

**ICPAK PRESS STATEMENT ISSUED TO PRESS ON THE SIDELINES OF
THE ANNUAL PUBLIC FINANCE MANAGEMENT (PFM)
CONFERENCE ON WEDNESDAY 6th APRIL 2016, AT WHITESANDS
HOTEL, MOMBASA**

April 6, 2016

Preamble,

- Members of the fourth estate, fellow Kenyans and all people of good will – GOOD MORNING.
- We are about to issue a press statement on the sidelines of the Annual Public Finance Management (PFM) Conference organized by ICPAK.
- Kindly request if you can introduce yourself...
- Thanks, who ICPAK ...
 - *Established in 1978*
 - *Draws its mandate from the Accountants Act (no 15 of 2008).*
 - *The Institute is mandated to protect and uphold public interest as well as develop and regulate the accountancy profession in Kenya.*
 - *It is also a member of the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession.*
 - *ICPAK has the mandate to advise the Cabinet Secretary – National Treasury on matters relating to financial accountability in all sectors of the economy.*

We, the Institute of Certified Public Accountants of Kenya, share the great concern of all Kenyans in regard to the economic, social and political wellbeing of our country.

It is in this context of appreciating the recent trends in the boardroom as well as the need to share experiences and prepare boards and senior management that ICPAK has organized yet another PFM conference that kicked off today and ends on Friday 8th April here at White Sands Hotel, Mombasa.

The theme of the conference is **“EXCELLENCE IN PUBLIC FINANCIAL MANAGEMENT”**

It is against this backdrop that the Institute wishes to comment on PFM Act implementation progress and the Bill proposing capping of Bank interest rates:

1. Implementation of PFM Act

We take notice of the significant strides made by the Country in Public Finance Management Reforms. Indeed, the Constitution of Kenya 2010 and the subsequent enactment of the PFM Act, 2012, have introduced radical changes in the management of our public resources.

We applaud the government for undertaking these reforms. Allow me to mention some of notable public finance reforms implemented by the government so far.

- i. There are new Institutions with varying powers and responsibilities over the public finance management, at the national and county levels. These

Institutions have now taken root and are now functioning efficiently. They include:

- The Commission on Revenue Allocation;
 - The Office of the Controller of Budget;
 - The Office of the Auditor General, and,
 - The Salaries and Remuneration Commission, among others.
- ii. There's clarity in the roles between the National Treasury and Parliament in as far as oversight of public finances is concerned. This has been replicated at the County level;
- iii. The PFM Act includes firm provisions on budget preparation, regular reporting to Parliament, stakeholder consultations and public debt management.

“We appeal to all Kenyans, in line with the Constitution of Kenya to exercise their right and embrace the ongoing public participation in the Budget making process.

ICPAK is seeking engagement with all our stakeholders, including the citizens of Kenya, in putting together proposals for 2016/7 Budget.”

Public Debt:

The country's public debt level has been a subject of discussion. This is currently standing at 52% for Kenya, the highest in the expanded East Africa, after Sudan and Burundi.

This should not be a major concern at all since this is within manageable levels. Kenya is also the largest economy in East Africa. Other larger

economies globally like America and China are above 100% to GDP. The World Bank benchmark is about 70%.

“The bigger concern though is the debt management and the use and application of funds. We need to know what the debt is financing – Is it financing recurrent expenditure or infrastructure?”

“Of course considering the flood of reports of high level corruption in various Institutions, (The 2015 Corruption Perception Index published by the Transparency International ranks Kenya number 25 on a scale of zero to 100 (with zero perceived to be highly corrupt, and 100 very clean) and sits at position 139 out of 168 countries and territories ranked), the mwananchi, and the watchdog Institutions need to be more vigilant in demanding for accountability.”

- iv. A complementary initiative has also been launched in the name of Integrated Financial Management Information System (IFMIS) at the National and County levels. The IFMIS will enable the computerization of budget allocations and expenditures, procurement operations, reconciliation of revenue and payments, statements of the government’s financial position, and production of statutory reports in real time.
- v. We also laud the government for incrementally introducing program-based budgeting (PBB). This will be an important step in regard to proper presentation of the program design and objectives, performance indicators, and annual targets that highlights how government’s funds are spent.

However successive reports by the Auditor General and Controller of Budget have decried mismanagement of public resources by County governments. Unfortunately, the posts of Governor and Senator are highly political. The Governor is expected to appoint officers to implement the PFM Act, and they are expected to exercise professionalism and integrity in doing so.

Furthermore, the Governor is expected to be knowledgeable in financial management. To mitigate and entrench financial prudence culture in the country, ICPAK recommends the following:

- a) **Civic education:** Civil society, media and clergy should sensitize public on the need to elect credible leaders for the post of Governor, and for the county and national assemblies. We hold that there is justification to elect governors with good educational background and well informed on matters of management of county resources.
- b) The CS National Treasury should invoke Section 92-99 of PFM Act and **stop disbursement of funds to counties** where there is evidence of misuse of public funds and flouting of PFM Act and other related laws. This section of the Act guards against misuse of resources. ICPAK is of the considered view that it is high time that the National Treasury Cabinet Secretary exercised this power to rein in impunity that threaten our fiscal management and integrity.
- c) The Institute urge Ethics and Anti-Corruption Commission to move with speed and **charge county bosses** for abuse of office and misappropriation of public funds.
- d) All integrity Institutions should endeavour to **carry out random integrity checks** in suspect counties, ministries, state departments and state corporations.

2. Capping of Interest Rates

There is currently a heated debate both in and outside Parliament on the effect of the Banking (Amendment) Bill 2015 to the economy. The Banking Amendment

Bill as structured is aimed at providing a mechanism for regulation of banks and Financial Institutions' interest rates through the introduction of ceilings. The Bill proposes to put a cap on the rate of interest charged for loans and to fix the minimum rate of interest that such institutions must pay on deposits held.

The Bill further seeks to amend section 33A of the Banking Act by introducing a new section which provides for interest ceilings, warning to the borrowers and sanctions to banks and financial institutions providing interest rates higher than those prescribed by the law. While supporters of such legislation claim that such controls protect consumers from abusive lending practices and enable them to obtain loans at reasonable rates, their opponents argue that they work to consumers' disadvantage by distorting financial markets.

Based on these arguments and lessons from other jurisdictions, ICPAK urges all stakeholders, including Parliament to consider the pros and cons of price controls on interest rates since it is at the core of Kenya's monetary policy. For instance, one of the benefits, if this Bill sail through, is the amendment to section 31 of the Act which will ensure that before granting a loan to a borrower, a bank or financial Institution shall disclose all the charges and terms relating to the loan.

As we explore this route, let's also consider marrying it with other alternatives such as price transparency, consumer literacy, improvement of consumer protection frameworks and availing of credit information to the public and potential borrowers.

ICPAK member recruitment

Members of forth estate, allow me to mention that we have an ongoing member recruitment drive.

The Institute calls on all qualified accountants and who are not members of ICPAK to take advantage of 50% discount on joining fee. This offer started on 4th February and runs up to **31st May 2016**. Full members will enjoy a 50% discount on their application fee and will pay Kshs. 13,000 only. Associate members transiting to full membership will pay Kshs. 10,000 only.

We urge employers to ensure that they engage employees who are qualified and registered with the Institute for accountancy jobs. This will not only ensure that their employees render professional services but will give re-assurance that they operate in a regulated professional environment.

This is not the case at the moment especially in the public sector where a lot of non-qualified, non-registered accountants, making it difficult for the Institute to regulate.

FCPA Julius Mwatu

National Vice Chairman, ICPAK

The Institute of Certified Public Accountants of Kenya (ICPAK) was established in 1978 and draw its mandate from the Accountants Act (no 15 of 2008). The Institute is mandated to protect public interest as well as develop and regulate the accountancy profession in Kenya. For more information, please contact us on icpak@icpak.com or www.icpak.com.