ICPAK PRESS STATEMENT ON FINANCIAL GOVERNANCE MATTERS

February 17, 2016

Ladies and gentlemen of the Forth Estate, we are very pleased to welcome you to our press conference on the sidelines of 24th Economic symposium which runs from today to Friday this week.

Based on our regular economic and governance analyses, and in line with our mandate as enshrined in the Accountant Act No 15 of 2008, we would like to comment on a number of issues touching on Governance, Accountability and the State of the Economy.

1. The Controller of Budget, First Quarter (2015/16)

The Institute takes cognizance of *County Governments Budget Implementation Review Report* (2015/2016) as prepared by the Office of the Controller of Budget. ICPAK would wish to highlight some of issues captured in this report and which in our view; we feel they warrant our collective attention:

- **Capacity challenges in the use of the IFMIS E-procurement module**: the report indicates that there is inadequate staff capacity to use the E-procurement module which continues to affect uptake of development funds. Isiolo, Nyeri, Taita Taveta, Trans Nzoia and Tharaka Nthi collectively has sh9.2 billion for development but did not spend even a cent in the first three months of 2015-16 financial year. In order to rectify this anomaly, IFMIS directorate should liaise with County governments to evaluate the capacity of users of the E-procurement module; this should be supplemented by a rigorous training program to build the capacity of the procurement officers at the county level.

- **Personal emoluments**: the report also indicates high expenditure on personal emoluments by counties accounted for 56.2%, this worrying percentage could even be higher had the Controller of budget factored in five counties (Nairobi, Murang'a, Kericho, Homa Bay, Laikipia) in her report. Overall counties spent an aggregate of Kshs 12.17 billion on personal emoluments, which represent an 11% increase from Kshs 22.7% billion spent in a similar period in 2014/15 Financial Year. There is need to ensure that expenditure on personnel emoluments is contained at sustainable levels. The county governments should work hand in hand with the National government to devise and implement effective strategies to manage these personal emoluments.

- **Public funds administrators**: The report has also noted that some counties do not designate administrators for public funds as envisaged in Section 168 of the PFM Act of 2012. This has in essence affected the operationalization, administration and accounting procedures in as far as management of public funds is concerned. ICPAK supports Controller of Budget call for involvement of administrators on matters of public funds. The administrators should as a matter of urgency prepare quarterly financial reports in line with PFM Act of 2012.

- **Internal Audit Committee:** The report also deplores county governments for failing to constitute internal audit committees as per the established law. The report shows that while counties have gone ahead to establish internal audit department, they have failed to establish internal audit committees which are key in enhancing management controls. As a matter of concern, this recommendation keeps cropping up in COB reports. Counties should heed to this call and ensure that public funds are spent within the confines of established law and corporate governance principles.

- **Use of Locally Generated Revenue at Source:** During the reporting period, the Office noted that a number of counties have continued to violate the requirements to deposit all locally generated revenues into County Revenue Fund. Instead, they have been spending the revenue at source. The counties that flouted this rule include; Homa Bay, Nairobi, Nyeri, Taita Taveta, Tharaka Nithi and West Pokot. Counties should understand that failure to deposit all locally generated revenue into the County Revenue Fund constitutes a breach of law. Counties must guard against ignoring statutes and structures that have been put in place in the betterment of our society.

2. Budget Policy Statement 2016/2017

The Institute commends the National Treasury for the timely availing of the draft Budget Policy Statement (BPS) 2016! The BPS is required to have been submitted by February 15 to parliament and make it public within 14 days after submission to parliament. The Institute has reviewed the draft BPS 2016 and noted the following positives that need to be emphasized and implemented:

- The enactment of the Public Audit and Public Procurement and Asset Disposal Acts as well as the gazettement of the Public Finance

Management Regulations which will go a long way in strengthening the framework for County financial management.

- Plannned sensitization of State and public officers of County governments as well as the general public on the contents of the various legislations.
- Undertaking public sector reforms- Policy measures in order to strengthen compliance to the Code of Governance (Mwongozo) which was put in place by the Implementation Committee in conjunction with the State Corporation Advisory Committee (SCAC) on parastatal reform. This will undoubtedly increase effectiveness of Boards, transparency and disclosure, accountability and risk management.
- Public expenditure management that among other things involves rationalization of public expenditures to identify and remove expenditure overlaps and waste.

However, as we implement the above, efforts should also be directed towards the following:

(i) Adherence to Public Finance Management Act 2012 fiscal responsibility principles that ensure, prudent management of public resources;

(ii) Professionalize financial management: Employment of qualified and certified professional accountants in public financial management positions and functions at both national and county level.

(iii) In planning and budgeting, the government should ensure the sectoral allocation reflect a sustained focus on development expenditure, priority of which should be Education, Energy, Infrastructure, health, water and sanitation and decent housing.

(iv) Strengthen County public finance management systems particularly the revenue raising mechanisms and fiscal responsibility for Kenyans to enjoy the fruits of devolution.

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