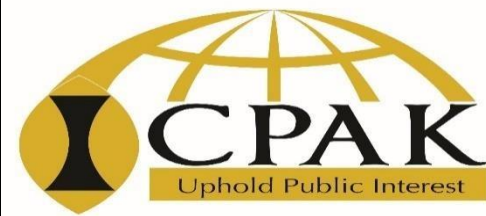


# **IPSAS WORKSHOP**

## **Key Provisions of the PFM Act 2012 and Mwongozo Code of Governance**

**Kakamega Golf Hotel - 18<sup>th</sup> -19<sup>th</sup> July 2017**

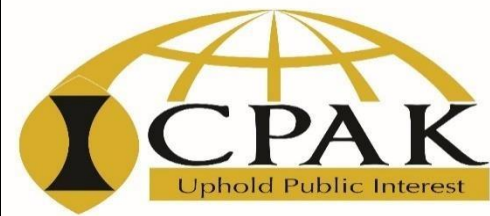
# Session Objectives



The aims of the Session:

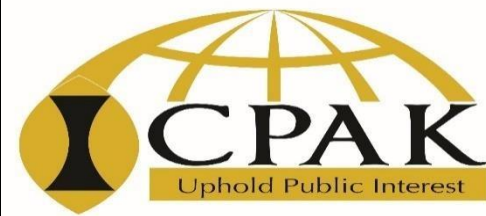
- ✧ To outline the significance of PFM 2012 Act,  
Regulations 2015 and NT circulars
- ✧ To discuss the Implementation Challenges
- ✧ Explore options towards compliance with PFM  
2012 Act & Regulations 2015

# Our understanding of PFM



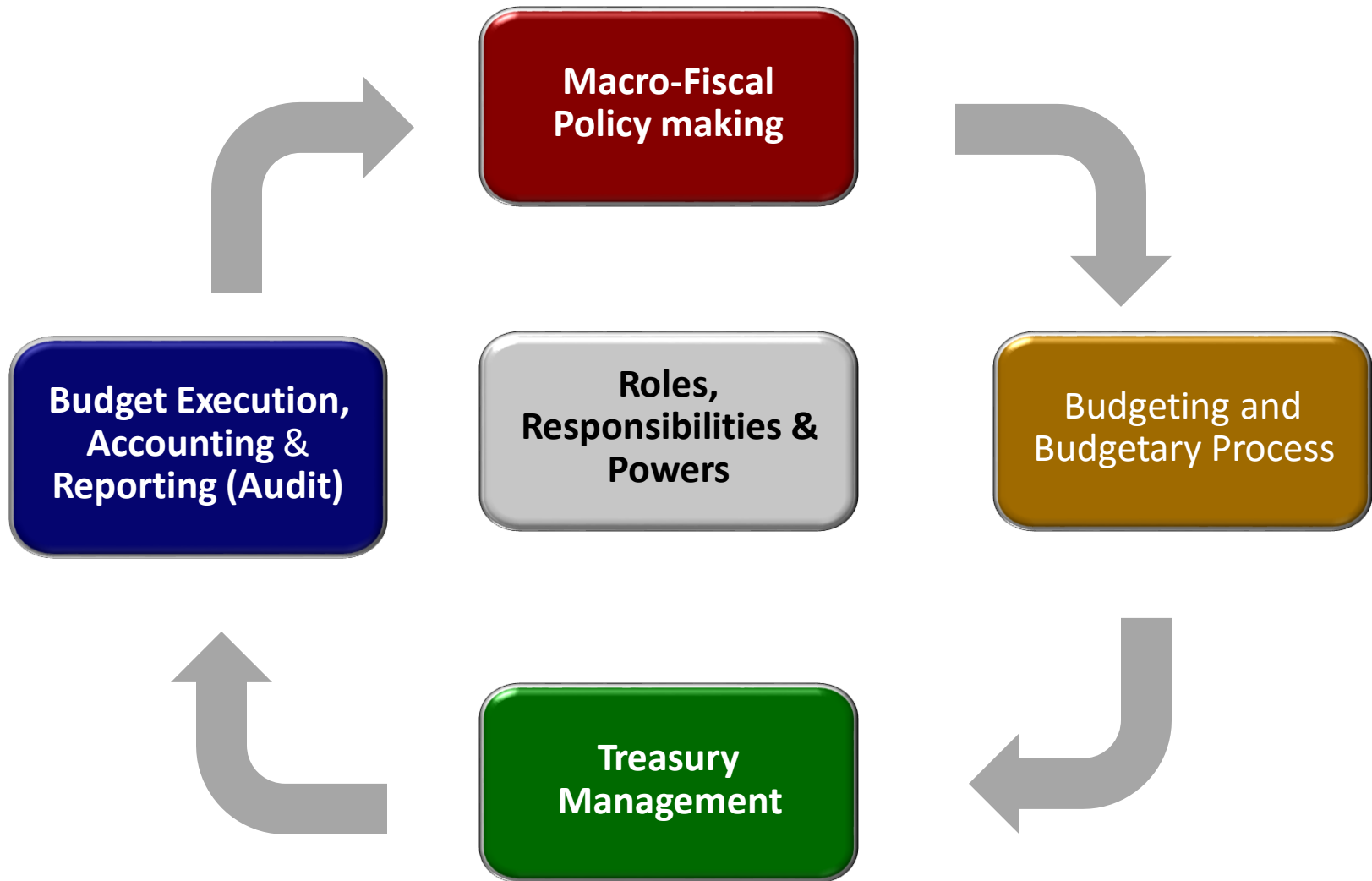
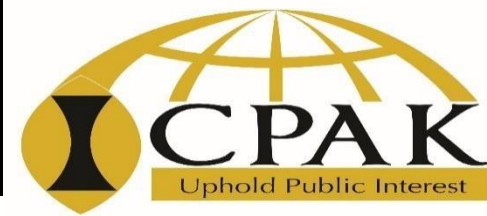
- PFM is an essential part of the national development process.
- PFM includes all phases of the budget cycle, including planning, the preparation of the budget, budget execution, internal control and audit, procurement, monitoring and reporting arrangements, and external audit.

# Our understanding of PFM

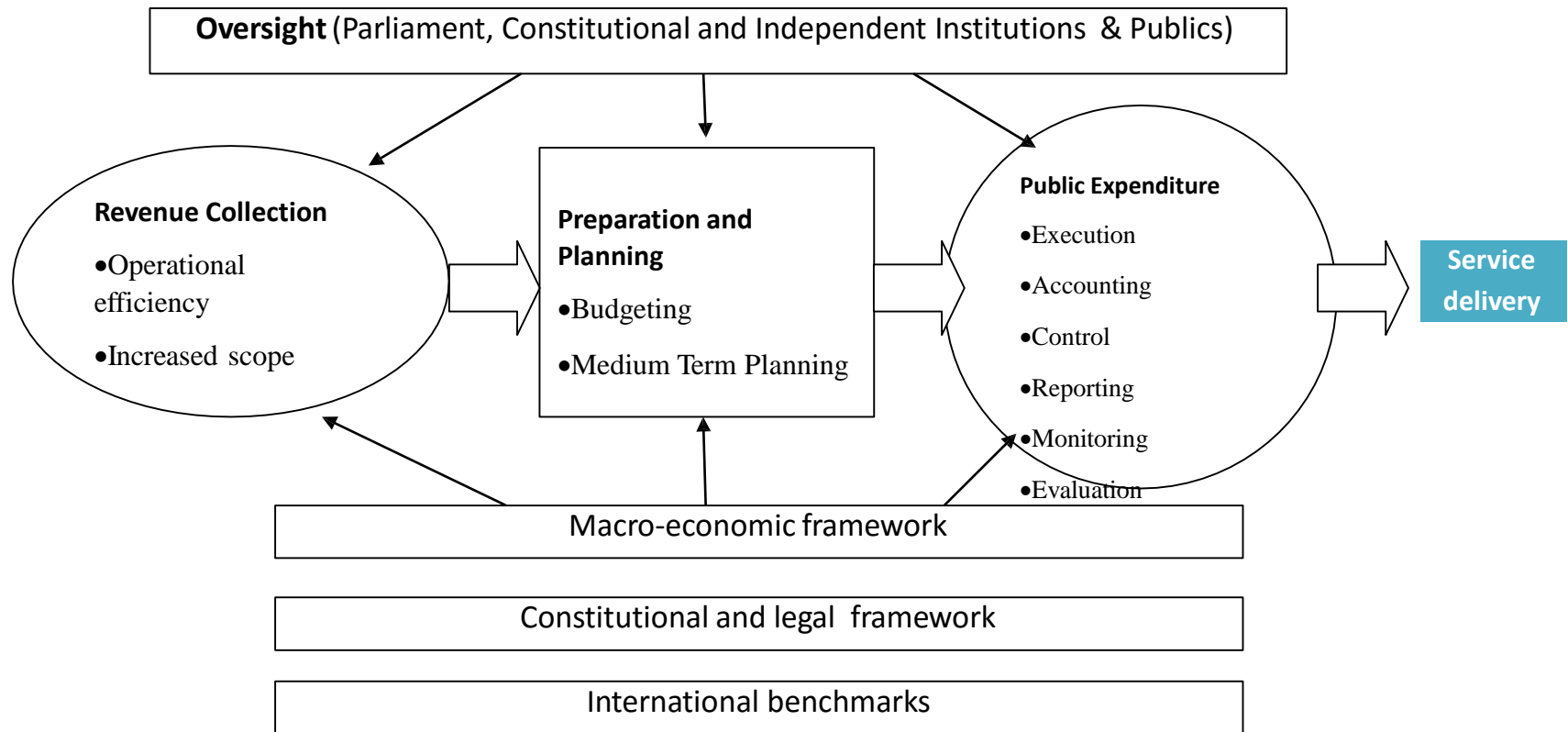
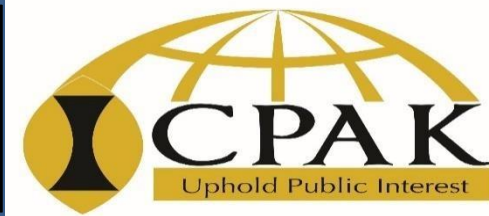


- The PFM reforms witnessed is meant to increase transparency and accountability in the way public finances are managed
- In the legal overview - the Constitution provides the framework for the PFM reforms
- Since introduction, there have been gains as well as challenges - the future also has opportunities

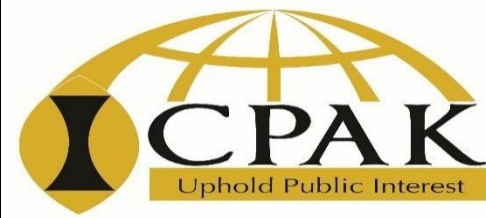
# Core Areas of Good PFM System



# The Public Financial Management Process

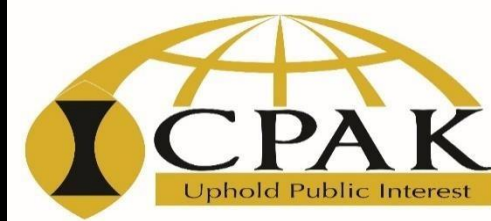


# Legal Framework - Planning , Budgeting, Recording, Accounting and Reporting



- ❑ 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 2015 and guidelines 2016**: Underlines the public audit process and detailed instructions on public audit arrangements
  4. **Public Procurement and Asset Disposal Act 2015 and Regulations**

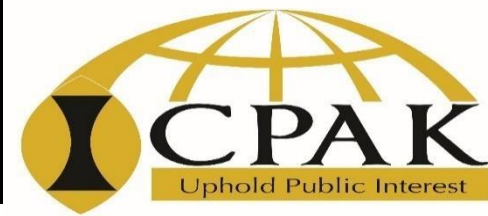
# Understanding - Planning , Budgeting, Recording, Accounting and Reporting



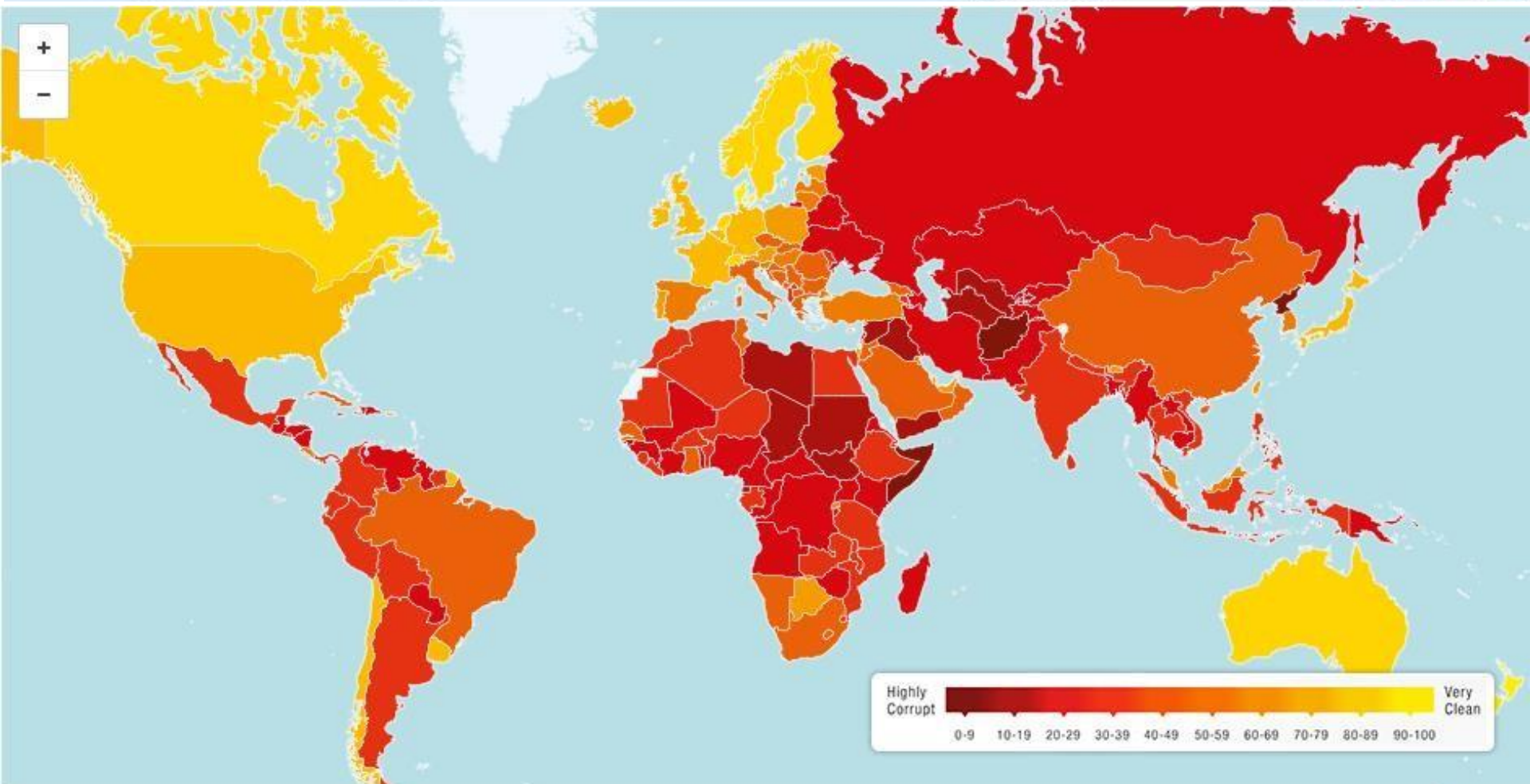
- ☐ To understand Planning , Budgeting, Recording, Accounting and Reporting, it is important to:
  - i. Assess the basic soundness by judging the Planning , Budgeting, Recording, Accounting and Reporting system against international accepted standards and “principles”;
  - ii. Know the rules governing 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; **Comprehensiveness**:-is
  - i. the coverage of the entity operations complete? **Transparency**:-how useful and
  - ii. 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?



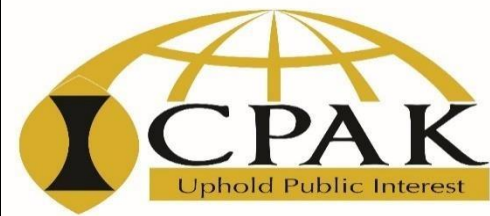
# Extent of IPSAS application in Government - Africa



CORRUPTION RUINS LIVES.  
TAKE ACTION.

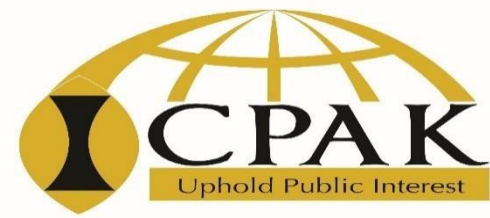


# PFM Act and Regulations – Expected Gains



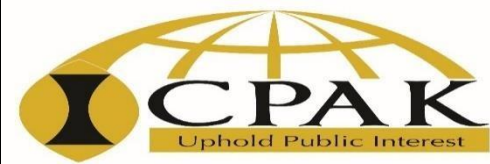
- Openness, accountability, and public participation in PFM;
- Equitable sharing of revenues;
- Equitable sharing of burdens and benefits of public borrowing ; and
- Observation of fiscal discipline.
- Social Economic development & Prosperity
- Accelerated & Sustained Economic growth
- Enhanced Debt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

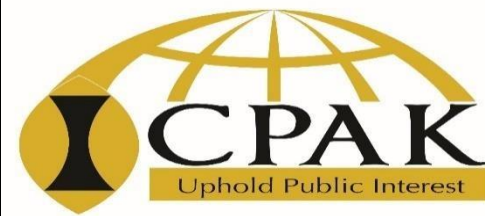
# PFM ACT 2012



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.

# Corporate Management



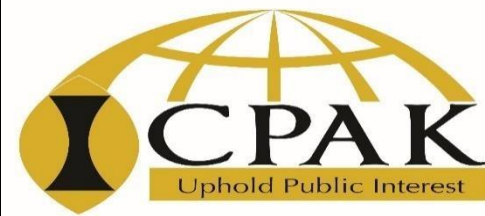
.....is the process and structure used to direct and manage business affairs of the national/county government entities towards enhancing prosperity and good governance with the ultimate objective of realizing national long-term value while taking into account the interest of all stakeholders;

## Opportunities

- **Enhanced Corporate governance (Mwongozo?)**
- Standing committees (PFM R 18)
- Accounting Officers/AIE holders

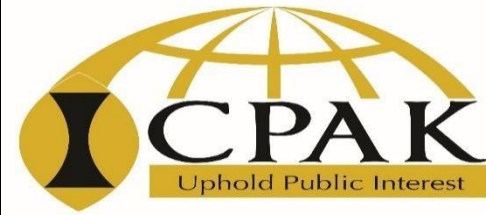


# Areas of focus for the Code



- Chapter One - The Board of Directors
- Chapter Two – Transparency and Disclosure
- Chapter Three - Accountability, Risk Management and Internal Control
- Chapter Four - Ethical Leadership and Corporate Citizenship
- Chapter Five - Shareholder Rights and Obligations

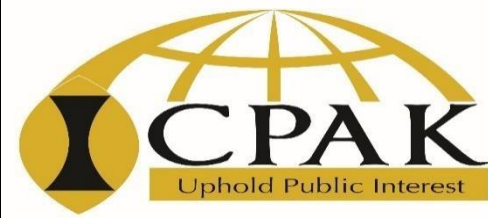
# Areas of Focus for the Code



- Chapter Six - Stakeholder Relationships
- Chapter Seven - Sustainability and Performance Management
- Chapter Eight - Compliance with Laws and Regulations
- Appendices - Sample Board charter & Sample Code of conduct and ethics

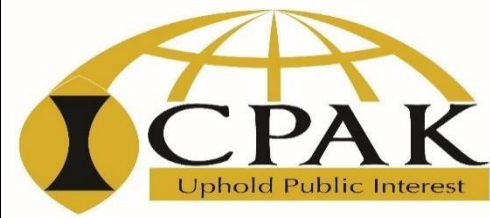


# Potential Benefits of Mwongozo



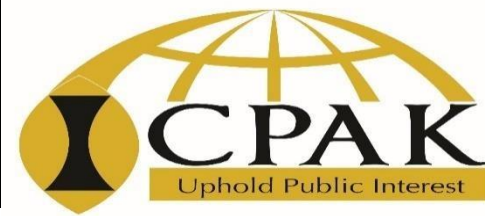
- Enhance competitiveness
- Provide critical infrastructure, financial, commercial & social services in cost efficient manner
- Reduce fiscal burden/risks
- Improve SCs access to external sources of finance
- Strengthen transparency & accountability (reduce corruption)
- Improve economic growth

# Potential Benefits of Mwongozo



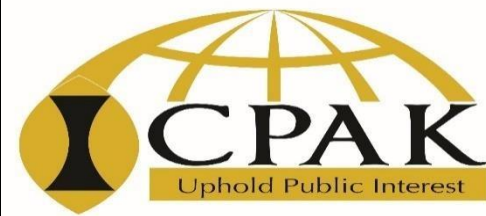
- Improves the GoK ownership role
- Improves performance monitoring system for accountability
- Enhances financial & fiscal discipline
- Rationalizes SC Boards
- Enhances transparency & disclosure
- Ensures stakeholders protection
- Builds support & capacity for implementation

# Fiscal Strategy and Macroeconomic Framework



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

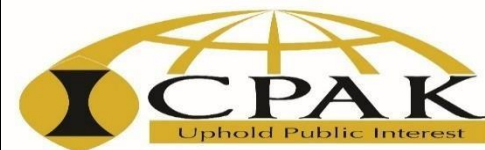
# Budget Preparation



## PFMA Opportunities:

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

# The Budget Process



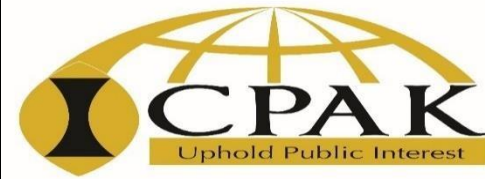
## National Government

- **Budget circular** issued by National Treasury by **30<sup>th</sup> August**
- **Budget Review and Outlook Paper (BROP)** is prepared and approved by Cabinet by **30<sup>th</sup> September**.
- Submit BROP to Parliament 7 days upon approval by Cabinet.
- **6 months** before the commencement of the financial year or at a later date agreed between CRA and Cabinet Secretary (finance), CRA shall submit **recommendations on vertical and horizontal division of revenue**.
- National Treasury prepares and submits the **BPS** to Parliament by 15<sup>th</sup> February.
- **Division of Revenue Bill (DoRB)** and **County Allocation of Revenue Bill (CARB)** are submitted together with the BPS.

## County Government

- **Budget Circular** issued by County Treasuries by **30<sup>th</sup> August**.
- **Budget Review and Outlook Paper (BROP)** is prepared and approved by County Executive Committee (CEC) by **30<sup>th</sup> September**
- Submit BROP to county assembly 7 days upon approval by CEC.
- County Executive Committee member (planning) to submit a **development plan** to the county assembly for approval by **1<sup>st</sup> September**.
- Urban areas and cities shall prepare a **strategic plan** consistent with the **County Fiscal Strategy Paper**.
- County Treasury prepares and submit the **County Fiscal Strategy Paper** to county assembly by 15<sup>th</sup> February.

# The Budget Process – cont'd



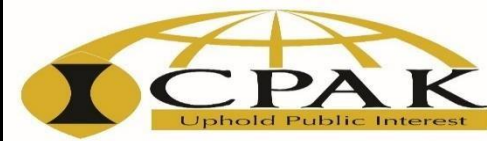
## National Government

- Parliament to approve the annual DoRB and CARB not later than 30 days after they are submitted (Art 218).
- **Budget Estimates** and other Bills (except Finance Bill) submitted to National Assembly by **30<sup>th</sup> April**
- Cabinet Secretary (finance) to submit to NA **comments on budget estimates of Parliament and Judiciary** by **15<sup>th</sup> May**.
- The National Assembly approves the budget estimates and passes an **Appropriation Bill** and the President assents to the Bill by **30<sup>th</sup> June**.

## County Government

- **Budget Estimates** and other Bills (except Finance Bill) submitted to County Assembly by **30<sup>th</sup> April**
- County assembly approves the budget estimates and passes a county **Appropriation Bill** by **30<sup>th</sup> June**.

# The Budget Process – cont'd



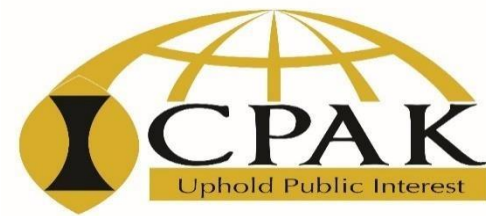
## National Government

- Cabinet Secretary (finance) to make **public pronouncement of budget policy highlights and revenue raising measures** on a date agreed with the other EAC governments.
- National Assembly to approve **Finance Bill** not later than 90 days after the passing of the Appropriation Bill.
- Submit **Debt Management Strategy** to Parliament by **15<sup>th</sup> February**.

## County Government

- County Executive Committee member (finance) to make a **public pronouncement of revenue raising measures** on the date the County Finance Bill is submitted to Parliament.
- County Assembly to approve **Finance Bill** not later than 90 days after the passing of the Appropriation Bill.
- Submit **Debt Management Strategy** to county assembly by **28<sup>th</sup> February**.

# Budget Execution

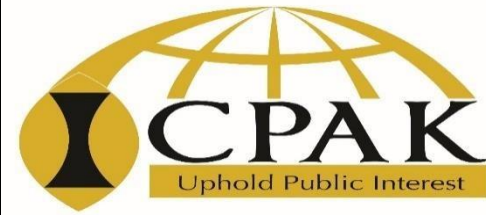


## PFMA Opportunities:

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



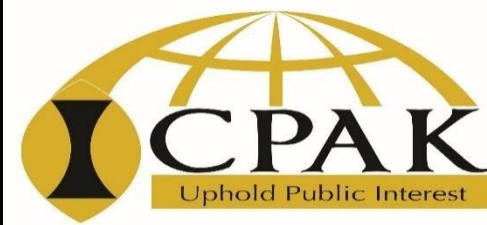
# Management Revenues/ Receipts



## PFMA Opportunities

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

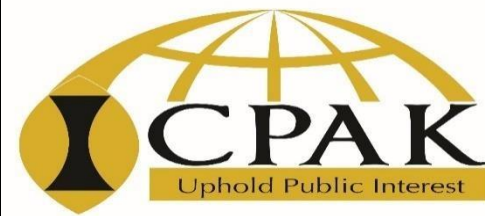
# Management of Grants and Donations



## PFMA Opportunities

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

# 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

## PFMA Opportunities:

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

## National Government

- National Treasury shall prepare a **consolidated annual financial statement** of NG and submit to the Auditor-General with copies to the CoB and CRA not later than 4 months after end of financial year.
- Accounting officer to prepare an **annual financial statement** of NG entity and submit to the Auditor-General with copies to CoB, CRA and NT not later than 3 months after the end of the financial year.
- Not later than 15 days after the end of each quarter, accounting officer for a NG entity will prepare a **quarterly report** and submit to the Cabinet Secretary for that entity with copies to CS (finance) and CoB.

## County Government

- County Treasury shall prepare a **consolidated annual financial statement** of CG and submit to the Auditor-General with copies to the CoB, CRA and NT not later than 4 months after end of financial year.
- Accounting officer to prepare an **annual financial statement** of CG entity and submit to the Auditor-General with copies to CoB, CRA and CT not later than 3 months after the end of the financial year.
- Not later than 15 days after the end of each quarter, accounting officer for a CG entity will prepare a **quarterly report** and submit to the County Treasury.

## National Government

- National Treasury will **consolidate the quarterly reports** of NG entities and submit the consolidated report to the National Assembly, with copies to CoB, Auditor- General and CRA not later than 45 days after end of each quarter.
- Not later than 3 months after the end of the financial year, a receiver of revenue shall submit a **annual report of revenue received and collected** in that financial year and submit to the Auditor-General with copies to NT, CoB and CRA.
- Not later than 3 months after the end of each financial year, each Receiver of Revenue shall submit to the Auditor-General a **report of waivers and variations in taxes, fees and charges**.

## County Government

- County Treasury will **consolidate the quarterly reports** of CG entities and submit the consolidated report to the county assembly, with copies to the CoB, CRA and NT not later than 1 month after that end of each quarter.
- Not later than 3 months after the end of the financial year, a receiver of revenue shall submit a **annual report of revenue received and collected** in that financial year and submit to the Auditor-General with copies to NT, CT, CoB and CRA.
- Not later than 2 months after the end of each financial year, Receiver of Revenue shall submit to the county assembly a **report of waivers and variations in taxes, fees and charges**.

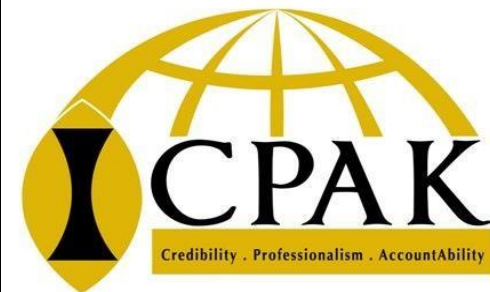
## National Government

- Not later than 3 months after the end of a financial year, an administrator of a national public fund shall prepare an **annual financial statement of the public fund** and submit it to the Auditor-General with a copy to the Cabinet Secretary responsible for the fund.
- Administrator of a public fund to prepare a **quarterly report of a national public fund** in a form prescribed by the Public Sector Accounting Standards Board.
- Separate reporting by **State Corporations** (sections 88 and 89)
- **Pre-election report** not earlier than 4 months before polling day.
- **Post-election report** – not later than 4 months after the polling day.

## County Government

- Not later than 3 months after the end of a financial year, an administrator of a county public fund shall prepare an **annual financial statement of the public fund** and submit it to the Auditor-General with a copy to the County Executive Committee member responsible for the fund.
- Administrator of a public fund to prepare a **quarterly report of the county public fund** not later than 15 days after the end of the each quarter and submit the report to the CT with a copy to the CoB.
- Separate reporting by **County Corporations** (sections 184 and 185)

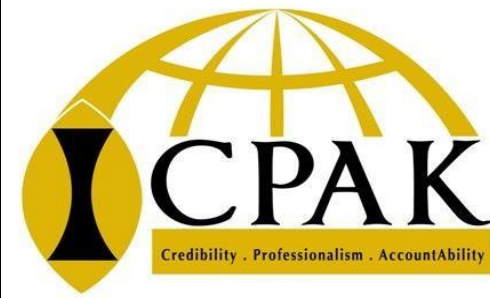
# Scope and Authority of IPSASs



- ❑ IPSAS are designed to guide the preparation and presentation of general purpose financial statements of public sector entities.
- ❑ Public sector entities include national (central), regional and local governments, and their component entities such as departments, agencies, boards, commissions et cetera.
- ❑ IPSAS do not apply to Government Business Enterprises (GBE) or also known as Commercial Public Sector Entities



# Government Business Enterprises (GBEs)



**GBEs use IFRS and not IPSAS.**

**A GBE is an entity that has meets the following criteria,**

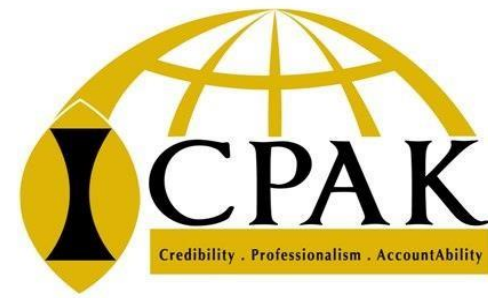
- a) Is an entity with the power to contract in its own name;
- b) Has been assigned the financial and operational authority to carry on a business;
- c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
- d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and  
Is controlled by a public sector entity.
- e)

# General purpose financial statements



- ❑ General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs, e.g taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees.
- ❑ Such reports provide information about an entity's assets, liabilities, changes in net assets/equity, revenue, expenses, and cash flows and may be presented separately or within another public document such as an annual report.

# Objectives of general purpose financial statements



To provide information that is useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it by providing information:

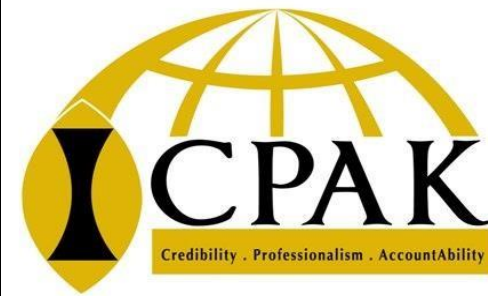
- (a) About the sources, allocation and uses of financial resources entrusted to it;
- (b) On how the entity financed its activities and met its cash requirements;
- (c) That is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;
- (d) About the financial condition of the entity and changes in it
- (e) Useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

# Objectives of general purpose financial statements (cont.)



- ❑ General purpose financial statements also have a predictive or prospective role. They provide information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties.
- ❑ Financial reporting may also provide users with information indicating whether resources were obtained and used
  - (a) in line with the legally adopted budget; and
  - (b) in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities

# Responsibility for Financial Statements



- ❑ The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions with some drawing a distinction between the responsibility for preparing and responsibility for approving or presenting the financial statements.
- ❑ Consider examples of people / positions responsible for the preparation and for the approval and presentation of financial statements of individual public entities.
- ❑ These may be the heads or chief executives for the individual entities and the finance minister or the head of the central finance agency (e.g., controller or accountant-general) for the government as a whole.

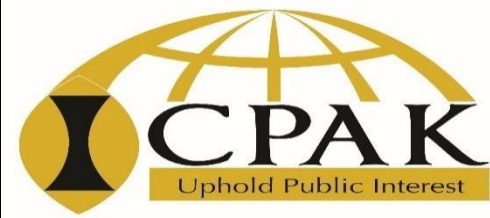
# Components of Financial Statements



A complete set of financial statements comprises:

- (a) A statement of financial position;**
- (b) A statement of financial performance;**
- (c) A statement of changes in net assets/equity;**
- (d) A cash flow statement;**
- (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**
- (f) Notes, comprising a summary of significant accounting policies and other explanatory notes.**

# Expenditure Management and Control



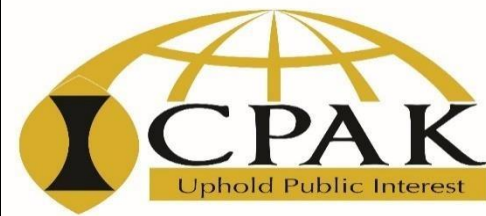
## PFMA Opportunities:

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

## Challenge:

- Compliance?
- What controls are there then?

# Monitoring and Reporting

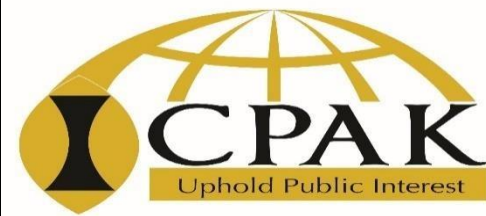


## PFMA Opportunities:

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



# Asset Management

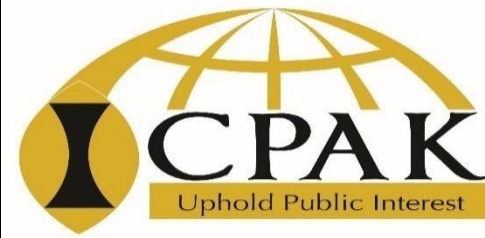


## PFMA Opportunities:

- 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

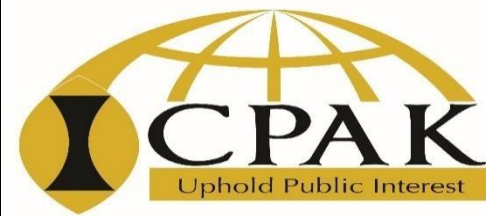


## PFMA Opportunities:

- 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)

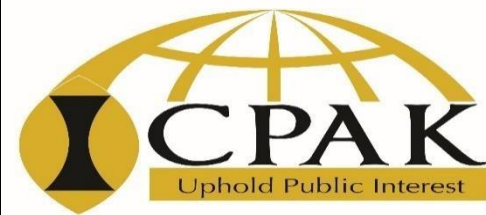
# Public Debt Management



- Country borrowing strategy - domestically, foreign debts vs Interest rates
- The country's external debt has increased from Sh361.73 billion in May 2003 to Sh1.8 trillion as at June this year. In total, the country's public debt stands at around Sh3.2 trillion.
- 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

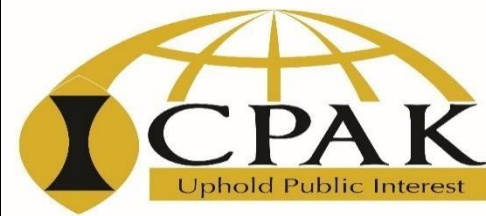
# Way Forward



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

- 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 Counties 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 with catalytic value?
- Can we maintain macro-economic stability with low inflation, low fiscal deficit and fiscal space?

# Conclusion

- Discussion
- Questions?

