

Budget Cycle and Key Budget Documents under PFM

Stipulations of the PFM Act and Regulations (2015) on Budget Preparation, Presentation and Accountability

Feedback from the Office of Controller of Budget and Auditor General

Legal Framework- Planning & Budgeting



- ❑ There are three main components in government budgeting legal framework:
 1. **The Constitution** highest in the legal hierarchy. The Constitution clarifies:
 - *relative powers of the executive & legislative branches with respect to public finance;*
 - *Definition of the financial relations between national & sub-national(County) levels of government;*
 - *Principles of public finance- article 201;*
 2. **Public Finance Management Act, 2012** -main vehicle for establishing principles of public financial management. Provides the basis for budget preparation, approval, execution, control & auditing;
 3. **Public Finance Management Regulations:** The organic law also gives the government the authority to issue detailed regulations/instructions on public financial management

Introduction- Constitutional Provisions for Budgeting



- ❑ Guiding principles of public financial management (PFM) (Article 201);
- ❑ Planning & budgeting must comply with these principles which include,
 - a) **openness, accountability and citizen participation in financial matters, i.e. when raising, allocating and utilizing, public finances**
 - b) **Promotion of equitable society in which, tax burdens fairly shared, and,**
 - c) **burdens and benefits of public debt are shared equitably, and**
 - d) **Public funds are used prudently and responsibly, and**
 - e) **management of public finance is reported clearly and responsibly**
- ❑ Budget to incorporate the principles, & provisions of Article 209 and 220.
- ❑ Criteria for sharing covered under Article 203, and tax powers & limits in 209

Understanding Budget Preparation Processes



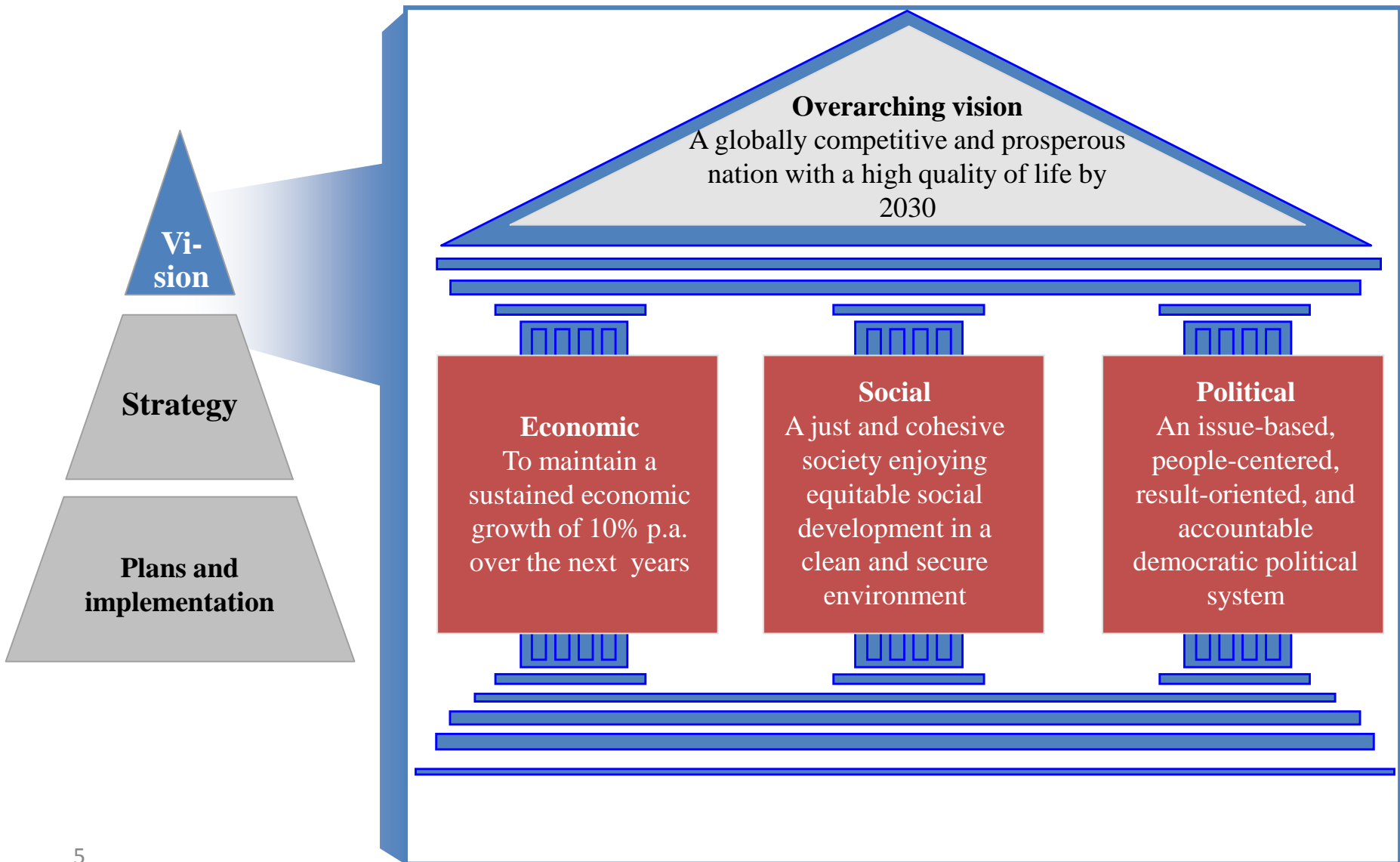
❑ To understand budget preparation, it is important to:

- i. Assess the basic soundness by judging the budget preparation system against international accepted standards- “budget principles”;
- ii. Know the rules governing the budget preparation process;
- iii. Who is responsible for what elements of the budget preparation process;

❑ The soundness of budget systems can be judged by;

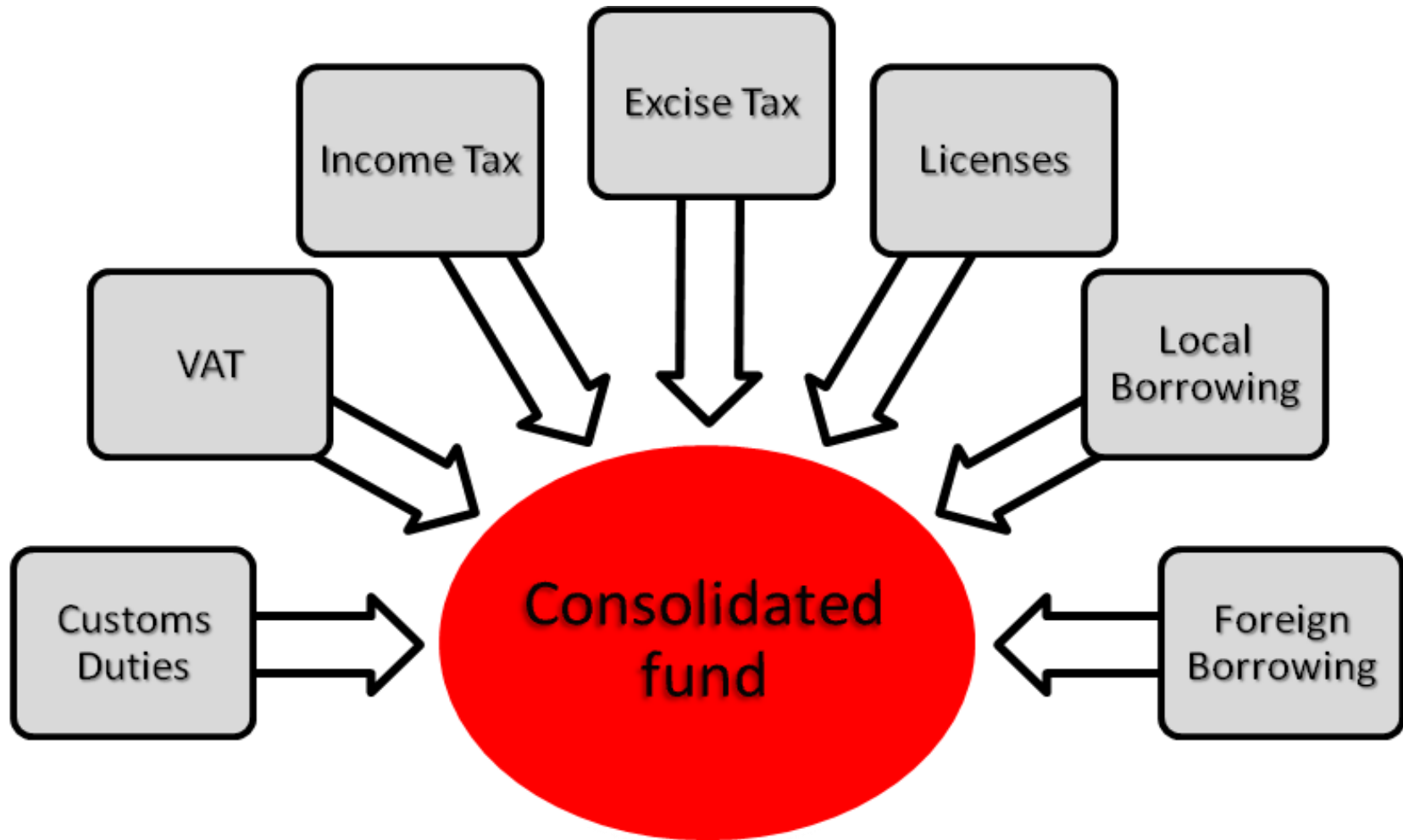
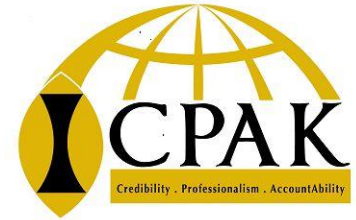
- i. **Comprehensiveness**:-is the coverage of government operations complete? Are estimates gross or does netting take place?
- ii. **Transparency**:-how useful is the budget classification? are there separate economic & functional classifications that meet international standards?
- iii. **Realism**:- is the budget based on a realistic macroeconomic framework? Are the financing provisions realistic? Is there a clear separation between present and new policies?

Link between planning & budgeting- Vision 2030

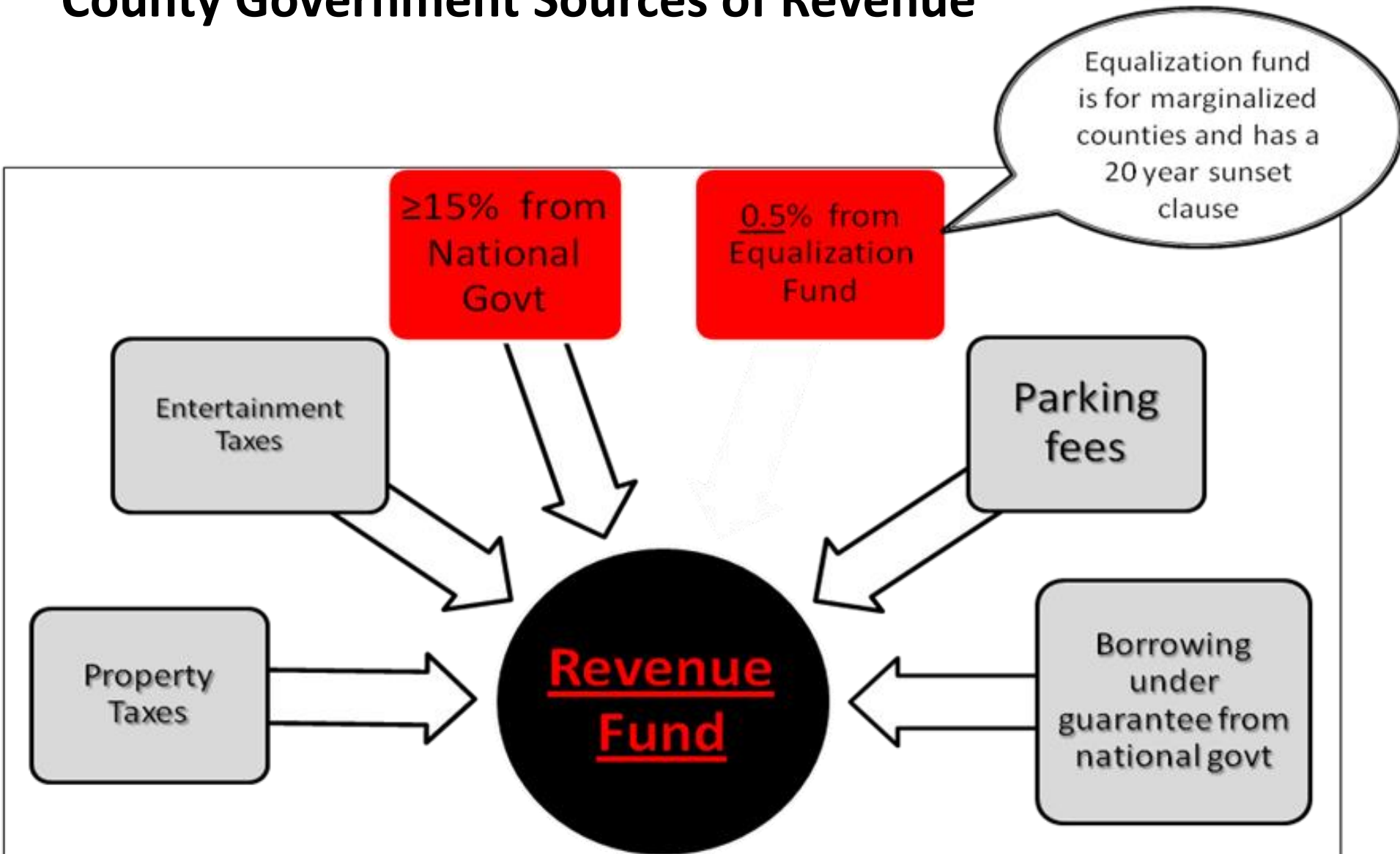


SOURCES OF REVENUE

National Government Sources of Revenue

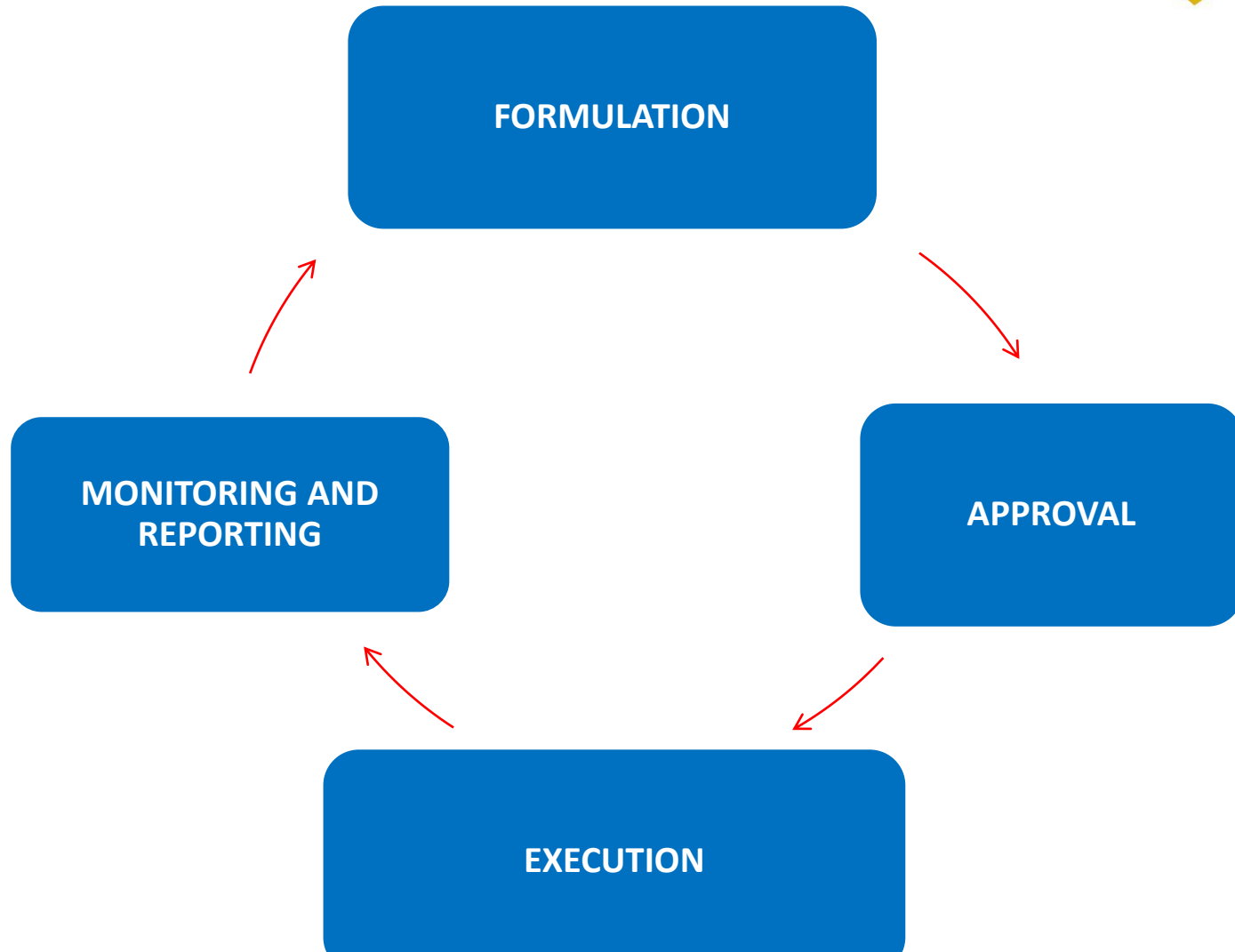


County Government Sources of Revenue

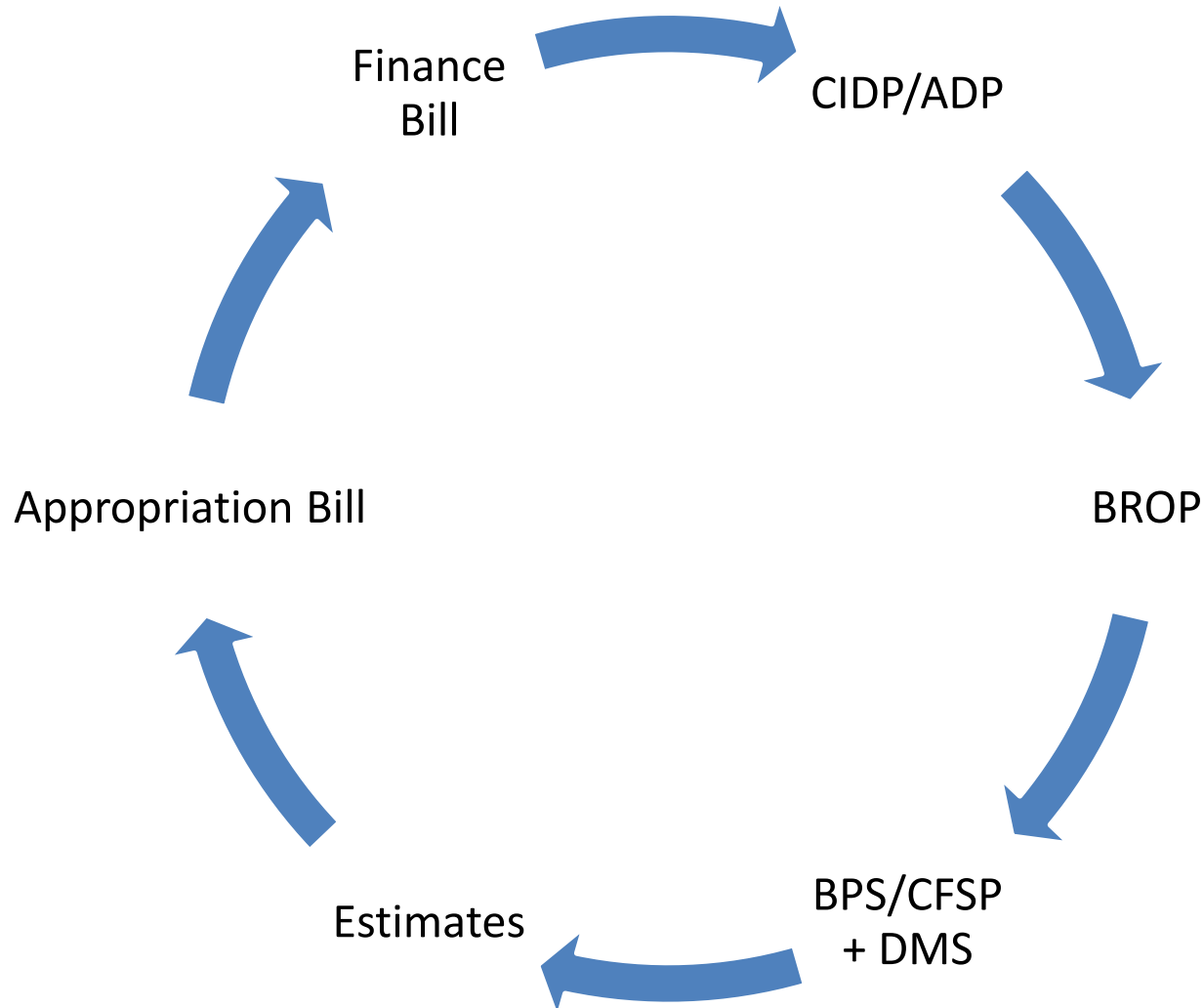


THE BUDGET PROCESS

STAGES IN BUDGETING PROCESS



Budget Summary



30 August

National Budget Circular issued

County Budget Circular issued

Budget Circular provides budget process and key policy directions. MTEF process is specified in the budget and will commence soon after it is issued.

Separate circulars at national and county levels

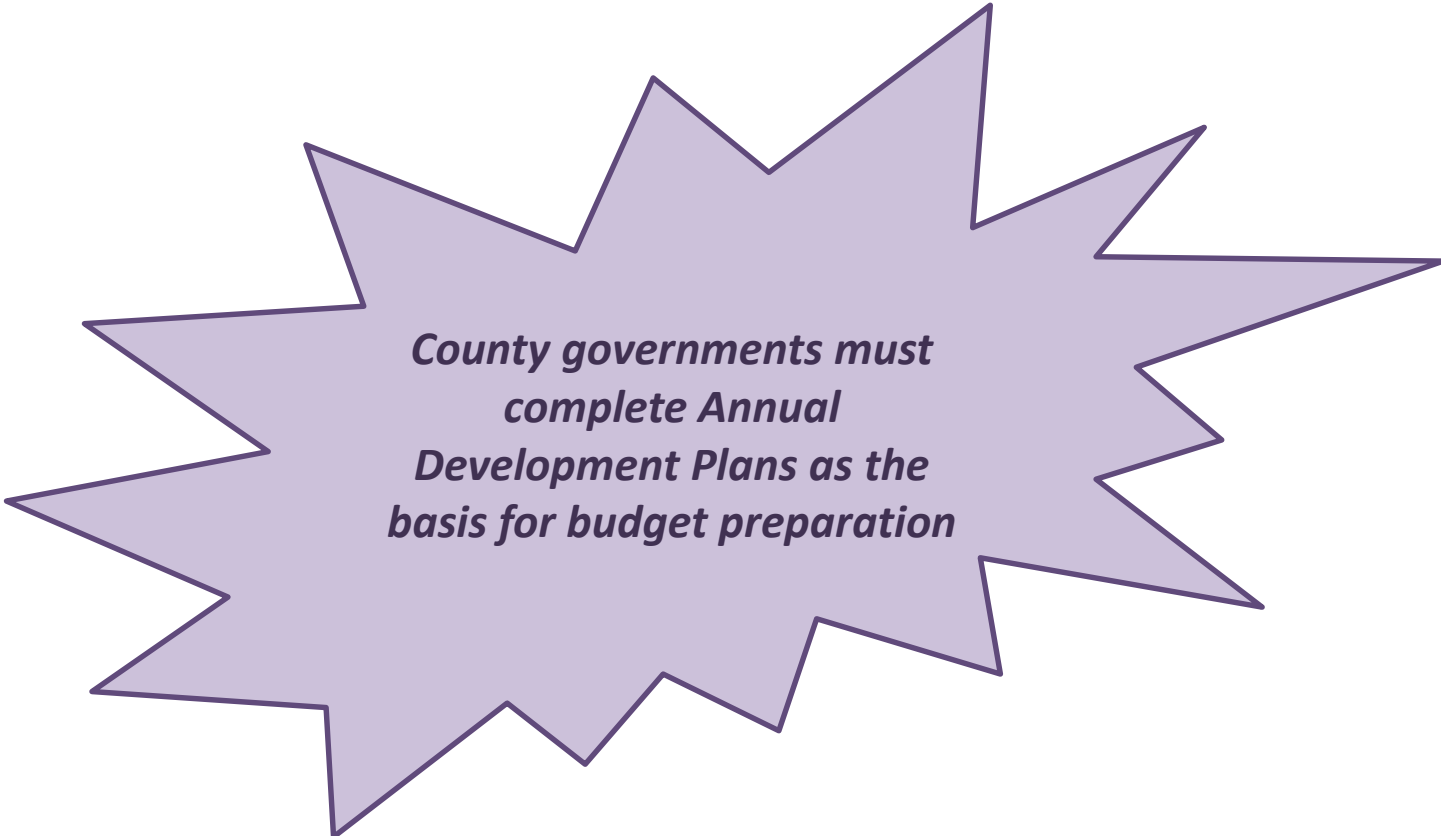
30 August

National Budget Circular issued

County Budget Circular issued

1 September

**County Integrated Development
Plan submitted to Assembly**



***County governments must
complete Annual
Development Plans as the
basis for budget preparation***

REVIEW OF PAST FISCAL PERFORMANCE

30 August

National Budget Circular issued

County Budget Circular issued

1 September

**County Integrated Development
Plan submitted to Assembly**

30 September

**Budget Review and Outlook
Paper submitted to Cabinet for
approval**

**County Budget Review and Outlook
Paper submitted to County Executive
Committee for approval**

*Budget Review and
Outlook Paper compares
previous year (to June)
revenue and spending
against what was
planned in the budget*



REVENUE SHARING PROPOSALS

30 August

National Budget Circular issued

County Budget Circular issued

1 September

County Integrated Development
Plan submitted to Assembly

30 September

Budget Review and Outlook
Paper submitted to Cabinet for
approval

County Budget Review and Outlook
Paper submitted to County Executive
Committee for approval

31 December

CRA recommendations on
revenue sharing (vertical and
horizontal)

*Three months later CRA presents
revenue sharing proposals. MTEF
process should be well underway by
now. It is not clear how the MTEF
process links to the vertical sharing
because MTEF is not mentioned in
the PFM law.*

FISCAL FRAMEWORK PREPARATION

30 August

National Budget Circular issued

County Budget Circular issued

1 September

County Integrated Development Plan submitted to Assembly

30 September

Budget Review and Outlook Paper submitted to Cabinet for approval

County Budget Review and Outlook Paper submitted to County Executive Committee for approval

31 December

Recommendations on revenue sharing (vertical and horizontal)

Treasury prepares Budget Policy Statement

CRA is also required to respond to the 47 County Fiscal Strategy Papers

Public Debt Management Office prepares Debt Management Strategy

County Treasury prepares County Fiscal Strategy Paper

After CRA recommendations are received, Treasury begins work on the Fiscal Framework (economic forecasts, aggregate revenues, borrowing, spending ceilings by main spending units). At national level an independent office recommends borrowing. BPS will include vertical sharing and preliminary proposals for Judiciary and Parliament.



REVENUE SHARING BILLS PREPARED

30 August

National Budget Circular issued

County Budget Circular issued

1 September

County Integrated Development
Plan submitted to Assembly

30 September

Budget Review and Outlook
Paper submitted to Cabinet for
approval

County Budget Review and Outlook
Paper submitted to County Executive
Committee for approval

31 December

CRA recommendations on
revenue sharing (vertical and
horizontal)

Treasury prepares Budget Policy
Statement

Treasury prepares Division of
Revenue and County
Allocation of Revenue Bills

Public Debt Management Office
prepares Debt Management
Strategy

Division of Revenue and
County Allocation of Revenue
Bills notified to CRA and
Intergovernmental Budget
and Economic Council

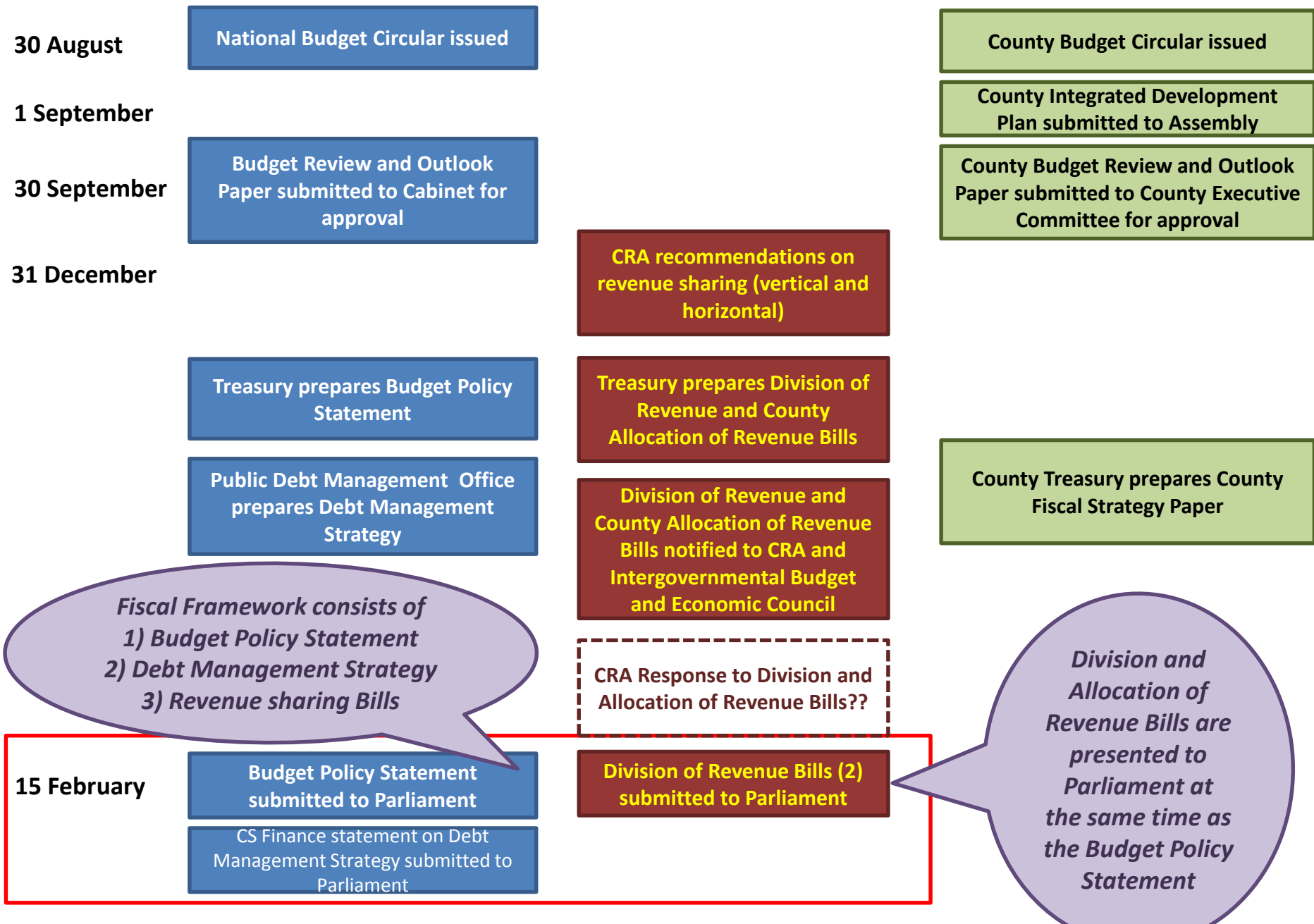
County Treasury prepares County
Fiscal Strategy Paper

*Revenue sharing
proposals are firmed
up in draft bills that
include 47 county
equitable share
allocations and also
include conditional
grants*

CRA Response to Division and
Allocation of Revenue Bills??

*This procedure is
not specified in the
PFM Act, but it
would give CRA a
further opportunity
to input into
vertical sharing
decisions.*

PARLIAMENT/ASSEMBLY CONSIDERS FISCAL FRAMEWORK



30 August

National Budget Circular issued

County Budget Circular issued

1 September

County Integrated Development
Plan submitted to Assembly

30 September

Budget Review and Outlook
Paper submitted to Cabinet for
approval

County Budget Review and Outlook
Paper submitted to County Executive
Committee for approval

31 December

CRA recommendations on
revenue sharing (vertical and
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prepares Debt Management
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and Economic Council

County Treasury prepares County
Fiscal Strategy Paper

CRA Response to Division and
Allocation of Revenue Bills??

15 February

Budget Policy Statement
submitted to Parliament

Division of Revenue Bills (2)
submitted to Parliament

CS Finance statement on Debt

28 February

8/12/2016

*Same process at county level,
15 days later.*

Budgeting & The budget cycle

County Fiscal Strategy Paper
submitted to county assembly

County Debt Management Strategy
submitted to County Assembly

PARLIAMENT/ASSEMBLY ADOPTS FISCAL FRAMEWORK

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

National Assembly
Committee considers Division
of Revenue Bill

Senate Committee considers
Allocation of Revenue Bill and
reports to Parliament

The Budget Policy Statement will bind Parliament to limits on revenue raising, borrowing and spending. The budget estimates adopted later will have to comply with the BPS. At the same time Parliament is also considering revenue sharing through NA and Senate Committees. It is not quite clear how these processes link up. BPS and the Division of Revenue Bill should be consistent.

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution

15 March

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

Senate Committee considers
Allocation of Revenue Bill and
reports to Parliament

*County assemblies are required to
adopt a County Fiscal Strategy
Paper 15 days later than the
Parliament adopts the BPS. The
CFSP fills the same function as the
BPS does of setting the fiscal
aggregates within which the
county budget will be framed.*



REVENUE SHARING CONSIDERED

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

15 March

National Assembly
Committee considers Division
of Revenue Bill

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

30 April

Senate Committee considers
Allocation of Revenue Bill and
reports to Parliament

*The Senate Committee considers
the County Allocation of Revenue
Bill while the National Assembly
Committee is looking at the
Division of Revenue Bill. There is
no time limit for the report on the
DoRB but the CAoR Bill report
must be delivered by 30 April.*



DETAILED ESTIMATES PRESENTED

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

National Assembly
Committee considers Division
of Revenue Bill

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

15 March

30 April

Detailed budget estimates for
national government presented
to Parliament
Includes Allocation from
Equalisation Fund

Detailed budget estimates for
Judiciary and Parliament
presented.

*Parliament and Judiciary
also present their estimates*

CRA Response to Equalisation
Fund Appropriation??

Detailed budget estimates presented
to County Assembly

*Not specified in the PFM Act,
but Constitution requires
CRA have an opportunity to
comment*

*The deadline for Senate report on the
Allocation of Revenue Bill is also the
deadline for detailed estimates to be
presented. Estimates must include
proposals for spending from the
Equalisation Fund.*

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

National Assembly
Committee considers Division
of Revenue Bill

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

15 March

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national government presented
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Senate Committee considers
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reports to Parliament

CRA Response to Equalisation
Fund Appropriation??

Detailed budget estimates presented
to County Assembly

Detailed budget estimates for
Judiciary and Parliament
presented.

15 May

CS Finance presents comments on
budget estimates for Judiciary and
Parliament

County Executive Committee Member
presents comments on County Assembly
Budget

*This step provides an
opportunity for the executive
to comment on the budget
proposals of the other arms of
government*

PARLIAMENT/ ASSEMBLY PASSES ESTIMATES AND REVENUE SHARING BILLS

1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

**National Assembly
Committee considers Division
of Revenue Bill**

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

15 March

**Senate Committee considers
Allocation of Revenue Bill and
reports to Parliament**

30 April

Detailed budget estimates for
national government presented
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Includes Allocation from
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CRA Response to Equalisation
Fund Appropriation??

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15 May

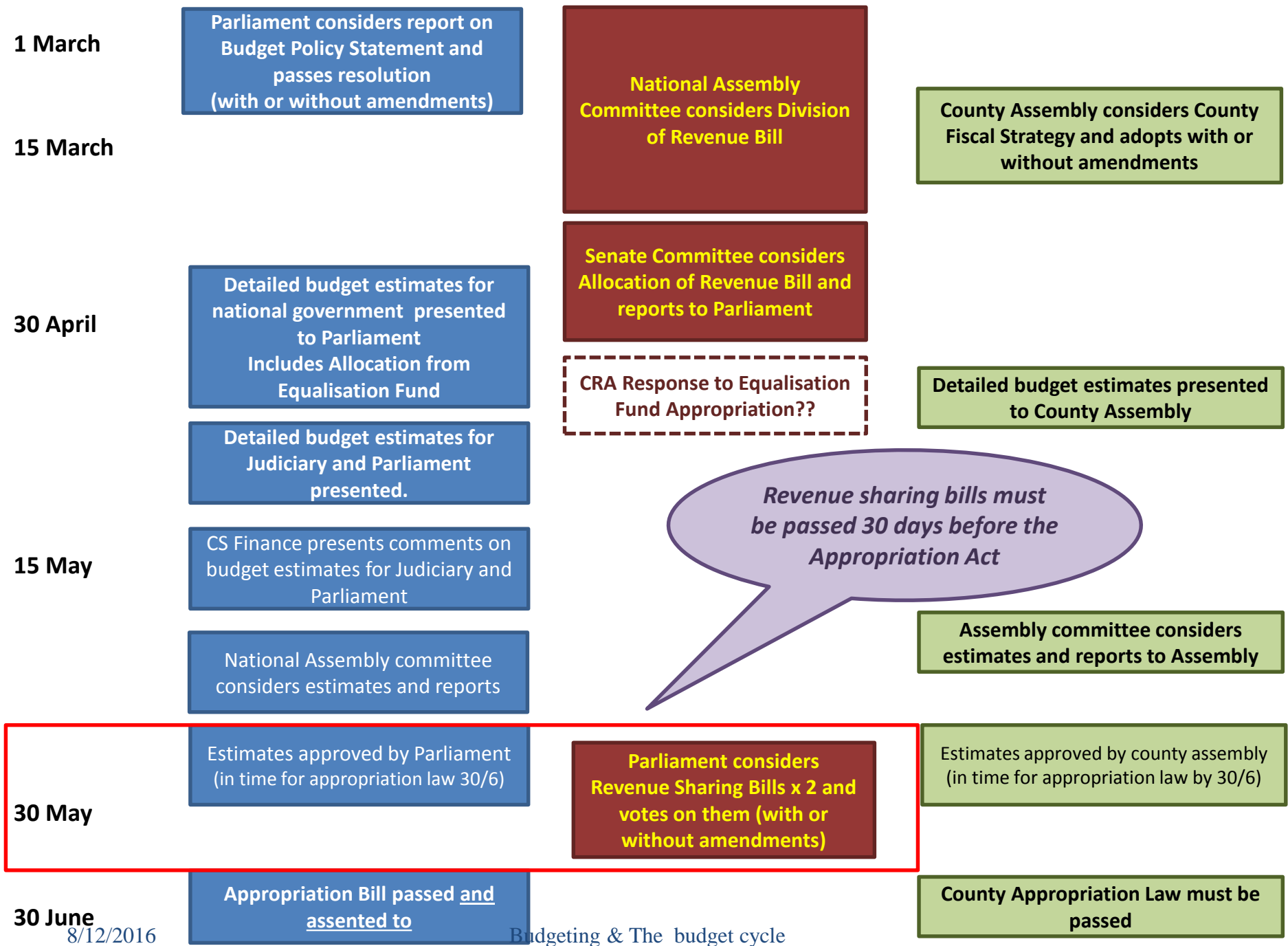
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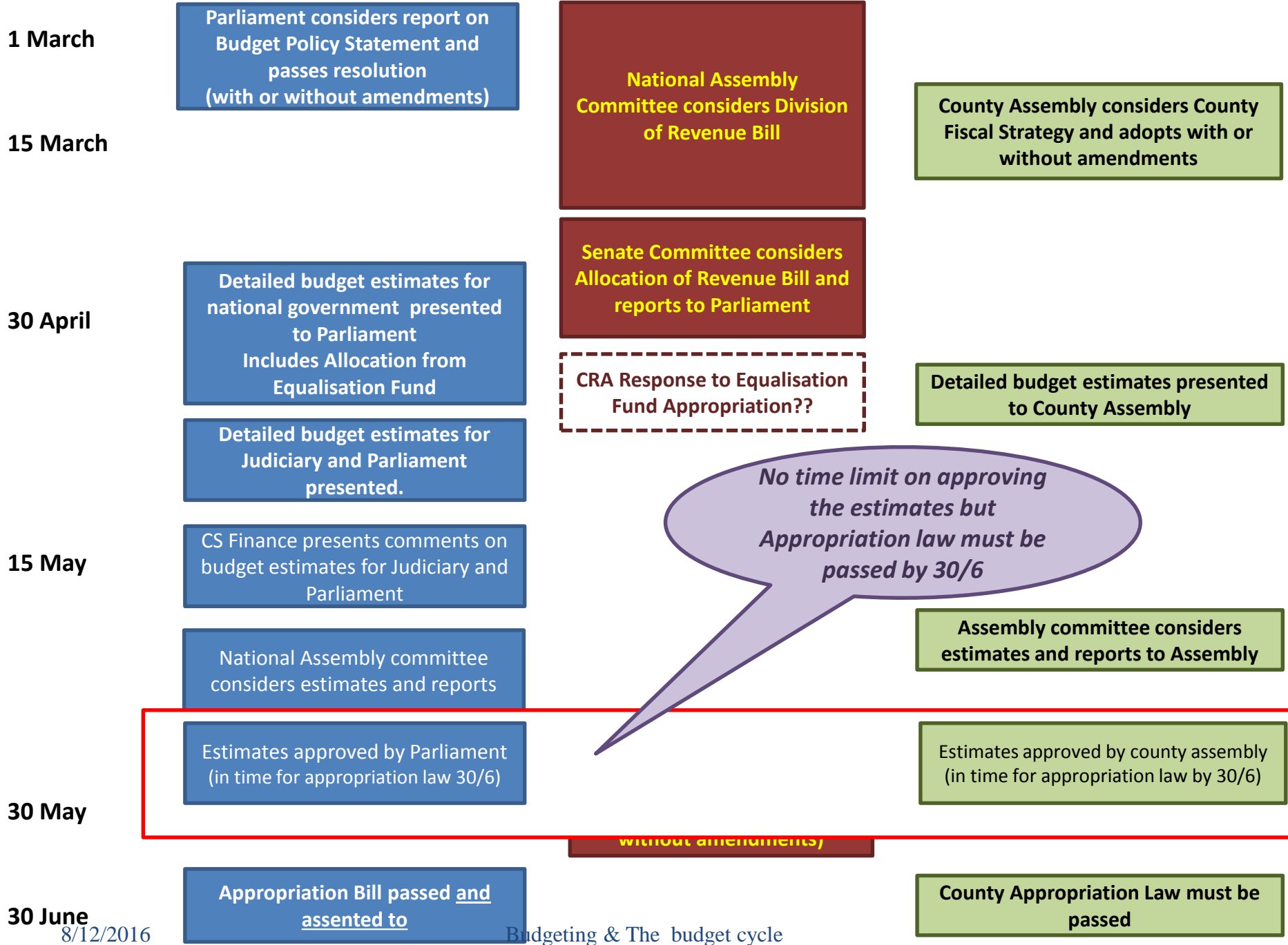
National Assembly committee
considers estimates and reports

**Assembly committee considers
estimates and reports to Assembly**

Estimates approved by county assembly
(in time for appropriation law by 30/6)

*There are limitations on the power of
NA/Assembly to alter the estimates. The
budget balance must remain the same, and
any increases must be balanced by
corresponding reduction*





1 March

Parliament considers report on
Budget Policy Statement and
passes resolution
(with or without amendments)

National Assembly
Committee considers Division
of Revenue Bill

County Assembly considers County
Fiscal Strategy and adopts with or
without amendments

15 March

30 April

Detailed budget estimates for
national government presented
to Parliament
Includes Allocation from
Equalisation Fund

Senate Committee considers
Allocation of Revenue Bill and
reports to Parliament

CRA Response to Equalisation
Fund Appropriation??

Detailed budget estimates presented
to County Assembly

Detailed budget estimates for
Judiciary and Parliament
presented.

15 May

CS Finance presents comments on
budget estimates for Judiciary and
Parliament

National Assembly committee
considers estimates and reports

Estimates approved by Parliament
(in time for appropriation law 30/6)

*Finance Bill (revenue
measures) must be passed
within 90 days of
Appropriation Bill*

Assembly committee considers
estimates and reports to Assembly

Estimates approved by county assembly
(in time for appropriation law by 30/6)

30 May

Parliament considers
Revenue and Appropriation Bills x 2 and
votes on them (with or
without amendments)

30 June

8/12/2016

Appropriation Bill passed and
assented to

County Appropriation Law must be
passed

Budgeting & The budget cycle

Budget execution- Stages



After legislative appropriation of expenditures, there are 6 main stages in budget execution:

1. **The Authorization stage-** ministries and departments are authorized to spend money consistent with the legal appropriations;
2. **The Commitment stage-** Future obligation(liability) to pay is incurred;
3. **The verification stage:-** signifies that goods have been delivered fully or partially according to the contract, or the service has been rendered and the bill has been received;
4. **Payment authorization or payment order stage;**
5. **Payment stage;**
6. **Accounting**

Cash Planning & Management



- ❑ Governments need cash planning & management to keep within budgeted expenditure in budget terms & to prevent unanticipated borrowing that might disrupt monetary policies;
- ❑ Cash planning has three **main objectives**
 1. Ensure that expenditures are smoothly financed during the year, so as to minimize borrowing costs;
 2. Enable the initial budget policy targets, especially the surplus or deficit, to be met;
 3. Contribute to smooth implementation of both fiscal & monetary policy.

Oversight Institutions



The following institutions the responsibility of overseeing financial management in the Country:

- Parliament
 - National Assembly
 - Senate
- County Assemblies;
- County Budget & Economic Forum- sec 137 PFM Act
- Constitutional Commissions (Art 248)
- Office of the Controller of Budget (Art. 228)
- Auditor General (Art. 229)
- Public Sector Accounting Standards Board (PFMA 192)
- Professional Organizations e.g ICPAK, ICPSK etc.
- Civil Society
- The Public

Office of Controller of Budget



- The Office of Controller of Budget is one of the two independent offices established by the Constitution of Kenya under [Article 228](#) to:
 - Oversee the implementation of budgets of both the national and county governments.
 - Authorize withdrawals from public funds and
 - Report on budget implementation every four months.

Office of Controller of Budget



- The office has the following roles;
 - ✓ Oversight Role ([Article 228 \(4\)](#))
 - ✓ Controlling Role ([Article 228 \(5\)](#))
 - ✓ Advisory Role ([Article 225 \(3\) & 225\(7a\)](#))
 - ✓ Mediation Role ([Article 252\(b\)](#))
 - ✓ Investigation Role ([Article 252 \(a\)](#))
 - ✓ Reporting Role ([Article 228\(6\), 254\(1\) & 254 \(2\)](#))
 - ✓ Ensure the Public has access to information on Budget Implementation ([Section 39\(8\), PFMA](#))
- OCOB is a shared public institutions that has an oversight role on the usage of public finance at both the national and county levels.

Auditing, Monitoring & Evaluation- OAG



- ☐ Kenya National Audit Office (KENAO) and Parliament through watchdog committees assess whether actual spending was in line with the approved budget;
- ☐ After execution of the budget, preparation of accounts and audit of public entities provided for in Art. 226
- ☐ Government annual accounts and audit report prepared by OAG (Art 226 & 229);
- ☐ OAG audits all account of Government and state organs and reports to the National Assembly within 6 months after the end of each financial year;
- ☐ The National assembly within three months after receipt of report debate and consider the report and take appropriate action

OAG-Types of Opinion



- **Unqualified Opinion-** this is a clean opinion, meaning that the financial statements were recorded properly & were in agreement with underlying supporting documents and accounting records
- **Qualified Opinion-** this means that there were certain areas where the Auditor-General was unsatisfied with the veracity of certain expenditures, which may not have been significant
- **Adverse opinion-** means that the Auditor-General was unsatisfied with the veracity of **significant amounts** of expenditure
- **Disclaimer of opinion-** this is serious and means that there was no basis upon which the Auditor-General could have satisfactorily undertaken an audit because the accounting records were unreliable and there were no verifiable supporting documents or adequate explanations for transactions

Key issues noted from audit reports

- ❖ **Challenges in expenditure management**
- ❖ **Procurement management issues**
- ❖ **Non compliance with SRC guidelines – excess allowances**
- ❖ **Challenges in revenue management**
- ❖ **Non compliance with PFM Act**
- ❖ **Issues with bank and cash management**
- ❖ **Weakness in management of Imprest**
- ❖ **Tax management issues**
- ❖ **Budget management issues**
- ❖ **Poor maintenance of accounting records**
- ❖ **Weak internal audit arrangement**
- ❖ **IT challenges and poor utilization IFMIS system**

Conclusion



- Discussion
- Questions?

