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AGDF Corporate Trust Limited

Management Letter for the 11 months period ended 30 June 2014

Audit of the 11 month period ended 30 June 2014

July 2015

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Private & Confidential
The Trustees
AGDF Corporate Trust Limited,
P. O. Box 674,
Kigali, Rwanda

15 July 2015

Subject: Management Letter for the Audit of AGDF Corporate Trust Limited for the 11 months period ended 30 June 2014

Dear Sirs,

We have completed the audit of the financial statements of AGDF Corporate Trust Limited ("the Company") for the 11 months period ended 30 June 2014 and are pleased to present to you the results of our work.

In planning and performing our audit of the financial statements of the Company, we considered the Company's internal controls in order to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Our consideration of internal controls would not necessarily disclose all matters in internal control that might be significant deficiencies in internal control or deficiencies in the design or operation of internal control. A deficiency in internal control exists when:

a) A control is designed, implemented or operated in a way that is unable to prevent, detect and correct, misstatements in the financial statements on a timely basis; or

b) A control necessary to prevent, detect and correct misstatements in the financial statements on a timely basis does not exist.

A significant deficiency is a deficiency or combination of deficiencies in internal control that in our judgement is of sufficient importance to merit the attention of those charged with governance. We noted certain matters involving the system of internal controls and its operation and are submitting our observations and recommendations as part of our report.

This report is intended solely for the information and use of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

We would like to record our appreciation for the assistance and support we received from the management and staff of the Company during the entire audit process

Yours sincerely,

Florence Gatome
Director

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1. Introduction

We have completed the audit of the financial statements of AGDF Corporate Trust Limited ("the Company") for the 11 months period ended 30 June 2014. Our audit was conducted in accordance with International Standards on Auditing and our letter of engagement dated 16 September 2014. Our engagement letter sets out the basis on which we act as auditor of the Company and the respective areas of responsibility of the directors and of ourselves, which we highlight below.

1.1Responsibilities of directors and auditors

Responsibilities of directors

As directors of the Company, you are responsible for ensuring that the Company keeps adequate accounting records, for the selection and application of accounting policies, and for preparing financial statements for the Company that give a true and fair view of the state of the financial affairs of the Company.

You are also responsible for safeguarding the assets of the Company, the maintenance of adequate systems of management and internal financial controls and the prevention and detection of fraud, errors and non-compliance with law or regulations.

Responsibilities of auditors

Our responsibility is to report to the members of AGDF Corporate Trust Limited whether in our opinion the financial statements of the Company give a true and fair view and have been prepared in accordance with Law No.7/2009 relating to companies. We also have a professional responsibility to report if the financial statements do not comply in any material respect with International Financial Reporting Standards, unless in our opinion the non-compliance is justified in the circumstances.

The overall objective of our audit is the expression of an opinion on the financial statements. We achieve this by applying appropriate audit procedures to obtain reasonable, but not absolute assurance about whether the financial statements are free of material misstatement.

1.2 Audit approach and audit findings

Our audit approach is risk focused and controls based. In planning and performing the audit, we assess the internal controls of the relevant key business cycles operated by management, in order to determine our audit procedures for the purposes of expressing an opinion on the financial statements of the Company.

We have assessed and tested internal controls to the extent we considered appropriate to support our audit opinion. Where control deficiencies were noted, we tailored our audit approach appropriately to supplement this work with additional substantive tests of detail to allow us to support our opinion.

All significant risks identified in planning for the audit have been detailed in section 2 alongside our audit findings and responses.

1.3 Other matters

Independence

International Standards on Auditing ("ISA") and our internal quality control procedures require that we confirm to you, as the Board, our continued independence from influence that would make our audit opinion subjective. We have re-assessed our independence at this date and can confirm that we are independent of AGDF Corporate Trust Limited.

Application of accounting standards

The significant accounting policies adopted by the Company are disclosed in the financial statements. We have reviewed the policies in the context of the requirements of International Financial Reporting Standards and consider them to be appropriate.

Weaknesses in internal control

The weaknesses in the design or operation of internal controls that came to our attention during the audit are detailed in the subsequent sections.

2. Significant audit risks and responses

This section of our report sets out the key financial reporting findings in respect of significant audit risks identified as part of our audit plan. Our assessment of significant risks did not change materially from those set out in our audit plan and consequently our audit approach required no material modifications.

Risk area	Responses
Taxation The often significant judgments required in the application of the local tax laws and regulations means that the determination of tax expense (including current income tax, deferred income tax, payroll taxes, VAT, Withholding tax etc) is a complex area. An inherent risk exists the tax liabilities may not be completely recorded as a result of the entities' interpretation o f the tax laws and regulation that may differ with the position adopted by the Rwanda Revenue Authority.	As part of our audit, we considered the tax implications of the current year transactions and the accounting adopted for any arising tax liabilities, to the extent relevant to the audit, and against the tax exempt status of the company.
Management override of controls A presumption exists, governed by auditing standards, that management override of controls is a key audit risk.	Our audit approach was substantively tests of details, involving examination of documentation supporting transactions and balances. This approach considered the internal control environment of the company, to the extent relevant to our audit. Internal control matters that came to our attention are set out under section 3 of our report.

3. Financial management

3.1 Inadequate financial policies and procedures

Observation

We noted that the Company has documented financial policies and procedures to guide in the day to day operations of the company. From our review of the financial policies and procedures, we noted that the following areas have not been covered:-

- Organisation of the finance department
- Accounting policies of the company
- Accounting procedures and controls for each transaction type
- Financial reports to be prepared, the verification process and distribution of each of these reports
- Chart of accounts
- Standard accounting entries

In addition, accounting policies for the following areas have not been covered:-

- Contributions and fund balances
- Fixed assets recognition criteria and depreciation policies
- Accounts payables
- Accounts receivables
- Revenue recognition

Implication

Staff do not have adequate guidance on the accounting treatment of the areas not documented. In addition, transactions are currently accounted for on modified cash basis of accounting that does not meet IFRS requirements.

Recommendation

Management should revisit the financial policies and procedures manual and document the accounting policies and procedures for the areas noted under our observations. The revised manual should then be presented to the Board for approval.

Staff should then be trained to the extent necessary to understand and apply the areas covered in the financial policies and procedures manual.

Management comments

The finance policies and procedures manual is in place and was approved in the BoT's first meeting in August,2014, we shall however take into account relevant issues noted in your observations and update it accordingly.

3.2 Delays in preparing bank reconciliations

Observation

The draft financial policies and procedures manual require monthly bank reconciliations to be prepared by the 5th day of the following month by the Accountants and submitted to the Finance Manager for approval by the 7th day of the following month.

We noted that there were delays in preparing bank reconciliations whereby they are finalised and approved at the end of each quarter i.e. 11 October 2013, 28 January 2014, 2 April 2014 and 21 July 2014.

Implication

Delays in bank reconciliation may result in long outstanding items not being detected and rectified on a timely basis.

Recommendation

Management should ensure that bank reconciliations are prepared and reviewed on a timely basis as stipulated in the finance policies and procedures manual.

Management comments

We have noted that there are delays in bank reconciliations due to delays by banks in providing the bank statements and resolving items that do have sufficient descriptions. We shall liaise closely with the banks to provide the information required to enable us prepare the bank reconciliations in a timely manner.

3.3 Long outstanding reconciling items on the bank reconciliations

Observation

From our review of bank reconciliation, we noted that there are long outstanding reconciling items under the bank reconciliation for the AGDF account held with the National Bank of Rwanda as shown in the table below:

Amounts in the cash book not in the bank statement		
Reference	**Date**	**Amount (Rwf)**
FT1307415WF5\BNK	15-Mar-13	(26,433,092)
FT13087N57BP\BNK	4-Apr-13	(36,942,799)
FT13116BH1GB\BNK	26-Apr-13	(12,328,422)
FT14171SMLNo\BNK	20-Jun-14	(14,399,087)
VB001228678	6-Sep-13	(1,449,331)
Total		**91,552,731**

Amounts in the bank statements not in the cash book		
Reference	**Date**	**Amount (Rwf)**
BPR103000004794	15-Mar-13	26,401,938
5777103	4-Apr-13	36,899,258
BPR103000007820	26-Apr-13	12,313,891
FT141718RCLB	20-Jun-14	14,382,116
228678	6-Sep-13	1,448,741
Total		**91,445,944**

The above outstanding amounts on the bank reconciliation are as a result of differences in amounts transferred from the commercial banks and the amounts received at the National Bank of Rwanda.

Implication

Delays in following up long outstanding reconciling items make it more difficult to resolve them and funds are held up or lost in the process.

Recommendation

Management should investigate and resolve the above reconciling items . In addition, management should ensure that reconciling items are investigated and resolved in a timely manner.

Management comments

The banks made errors by deducting the transfer charges on the total amount to be transferred to BNR, that's why the amounts received by BNR were less as reflected on the BNR statements. The banks corrected this by refunding the bank charges that had been previously deducted as opposed to transferring them to BNR. This was the cause of the reconciling item. We are going to follow it up with management of the banks that is BPR and I&M in September to ensure that this does not happen again.

3.4 Lack of compliance by Real Graphics with the contractual terms and conditions

Observation

The contract signed between Real Graphics and AGDF Corporate Trust Limited on 10 February 2014 requires Real Graphics to submit the following to AGDF Corporate Trust Limited:

- monthly sales report and payments shall be made on a monthly basis using a format prescribed in the contract;
- a self-assessment report no later than the 15th day of the month following the assessment period; and
- the VAT declaration for the month in which the sales were made.

In addition, Real Graphics should make payments no later than 21 days following the assessment period into the fund account held at the National Bank of Rwanda Account No. 120.50.72.

We noted that Real Graphics did not adhere to the above terms. Only one sales assessment report was submitted in June 2014 that covers the months of March, April and May 2014. Further, this assessment did not include a sales report in the prescribed format and was not accompanied by a VAT declaration for the months covered by the self-assessment.

We also noted that the self-assessment report for the month of June 2014 was not submitted and hence the income has not been recorded.

Implication

It is difficult for the Company to establish the accuracy and completeness of the income declared and the payment received from Real Graphics.

The trademark income has been understated due to failure to accrue for income for the month of June 2014.

Recommendation

Management should enforce the terms of the contract to Real Graphics to enhance transparency and accountability of the income declared.

Management comments

We agree that the report for the month of June was submitted in August as opposed to July as per the contractual requirements. We have made follow ups with the management of Real Graphics to have them provide the reports in the prescribed format together with the monthly VAT declarations. However the management is in the process of obtaining a TIN number specifically for the Agaciro products.

3.5 Supporting documents not stamped "PAID"

Observation

Best practice recommends that payment vouchers and supporting documents should be cancelled as soon as they are paid by stamping "PAID" on these documents.

We noted that all of the supporting documents for the Company's expenditure were not stamped "PAID".

Implication

There is therefore a risk of duplicate payments being made for the same invoice.

Recommendation

We recommend that all payment vouchers and their supporting documents should be stamped "PAID" immediately after payment

Management comments

This is well noted.

4. Fund management

4.1 Lack of an investment policy

Observation

The Agaciro fund was established for the purpose of acting as a fiscal reserve fund that will help the country attain resilience against future economic downturn. The main objective therefore for incorporating AGDF Corporate Trust Limited was to grow the fund and ensure sustainability by investing in strategic real and financial assets with optimum returns on investment.

We have noted that there is no investment policy in place to guide the company through its investment process and ensure that such investments generate consistent and sustainable returns within an appropriate level of risk.

Implication

In the absence of an investment policy, crucial investment decisions may be made in without adequate consideration of the long-term consequences and this might result permanent loss of purchasing power for strategic assets as a result of the poor investment decisions.

Recommendation

The Company should develop an investment policy that sets forth in writing the operating plan of the Board of Trustees for the management and investment of the Agaciro funds. This policy should set forth parameters within which strategic actions may be taken so as to avoid the pressure to make unwise decisions which could lead to unforeseen losses.

Management comments

This is well noted

4.2 Contributions to the Agaciro fund not invested

Observation

The Agaciro fund was launched in August 2012 under MINECOFIN and has to date collected contributions amounting to Rwf 23,038,810,907 (at end of June 2013: Rwf 18,588,327,625).

These funds have been kept mainly with The National Bank of Rwanda and other Commercial Banks with no interest earned since the inception of the fund. Given that the objective of incorporating the Company was to grow the fund and ensure sustainability, we note with concern that the fund has not been put in any investment.

Implication

The Company has incurred considerable opportunity cost for holding the funds with the banks at zero rate of return. This is not in line with the goal of growth and sustainability for which the fund was established to achieve.

Recommendation

The Board of Trustees should consider investment opportunities where these funds can be channelled so that these funds can multiply and grow.

Management comments

This is noted and the funds have since been invested with commercial banks starting with the month of September2014.

4.3 Fund contributions deposited in the Company's operational account

Observation

From our review of bank reconciliations we noted that there were contributions amounting to Rwf 153,000 had been deposited in the operational account (BNR Account No. 120.53.54) instead of the main account (BNR Account No. 120.50.72). We further noted that these contributions were not recorded in the cash book and therefore appeared as a reconciling item in the bank reconciliation for the operations account.

Implication

Contributions being deposited in the operations account pose a risk that fund contributions could be used for Company operations.

Recommendation

All funds deposited in the operations account should be transferred to BNR Account No. 120.50.72 immediately they are identified. In addition, management should follow up with the National Bank of Rwanda to transfer the above amounts to the fund account.

Management comments

By the end of the financial year, we had not recognised the real contributors due to unclear description. We found out that BNR made an error and posted it the amount in the operational account. We shall follow up with BNR to transfer these funds to the Main account.

4.4 Delays by the National Bank of Rwanda ("BNR") to update the bank statements with transfers from the commercial banks

Observation

From our review of the bank reconciliations of the fund account held at the BNR, we noted that there were delays by BNR to update the fund account with the transfers from commercial banks. The amounts noted were reflected as reconciling items in the bank reconciliation. See the instances noted in the table below:-

Date	Reference	Amount in Rwf
6-Jun-14	TT14178JV242	1,138,555
20-Jun-14	TT14178JV243	1,395,737
27-Jun-14	TT14178JV245	2,046,001
11-Apr-14	REF 013CHDP140910127	1,384,240
5-May-14	TT14122KDW34	755,762
9-May-14	TT14122KDW77	620,736
16-May-14	TT14122KDW106	482,920
23-May-14	TT14122KDW114	330,599
30-May-14	TT14122KDW153	936,583
Total		**9,091,133**

Implication

The fund balance held by the National Bank of Rwanda is understated

Recommendation

Management should regularly follow up with the National Bank of Rwanda to ensure the transfers made by commercial banks are reflected on the fund bank account.

Management comments

This was the period when BNR was undergoing systems migration from one 'ibis' to 'T24'. This caused the delay in some transfers to reflect on our bank statement. This was corrected and the transfers have been susequently recorded.

4.5 Delayed reconciliation of the Agaciro fund

Observation

Contributions received are reconciled to the bank statements at the end of every month as part of the process of uploading the fund contributions onto the Integrated Financial Management Information System (IFMIS).

We noted delays in the reconciliation and approval process as summarised below:-

Reporting month	End of reconciliation and approval date
Jul-13, Aug-13 and Sep-13	11-Oct-13
Oct-13, Nov-13 and Dec-13	28-Jan-14
Jan-14, Feb-14 and Mar-14	2-Apr-14
Apr-14, May-14 and Jun-14	21-Jul-14

Delayed reconciliations and approval of the fund contributions result in errors not being corrected in a timely manner, for instance, there was a standing order that had been processed erroneously against BNR Account No. 120.50.72 amounting to Rwf. 10,000 per month for a client in Huye Branch called Mutijima Emmanuel on 09 December 2013. The funds were deducted from this account for three consecutive months (January to March 2014) and the error was realised in 31 March 2014 and the funds returned on 02 May 2014.

Implication

Delays in reconciliation and approval affect timely identification and resolution of errors.

Recommendation

Management should ensure that reconciliation of funds contributions are carried out on a monthly basis to identify errors that may exist and have them corrected as soon as they are noted.

Management comments

This is noted. However the process is lengthy since we have to communicate with banks to help us identify the names of the contributors and this takes a long time before finally reconciling.

4.6 Delays in transfer of fund contributions received by the commercial banks to the fund bank account held at the National Bank of Rwanda

Observation

All the commercial banks which receive contributions on behalf of the Company are required to transfer contributions received through their accounts to the fund account held at BNR on Friday of every week.

We noted instances where commercial banks delayed to transfer funds to BNR Account No. 120.50.72. For example no transfers were made from Banque Populaire du Rwanda in the month of May 2014. Other instances include Ecobank Rwanda which did not make transfers as on 04 April 2014 and 17 April 2014.

Implication

Non-compliance with the funds transfer policy by the commercial banks may lead to irregularities that may not be detected.

Recommendation

Management should monitor the fund transfers by the commercial banks to the BNR account on a weekly basis and follow up with any bank that does not comply with the policy.

Management comments

We noted this and contacted the respective banks to ensure that the transfers are done weekly.

4.7 SMS fund contributions reported by service providers but not received

Observation

The Company has entered into contracts with MTN Rwanda, Airtel Rwanda and TIGO Rwanda on contributions by SMS which require these service providers to submit a report indicating the number of SMSs received the unit cost of each SMS and the total amount of donations within the previous month.

We noted the following instances where MTN Rwanda and TIGO Rwanda had submitted the reports but the funds had not been received. In addition, there was a delay by the Company in requesting for payment from the service providers. See details in the table below:-

Date payment requested	Service Provider	Fund request reference	Months the reports relate to	Amount Rwf
18-Jun-14	MTN Rwanda	00165/2014	October 2013 to May 2014 (SMS)	142,780
5-Sep-14	TIGO Rwanda	00204/2014	October2013 to June 2014 (SMS and USSD)	85,570
Total				**228,350**

Implication

The contributions as at 30 June 2014 have been understated by the funds not received.

Recommendation

Management should ensure that the SMS contributions are followed up on a timely manner upon the receipt of SMS reports from the service providers.

Management comments

Reports of contributions via SMS and USSD have been submitted by MTN Rwanda and TIGO Rwanda for the fiscal year 2013-2014. Airtel Rwanda is yet to provide SMSs and USSD reports for the aforementioned period and we are following up with the management of Airtel Rwanda.

We are following up with the service providers to make payments.

4.8 Lack of compliance by Airtel Rwanda with the contractual terms and conditions

Observation

According to the contracts signed with Airtel Rwanda for contributions through SMS, Airtel Rwanda is required to submit on a monthly basis submit a report indicating the number of SMSs received, the unit cost of each SMS and the total amount of donations received within the previous month.

We noted that no reports had been submitted by Airtel Rwanda since the contract was signed on 10 October 2012 and therefore SMS contributions have never been received from Airtel Rwanda.

Implication

Failure to obtain reports from Airtel Rwanda makes difficult for the Company to request for SMS fund contributions received through Airtel Rwanda.

Recommendation

Management should liaise with MINECOFIN to obtain the data for SMS contributions from the SMS Application system and follow up with Airtel to recover the SMS contributions.

Management comments

Airtel Rwanda has failed to provide reports for the following period:

- *March 2013 to August 2014 USSD*
- *May 2013 to August 2014 SMS.*

Airtel has provided reports and payments for the period preceding the one hereby mentioned and we shall implement the recommendation.

5. Governance

5.1 Inadequate code of conduct

Observation

We noted that the Company has a code of conduct documented in the draft staff policies and procedures manual. However the code of conduct has not been documented comprehensively.

A comprehensive code of conduct should include the following:-

- The company's mission;
- A statement from the CEO and or board of trustees;
- The company's values and key principles;
- A statement on how the entity relates to its stakeholders;
- Ethical and conduct guidelines and guidance on practices;
- Examples of ethical and unethical behaviour;
- Specific rules of conduct; and
- Commitment to and information on performance evaluation.

Implication

In the absence of a comprehensive code of conduct, it is difficult for the Company to communicate its values, acceptable criteria for decision making and its ground rules for behaviour.

Recommendation

Management should consider revisiting the code of conduct and other policies regarding acceptable business practice, conflicts of interest or expected standards of ethical behavior. In addition, management should ensure that the code of conduct is communicated to the staff and the stakeholders to ensure that they understand it.

Management comment

There is a set of ethical behavior contained in the draft manual of Human resources which will be presented to the board of trustees for approval in the forthcoming board of trustees meeting this October 2014. However, as per the recommendation we shall ensure that all members of staff sign the code of conduct.

5.2 Delays in appointment of a board of trustees to oversee the operations of the Company

Observation

We note that the Board of Trustees was appointed in June 2014 which implies that no board meetings were held during the period ended 30 June 2014.

We also note that the initial meeting of the Board of Trustees was held on 11 August 2014 to discuss the operations of the company but the financial statements (management reports) were not presented to the board for discussion.

Implication

In the absence of regular board meetings, the Company lack oversight hence the risk that the Company will not achieve its long-term and short-term objectives in the absence of guidance from the board.

Recommendation

The Board of Trustees should meet on a regular basis to ensure that adequate oversight has been provided to the Company.

Management comments

This is noted.

5.3 Financial reports not presented in the board meeting

Observation

We noted that the first board meeting was held on 11 August 2014 to discuss the operations of the company. We however noted that the financial statements (management reports) were not presented to the board for discussion.

Implication

Failure to present financial reports to the board for review and discussion makes it difficult for the board to make informed strategic decisions on behalf of the Company.

Recommendation

Financial reports should be presented to the board for review to enable them make informed decisions that align the short term goals to the long term goals of the Company. Information that should be presented to the board includes but not limited to:

- Monthly and Quarterly unaudited financial statements prepared on accrual basis
- Budget vs actual reports
- Cash flow projections
- Financial commitments
- Investment statements and policies

Management comments

This is noted and we shall endeavour to have financial statements ready for presentation in all board meetings.

6. Tax matters

6.1 Application for exemption from corporate income tax

Observation

We note that AGDF Corporate Trust Limited is registered as a limited company whose principal activity is to manage the Agaciro fund contributions for the benefit of the public and grow the fund for future sustainability. As a result it is considered as a taxable entity and therefore required to submit returns and declare any taxes that are associated with investment of the funds.

However, we have reviewed Article 39 of Law N° 16/2005 of 18/08/2005 on direct taxes on income and it lists entities which are exempted from corporate income tax. These entities include:-

- The City of Kigali, Districts, Towns and Municipalities;
- The National Bank of Rwanda;
- Entities that carry on only activities of a religious, humanitarian, charitable, scientific or educational character, unless the revenue received during a tax period exceeds the corresponding expenses to the extent that those entities conduct a business;
- International organisations, agencies of technical cooperation and their representatives, if such exemption is provided for by international agreements;
- Qualified pension funds;
- The Rwanda Social Security Fund; and
- The Rwanda Development Bank.

Given the objective for which the Agaciro fund was set up and the principal activity of the company, it is our view that the activities carried out by the Company and the associated income generated from such activities should not be subject to tax.

Implication

The taxes charged to the Company limit its ability to fulfil the objectives of the fund. The Company will be liable to corporation tax and withholding taxes on investment income in the absence of an exemption from corporate income tax.

Recommendation

Management should engage MINECOFIN, and explore possibilities of having the Company included in the list of entities exempted from corporate income tax.

Management comments

This is noted and it is being followed up with MINECOFIN.

6.2 VAT refund on input tax not refunded by Rwanda Revenue Authority

Observation

We noted that the Company declared to the Rwanda Revenue Authority VAT on purchases amounting to Rwf 908,702 incurred during the 11 month period ended 30 June 2014.See details in the table below.

MONTH	DOCUMENT NUMBER	VAT PAID (Rwf)
February	0053216252	307,267
March	0054262222	122682
April	0054650207	85,410
May	0057186345	39,486
June	0058238911	57,039
July	0059452167	59,194
August	0059977150	237,624
TOTAL		**908,702**

As per the law, the Commissioner General is required to refund the supplier (Company) the due amount within 30 days on receipt of the relevant tax return.

We however, note that the VAT paid by the Company during the period had not been refunded by the Rwanda Revenue Authority.

Implication

Expenditure has been overstated by the VAT paid and not refunded.

Recommendation

Management should follow up with the Rwanda Revenue Authority to secure the refund.

Management comments

This is noted, we are going to follow it up with RRA.

7. *Information Technology*

7.1 Inadequate accounting system that supports accrual basis accounting

Observation

The Board of Trustees resolved that the financial statements of the Company should be prepared, in conformity with International Financial Reporting Standards ("IFRS") and the requirements of the Law No. 7/2009. In order for the financial statements to conform to IFRS requirements, the financial records should therefore be maintained on accrual basis.

We note that the accounting and reporting system is not adequate to meet the IFRS reporting requirements. The reports generated only support cash-basis of accounting and do not cover other important areas as follows:

- Accounts payable
- Accounts receivable
- Fixed assets
- Depreciation
- Inventory
- Investments

Implication

The accounting system cannot capture transaction son accruals basis to generate IFRS compliant accounts. The system is also too simplistic to meet future needs for the fund.

Recommendation

We recommend that an accrual-based accounting system be introduced to enable the Company generate reports that are in line with the financial reporting requirements of International Financial Reporting Standards (IFRS).

In addition, the accounting system should consider the future requirements of the fund and should capture both funds mobilised and investments made by the fund.

Management comments

IFMIS which is used by Agaciro is on modified cash basis. MINECOFIN IFMIS team have confirmed that they are able to update it to accrual basis to address the needs of AGDF. We are following up with IFMIS to have this adopted in 2014/2015 financial year.

8. Asset management

8.1 Capitalisation threshold

Observation

The Asset Management Policy and Framework for the Government of Rwanda allows public enterprises to set their capitalisation threshold depending on the nature of their business and the type of assets owned by the enterprise. The capitalisation threshold determined by the Chief Budget Manager (CEO in this case) must be documented and approved by the Board of Trustees.

We note that the capitalisation threshold has been set at Rwf 1 million which is too high given the type of assets and the nature of business carried out by the Company.

Implication

The high asset capitalisation threshold of Rwf 1 million may result in a material understatement of assets in the financial statements.

Recommendation

Management should review the capitalisation threshold to ensure that the asset register generates relevant, reliable and accurate information for decision-making. The threshold should be approved by the Board of Trustees and documented in the finance policies and procedures manual.

Management comments

We have set the capitalisation threshold at Rwf 1 million since the Company will not be involved in trading activites and therefore the assets will not be used for generating income but for the operations of the Company. It is therefore cost effective to minimise on the administrative costs of accounting for these assets since our main income comes from budget allocations which ideally should not be matched to the depreciation expenses.

8.2 Fixed assets register not updated with assets below the capitalisation threshold

Observation

According to the draft financial policies and procedures, assets with a value of less than Rwf 1 million are expensed upon purchase in the year of acquisition. However they are required to be recorded in the fixed assets register.

We noted that the following assets with a value of less than Rwf 1 million were not recorded in the fixed assets register:-

Date of purchase	Description	Amount
2 February 2013	Fridge and water dispenser	204,100
21 February 2013	Kyocera (all in one) printer, scanner and copier	574,070
24 March 2013	Microwave oven	95,900
25 March 2013	Automatic AC Voltage	35,000
Total		**909,070**

Implication

Failure to update the register may make it be difficult and time consuming to ascertain those fixed assets that may be missing.

Recommendation

Management should update the fixed assets register with the assets above as required by the financial policies and procedures.

Management comments

The register exists, and we are going to update it with all assets that belong to AGDF. However the assets purchased during the year have not been capitalized given the values but considering the useful lives, we shall put them in the fixed assets register.

8.3 Fixed assets not tagged

Observation

Best practice requires that all office equipment be tagged to make them identifiable. However, we noted that the office equipment acquired by the Company have not been tagged and are not easily identifiable.

Implication

It may be difficult and time consuming in validating these assets for monitoring purposes in the absence of unique asset tag numbers.

Recommendation

Management should ensure that all assets are tagged using standardised tags prescribed by management.

Management comments

This is noted and we are going to do the necessary for 2014/2015.