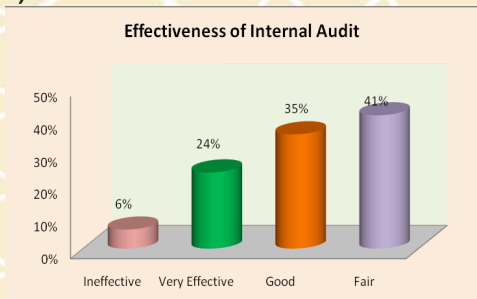


PUBLIC FINANCE BUILDING BLOCKS FOR DEVOLUTION



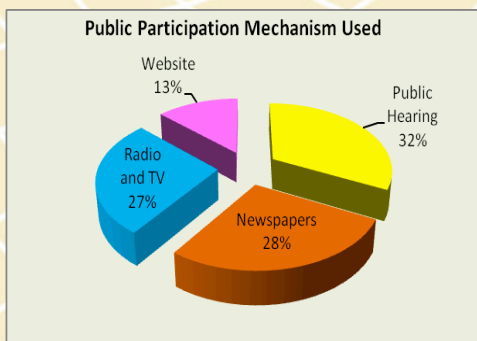
A Baseline Survey on Devolution in Kenya with respect to Public Financial Management Systems – One Year On

3 e) Internal Audit



Whereas most of the counties had established Internal Audit units, the units were under-staffed to effectively provide the intended internal assurance on compliance with established systems.

3. PUBLIC PARTICIPATION



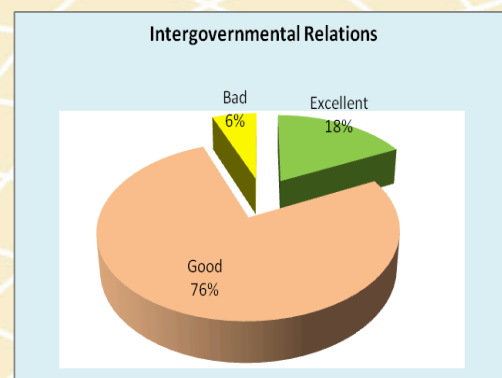
Public hearing was ranked as the highest medium employed when reaching out to the citizens and also getting feedback; newspapers rank second despite their low circulation and reach among the rural population. However,

counties prefer it as an easy means of meeting the legal threshold. Notwithstanding, Bomet County has established a hotline for getting feedback on service delivery.

4. HUMAN RESOURCE MANAGEMENT

All Counties inherited staff from the defunct Local Authorities, acquired the seconded staff from the Transition Authority and National Government and hired additional staff. Of the sampled Counties, 41% had less than twenty five percent (25%) of their staff being professionals as compared to support staff.

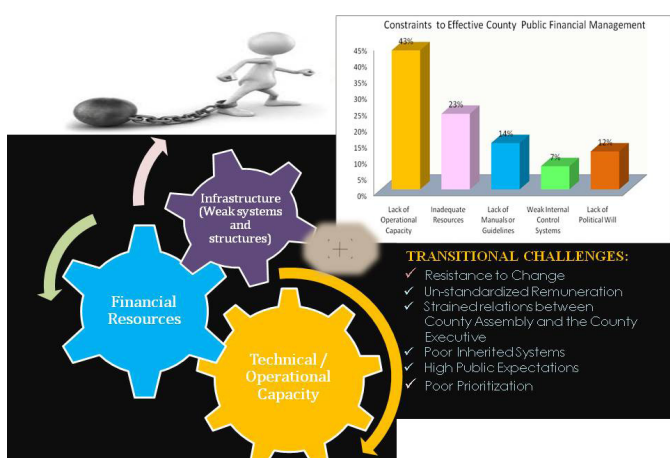
5. INTERGOVERNMENTAL RELATIONS



76% of the sampled Counties indicated that the relationship between them and the National Government is good.

PFM CHALLENGES

Of the sampled Counties 43% identified lack of operational capacity as a major constraint to effective County Public Finance Management.



INTRODUCTION

2

ICPAK baseline survey on public finance management systems adopted by the County Governments outlines the findings and proposes policy recommendations and proactive measures for for effective implementation of devolution and improved service delivery.

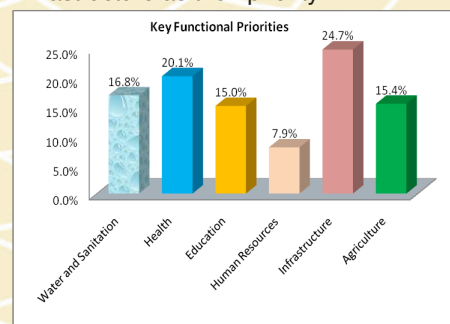
The survey was conducted between 17th March and 22nd April 2014 covering 17 counties, 4 Constitutional and Independent Offices, and citizens of ranges of between 8-15 persons from the selected counties.

The report's recommendations aim at enhancing the development of the financial systems at the county level and position the devolved units as agents of prudent financial management for efficient and effective service delivery.

SUMMARY OF THE KEY FINDINGS

1. FUNCTIONS:

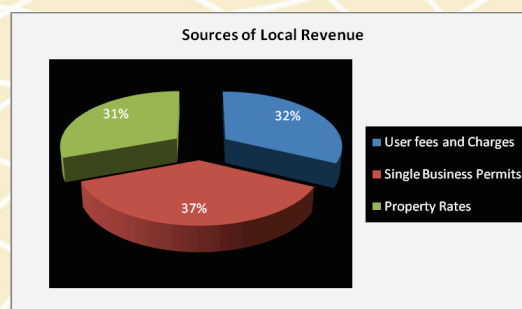
County priorities on functions varied in the FY 2013/14. Of the sampled, 24.7% had infrastructure as their priority.



2. PUBLIC FINANCE

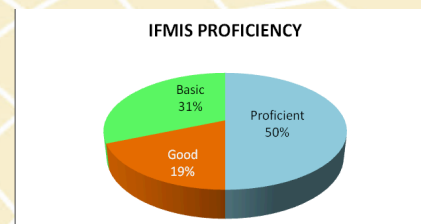
Public finance management was a focal area of the study. The following areas were explored:

a) Local Revenue Collection



Of the sampled counties, 37% relied on single business permits as their core sources of local revenues. Others relied on user fees and charges and property rates.

b) IFMIS



While 50% of the sampled counties indicated proficiency in the use of IFMIS, inherent challenges like connectivity and use of modules among other challenges were identified.

c) Public Procurement

Even though all the Counties sampled had established public procurement units, some lacked the registered and regulated procurement professionals in the respective procurement department(s) and committee(s).

d) Assets and Liabilities

All the Counties in the sample inherited to some extent assets and liabilities from the defunct Local Authorities and the Central Government. However, most of them are unclear on the value, location and transfer status of assets and liabilities they inherited.

POLICY RECOMMENDATIONS

4

THE NATIONAL GOVERNMENT

Functions

1. Develop a comprehensive programme for an in-depth capacity building to assist County Governments to effectively manage resources and provide services for which they are responsible for.

Public Finance Management-National Treasury

2. The Public Sector Accounting Standards Board (PSASB) should expedite the process of developing Generally Accepted Accounting Practices (GAAPs), minimum standards for maintenance of proper books of accounts and prescribe formats and templates for financial reporting by both levels of government and their corresponding organs and agencies. This will help in harmonizing county budgeting and financial reporting.

3. In respect to IFMIS, the National Treasury should:

- (i) Strive to update and enhance the server capacity to reduce the number of instances of server down-time;
- (ii) Roll out county connectivity through a more reliable medium such as fibre optic cables as opposed to modems which is the current medium for connectivity. Counties may also consider clusters in which they make collective investment in laying connectivity infrastructure to compliment that of the National Government;
- (iii) Conduct regular training of County Treasuries to enhance their technical skills on IFMIS;
- (iv) Enhance the modules on IFMIS particularly the revenue collection module for complete and comprehensive financial reporting;
- (v) Enhance accessibility and functionality of IFMIS modules involving the trial balances, statement of assets and liabilities, statement of financial performance which operate sub-optimally.
- (vi) Provide for transaction system which can be done offline for subsequent uploading in the system, for instance, use of Ms excel to do transactions then upload in the system. This will mitigate connectivity challenges in the short-run.

4. Public Procurement

- (i) The review of the legal framework on public procurement should be expedited. Effective public procurement requires a clear, concise and responsive legal framework;
- (ii) The National Treasury and the Public Procurement Oversight Authority should enhance the capacity of the Public Procurement officers at the county level. A sound public procurement system has to have a competent professional workforce equipped with relevant skills and knowledge for specific procurement jobs. County Governments should institute comprehensive training programmes for their procurement officers;
- (iii) The counties should develop procurement plans aligned to the approved budgets and cash flow projections. By this, the procurement officers are obligated to meet County Government procurement needs efficiently and effectively. This will also ensure sound cash flow management;

THE TRANSITION AUTHORITY

Functions

1. The TA should expedite and complete the unbundling and assignment of functions. This will help in clarifying the categorization and budgeting of functions particularly the concurrent and residual functions. Lack of clarity on this has heavily affected some sectors like roads and infrastructure, education among others;
2. The TA should collaborate with the National Treasury and the Commission on Revenue Allocation to consultatively cost the entire National and County Government functions using an objective criterion. This will help in determining the actual cost of devolved functions essential in the vertical and horizontal division of revenue.

Public Finance Management

Section 35 of the Transition to Devolved Government Act 2012 provides that there would be no transfer of public assets and liabilities during the transition period. Serious legal and operational challenges accrue without the complete transfer and subsequently, comprehensive assets register:

3. Lack of an assets inventory compromises the quality of financial reporting. An exercise to set up an asset register must determine ownership and book carrying values of the assets and liabilities. This would enhance reliability and completeness of financial reports;
4. The TA in consultation with other stakeholders including the Intergovernmental Budget and Economic Council should develop a policy framework to guide the transfer of assets and liabilities;
5. The TA and the Auditor General, through the Integrated National and County Assets Register Centre (INCAR) should strive to finalize the Interim assets register and avail the report to the public;
6. The TA ought to have contracted the audit of assets to independent valuers and not the Office of the Auditor General. This poses a self-review threat and compromises the independence of the Office of the Auditor General which contravenes the Code of Ethics for Professional Accountants. Ideally, the Auditor General should review the independent valuers report to ascertain the correctness, reliability and ownership of those assets;
7. Lack of a comprehensive assets register leaves the assets vulnerable to loss or misuse during the transition period.

Human Resource Management

8. The TA should expedite the process of staff rationalization and redeployment to reduce overlap and redundancy at the county level;
9. The Salaries and Remuneration Commission in conjunction with the TA should develop mechanisms for harmonizing terms and conditions of service for staff especially those who previously worked with the defunct Local Authorities.

11. Revenue allocation: Counties need to develop strategies to strengthen collection of own revenue to curb against over-reliance on the national transfers. We propose that counties must:
 - (i) Invest in ICT and cross-institutional engagements to realize maximum impact in own revenue collection;
 - (ii) Leverage on domestic tourism as a source of revenue;
 - (iii) Maximise on business licences and in so doing, develop the most economic approach to collecting this revenue. This may involve partnering with the KRA;
 - (iv) Create a favourable environment that supports entrepreneurship and attracts investments through reform of the business regulatory frameworks. This will enhance volumes of trade and consequently create taxation opportunities;
 - (v) Lobby for share of royalty payments from extraction of natural resources within counties.
 - (vi) Private partnership in revenue collection: County Governments should partner with the private sector to devise innovative mechanisms of increasing their revenue collection and delivery of services
 - (vii) Fiscal discipline: In assessing fiscal discipline criterion of the horizontal revenue share, the Commission on Revenue Allocation (CRA) should incorporate the efforts by counties to generate own revenue as a means of determining the equitable share of county allocation.
12. Public Private Partnerships: County Governments should seek avenues to partner with the private sector through:
 - (i) Tapping into private capital to fund development initiatives;
 - (ii) Outsourcing services from the private sector to enhance efficient and effective service delivery.

Human Resource Management

13. County Governments must establish lean public service characterized by ability to deliver in an efficient and effective manner. Counties must therefore adopt performance based management system by which standards are established and recognized; outcomes and performance are measured and; rewards schemes institutionalized.
14. Provide career development opportunities to the County Public Service.
15. The existence of two public service boards at the county level, though meant to facilitate and realize the separation of powers, is unnecessary and has yielded to uncoordinated recruitments, increased wage bill and duplication of efforts. There is urgent need to rationalize recruitment by the two boards by creating a single County Public Service Board per county.



COUNTY GOVERNMENTS

Functions

1. The Counties should focus and prioritize on the functions as transferred by the TA and in line with the 4th Schedule of the Constitution. This is to address scenarios where County Governments have prioritized and budgeted for functions delineated for the National Government; for instance, the case of education beyond pre-primary education.

Public Finance Management

2. County Governments must complete their County Integrated Development Plans and align their priority setting and budgets with the Medium Term Plan 2013-2017 of Vision 2030. The CIDPs must be approved by the County Assemblies and availed to the public;
3. There is need for a paradigm shift from the traditional incremental and itemized budgeting approach to Programme Based Budgeting (PBB) which is output based to bring the budgeting process in conformity with the provisions of the PFM Regulations.
4. It is prudent that Counties adopt a budgeting process that is driven by their revenue capacity as well as the expected outputs as opposed to the prevailing situation where budgets are expenditure driven.
5. Most Counties had not established County Budget and Economic Forums: A strong County Budget and Economic Forum can help facilitate consultations and public participation in planning and budgeting at the county level.
6. There is need for regular training of County Treasuries to enhance their technical skills on IFMIS;
7. There is need to build the capacity of County Governments in the establishment and management of asset registers.
8. Counties should establish instruments for systematically assessing the performance of procuring departments with a view of ensuring compliance to set procurement rules and procedures;
9. Counties need to leverage on ICT in procurement processes to reduce direct physical intervention by procuring officials. The advent of web-based electronic procurement has been heralded as a "revolution" because of its potential to reduce the total cost of acquisition and transform procurement fraud control.
10. Internal audit function:
 - (i) Counties need to establish strong and independent internal audit units. These units will be charged with the responsibility of county risk management and consequently be called upon to establish County Risk Management Frameworks by which to anticipate county risks and propose mitigating measures promptly;
 - (ii) Counties should establish and institutionalize Independent Audit Committees separate from the Finance Committees. These committees should be chaired by regulated professionals who are members of ICPAK to enhance the quality of internal controls.
A strong internal audit function will compliment the work of the statutory auditor by ensuring that through the internal controls, risks are mitigated long before the start of the statutory audits.

PUBLIC PARTICIPATION

The Institute proposes the following measures for successful public participation to be achieved. The measures should be undertaken by all players including the CIC, CRA, TA, KLRC, National and County Governments and citizens at large.

1. **Public participation policy:** There is need for a consultatively developed policy and framework to guide the public participation process at the National and County levels. This will help us move away from tokenism to real and effective participation.
2. **Citizen capacity and awareness:** Counties should create awareness and capacity build citizens on their rights; and the available opportunities for participation in public financial management. This will enhance the quality of inputs from the public in key policy documents such as county plans and budgets.
3. **Focus Group Approach:** The Government should take FGD approach on technical issues that require relevant expertise in public finance, economics or taxation among others. This is based on the fact that not every citizen will effectively contribute to public policy matters.
4. **Timely disclosure of information:** For fiscal transparency and public participation to be realized, regular and timely disclosure of fiscal data such as plans, budgets, fiscal forecasts and budget monitoring reports among other relevant documents is important. These should be prepared in a simple and clear language for the public.
5. **Timeliness and agenda:** The purpose for public engagement should be publicized in advance. The Government entities must clearly specify the scope and agenda of the consultation. The public must be given enough time to internalize the subject matter and develop their submissions. Best practice requires that the notice is given between fourteen (14) and twenty one (21) days.
6. **Feedback Mechanism:** The Public should be provided with feedback on their inputs. The National and County Governments should publish reports of the inputs received from its public consultations and explain how these inputs have been used or otherwise in budget decisions, execution and oversight.
7. **Budget allocation:** Counties should budget for public participation. Such allocation will assist in awareness creation for meaningful participation.

INTERGOVERNMENTAL RELATIONS

The Institute proposes the following for effective intergovernmental relations:

1. There is need to adopt a collaborative approach in coordination and conflict resolution between the two levels of government. The relationship in the first year of devolution can best be described as confrontational and frosty;
2. The Summit as established by the Intergovernmental Relations Act, 2012 has met only once since its inception. The Act stipulates that it meets twice a year. Regular meetings are necessary for timely resolution of any differences between the two levels of Government;
3. Respect for rule of law and separation of powers is essential for sustenance of good relations between the two levels of government. Separation of powers is manifested horizontally through the relationship of the legislature, executive and the judiciary. This relationship is premised on the cornerstone principles of constitutional supremacy, parliamentary sovereignty and judicial independence. Similarly, one of the objects of devolution (art.174) is to enhance checks and balances and the separation of powers.



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