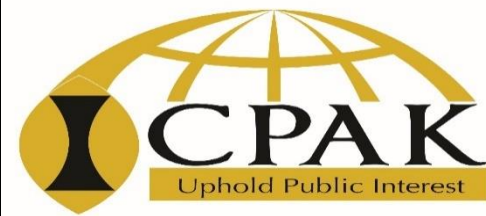


# **FINANCIAL MANAGEMENT FOR HIGHER EDUCATION SECTOR WORKSHOP**

**Public Financial Management Systems and Guidelines**

**HILTON HOTEL, NAIROBI, 20<sup>th</sup> -21<sup>st</sup> APRIL 2017**

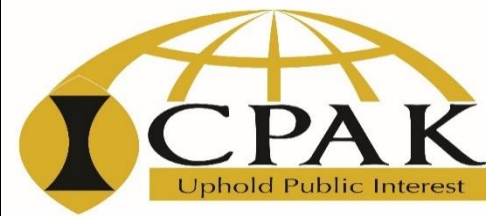
# Session Outline



The aims of the Session:

- To outline the significance of PFM 2012 Act & Regulations 2015
- To discuss the Implementation Challenges and explore options towards compliance with PFM 2012 Act & Regulations 2015
- To discuss other supportive legislations - The Technical and Vocational Education and Training Act, 2013, The Universities Act, 2012

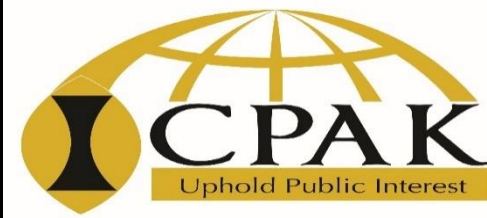
# PFM CONTEXTUALIZATION



- 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.

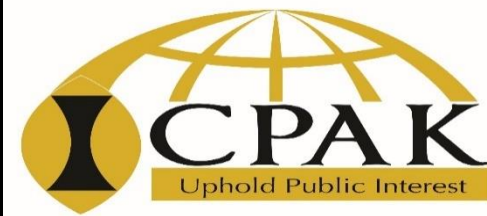
- The PFM reforms in Kenya are meant to increase transparency and accountability in the way public finances are managed
- Since introduction, there have been gains as well as challenges - the future also has opportunities

# Legal Framework - Planning , Budgeting, Recording, Accounting and Reporting



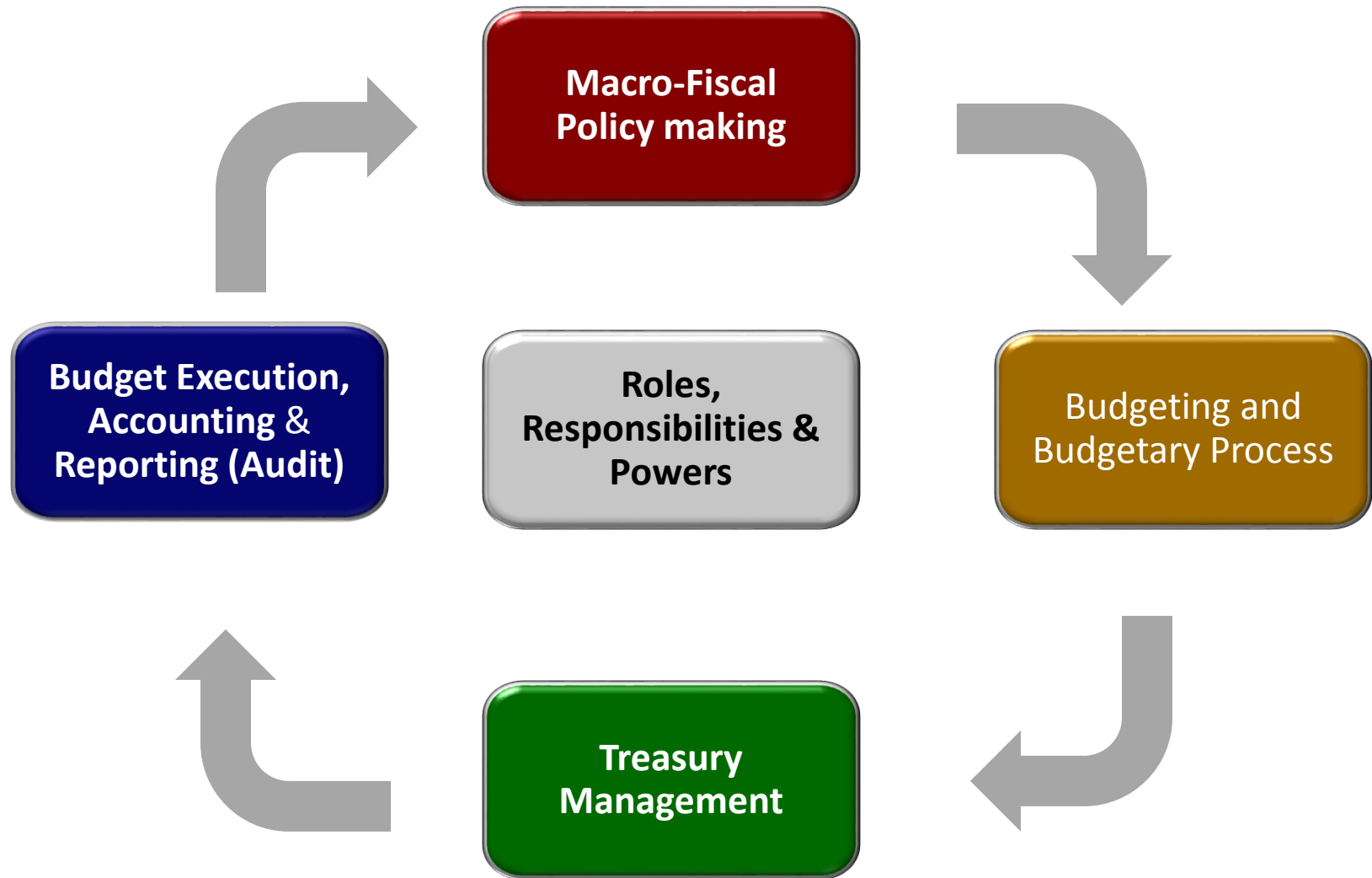
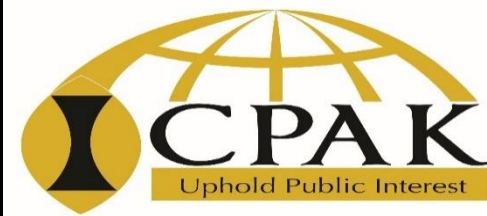
- ❑ There are four main components in government **Planning , Budgeting, Recording, Accounting and Reporting** framework:
  1. **The Constitution** highest in the legal hierarchy. The Constitution clarifies:
    - *relative powers of the executive & legislative branches with respect to public finance;*
    - *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 and Regulations 2015** - main vehicle for establishing principles of public financial management. Provides the basis for budget preparation, approval, execution, control, accounting & auditing;
  3. **Public Audit Act 2015 and Internal Audit Guidelines 2016**
  4. **Public Procurement and Asset Disposal Act 2015 and Relevant Regulations**

# Understanding - Planning , Budgeting, Recording, Accounting and Reporting

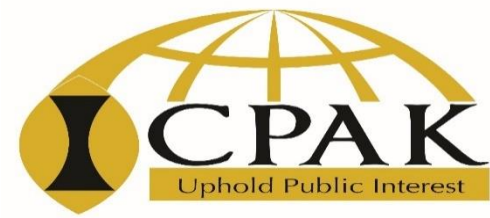


- ☐ To understand Planning , Budgeting, Recording, Accounting and Reporting, it is important to:
  - i. Assess the basic soundness by judging the Planning , Budgeting, Recording, Accounting and Reporting system against international accepted standards and “principles”;
  - ii. Know the rules governing the accounting and reporting preparation process;
  - iii. Who is responsible for what elements of the process;
- ☐ The soundness of the systems can be judged by;
  - i. **Comprehensiveness**:-is the coverage of the entity operations complete?
  - ii. **Transparency**:-how useful and clear is the reporting? Does it meet international standards?
  - iii. **Realism**:- is the system based on a realistic framework? Are the financing provisions realistic? Is there a clear separation between present and new policies?
  - iv. **Relevant**:- Timeliness?

# Core Areas of Good PFM System



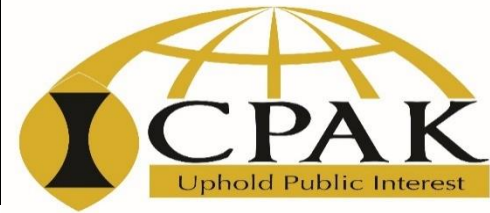
# PFM Act and Regulations – Expected Gains



- 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

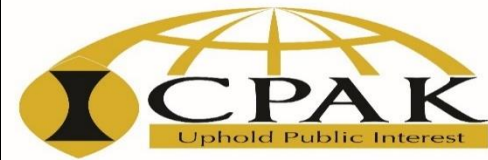


# PFM Regulations 2015



- 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.

# PFM ACT 2012



The PFM Act 2012 shall prevail in the case of any Inconsistency between it and any other legislation on the following matters:

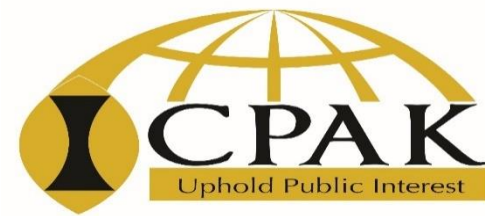
- a) Preparation and submission of budget** estimates, including the time for doing so;
- b) Preparation and submission of accounts for audit**, including the time for doing so;
- c) Borrowing, lending and loan guarantees;**
- d) Raising of revenue and making of expenditures;**
- e) Banking arrangements, including** opening of bank accounts and investment of moneys;
- f) Establishment and management of public funds;**
- g) Establishment and dissolution of state corporations.**

.....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

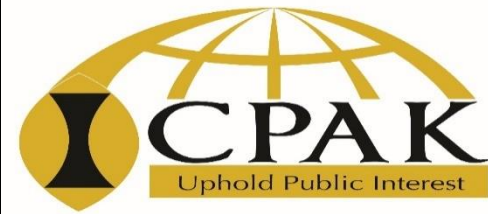
- **Enhanced Corporate governance (Mwongozo?)**
- Standing committees
- Accounting Officers/AIE holders

# Fiscal Strategy and Macroeconomic Framework



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

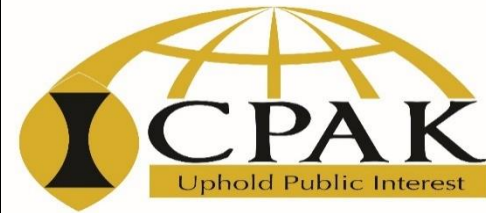
# Budget Preparation



## PFMA Opportunities:

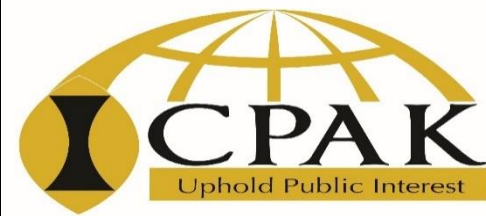
- Budget preparation process.
- Budget guidelines
- Budget estimates,
- Appropriation Bills,
- Vote on Account,
- Approval by

# Key Budget Concerns



- To improve on the budget management process, we must as of necessity draw lessons from every budget cycle!
- A brief review of the 2016/17 financial year budget will help us identify some of the challenges experienced and draw some lessons to improve future budgets
- Budget implementation?

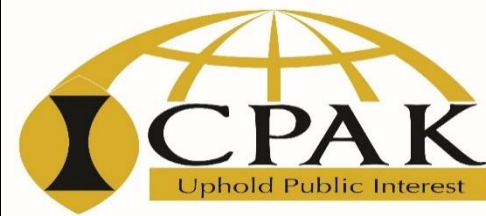
# Budget Execution



## PFMA Opportunities:

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

# Management Revenues/Receipts

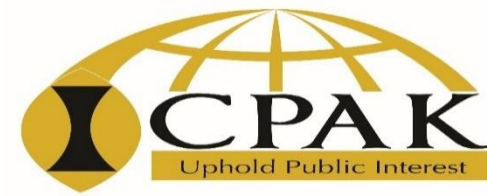


## PFMA Opportunities

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



# Management of Grants and Donations

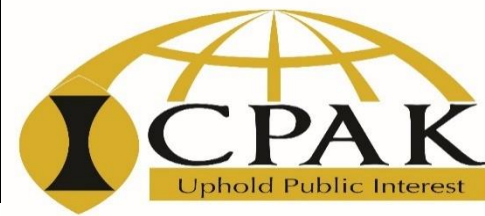


## PFMA Opportunities

- 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.

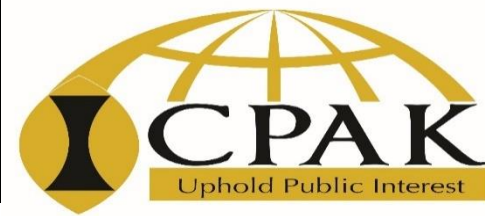
# Treasury and Cash management



## PFMA Opportunities:

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

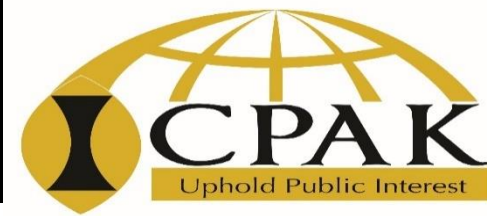
# Accounting and Reporting



## PFMA Opportunities:

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

# Expenditure Management and Control



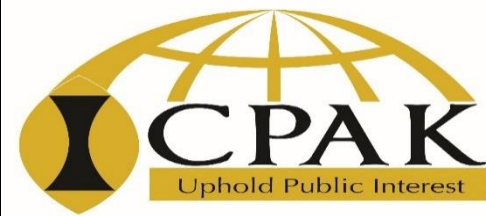
## PFMA Opportunities:

- Consolidated Fund Services,
- Accountable Documents
- Procurement Plans

## Challenge:

- Compliance?
- What controls are there then?

# Monitoring and Reporting



## PFMA Opportunities:

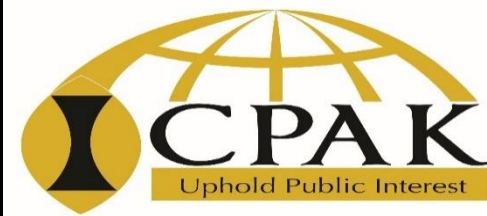
- Responsibility for monitoring, evaluation and reporting
- Special National Government public Funds,
- State Corporations additional reporting

## PFMA Opportunities:

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

Opportunities for the entities to develop and maintain assets

# INTERNAL AUDIT AND AUDIT COMMITTEES

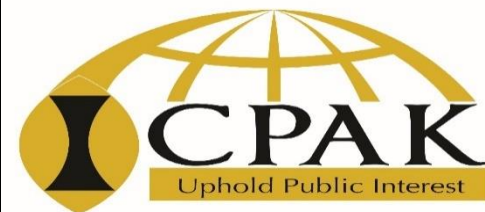


## PFMA Opportunities:

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

New dawn for audit function (audit committee Guidelines issued June 2016)

# Public Debt Management

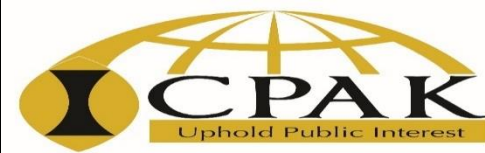


- Country borrowing strategy - domestically, foreign debts vs Interest rates
- The country's and County's debt levels are limited in PFM with the guidance of PDMO in the National Treasury.
- PFM required levels?



- 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

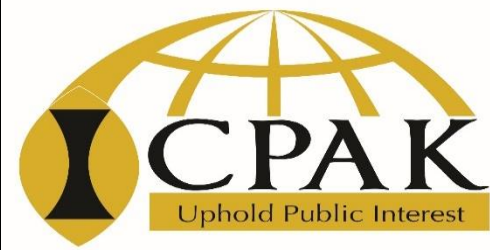
# Way Forward



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

- Institutions 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 independent PFM and accountability institutions should not be undermined.
- Fiscal reforms should be targeted at propping the economy
- Institutions should check their spending priority
- Institutions should communicate better
- Only then, might we start seeing the fruits of the reforms.

# Conclusion



- Discussion
- Questions?

