ICPAK POSITION PAPER ON THE COUNTY BUDGET IMPLEMENTATION REVIEW REPORT, FIRST QUARTER, FY 2013/14
January 2014

INTRODUCTION

The Institute of Certified Public Accountants of Kenya (ICPAK) lauds the Office of Controller of Budget for the release of the County Budget Implementation Review report for the First Quarter of the FY 2013/2014. The report is timely as it shows the progress made in the implementation of devolution in Kenya. Indeed, the Constitution provides a huge opportunity to enhance accountability through timely budget monitoring and reporting. Focus should now shift to putting in place mechanisms to enforce the findings of budget monitoring report.

The Institute seeks to collaborate with CoB to lobby the National Government, Parliament and County Governments in ensuring the implementation of the findings of budget monitoring reports.

The objective of this position paper is to make proposals on the County Budget Implementation review report so as to inform the content and structure for future budget monitoring reports. The paper further shares strategies for fostering compliance to public financial management principles.

KEY PROPOSALS

1. Linkage with National Plans and priorities

The Country is now implementing the Second Medium Plan (MTP) of Vision 2030. The theme of the MTP is transforming Kenya: *Pathway to Devolution, Socio-Economic Development, Equity and National Unity*. The MTP identifies key policy actions, reforms, and programmes and projects that the government will implement in the 2013-2017 period in line with its priorities, the Kenya 2010 Constitution and the Long-term objective of Vision 2030.

Similarly, the Public Finance Management Act 2012 and the County Governments Act 2012(section 106) stipulate that Counties must integrate their plans with the national policies and priorities.

Proposal(s)

We are of the considered opinion that the subsequent County Budget Implementation review reports should also illustrate the extent to which counties have tried to achieve national goals in their budget execution. This will help in assessing whether we are on course as a country to achieving our desired long-term macroeconomic and policy objectives, including Vision 2030 and the Constitution.

2. Development versus recurrent expenditures

The Public Financial Management Act, 2012 states (15(2a) that a minimum of 30% of the national and county governments budget shall be allocated to the development expenditure in the medium term. The Institute commends the Office of the Controller of budget for giving an elaborate economic classification of expenditure. It is noted from the report that, out of the total expenditure, personnel emoluments accounted for 55 per cent, operations and maintenance accounted for 38 per cent while development expenditure accounted for 7 per cent.

Proposal

It will be prudent to elaborately highlight and if possible rank counties on the ñminimum 30% development expenditureò in the subsequent budgets. The report should also express the likely punitive measures to non compliance to fiscal responsibility principles. This move will encourage spending on services at county level.

3. Consider making the individual county section comprehensive

Section ñ*3.3 individual county summaries*ò is highly over summarized. This is understandable given that there are separate individual county reports. Nevertheless, The OCoB should consider elaborating on this section in subsequent reports to capture

(i) Variance analysis with clear explanations on under or over expenditures. For instance, itøs unclear to why certain counties had low absorption capacity, low local revenues or did not undertake any development programmes as compared to others;

(ii) Liaison with respective budget officers at the county level will help in beefing subsequent County Budget implementation review reports;

(iii) It is important that thereøs a comprehensive section indicating how counties are raising revenue. The importance of this is two-fold:

- It will illustrate whether counties are adhering to Art.209 of the constitution of the type of taxes and charges they levy. This is crucial in ensuring that county governments donꞌt levy charges that are inimical to intra and inter-county trade; and undermine national development;

- Such data will also show the revenue generation potential of individual counties. This is critical in providing important statistics for devising strategies to limit overreliance, by Counties, on the national transfers.

STRATEGIES FOR GOOD PUBLIC FINANCIAL MANAGEMENT AT COUNTY LEVEL

1. Need for capacity building on county financial management and reporting

The report clearly indicates the urgent need for capacity building of county treasuries on county financial management. Without capacity at the county level, public funds may not be applied fairly and efficiently. This in turn will lead to corruption, abuse and wastage of public resources to the detriment of the broader public preferences and needs.

The Institute is willing to collaborate with OCoB to support capacity building initiatives on budgeting and financial reporting. This will enhance the quality of county budgets and financial reports submitted to the Office of the Controller of Budget

2. Engage and capacity build County Assemblies

Article 185 of the Constitution vests the legislative authority of a county in its county assembly.

185(2) "A county assembly may make any laws that are necessary for, or incidental to, the effective performance of the functions and exercise of the powers of the county government under the Fourth Schedule".

The report recognizes that County Assemblies should review and adopt with or without amendments the County Budget, County Fiscal Strategy Paper (Section 117 of PFM Act, 2012), Finance Bill (Section 133 of PFM Act, 2012) and County Budget Review and Outlook Paper among other County Bills that would operationalize the County activities.

Therefore, thereꞌs need for appreciating and recognizing the oversight role of County Assemblies in providing budget oversight. Efforts should be made to engage them and build their capacity to effectively participate in budget making and monitoring.

3. **Oversight role of citizens, private sector and the media**

There is need to incorporate some elements of social audits and impact assessment in the subsequent reports. The private sector, citizens, Non-State Actors and the media will play a crucial role in augmenting the CoB efforts.

4. **Diversification of local sources of Revenue**

The report findings indicate that the total locally collected revenue during the first quarter of financial year 2013/2014 amounted to Kshs. 4.4 billion which translates to only 6.5% of the estimated annual local revenue target by the Counties. Therefore, the national government transfer of funds to the counties remains the core source of finance to counties and tendencies to rely heavily on the transfers are beginning to manifest.

The Institute proposes an in-depth evaluation of the revenue potential of the counties. This will in the long run help counties diversify their local revenue sources for sustainability and self-reliance.

5. **Implementing of Reports from the CoB**

It is essential to put in place a mechanism to ensure that findings and recommendations on budget monitoring are implemented to ensure compliance in the succeeding periods.

ICPAK aims to partner with CoB to lobby the National Government, Parliament and County Governments in ensuring the implementation of the findings of these important reports.

CONCLUSION

The new governance structure created by the Constitution provides a huge opportunity to enhance accountability through timely budget monitoring and reporting. ICPAK is committed to collaborating with OCoB to enhance efficiency and accountability in the utilization of public resources.