



PFMA 2012 & REGULATIONS 2015:

Addressing the Challenges and Seizing the Opportunities

Credibility

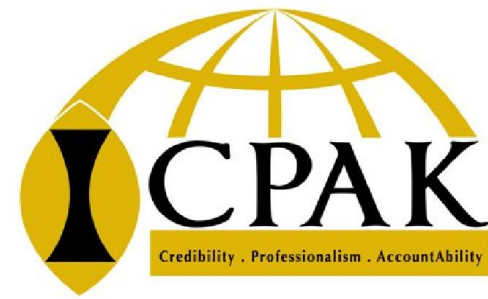
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Professionalism

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AccountAbility

Session Objectives



The aims of the Session:

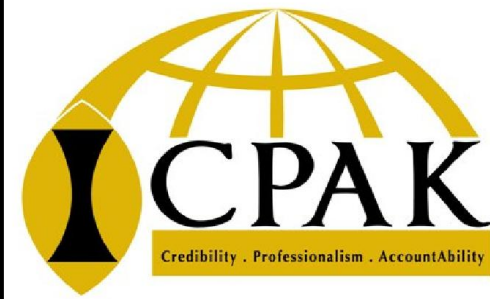
- To outline the significance of PFMA 2012 & Regulations 2015
- To discuss the Implementation Challenges
- Suggest solutions towards compliance with PFMA 2012 & Regulations 2015

Our understanding of PFM



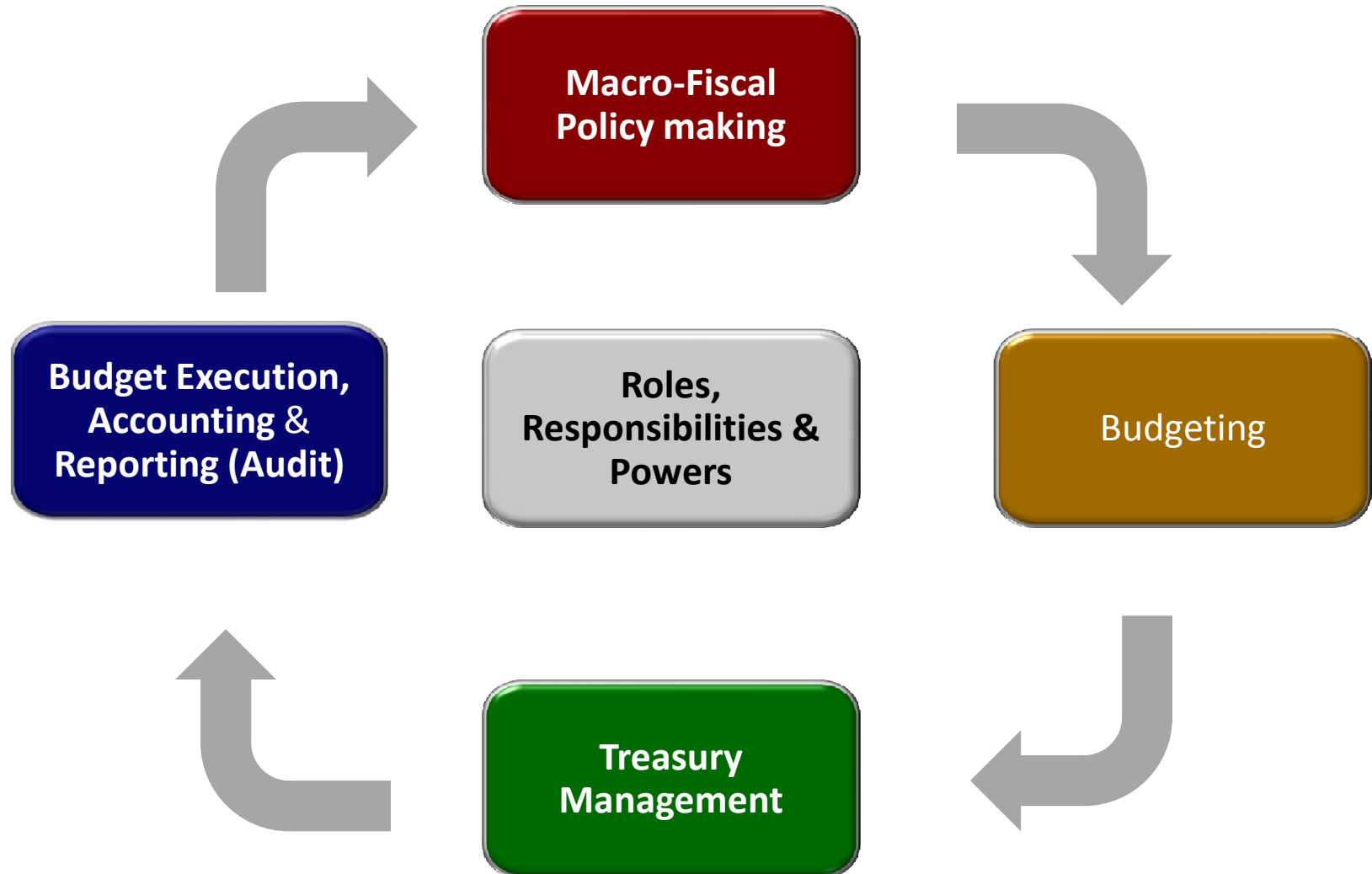
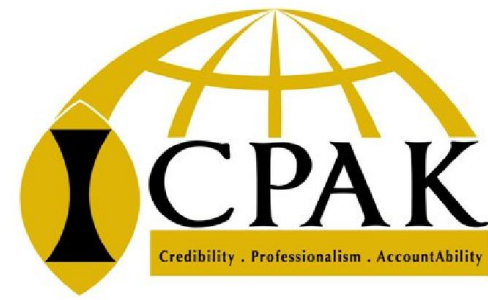
PFM is an essential part of the national development process. PFM includes all phases of the budget cycle, including planning, the preparation of the budget, budget execution, internal control and audit, procurement, monitoring and reporting arrangements, and external audit.

Our understanding of PFM

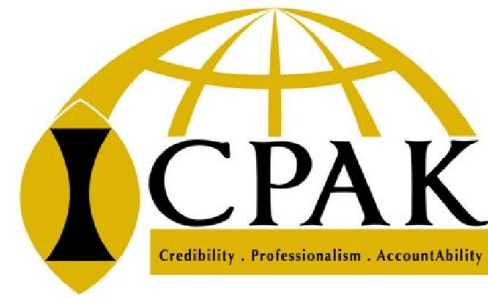


- The PFM reforms were meant to increase transparency and accountability in the way public finances are managed
- In the legal overview - the Constitution provides the framework for the PFM reforms
- Since introduction, there have been gains as well as challenges - the future also has opportunities

Core Areas of Good PFM System

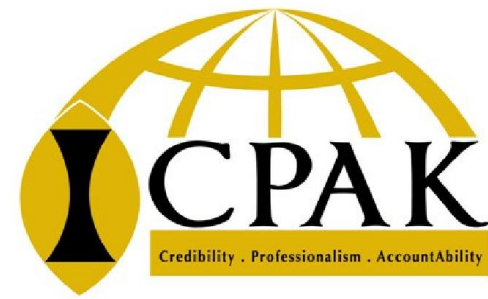


PFM Act – Expected Gains



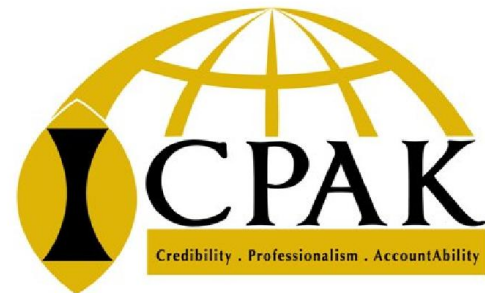
- Openness, accountability, and public participation in PFM;
- equitable sharing of revenues;
- Equitable sharing of burdens and benefits of public borrowing ; and
- Observation of fiscal discipline.
- Social Economic development & Prosperity
- Accelerated & Sustained Economic growth
- Enhanced Debt Financing Management

PFM Regulations 2015



- The PFM Act 2012 is to be read in conjunction with the PFM regulations, 2015, which give the guidelines on how to apply the Act.
- The Opportunities and Challenges lie both in the interpretation and application of the law or lack of it.

Corporate Management

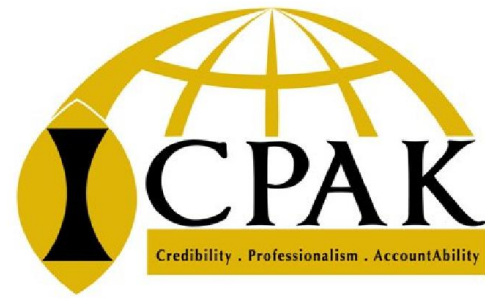


.....is the process and structure used to direct and manage business affairs of the national/county government entities towards enhancing prosperity and good governance with the ultimate objective of realizing national long-term value while taking into account the interest of all stakeholders;

Opportunities

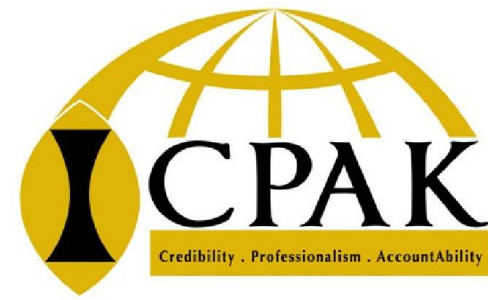
- **Enhanced Corporate governance (Mwongozo?)**
- Standing committees,
- Accounting Officers/AIE holders

Challenges



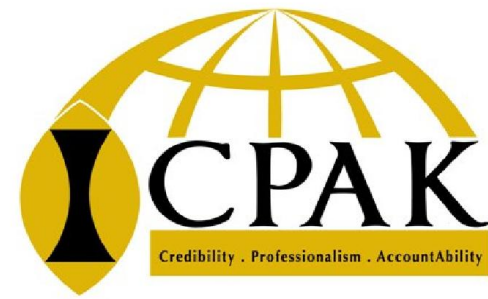
- Poor corporate governance, evident from the frequent boardroom squabbles- impunity and lack of respect for the rule of law
- People act at the expediency of personal interest (Fraud in organizations)

Fiscal Strategy and Macroeconomic Framework



- Fiscal responsibility principles.
- Budget Policy Statement.
- Macroeconomic framework.
- Contents of a fiscal framework.
- Revisions to a fiscal framework

Challenges



- Challenges in this area – planned expenditure, fiscal deficits and revenue generation.
- There has been decelerating GDP growth 2012-6.9%, 2013-5.7%, 2014-5.3%, 2015 projected at 5.4%.
- The growth pattern has been described as ‘anaemic’

Budget Preparation

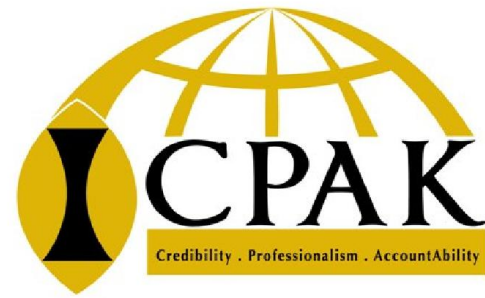


Opportunities:

- Budget preparation process.
- Budget guidelines
- Budget estimates,
- Appropriation Bills,
- Vote on Account,
- Approval by National Assembly

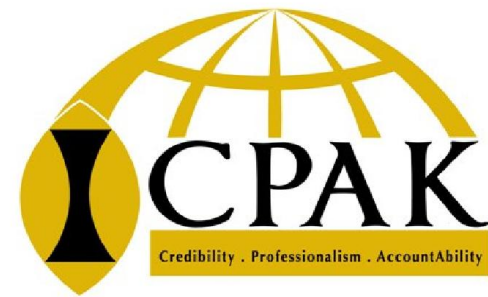
However, budgets have consistently been increasing:
2012/13- **1,459.9 billion**, 2013/14-**1,640.9 billion**,
2014/5- **1,773.3 billion** and 2015/6- **2.2 trillion**. Is this an
opportunity or a challenge?

Challenge



- Pressure on Government to increase revenue collection.
- Parliament has been accused of failing in its role in the budget making process. They have not been sufficiently interrogating allocations.
- Parliament is yet to embrace its oversight role, - serious repercussions on government budgetary priorities.

Budget Execution



Opportunities:

- Budgetary control, variation, reallocations
- Release of Funds/Quarterly requests
- Commitment control
- Quarterly reporting

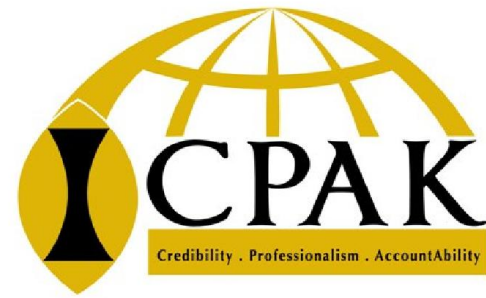
However, there are growing fiscal deficits- 2012/3- **6.5 %**, 2013/4- **7.9%**, 2014/5- **7.4%** and 2015/6- **8.7%**. As at October 2015, the deficit stood at **9.4 %**.

Challenge



- Huge Budget deficit: According to International Budget Partnership (IBP), Parliament's role in the 2015/16 budget was to widen the budget deficit by approving allocations without interrogation.
- At times Parliament fails to detect an increase from what they approved earlier in the same year.
- Many intended beneficiaries - institutions

Management Revenues/ Receipts



Opportunities

- Classification of revenues
- A.I.A and applications,
- Collectors and receivers,
- Quarterly reporting

However, revenue generation has not been increasing at par with govt. budgets. 2012/3- **800 billion**, 2013/4-**963.7 billion**, 2014/5-**1,001 trillion** and in 2015/6- projected **1,358 trillion** against a budget of **2.2 trillion**!

- Signs target will not be met-KRA undershot target. Debt servicing likely in trouble.

Challenges Witnessed



- Budget deficit, counties allege due to unfulfilled promises from National Treasury
- Shortfalls in revenue collection- collections lower than projections
- Bills are piling and there is a deficit

Management of Grants and Donations

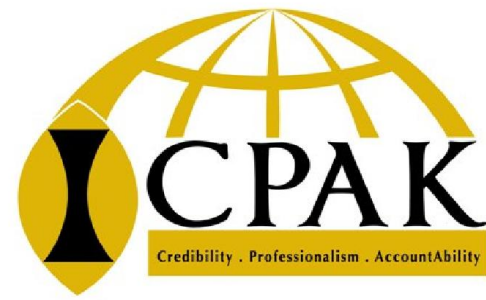


Opportunities

- Definitions and administration,
- Accounting and reporting,
- Project accounts,
- Project selection
- Responsibilities of NGOs

There have been challenges in declaring donor funds- Only a small % is accounted for or disclosed. Some creative accounting- Administration Expenses taking bulk of donor money.

Treasury and Cash management



Opportunities:

- The Consolidated Fund,
- Cash and banking arrangements,
- Cheques & EFT,
- Cash Management Advisory Committee,
- Bank Reconciliation
- Imprest Management
- Treasury Single Account

Challenges



- Banking arrangements
- Cheques and electronic arrangements

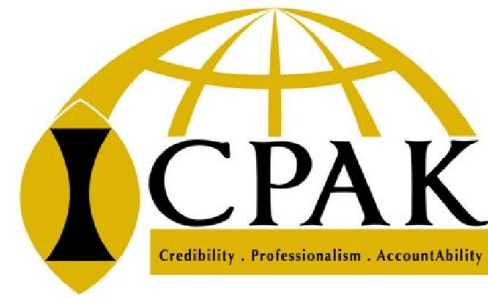
Accounting and Reporting



Opportunities:

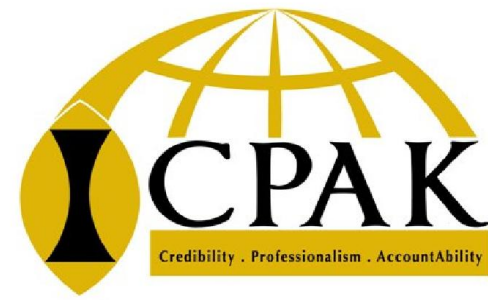
- Form & Structure provided,
- Books of Account defined,
- Automation (IFMIS),
- Public Sector Accounting Standards Board (PSASB)

Challenges Witnessed



- Claims of LPOs used in the transfer of funds being forged - Accounting/Internal control challenges/ Collusion- PFM Act provisions on custody of accounting documents?
- Funds moved to other accounts without knowledge AIE holders.

Expenditure Management and Control

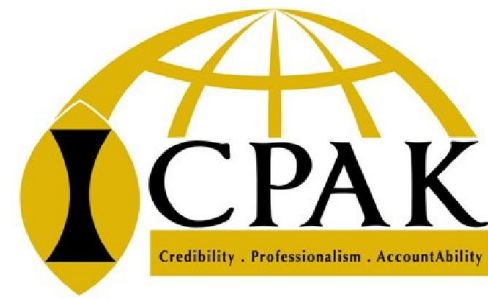


- Consolidated Fund Services,
- Accountable Documents,
- Procurement Plans

Challenge:

- Compliance?
- What controls are there then?

Monitoring and Reporting



- Responsibility for monitoring, evaluation and reporting
- Special National Government public Funds,
- State Corporations additional reporting

Asset Management

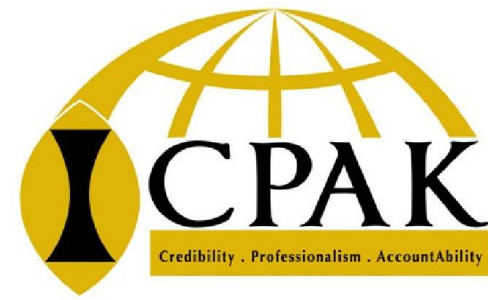


Opportunities:

- Inventories of Assets,
- Transfer of assets,
- Register of Assets,
- Losses and Write-offs

Opportunities in the Counties: develop and maintain assets

INTERNAL AUDIT AND AUDIT COMMITTEES



Opportunities:

- Mandate of internal auditors.
- Compliance with professional standards and code of ethics.
- Independence of the internal auditor.

New dawn for audit function

Public Debt Management



- Financing through external financing Ksh. **340.5 billion** in 2015/6. Domestic- Ksh. **229.7 billion (60/40)**.
- Country borrowing strategy - domestically, foreign debts vs Interest rates

State Corporations Guidelines



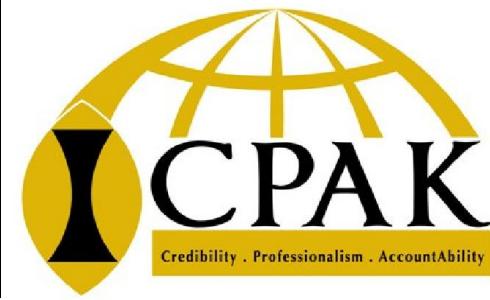
Opportunities:

- Mwongozo for corporate governance

Challenge

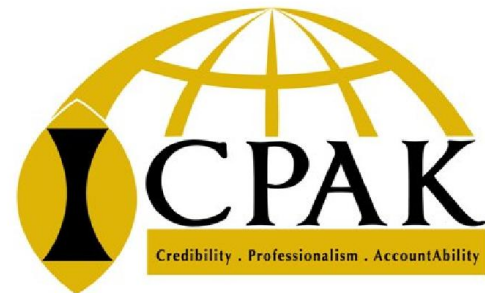
- Will this be a breakthrough for Boards?

Intergovernmental fiscal relations



- Financial autonomy supported by Articles 6 and 189 of the Constitution:
 - Art. 6 (2) The governments at the national and county levels are distinct and inter-dependent and shall conduct their mutual relations on the basis of consultation and cooperation.
 - Art. 189 (1)(a): Government at either level shall perform its functions, and exercise its powers, in a manner that respects the functional and institutional integrity of government at the other level, and respects the constitutional status and institutions of government at the other level.
- Role of institutions and fiscal responsibility principles

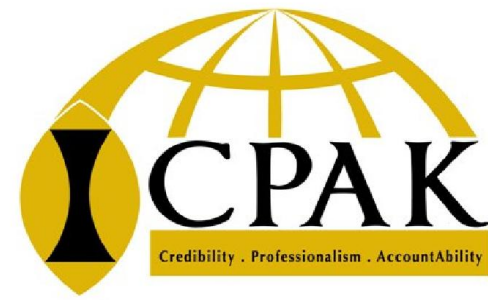
Way Forward



No easy answers in addressing the challenges and seizing the opportunities.

- Government needs to have more and better regard for the Constitution- and PFM reforms
- Corruption and impunity have undermined the gains expected of the reforms in the PFM Act.
- The functions of the Auditor General, Controller of budget should not be undermined.
- Fiscal reforms should be targeted at propping the economy
- Government should check its spending spree
- Government should communicate better
- Only then, might we start seeing the fruits of the reforms.

Way Forward - Questions



- Can Governors bring more prosperity to the people?
- Can public participation be made more effective?
- Can devolution take resources closer to the people?
- Can Government cut waste in spending?
- Can we prioritize spending on projects on projects with catalytic value?
- Can we maintain macro-economic stability with low inflation, low fiscal deficit and fiscal space?

Conclusion



- Discussion
- Questions?

