Financial Reporting and Management for County Governments

Prudent Financial Management for Counties

Friday, 27th May 2016

Introduction - Constitutional Guides

It is important to note the following principles that guided the drafting of the legal framework around county level government:

- Kenya still a unitary country
- Fiscal and monetary policies - Nationally agreed
- Fiscal and monetary discipline at both levels.
- Levels of government distinct but interdependent
- Cooperation between the two levels of Government
- Citizen participation

Introduction - Principles of Devolution (Art 174)

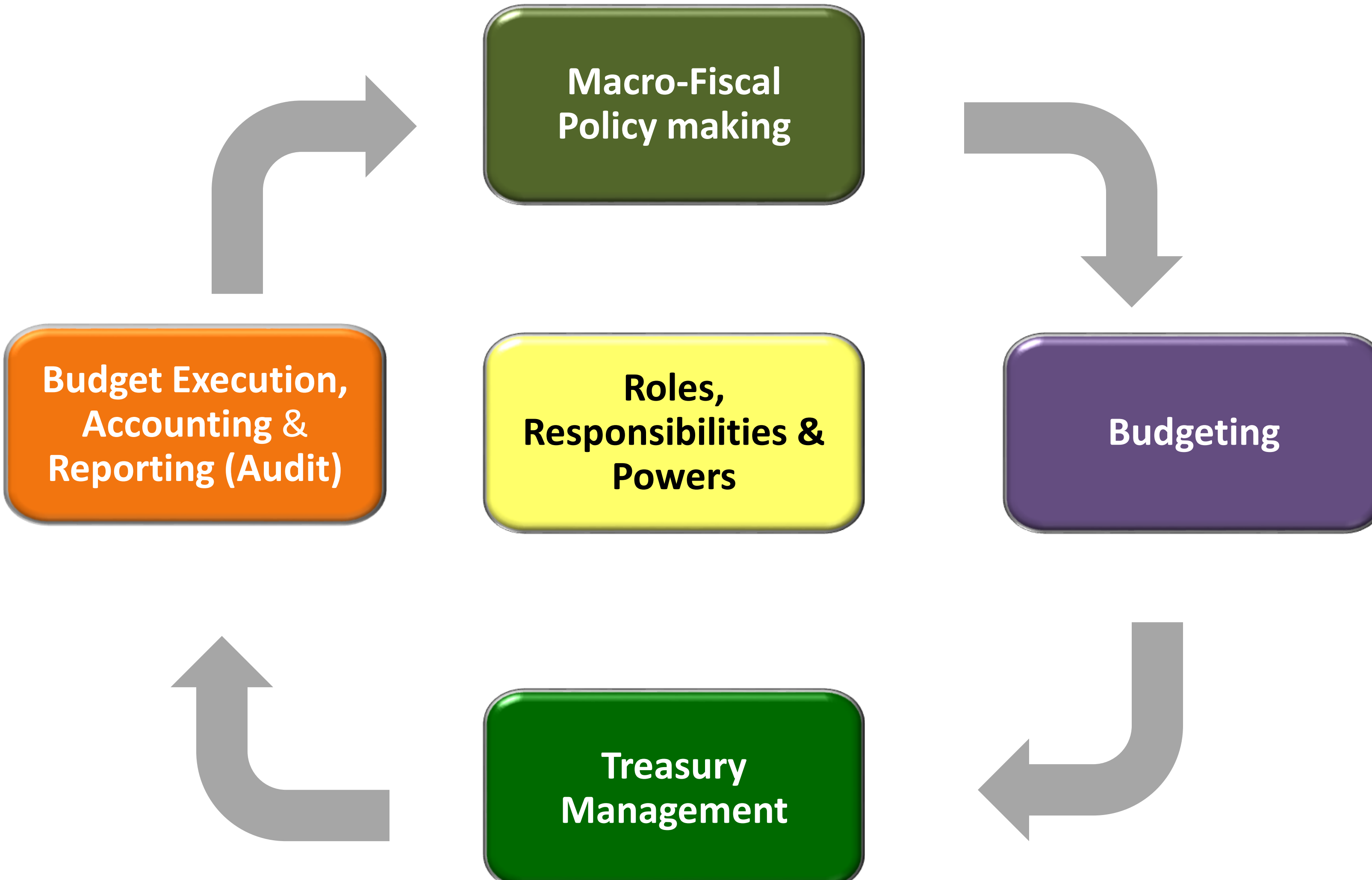
1. Democracy & Accountability
2. Foster National Unity
3. Self Governance & Participation
4. Community Involvement in development
5. Protection of Minorities & the Marginalized.
6. Socio economic development and access to services.
7. Equity in Sharing resources
8. Decentralization of state organs from the Capital
9. Separation of powers

PFM – the Guiding Principles

the 'Principles of public finance could not be clearer' – they are:

- Openness, accountability and public participation;
- Equitable sharing of tax burden;
- Equitable sharing of revenues;
- Expenditures shall promote equitable development;
- Equitable sharing of debt burden/benefits between current and future generations;
- Prudent and responsible use of public resources; and
- Responsible financial management and clear fiscal reporting.

Core Areas of a Good PFM System



Why Prudence in County PFM?

The financial crisis of 2008 and euro-zone turbulence of 2011, pushed discussions on prudent financial management in government accountability. Consequently, There have been major concerns around

- lack of transparency and accountability
- poor public finance management and reporting and
- deficiency of fiscal management in government

Measurement of Prudence

To a greater extent, transparency is dependent on:

• How much relevant information held by Counties can we obtain on use of public funds?;

• How well can the information be analysed to develop action-oriented conclusions?;

• What kind of responses do they elicit from the users of funds?

- Are responses deterrent - strengthening of systems & sanctions?
- Corrective actions - recovery of losses, correction of accounts?

County Financial Management - Strategies

- Part Four of PFMA provides for responsibilities with respect to mgt and control of public finance at the Counties

- The PFMA demands strict compliance with:
  - Principles of Public Finance set out under Art 201 of the CoK 2010
  - Fiscal responsibility principles as set out under Section 107 of the PFMA 2012

- By and large, the PFMA has articulated steps and timelines that must be complied with in managing public finances at the counties.

- It has also prescribed responsibilities and assigned them to certain institutions within the County Government from whom full accountability is demanded.

County PFM Institutions

Institution	Responsibility	Timelines
County Treasury	Prepare annual budgets, coordinate implementation of county budgets, resource mobilization and county cash management through a Treasury Single Account Manage county debt, Financial reporting including consolidating county accounts, General advise on financial matters, Establishment and management of county funds – County Revenue Fund and County Emergency Fund	Budget Circular by 30th August CBROP by 30th September CFSP – by 28th February Annual cash flow projection by 15th June Financial Statements by 30th April to OAG
CBEC	A forum on consultation on preparation: • County Plans, • CFSP, • CBROP and • address matters of financial management at the county level	Within the budgeting timelines as above

County PFM Institutions

Institution	Responsibility	Timelines
County Assembly	Approval of all decisions relating to PFM such as: • Annual County Budgets • County Debt • County Plans • Withdrawal from county fund accounts	
Public	All aspect of county PFM shall be in consultation with the public	As per the budgeting timelines
CRA	Advise on Financial management, resource sharing both vertically and horizontally	
National Treasury	Prescribe policies such as debt management	
Controller of Budget	Oversee budget implementation in accordance with the County Assembly approved budgets and budget ceilings	
Auditor Gen	Audit of the financial statements by the Counties	

Budgeting

- Following approval by County Executive Committee, the Exec. Com. member for finance submits to the CA by end-April:
  - the budget estimates.
  - The appropriations Bill
- After public participation, the relevant committee of the CA makes recommendations to the CA.

Treasury Management

- Establishment and Administration of:
  - County Revenue Funds
  - County Government Emergency Funds
- **Banking arrangements** (e.g. Establishment of Treasury Single Bank Account)
- **Cash flow plans/Cash management**
- **Receiving and collection of revenue** (County Governments may appoint KRA to be a collector)
- **Borrowing and loan guarantees** to County Governments to be authorised by Parliament.

Budget Execution, Accounting And Reporting

- Powers/responsibilities of **Accounting Officers** to:
  - Spend (incur expenditure),
  - write-off losses,
  - make cash advances, and
  - manage assets and liabilities.
- **Reporting** by:
  - County Treasury (consolidated CG Financial Statements),
  - Accounting Officers (annual and quarterly reports)
  - Receivers of Revenue, and
  - Administrators of public funds.
- **Monitoring and Evaluation** – Controller of Budget
- **Auditing** – Internal Audit, – External Audit – Constitutional (Auditor General)

Current Challenges

THEFT - Corruption

Unrealistic targets – Implementation of IPSASs be it cash or accrual

Inability to establish our assets and liability stocks

Capacity challenges

- Unreliability of IFMIS
- Inadequate technical skills

Current Challenges

Poor transition

Low Local Revenue Collection by the Counties

Persistent use of Locally Generated Revenue at Source

Revenue not captured in County Budgets

Your role – the Accountant

- Article 73 of the CoK 2010 - the authority assigned to a state or public officer is a public trust to be exercised in a manner to promote public confidence in the integrity of the office.
- The professional accountants, you are the gate keepers – we must facilitate a monitoring and evaluation at county level through:
    a. Internal auditing services
    b. Strategic planning for the county
    c. Budget monitoring and treasury management
    d. Resource mobilization.
    e. Preparation and maintenance of books of accounts.

Can accountants grab their positions as business leaders as opposed to record keepers

Way forward

- Establishment of opening balances – for assets and liabilities
- Gap analysis - capacity and adequacy of systems
- Improvements to the reporting templates
- Intensified trainings to enhance compliance
- Emphasis is on comprehensive disclosures in readiness for adoption of IPSAS accrual
- Fidelity to the recommendations of oversight institutions – CoB and OAG.

All these in tandem will enhance the quality of the financial reporting within the counties

Points of Reflection

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

Finally

"A society grows great when old men plant trees whose shade they know they shall never sit in"…. Greek Proverb

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Thank You