



PUBLIC FINANCIAL MANAGEMENT

AN OVERVIEW OF PFM ACT & 2015 REGULATION

Credibility .

Professionalism

.

AccountAbility

Presentation Plan



- ☐ Rationale for enactment of the PFM Act 2012
- ☐ Some reflections on our Macroeconomic performance
- ☐ Budget Cycle and Key Documents
- ☐ Key highlights in 2015 regulations

Background



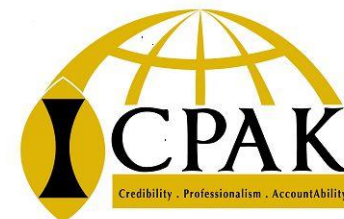
- ❑ The PFM Act underscores the importance of a good PFM management in creating a conducive environment for investments, job creation and poverty reduction at both levels of government.
- ❑ Without a good PFM system in place, the success of the devolution is to be curtailed if not de-railed.

A macro review

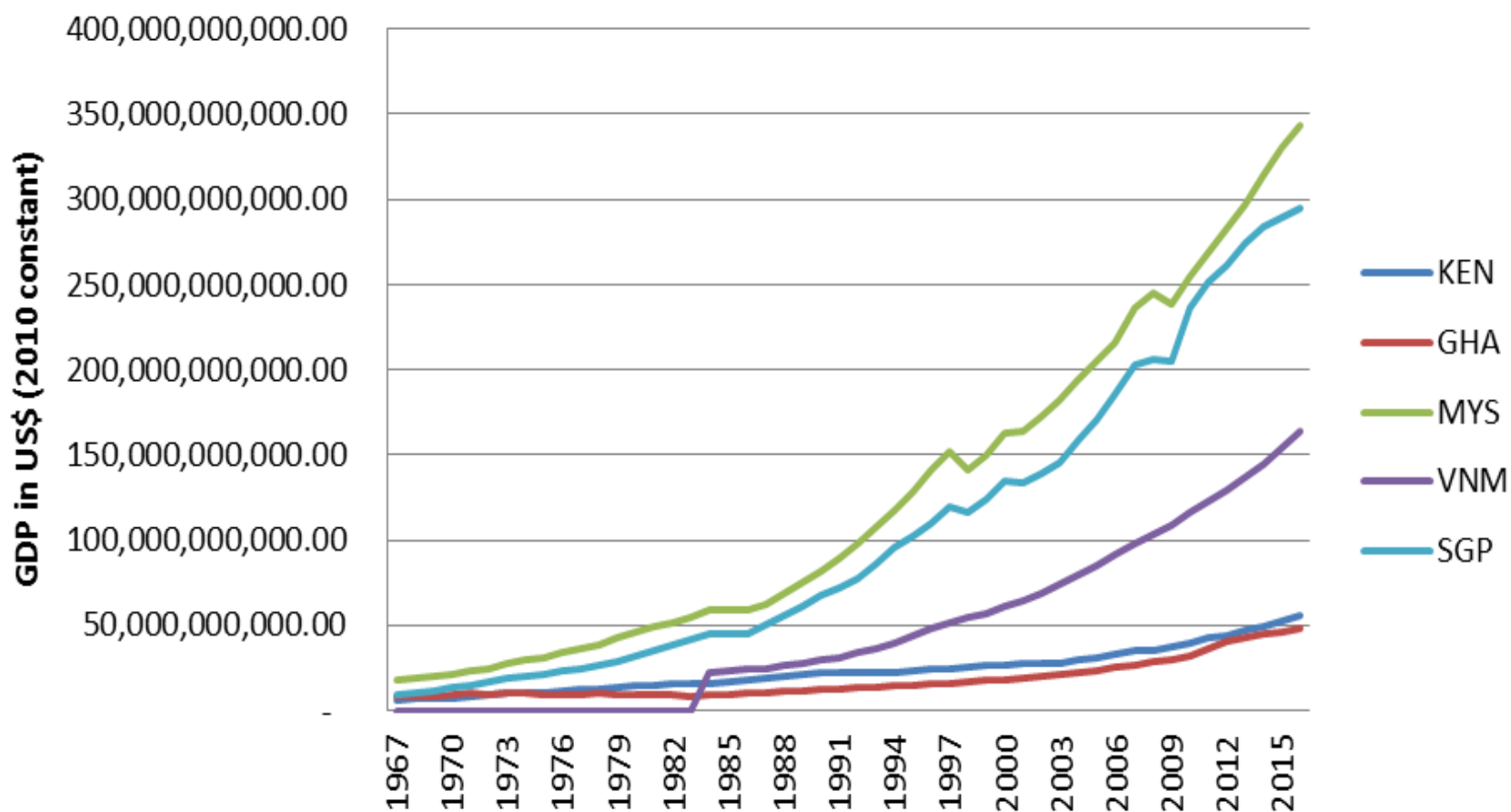
**What does our past macroeconomic indicators
tell us??**

For us to reflect!!!!

Comparative GDP (US\$ 2010 constant)

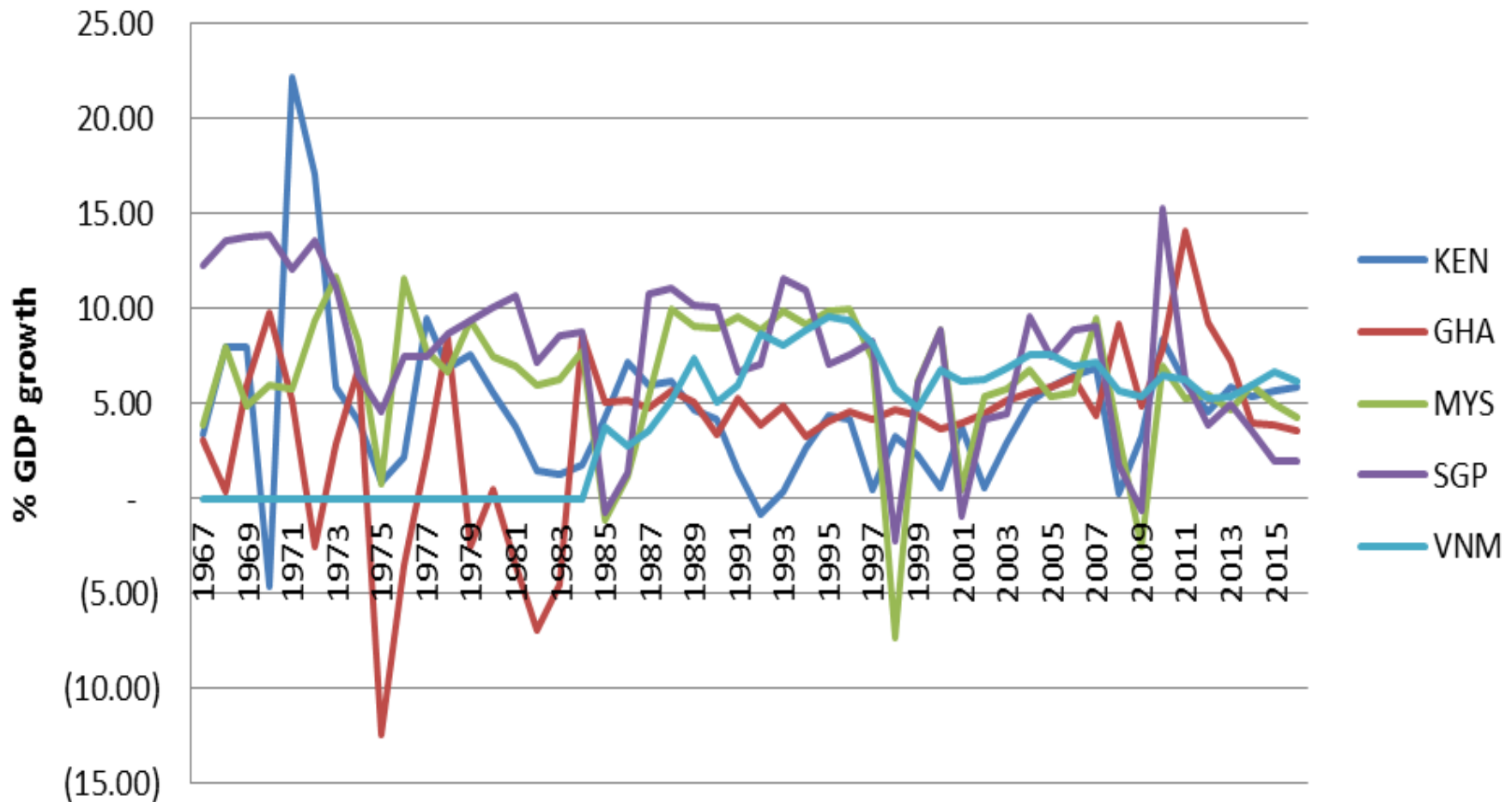


GDP from 1967 to 2016



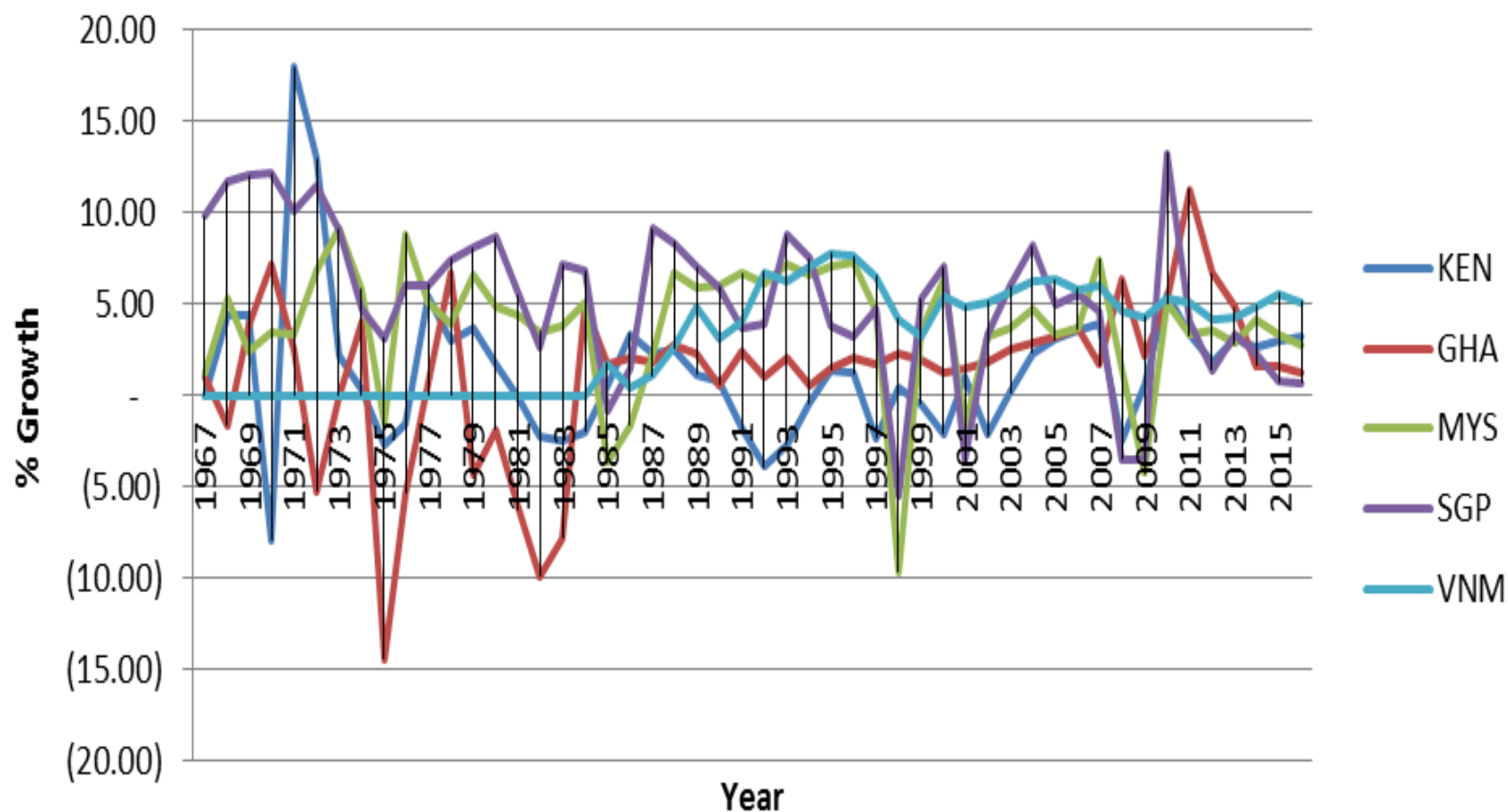
Comparative GDP Annual Growths

GDP Annual growth from 1967 to 2016



Comparative GDP Per Capita

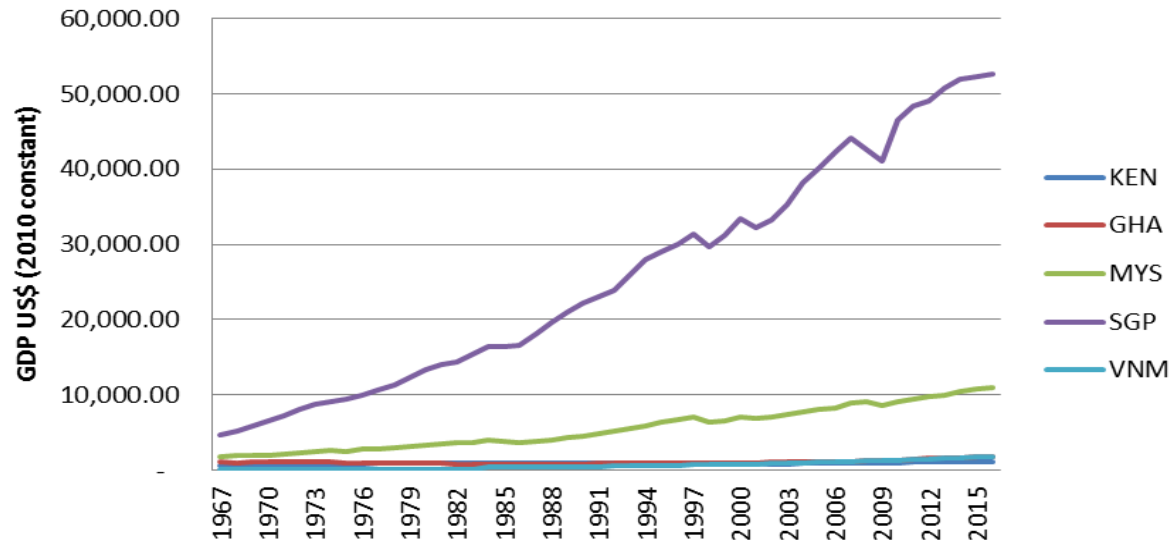
GDP per capita from 1967 to 2016



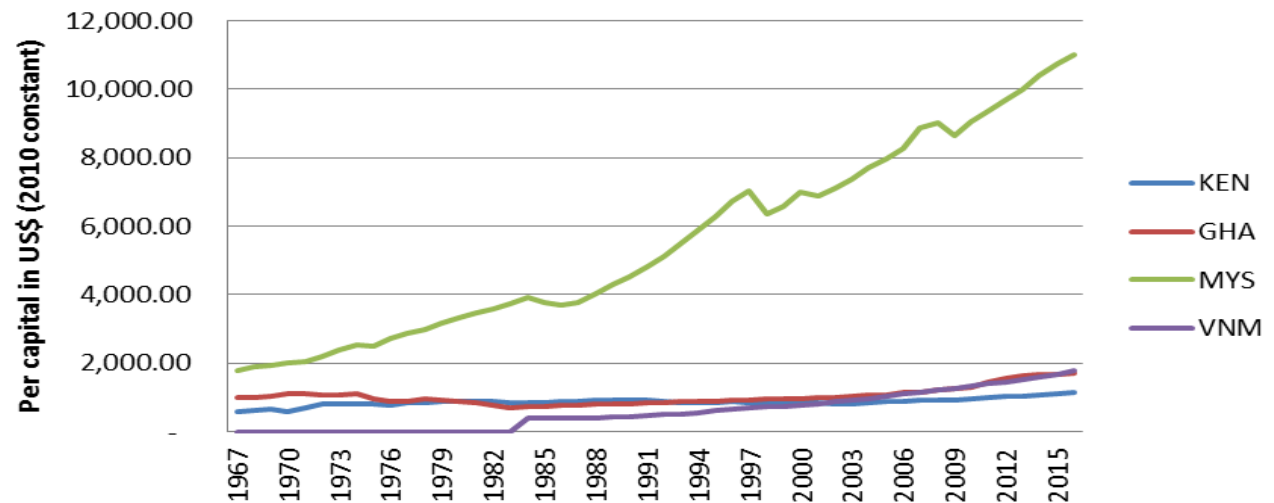
Comparative GDP per capita Growth



GDP per Capita growth from 1967 to 2016



GDP per capita growth from 1967 to 2016



Key objectives of PFM Act (2012)



- ☐ To safeguard financial autonomy of both levels of government (Art's. 6(2); 189 (1)(a)).
- ☐ To anchor the Act under Article 201 of the constitution which deals with **the 'Principles of public finance'**
- ☐ To incorporate best international practices in public financial management.
- ☐ To modernize and consolidate the many PFM laws that were in place

NB:

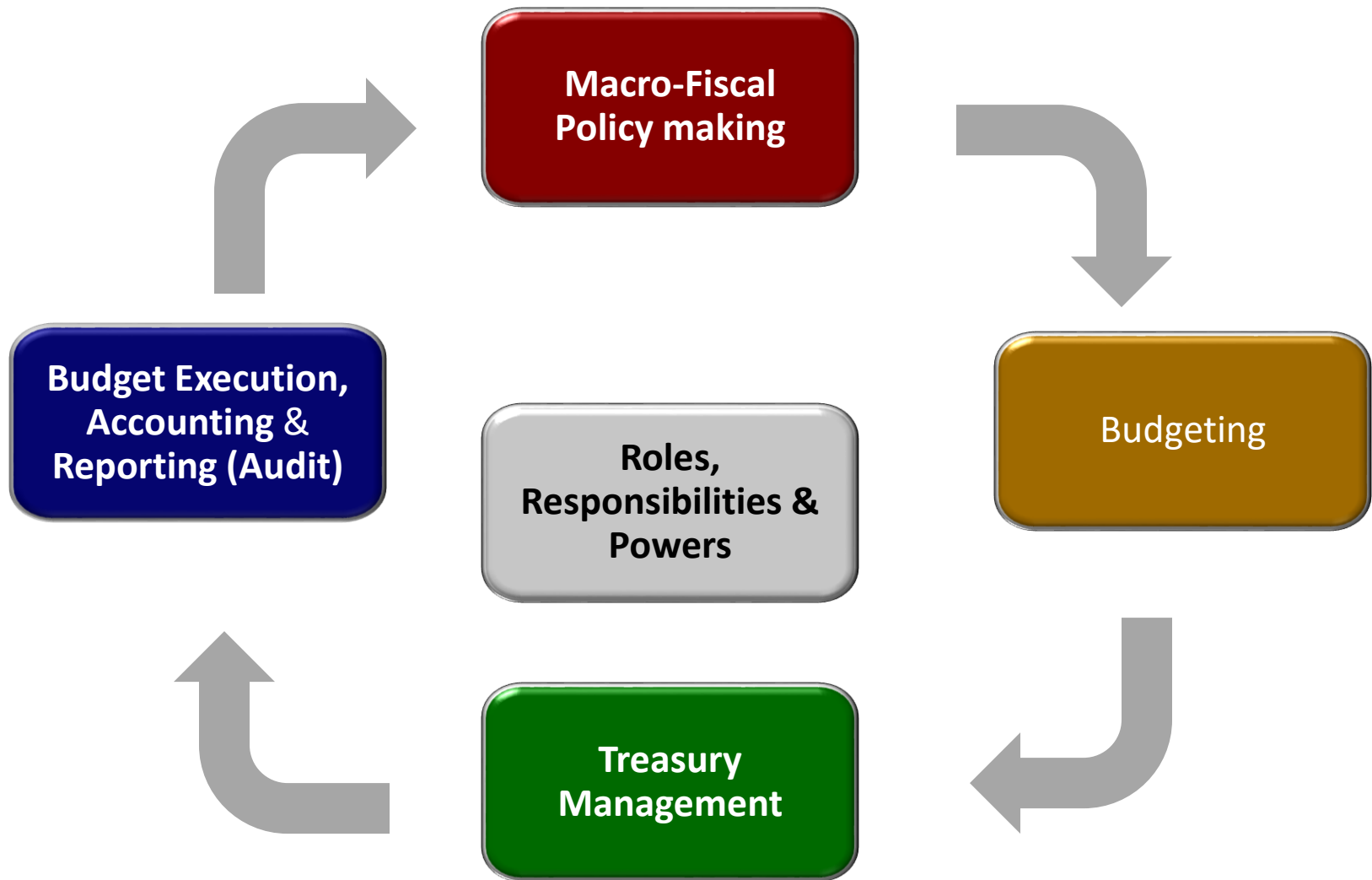
The PFM Act caters for all the legislations required under the 5th Schedule of the Constitution—except for the procurement law which is separate

Link between the Constitution & the PFM Act



- Article 201 which provides for **principles of public finance** guides the PFM Act.
- Article 206 on the **Consolidated fund and other public funds**.
- Article 207 which establishes **County Revenue Funds** and provides for setting up of other funds at the county level.
- Article 208 on **Contingencies Fund**.
- Article 211 to 214 on **borrowing** and **guarantees**.
- Article 220 which requires national legislation to prescribe the **form, content and timing of budgets**.
- Article 225 on **financial controls** at the national & county level.
- Article 226 which requires an Act of Parliament to provide for **financial records** and **audit** of all accounts of governments;
- Article 227 on **procurement**.

Core Areas of a Good PFM System



Supremacy of the PFM ACT 2012:



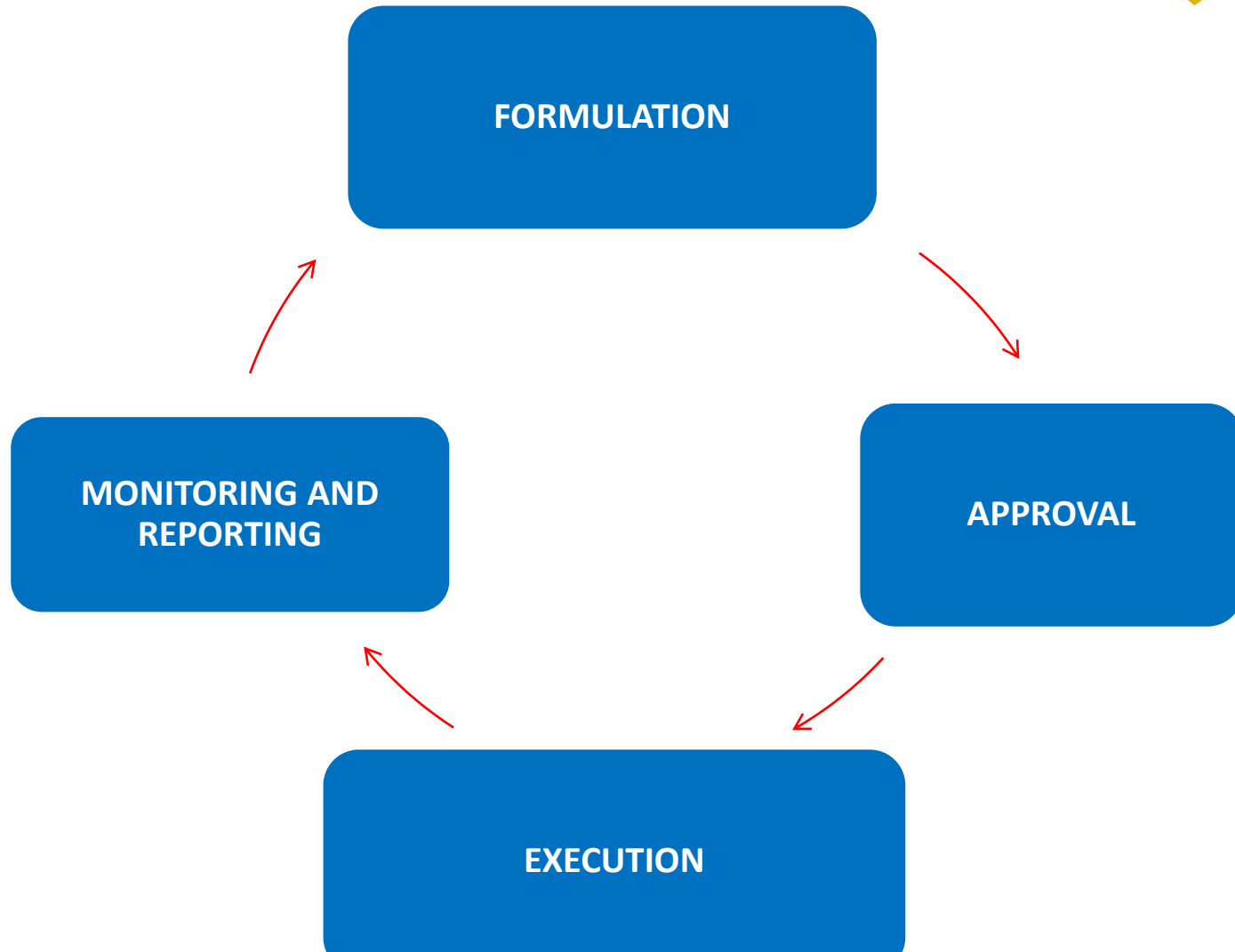
The PFM Act 2012 shall prevail in the case of any Inconsistency between it and any other legislation on the following matters:

- (a) Preparation and submission of budget estimates
- (b) Preparation and submission of accounts for audit
- 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.

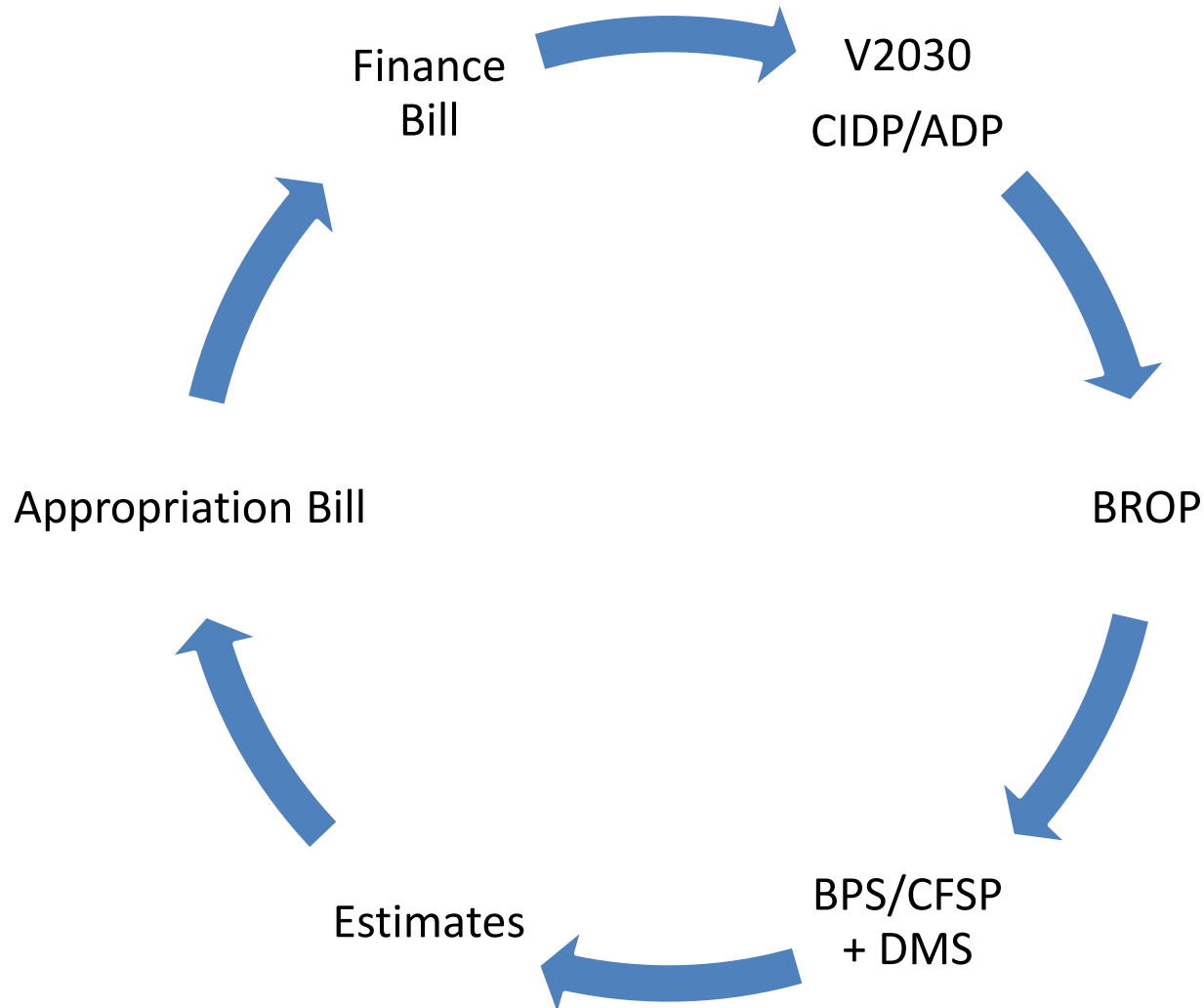


THE BUDGET PROCESS

STAGES IN BUDGETING PROCESS



Budget Summary



Summary of the Budget Making Cycle



Policy Development

- National Development Plans
- Economic Recovery Strategy
- Poverty Reduction Strategy
- Sectoral Strategies and Policies

Evaluation and Audit

- Audit and oversight by Parliament
- Measurement of achievement of objectives
- Evaluation and adjustment of policies

Accounting and monitoring

- Capturing expenses in accounting system
- Recording and use of management information on outputs
- Internal audit

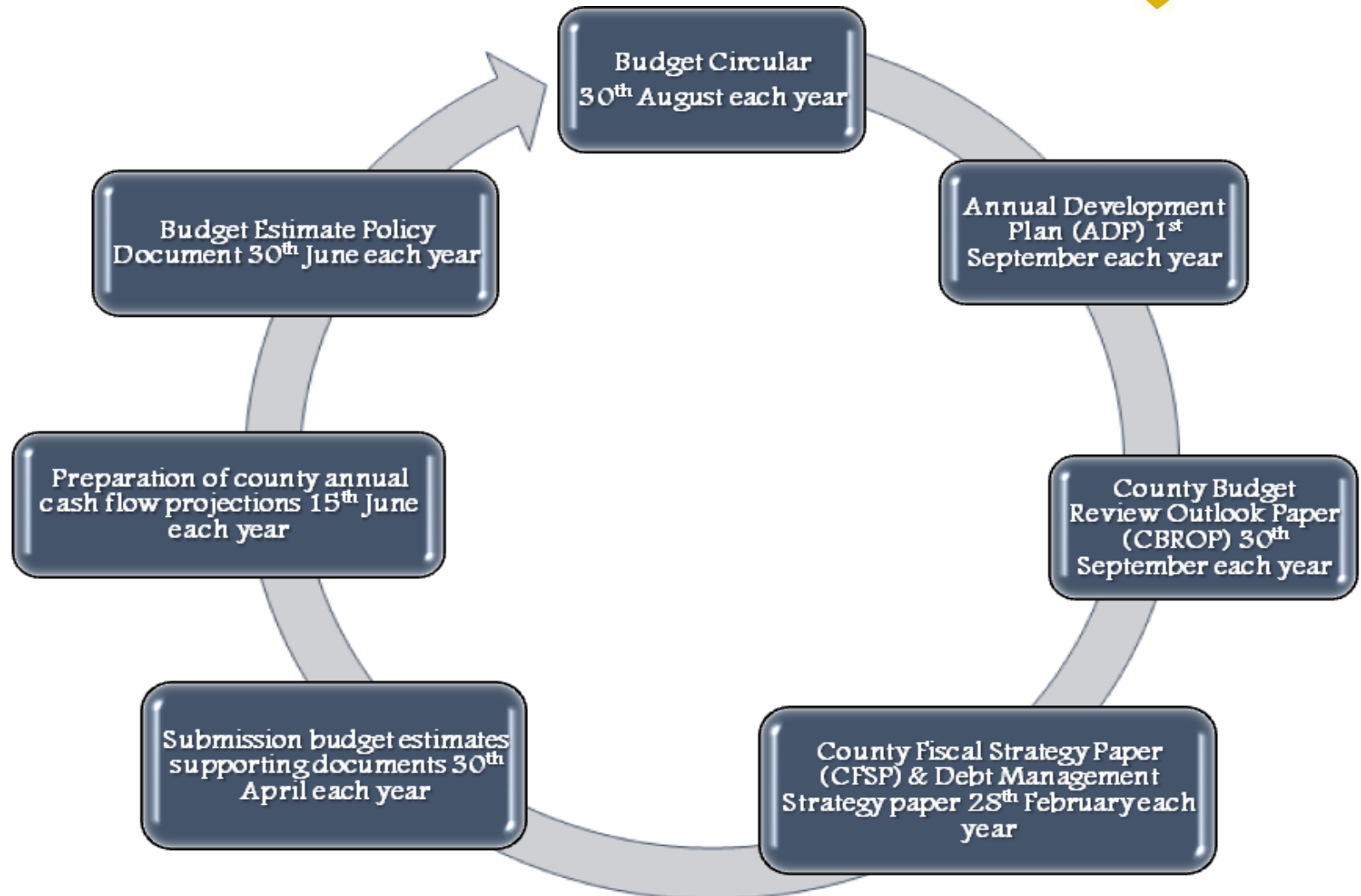
MTEF/Budget Process

- Macro-economic forecasts
- Fiscal and budget framework
- Development of sector proposals
 - Costing of baseline & new spending
 - Identification of savings
 - Making trade-offs
- Allocations between sectors and MDAs
- Budget documentation
- Budget Approval by Parliament

Budget Implementation and Control

- Collection of revenue
- Cash management rules
- Cash allocation and release of funds
- Management of services, human resources
- Procurement

Key Documents & Timelines



The PFM 2015 Regulations

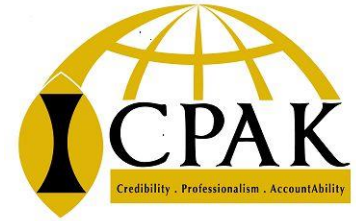
SELECTED HIGHLIGHTS

The 2015 Regulations



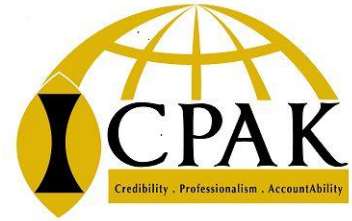
- ❑ PFM Regulations- National Government. [34-Public Finance Management Act Regulations 2015 National Government.pdf](#)
- ❑ PFM Regulations- County Governments: [PFM Regulations - Legal Notice No. 35 County Govts Regu-1.pdf](#)
- ❑ Gazette Notice- Audit Committees: [Gazette Notice Audit Committees in National and County Government Institutions Vol.CXVIII-No_.40_\(002\).pdf](#)

Scope of the Regulations



- ☐ Corporate Management
- ☐ Budget Preparation and Execution
- ☐ Management of Grants and Donations
- ☐ Managing Imprest Transactions
- ☐ Accounting and Reporting
- ☐ Asset Management
- ☐ Internal Audit and Audit Committees

The Standing Committees (Reg. 18 (National & County))



- ❑ Every national/county government shall establish a public finance management standing committee to provide strategic guidance to the entity on public finance management matters;
- ❑ **Each standing committee shall comprise of -→**
 - a) Accounting Officer as chairperson of the committee;
 - b) An Officer designated as secretary of the committee and who shall be either the head of the finance or accounts units or head of both finance and accounts units of the entity;
 - c) heads of departments or administrative units dealing with public finance management matters.

Functions of The Standing Committee



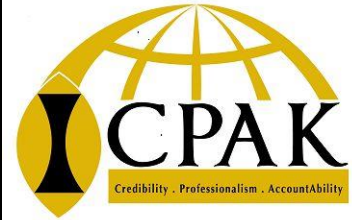
- Ensure prioritization in resource allocations
- Regular reviews, monitor budget implementation, advise on entity accounts, major capital expenditures, performance review & strategy implementation
- Identify risks and establish a risk management framework
- Regularly review the adequacy & integrity of the entity's internal controls, acquisitions & divestitures and information management systems
- Establish & implement a system to disseminate information to stakeholders
- Monitor the effectiveness of corporate governance practices
- Monitor timely resolution of audit issues
- Any other matter referred to it by the CS/CEC

Accountability measures



- **Handing over by public officer (Reg. 11)** – vacation of office is not complete until all financial & accounting records kept by such officer have been properly handed in writing & attested by the vacating officer's supervisor
- **use of signatures on finance matters (Reg. 12)**
 - ✓ (1) Signing a financial transaction must be in a manner that precludes any subsequent alteration or addition of information to such document or record
 - ✓ (2) Signature alluded to in (1) above is not binding unless a specimen signature was provided in advance to the accounting officer
 - ✓ (3) Once an officer vacates office, the accounting officer shall nullify the provided specimen signature & notify all other relevant authorizing officers

Accountability cont.....



- **Blank or Incomplete cheques/records (Reg. 13)**
 - ✓ (1) “Thou’ shall not sign any blank or incomplete cheque and/or record/document for a financial transaction”
 - ✓ (2) “Thou’ shall read and satisfy thyself as to the authenticity and/or completeness of such record/document as your signature on that document is evidence of acceptability of responsibility on the content of that financial record/document “.
 - ✓ (3) Signing any financial document contrary to subsection (1 &2) above is an offence under the PFM Act.
- **Use of Ink (Reg. 14)** – Only the President or Auditor General shall use **GREEN ink or Pencil** on official financial transaction

Accountability cont.....



- Only the Cabinet Secretary, Internal Auditor General or Head of Internal Audit shall use **BROWN ink or pencil** in recording official financial transaction (Reg. 15)
- **Alterations on financial documents (Reg. 16)**
 - ✓ (1) Financial records and documents shall be written in **indelible ink**
 - ✓ (2) An entry in financial record or document shall not be **obliterated, erased or altered** by been written over
 - ✓ (3) Payment in connection with **obliterated, erased or altered** document shall be **rejected** unless **countersigned**. **However, countersigning shall not apply for a cheque or official receipt (this must be rejected).**
 - ✓ (4) Any body who contravenes this regulation is an offense under the PFM Act

Penalties and Fines



Art. 226 (5)

“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”.

Penalties and Fines –PFM Act



- Section 199: Provides for maximum penalties for offences committed under this Act:
 - ✓ A conviction of a term of imprisonment not exceeding five years or
 - ✓ A fine not exceeding Ksh10 million or
 - ✓ Both such fine and imprisonment.
 - Section 200 and 201 requires the principal secretary and accounting officers to report suspected offences to relevant law enforcement agencies for investigation.
 - Section 202 and 203 provide for liability of a public officer for certain losses sustained by the National and County governments.
- ❑ We already have a precedent from Nyeri County!!!!**

Conclusion



- Discussion
- Questions?

