appropriate personnel are available.

VFM Audit Manual 19 (2000)

### **2.3.4 Supervision**

The audit team must ensure proper supervision of all its members. Supervision involves directing audit staff and monitoring their work to ensure that the audit objectives are met. Supervision is an essential and continuous process that requires that the audit principal, directors and other supervisors should:

- ensure that all team members fully understand the audit objective(s);
- delegate audit projects to team members with a clear outline of what is expected from the project;
- provide appropriate counsel, advice and on-the-job training based on the experience of the team members;
- ensure that audit procedures are adequate and properly carried out;
- ensure that the VFM audit standards and the audit reporting process are followed;

- ensure that audit evidence is appropriate, sufficient and documented and that it supports audit observations and conclusions; and
- ensure that only necessary audit work is carried out and that budgets, timetables and schedules are met.

### **2.3.5 Entity management's input to the audit**

The audit team must seek entity management's views about critical elements of the audit. Good relations between audit staffs and entity management are built on the basis of respect and trust. Where this type of relationship exists, both management and the Office can benefit when the audit team seeks input throughout the course of the audit. As noted earlier under the section dealing with objectivity and independence, such relationships do not compromise the auditors' independence or the quality of the audit report. For larger entities, principals should provide annually their usual contact in the department with a five-year audit plan including details on audit topics and timing for the first two years, and less precision for the next three years, as well as a list of potential government-wide audits, and offer to meet with the Audit and Evaluation Committee of the Department or other pertinent senior level committees to discuss the audit plan.

The audit team should seek entity management's input when:

- planning the audit to obtain views on the critical success factors for the activity being audited, sources of criteria, risks, management concerns, and other audits or studies carried out in the area;
- finalizing the audit plan to obtain views on the approach and the criteria selected for the examination phase;
- developing findings to agree on the facts, or to obtain alternative sources of evidence;
- developing recommendations to obtain management's views on the best ways to correct the problem;
- obtaining agreement on the facts, observations, issues, and recommendations contained in the audit chapter, or to point out any disagreements; and

- finalizing the draft chapter to obtain the deputy head's comments and planned departmental actions to correct any deficiencies, and any disagreement with the report.

VFM Audit Manual 20 (2000)

### **2.3.6 Consultation and advice**

The audit team must obtain sufficient and appropriate consultation and advice throughout the audit.

VFM audits are often complex undertakings requiring a wide range of skills, expertise and experience to be completed cost-effectively. As noted, considerable judgment is required at all stages of the audit. The requirement to have an Audit Advisory Committee ensures that appropriate advice and assistance are available to the audit teams.

VFM Audit Manual 21 (2000)

### **2.3.7 Documentation**

The audit team must maintain appropriate documentation and files. Audit working papers and files are used to document key audit decisions and work. Audit documentation is relevant, complete and understandable, and structured for easy access. Well-organized and complete working papers are of critical importance when reviewing findings with management, briefing the Auditor General, providing support at Public Accounts Committee hearings, answering subsequent queries from the client and others, and planning future assignments.

Teams should maintain a VFM Audit Control File that contains the most significant reports, approvals and decisions throughout the life cycle of the audit. This includes:

- project approvals resulting from the Office planning process;
- overview and preliminary survey reports;
- Report Steering Committee decisions;
- management's views on the criteria and other elements of the audit;
- audit programs specifying the work carried out;
- comments and advice from advisors;
- post-audit signoffs;

- significant correspondence with departmental management; and
- Management's comments on the project reports and draft chapters and steps taken to resolve any differences.

The audit team should prepare substantiation binders that contain audit evidence most pertinent to the detailed support of the report content. These are to be carefully indexed and cross-referenced to supporting details. By convention and practice, all working papers are confidential documents belonging to the Office. Audited organizations, Parliament and the public do not have automatic right of access to working papers.

### **2.3.8 Communications with Parliament and others**

The audit team must deliver clear, persuasive and effective communications to Parliament and other stakeholders.

The primary means of communicating audit results is through the reports of the Auditor General.

### **2.3.9 Audit process**

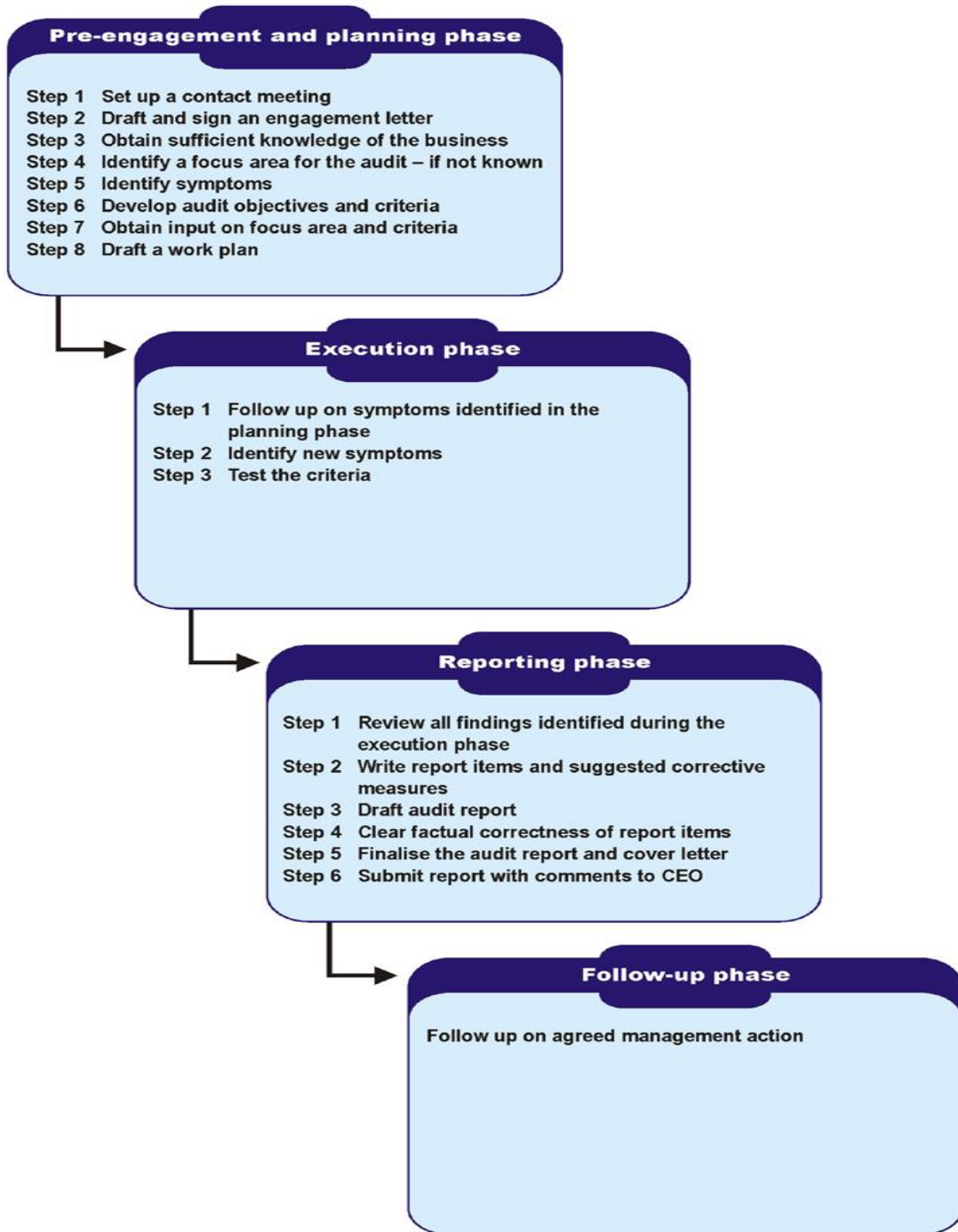
The purpose of field standards is to establish the criteria or overall framework for the purposeful, systematic and balanced steps or actions that the auditor has to follow. The field standards establish the framework for planning, conducting and managing audit work. The performance audit cycle covers several steps. Broadly speaking, it comprises the planning process, the execution process and the follow-up process. The planning process is often divided into different stages.

The first stage is strategic planning, where potential themes and topics are analysed. Once a topic has been selected for performance audit, a pre-study – resulting in a work plan for the main study – may be undertaken to gather information in order to be able to design a proposal for the main study. Throughout the main study, the emphasis should be on the production of a final report to be considered by the government, the legislature, the executive bodies concerned, and the public. The report-writing process should, based on experience, be viewed as a continuous one of formulating, testing and revising ideas about

the topic. Issues, such as the expected impact and value of the audit, should be considered throughout the audit. By setting deadlines for the writing process, timely reporting may be enhanced.

Follow-up procedures identify and document audit impact and the progress made in implementing audit recommendations. Such processes are vital to provide feedback to the SAI and the legislature. Prinsloo, J. and Roos, M. (2008: 28)

Figure 2.3. The performance audit process



Source: Prinsloo, J. and Roos, M., *Performance Auditing A step-by-step approach*, (Pretoria:Van Schaik Publishers, 2008), p. 22.38

## **2.4 Regulatory framework of public auditing in Rwanda**

Even though Performance Auditing tends to borrow some styles of carrying out inspections and judgments from evaluation and social science methods, Performance Auditors carry out their work based on the mandate, which clearly states their scope of work. Evaluators on the other hand, depend on the terms of reference to define the parameters of the evaluation and tasks to be done. In contrast, no one dictates to the Auditors unless in very rare cases, the president and Parliament can call for an audit when there is suspicion of poor utilization of resources. This means that they maintain their “independence in defining their portfolio of topic and choice of auditees” (Pollitt et al 1999:17).

### **2.4.1 OAG as Supreme Audit Institution**

The Office of the Auditor General of State Finances [OAG] is the Supreme Audit Institution [SAI] of Rwanda. The OAG was established in 1998 by Law no. 05/98 of 4th June 1998 and became the SAI of Rwanda in June 2003 by the Constitution.

The Auditor General of State Finances is vested with legal personality and has financial and administrative autonomy. It is further provided in the Constitution 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.

According to article 183 of the Constitution of the Republic of Rwanda as amended to-date, the responsibilities of the Auditor General include the following:

- a) auditing revenues and expenditures of the State as well as local administrative entities, public enterprises, parastatal organizations and government projects;
- b) auditing the finances of the institutions referred to above, particularly verifying whether the expenditures were in conformity with laws and regulations in force and sound management and whether they were necessary; and
- c) carrying out all audits of accounts, efficient management, control of the functioning of state organs and institutions mentioned above.

The institutions and public officials to which the report of the Auditor General is addressed are obliged to implement the recommendations by taking appropriate measures in respect of the irregularities and any other shortcomings reported.

#### **2.4.2 Reporting by the Auditor General**

The new constitution of Rwanda came into effect on June 4, 2003 after a national referendum. By **Article 79** of the Constitution, the Chamber of Deputies is responsible for receiving and debating annual finance bills before they become finance laws with the concurrence of the Senate. To complete the accountability cycle, the Chamber of Deputies is entitled to receive, direct from the Office of the Auditor General, audit reports and audited budget execution reports, and financial statements, review, debate and provide oversight function on the executive.

**Article 184** of the Constitution requires the Office of the Auditor General to:

- a) report to the Chamber of Deputies on the implementation of the state budget of the previous year. This report must indicate the manner in which the budget was utilized, unnecessary expenses which were incurred or expenses which were incurred contrary to the law and whether there was misappropriation or general squandering of public funds – an audit of budget execution reports.
- b) submit a copy of the report to the President of the Republic, Cabinet, President of the Supreme Court and the Prosecutor General of the Republic.
- c) carry out a financial audit of any institution of the State or with regard to the use of funds provided by the State as may be required by Chamber of Deputies from time to time.



### **2.4.3 Vision and Mission Statements, and its Core Values**

The OAG's vision is "to promote an accountable, honest and effective Government administration".

Its mission statement is "to promote accountability, transparency and best practice in government operations as a means to good governance" within the National Integrity Framework.

The core values of the OAG are:

- Integrity;
- Objectivity;
- Independence;
- Accountability;
- Confidentiality; and
- Public interest.

The OAG'S vision, mission and core values are built on the belief that those who are entrusted with public resources should be brought to account and are expected to use the resources transparently, efficiently, and there should be value for money.

## **CHAPITRE THREE: RESEARCH METHODOLOGY**

### **3.0. Introduction**

The previous chapter focused mainly on reviewing the literature on VFM audits. This study was primarily undertaken to determine the nature and extent of VFM audits of public funds in Rwanda conducted by the Office of the Auditor General. This chapter provides an exposition of the research methodology that was employed in the quest to answer the research questions. It provides a detailed explanation that was used in the research in terms of sampling methods, the method of data collection and analysis. It also provides a justification of the methods used, and possible limitations of the research.

### **3.1. Research design**

In order to answer the research question and thus arrive at the goal of the research, the study used a descriptive research design that embodied a quantitative perspective. A research perspective is a general view and use of research approaches and methods (Glatthorn and Joyner 2005). Glatthorn and Joyner 2005 further mention that there are two major research perspectives: quantitative and qualitative.

Quantitative methods document social variation in terms of numerical categories and rely on statistics to summarize large amount of data as opposed to a qualitative perspective that produces qualitative data i.e; evidence presented in words, pictures or some other narrative form that best captures subject's genuine experience and understanding (Ruane, 2005). The qualitative method of inquiry allows the researcher to understand the respondents in terms of their view of the nature and extent of VFM audits conducted by the OAG. The quantitative perspective used in this study provides statistical descriptions, relationships and explanations about numerical data collected.

### 3.2. Population and sampling techniques

The population that formed the researcher's scope of study is composed by 123 OAG employees within the following categories: 94 financial auditors, 13 VFM auditors, 16 administrative and support staff.

Williamson (2006.) asserted that if the sample let's say 100 respondents is properly selected from the population of 10,000; the information presented by the selected sample is same representative of the entire population as the information presented by the entire population.

Therefore the sample size of selected auditors was selected using Sliven's formula written as:

$$n = N / (1 + Ne^2)$$

Where;

n = Sample size

N = Total population

e = Error tolerance

1= constant number

For our study

n=?

N=123

e= 5%

Therefore

$$n = 123 / (1 + 123 \times 0.05 \times 0.05)$$

$$n = 123 / (1 + 0.3075)$$

$$n = 123 / 1.075$$

$$n = \mathbf{94}$$

The sample size of 94 respondents was determined from the target population of 123. To make it

more representative, *stratified sampling* was used with 13 VFM auditors being all selected and selection of respondents from financial auditors and administrative and support staff was performed on random basis with 75 financial auditors and 6 administrative staff being selected as summarized in the following table.

**Table 3.2: Sampling structure of the research under study**

<b>Category of Respondents</b>	<b>Number of Respondents</b>	<b>Percentage</b>
VFM auditors	13	13.83%
Financial Auditors	75	79.79%
Administrative and support staff	6	6.38%
<b>Total</b>	<b>94</b>	<b>100.00%</b>

### **3.3. Methods of data collection**

The following discussion is on the method of data collection which the researcher used to obtain information.

#### **3.3.1 Interview**

Babbie and Mouton (1998: 289) define a qualitative interview as ‘essentially a conversation in which the interviewer establishes a general direction for the conversation and pursues specific topics raised by the respondent.’ Interviews are credible as a method of collecting information because, they not only provide data, but also contextual information that may be useful especially in this research. Babbie and Mouton (1998: 289) emphasise that an

interview 'allows the object of study to speak for him/ herself rather than to provide respondents with a battery of our own predetermined hypothesis based questions.'

The respondents are thus able to bring up important issues that the researcher was not aware of. The disadvantage of interviews is that they are time consuming and that the vast amount of data collected may make ordering and interpretation difficult. The researcher will, however, allocate enough time to data analysis in order to avert this problem.

### **3.3.2 Questionnaire**

The researcher distributed 94 questionnaires to the respondents. All 94 distributed questionnaires have been answered by the respondents and collected, compiled and analysed.

### **3.3.3 Documents and OAG audit reports**

The consultation of legislative and constitutional documents, OAG audit reports and various documents has greatly helped the research to obtain data to complete his work.

## **3.4 Analysis and statistical treatment of Data**

Neuman (2003: 447) defines data analysis as a 'search for patterns in data recurrent behaviours, objects or body of knowledge.' In analysing the data that was collected, the researcher coded the data. Coding is important in qualitative research because it enables the researcher to organise raw data into conceptual categories and creates themes and concepts which will then be useful in analysing data. All of the interviews done the researcher had to take notes manually as the respondent spoke.

The data obtained from the field by administering the questionnaire to the respondents have been analysed using the Statistical Package of Social Sciences (SPSS) and presented in the form of tables and figures. The analysis applied the use of descriptive statistics with frequencies and percentages to test hypothesis.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION OF FINDINGS

### 4.0 Introduction

This chapter presents the analysis and interpretation of the findings of the research. The purpose of this chapter is systematically to present the descriptive findings of the research study in relation to the research questions and objectives, to interpret and analyse the findings and to present the result of hypothesis testing.

### 4.1. Profiles of the Respondents

The study evaluated the profile of respondent in terms of age, academic education level, professional qualification number of year of services and position within the Office of the Auditor General of State Finances of Rwanda.

**Table 4.3. Age of respondents**

	Frequency	Percent
25 and below	4	4.3
25-35	44	46.8
35-45	36	38.3
45-55	7	7.4
55 and above	3	3.2
Total	94	100.0

*Source: Primary data*

The results in table 4.2 indicate the age of respondents, whereby 4.3 % are in a range of 25 years and below, while the considerable number of respondents is in the range of 25 - 35 years with 46.8 % followed by 38.3% in the age group of 35-45 years. The respondents within the range of 45 – 55 years are 7.4 % and only 3.2 % have above 55 years.

The researcher got informed that OAG is recruiting young graduate from Higher learning institutions. This is why some of the respondents are less than 25 years and that those with above 25 years are experienced staff.

The results indicate that the majority of respondents were between the age of 25 to 45 years comprising 85.1%. This age group composed of people well acquainted with what they do and could give reliable responses hence giving assurance to the researcher that the responses given by the respondents are valid, relevant and reliable to be based on to give relevant conclusion.

**Table 4.4. Academic education background**

	Frequency	Percent
BSc in Accounting	55	58.5
BSc in Economics	7	7.4
BSc in Finance	15	16.0
BSc in other fields	5	5.3
MBA	9	9.6
MSc in Accounting	0	0
Secondary level	3	3.2
Total	94	100.0

*Source: Primary data*

The analysis from the table 4.3 above shows that 87.2 % are educated at the level of undergraduate, with the majority of 58.5 % respondents specialising in Accounting, 16% in Finance, 7.4% in Economics and 5.3 % in other fields. The findings also show that only 9.6 % have a post graduate level in MBA and % in Accounting. Lastly those with secondary level represent 3.2 %. These results show that the respondents selected have the capacity on the basis of their academic qualifications to give the right responses that the researcher will base upon to take the valid conclusion.

**Table 4.5. Professional qualification**

	Frequency	Percent
ACCA I (with successful completion of 3 papers)	17	18.1
ACCA II (with successful completion of 9 out 14 papers)	43	45.7
CIA	9	9.6
CPA (Full qualified)	1	1.1
CPA I (with successful completion of 6 out 18 papers)	6	6.4
CPA II (with successful completion of 12 out 18 papers)	16	17.0
No one (not registered in any professional course)	2	2.1
Total	94	100.0

*Source: Primary data*

From the table above, 1 respondent is full qualified with CPA, 43 respondents representing 45.7% successfully completed 9 out of 14 ACCA papers, 16 respondents representing 17% successfully completed 12 out of 18 CPA papers. The findings also show that 18.1% completed part I of ACCA and 6.4% completed CPA part I. The table shows that 9.6 % are taking CIA courses and that only 2.1% are not registered in any professional courses. A good number of respondents (62.7%) are in the final part towards ACCA or CPA qualification.

These results show that the respondents selected have the capacity on the basis of their professional qualifications to give the right responses that the researcher will base upon to take the valid conclusion.



**Table 4.6. Working experience**

	Frequency	Percent
1-3	22	23.4
12 and above	5	5.3
3-6	41	43.6
6-9	26	27.7
Total	94	100.0

*Source: Primary data*

Regarding working experience as seen from table 4 above, 43.6% of respondents are in the age range of experience of 3-6 followed by 27.7% with experience between 6 and 9 years. 5.3% have 12 years and above of experience, while respondents with 1 to 3 years of experience represent 23.4%. In total the respondents having more than 3 years of experience represent 76.6% and this gives the researcher an assurance that the responses obtained depicted from the selected respondents are relevant and reliable hence facilitating him to get the valid conclusion.

**Table 4.7. Position of the respondents**

	Frequency	Percent
Administration and support staff	6	6.4
Assistant Auditor	18	19.1
Audit Director	4	4.3
Audit manager	5	5.3
Auditor	13	13.8
Junior Auditor	14	14.9
Principal Auditor	15	16.0
Senior Principal Auditor	7	7.4
Senior Auditor	12	12.8
Total	94	100.0

*Source: Primary data*

From the table 4.6 above, only 6.4% respondents are administrative and support staff. The remaining 93.6 % are auditors with various grades. 4.3 % are Audit Directors, 5.3% are Audit Managers. Those with the grade of team leaders which should be at a rank of Senior Principal Auditors and Principal Auditors are respectively representing 7.4% and 16%. The findings also indicate that 12.8% are Senior Auditors, 13.8% Auditors and 14.9 Junior Auditors. 19.1% are on the lower grade of Assistant Auditor.

The information from the above table provide assurance to the Researcher that reliable responses will be provided as a good number of respondents are Auditors who have more knowledge and experience in the field of Audit at OAG Rwanda.

### 4.3. Special benefits, role and features of VFM audits.

**Table 4.8. Extent of agreement that VFM audits require special knowledge**

Scale of 1 to 5	Frequency	Percent
5-Strongly agree	20	21.3
4 -Agree	63	67.0
3 -Not sure	8	8.5
2- Disagree	3	3.2
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

The data in table 4.7 reveals that 88.3% confirm that special knowledge are needed to conduct the VFM audits with 67% agreeing and 21.3% strongly agreeing to the statement. From the same table 8.5% have no knowledge and only 3.2 % are not agreeing that VFM audits require special knowledge.

**Table 4.9. The level of entry requirements of a Performance auditor is different from the one of a Financial auditor**

<b>Scale of 1 to 5</b>	<b>Frequency</b>	<b>Percent</b>
5-Strongly agree	16	17.0
4 -Agree	68	72.3
3 -Not sure	0	0.0
2- Disagree	3	3.2
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

Following the data in table 4.7 revealing that 88.3% confirm that special knowledge are needed to conduct the VFM audits the Researcher further needed to know if the level of recruitment requirements for a financial auditor is different from the one for a VFM auditor and found the responses indicated in the above table 4.8.

The data in table 4.8 indicate that 89.3% confirm that the level of recruitment requirements for a financial auditor is different from the one for a VFM auditor with 72.3% agreeing and 17.0% strongly agreeing to the statement. The table shows 7.4% with no idea and only 3.2 % are not agreeing that the level of entry requirements for a Performance Auditor should be different from the one for a Financial Auditor.

To know further about the above table, the Researcher have been informed through interviews that Performance Auditors are usually recruited from Financial auditors who have already acquired experience in audit and that the rank of entry is Auditor while the rank of new Financial auditor is an Assistant Auditor.

**Table 4.10. To what extent VFM is different from financial audit, demanding and takes time to complete**

Scale of 1 to 5	Frequency	Percent
5-Strongly agree	57	60.6
4 -Agree	33	35.2
3 -Not sure	2	2.1
2- Disagree	2	2.1
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

The findings from the above table on the question to know if performance auditing is different from financial audit, demanding and takes time to implement indicate that 93.1% confirm that this is the case with 35.1% agreeing and 60.6% strongly agreeing. Two of the respondents don't know and the remaining 2.1% disagree to the statement

**Table 4.11. View of respondents regarding the benefits from Sufficient VFM audits**

	Frequency	Percent
All	79	84.0
Improve economic acquisition of resources	2	2.1
Improve services provided and outcomes achieved	3	3.2
Prevent misuse of public funds	6	6.4
Reinforce accountability of authorities on the use of public funds	4	4.3
Total	94	100.0

**Source: Primary data**

It is clear from the table above that the majority of respondents 84% confirmed that if more VFM audits are significantly conducted could:

- Improve economic acquisition of resources
- Improve services provided and outcomes achieved
- Prevent misuse of public funds
- Reinforce accountability of authorities on the use of public funds

2.1% indicated that the benefits from increasing the VFM audits could only be to improve economic acquisition of resources, 3.2% of respondents said that the role could be the improvement of services provided and outcomes achieved, 6.4% stated that the benefits are the prevention of misuse of public funds while mentioned that the impact will be the reinforcement of accountability of authorities on the use of public funds.

**Table 4.12. Role of VFM audit reports**

	Frequency	Percent
All	79	84.0
Corrective	3	3.2
Detective	9	9.6
Preventive	3	3.2
Total	94	100.0

*Source: Primary data*

From the table above, the majority of respondents (79) representing 84% indicated that the role of VFM audit reports is corrective, detective and preventive. A small number of respondents showed that the role of VFM audits is only detective while 3 respondents representing 3.2% indicated that the role is only preventive.

**Table 4.13. View of respondents regarding the contribution of VFM audit in ensuring accountability**

	Frequency	Percent
All	23	24.5
Deep analysis is done about the impact of changes of policies and procedures	11	11.7
Economic, efficient and effective use of money and resources are more elucidated	15	16.0
Identify potential improvements in the efficiency of public administration	30	31.9
It can complement the findings from financial audit	15	16.0
Total	94	100.0

*Source: Primary data*

The researcher has been interested in knowing the contribution of VFM audit in ensuring accountability and the responses from the table above were provided by the respondents as follow:

11 respondents representing 11.7 % indicated that with VFM audits deep analysis is done about the impact of changes of policies and procedures while 16% indicated that economic, efficient and effective use of money and resources are more elucidated.

31.9% of respondents understand that the contribution of VFM audit in ensuring accountability is to identify potential improvements in the efficiency of public administration.

It can complement the findings from financial audit; this has been indicated by 16% of respondents.

24.5% indicated that all the above are the contribution of VFM audits in ensuring accountability.

On the questionnaire the respondents were provided a room to indicate other comments and most of them added that the introduction of VFM audits helped the OAG to increase the audit coverage and respond to special needs of deep verification and service delivery and accountability.

### 4.3. Training and its effectiveness to the conduct of VFM audits

**Table 4.14 Level of satisfaction of training duration for a new Auditor to conduct VFM audit**

Scale of 1 to 5	Frequency	Percent
5-Fully sufficient	1	1.1
4 -Sufficient	0	0
3 -Don't know	82	87.2
2- Partially sufficient	3	3.2
1-Not sufficient	8	8.5
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

On the question to know the level of satisfaction of training duration provided to a new performance auditor to start conducting VFM audits 87.2 % indicated that they don't know. From the analysis done this answer was provided by Financial Auditors who don't benefited from this kind of training. From the remaining 12 respondents one of them agrees that training duration was fully sufficient, 8 agree that the training was not sufficient while 3 of the respondents confirmed that the training duration was partially sufficient.

**Table 4.15. Level of agreeing that sufficient training could enhance the effectiveness of VFM auditors**

Scale of 1 to 5	Frequency	Percent
5-Strongly agree	33	35.1
4 -Agree	61	64.9
3 -Not sure	0	0
2- Disagree	0	0
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

For the question aimed to know that sufficient training could enhance the effectiveness of VFM auditors, most of the respondents agree to this with 61 frequencies representing 64.9% while 33 representing 35.1% strongly agree to the above statement from table 13.

**4.4. Evaluation of OAG ability in conducting VFM audits**

**Table 4.16. Effectiveness of OAG in conducting and reporting VFM audits**

	Frequency	Percent
Valid Effective	34	36.2
Fully effective	8	8.5
Partially effective	52	55.3
Total	94	100.0

*Source: Primary data*

From the table 4.16 the researcher obtained the information about effectiveness of OAG in conducting FVM audit. A great number of respondents (55.3%) understand that OAG is partially effective in conducting VFM audit. 36.2% indicated that OAG is effective while only 8 respondents representing 8.5 % concluded that OAG is fully effective in conducting the VFM audits.



**Table 4.17. Adequate resources and skills can increase the number of VFM audits without increase of auditors**

<b>Scale of 1 to 5</b>	<b>Frequency</b>	<b>Percent</b>
5-Strongly agree	45	47.9
4 -Agree	45	47.9
3 -Not sure	2	2.1
2- Disagree	2	2.1
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

The table above provide the responses collected on the question about knowing that adequate resources and skills can increase the number of VFM audits without increase of auditors. Here the researcher in other words wanted to confirm that the increase in the number of VFM audits do not necessarily result from the increase of the number of Auditors. The understanding of Auditors on this statement shows that other factors such as adequate resources could be the factors of increasing the VFM audits with 47.9 % agreeing and 47.9% strongly agreeing. Only 2 respondents disagree to the above confirming that the number of VFM audits only increase with the number of Auditors while 2.1% don't know and have not provided their confirmation to the statement.

**Table 4.18. Proportion of VFM audits conducted compared to the number of financial audits**

<b>Type of Audits</b>	<b>Years</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
VFM	2	5	3	6	7
Financial	75	104	106	129	139
<b>Total</b>	<b>77</b>	<b>109</b>	<b>109</b>	<b>135</b>	<b>145</b>

*Source: OAG audit reports*

The number of VFM conducted is still very low compared to the number of financial audits conducted. In 2005 and 2008 zero VFM audit report was published, In 2006 and 2007 only 1 report produced and the big number of VFM audit reports has been 7 out of 145 total reports representing less than 1%.

**Table 4.19. To which extent OAG has adequate resources (Software, time, money) to perform VFM audits**

<b>Scale of 1 to 5</b>	<b>Frequency</b>	<b>Percent</b>
5-Fully adequate	8	8.5
4 -Adequate	19	20.2
3 -Partially adequate	66	70.2
2- Inadequate	1	1.1
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

From the table above 66 respondents representing 70.2 % confirmed that OAG has partial adequate resources (Software, time and money) while 20.2 % informed that OAG resources are adequate and 8.5 % said that OAG resources are fully adequate to perform VFM audits while only 1 respondent indicated the inadequacy of OAG resources in conducting FVM audits. The respondents indicated in their comments that OAG still needs the software like SPPS to intervene in prompt analysis of the data collected during the audit and that this can impact the number of audits to be conducted.

**Table 4.20. Level of sufficiency of VFM auditors**

<b>Scale of 1 to 5</b>	<b>Frequency</b>	<b>Percent</b>
5-Fully sufficient	0	0
4 -Sufficient	7	7.4
3 -Don't know	3	3.2
2- Partially sufficient	0	0
1-Not sufficient	84	89.4
<b>Total</b>	<b>94</b>	<b>100.0</b>

*Source: Primary data*

From the table above the researcher heard from 89.4% of respondents that the Performance auditors are not sufficient to perform VFM audits for the available cases while only 7.4% responded that the number of VFM auditors is sufficient. 3.2% don't know whether the VFM auditors are sufficient or not to meet the available cases in performance auditing.

**Table 4.21. View of Respondents regarding the extent to which OAG VFM audits cover public funds used**

	<b>Frequency</b>	<b>Percent</b>
Valid Between 10 and 20%	19	20.2
Between 20 and 30%	1	1.1
Don't know	5	5.3
Less than 10%	69	73.4
Total	94	100.0

*Source: Primary data*

The audit coverage rate of VFM audits against public funds is very low as indicated from the table above. The majority of respondents (73.4%) indicated that VFM audits conducted by the Office of the Auditor General cover less than 10% of available cases that require

VFM audits. 20.2% responded that the coverage rate is between 10 and 20% while only one respondent indicated that the coverage is between 20 and 30%. Some of the respondents representing 5.3% have not been able to estimate the extent to which OAG VFM cover public funds and their answer was “Don’t know”.

**Table 4.21. Rank of extent of competences and skills for OAG VFM auditors**

<b>Scale of 1 to 5</b>	<b>Frequency</b>	<b>Percent</b>
5-Fully competent	8	8.5
4 -Competent	13	13.8
3 - Don’t know	1	1.1
2- Moderate	72	76.6
<b>Total</b>	<b>94</b>	<b>100.0</b>

**SOURCE:** *Primary source*

From the table above the majority of respondents (72 out 94) representing 76.6 % indicated that the competences and skills for OAG VFM auditors are moderate while 13.8% ranked them to be competent and only 8.5% confirmed that they are fully competent.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.0. Introduction**

This chapter generally highlights a summary of the main findings of the study; it further presents the conclusion drawn based on the research objectives, research questions and hypothesis and finally presents the main recommendations with regard to the problem of the study and possible future studies related to this study.

### **5.1. Summary and hypothesis testing**

Citizens are increasingly demanding better quality service delivery and accountability from their governments. As governments are required to provide meaningful information on the allocation of scarce resources as well as the outcomes of its programmes and projects, performance auditing has become essential to improving governance and performance in the public sector. Unfortunately, many governments and public sector organisations have limited capabilities to implement impactful performance auditing.

The main purpose of this study among others included to identify challenges encountered in initiating and conducting VFM audits, to find out how far the qualifications of OAG auditors meet the standards to carry VFM audits and to assess reliability of VFM audits methodology by OAG to International Standards on Auditing (ISA).

The researcher distributed the questionnaires to the respondents and their responses have been collected, compiled and analysed to know about the nature and extend of VFM audits conducted by the OAG. Along with the questionnaires the research carried out an interview and consulted various documents and audit reports about the Office of the Auditor General. The data obtained from the field by administering the questionnaire to the respondents were

analyzed using the Statistical Package of Social Sciences (SPSS) and presented in the form of tables and figures.

In evaluating the significance relationship expressed in the hypothesis that the VFM audits if meaningfully applied, will improve the services provided by the public sector and it will reinforce accountability of role-players in the public sector for resources used and outcomes achieved, the majority of respondents 84% confirmed that if more VFM audits are significantly conducted there will be improvement of economic acquisition of resources, improvement of services provided and outcomes achieved, Prevention of misuse of public funds and reinforcement of accountability of authorities on the use of public funds.

The results also provided enough evidence to confirm that only with adequate skills and resources the OAG can carry out a sufficient number and depth VFM audits to contribute to improved accountability of public funds. The responses collected confirmed that with adequate resources and skills the number of VFM audits can be increased without increase of auditors. Here the researcher in other words confirmed that the increase in the number of VFM audits do not necessarily result from the increase of the number of Auditors with 47.9 % of respondents agreeing and 47.9% strongly agreeing.

## **5.2 Conclusion**

The results indicated that the majority of respondents were between the age of 25 to 45 years comprising 85.1%. This age group composed of people well acquainted with what they do and could give reliable responses hence giving assurance to the researcher that the responses given by the respondents are valid, relevant and reliable to be based on to give relevant conclusion.

The findings provided that a good number of OAG staff (62.7%) is in the final part towards ACCA or CPA qualification with only 2.1% are not registered in any professional courses. This is important for OAG Rwanda to provide the service of high quality with qualified staff.

The VFM audit was claimed to be particular, special and taking long time to conduct, 88.3% confirm that special knowledge are needed to conduct the VFM audits. The findings on the question to know if performance auditing is different from financial audit, demanding and takes time to implement 93.1% confirm that this is the case with 35.1% agreeing and 60.6% strongly agreeing.

Given the above particularities of VFM audits, the research find out that the audit coverage rate of VFM audits against public funds is very low. The majority of respondents (73.4%) indicated that VFM audits conducted by the Office of the Auditor General cover less than 10% of available cases that require VFM audits. About the adequacy of OAG resources in conduction performance auditing, 66 respondents representing 70.2 % said that OAG has partial adequate resources (Software, time and money). The respondents indicated in their comments that OAG still needs the software like SPSS to intervene in prompt analysis of the data collected during the audit and that this can impact the number of audits to be conducted. In addition on the issue of human resources in performance auditing department ,the majority of respondents (72 out 94) representing 76.6 % indicated that the competences and skills for OAG VFM auditors are moderate while 13.8% ranked them to be competent and only 8.5% confirmed that they are fully competent.

### **5.3. Recommendations**

The chamber of deputies has been requesting that a number of VFM audits should be increased as financial audits are currently enhanced and a number of auditees are striving to obtain an unqualified audit report. To meet this growing public scrutiny the OAG should

- Conduct more trainings for existing performance auditors
- Acquire more resources like software and get the sufficient budget
- To recruit new VFM auditors from other disciplines as the existing have graduated in accounting and that this field of auditing requires special knowledge and background in other areas to cover the available cases

The PAC and the Justice should enhance the measures in place for corrections of mistakes and follow up of audit recommendations

Further research:

Evaluation on the implementation of VFM audit recommendations by Auditees.

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# **APPENDICES**

## A. QUESTIONNAIRE

The following is the questionnaire to the sampled auditors:

(Please *tick* or *write* as the response requires)

### 1. Information about the Respondent

#### I) Job Title:

Audit Director

Audit manager

S P Auditor

Principal Auditor

Senior Auditor

Auditor

Junior Auditor

Assistant Auditor

Admin staff

#### II) Age of respondents

30 year and below

31 – 40

41 – 50

50 and above

#### III) Academic Qualification:

MSc in Accounting

MBA

BSc in Accounting

BSc in Finance

BSc in Economics

BSc in other field

Diploma

Secondary level

IV) Professional qualification:

CPA

CPA II

CPA I

ACCA

ACCA II

ACCA I

CIA

Other

No one

V) How long have you been working at OAG? :

1-3

3-6

6-9

9-12

12 and above

2. Do you think special knowledge is needed in conducting VFM audits?

Strongly agree

Agree

Disagree

Strongly disagree

Don't know

3. If special knowledge is required, what is the level of agreeing that the level of entry requirements for a financial auditor should be different from the one for a VFM auditor?

Strongly agree

Agree

Disagree

Strongly disagree

Don't know

4. What was the duration of training for capacity building program conducted to train a new Performance auditor to conduct VFM audit?

- Not Sufficient
- Partially Sufficient
- Fully Sufficient
- Don't know

5. Do you agree that sufficient trainings could enhance the effectiveness of Performance auditors?

- Strongly agree
- Agree
- Disagree
- Strongly disagree

6. Do you believe OAG is effective in conducting VFM audits?

Effective

Partially Effective

Fully Effective

Not effective

7. Do you think if more or VFM audits significantly conducted can enhance the ability of OAG to make auditee accountable and services delivery of public entities?

Strongly agree

Agree

Disagree

Strongly disagree

8. Do you agree that adequate skills and resources could increase the number of VFM audits conducted per year without an increase number of auditors?

Strongly agree

Agree

Disagree

Strongly disagree

9. To which extent OAG resources (Software, time, money) in conducting VFM audits are adequate?

Adequate

Fully adequate

Partially adequate

Inadequate

10. Do you think the existing number of performance auditors in OAG is sufficient in conducting the available cases in VFM audits?

Sufficient

Not Sufficient

Fully sufficient

11. Additional comments (if any) How much effective do you think the VFM Audit reports are prepared by OAG?

Effective

Partially Effective

Fully Effective

Don't know

12. How would you rank the extent of competence and skills of OAG performance audit teams in conducting VFM auditing?

Not competent

Moderate

- Fully competent

13. What is OAG's role in accountability and services delivery improvement and in preventing fraud and corruption in the public sector through its VFM Audit reports?

- Preventive
- Detective
- Corrective
- All the above
- Other comment (if any):

14. Do you think the system of audit reporting by OAG to PAC and its follow-up is satisfactory?

- Not Satisfactory
- Partially Satisfactory
- Fully Satisfactory
- Other comment (if any)

15. Comment on the role of VFM audit in enhancing the ability of OAG to keep the auditee accountable?

- It can complement the findings from financial audits
- identify potential improvements in the efficiency of public administration
- Deep analysis is done about the impact of changes of policies and procedures
- Economy, efficient and effective use money and resources are more elucidated
- All the above
- Other comments (if any)

16. Do you agree that performance auditing is different from financial audit, demanding and takes time to implement?

Strongly agree

Agree

Disagree

Strongly disagree

## **B. GUIDE OF INTERVIEW**

The following questionnaires served as a guideline of questions to be asked during an interview:

1. In your opinion, what should be the role of VFM audits in enhancing PFM?
2. When VFM audits of public funds were started to be conducted in Rwanda?
3. Are there any challenges encountered in conducting VFM audits?
4. Do you make follow-ups on the previous year's audit to make sure suggestions you have made have been implemented?
5. Are your recommendations taken seriously to the extent that you do not keep recommending the same thing? If no what could be the reasons?
6. Do you believe you have the capacity to be taken seriously? Do the constitutional powers you have concur with the reality?