

OFFICE OF THE CONTROLLER OF BUDGET

Devolution Score Card after 1st Term: Achievements, Drawbacks and Way Forward

PRESENTED DURING THE 26TH ECONOMIC SYMPOSIUM

by
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Presentation Outline

1. Introduction
2. Mandate of OCOB
3. Achievements - FY 2013/14 to FY 2016/17
4. Drawbacks
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**Promulgation of the Constitution of
Kenya, August 27th 2010**

Introduction

- The main departure between the Constitution promulgated in 2010 and the previous Constitution is the introduction of the devolved system of governance with decentralized fiscal management.
- The devolved system of governance ensured that power and resources are devolved to more centers of authority which are distinct, interdependent and operate on the basis of consultation and mutual respect.
- This was necessitated by public demand for more transparency and accountability in the management of public resources.

Introduction..2

- Consequently, the Constitution of Kenya, 2010 bestowed the sovereign power to the people of Kenya and to be exercised only in accordance with the Constitution.
- To protect this sovereignty, the Constitution established among other oversight institutions, Commissions and Independent Offices (Art. 249).
- One of these oversight institutions is the Office of the Controller of Budget established under Article 228 of Constitution of Kenya, 2010.

Introduction..2

- The Office was established to separate financial management functions i.e. monitoring, controlling and reporting on budget implementation and auditing which were hitherto, performed by the Treasury and Controller and Auditor General respectively.

Mandate of the Office of the Controller of Budget

Mandate of OCOB

The main mandate of the Office of the Controller of Budget is to oversee the implementation of the budgets of the national and county governments by authorizing withdrawals from public funds (*Equalization fund, Consolidated Fund and County Revenue Fund*) (Article 228 (4)) if satisfied that the withdrawal is authorized by law (Article 228 (5)).

In addition, the Controller of Budget reports to each House of Parliament every four months (Article 228 (6)) on the implementation of budgets of both the national and county governments and ensures the public has access to information on Budget Implementation (Section 39(8), PFMA).

Achievements - FY 2013/14 to FY 2016/17

Achievements – Transfers to Devolved Units

1. Transfers to Devolved Units

a) Total Equitable Share of Revenue

The Government transferred a total **Ksh. 960.34 billion (84.1 Per cent)** in the last five years in line with **Article 202(1)** of the Constitution of Kenya, 2010.

b) Conditional Grants

The Government transferred a total **Ksh. 54.4 billion (4.8 Per cent)** as conditional grants in the last five years in line with **Article 202(2)** of the Constitution of Kenya, 2010.

c) A total of **Ksh. 1.015 trillion** has therefore been transferred to the Counties in the last five years

d) County Own Source Revenue

The County Governments collected a total **Ksh. 127.69 billion (11.17 Per cent)** in the last five years in line with **Article 209** of the Constitution of Kenya, 2010.

Aggregate County Government Revenue from FY 2013/14 to FY 2016/17



Local Revenue
Kshs.127.69 Billion
(11.17%)



Conditional Grants
Kshs.54.4 Billion
(4.76%)



Total Revenue
Kshs.1.14 Trillion



**National Equitable
Share**
**Kshs.960.34
Billion (84.06%)**

Achievements – Budgets and Expenditure

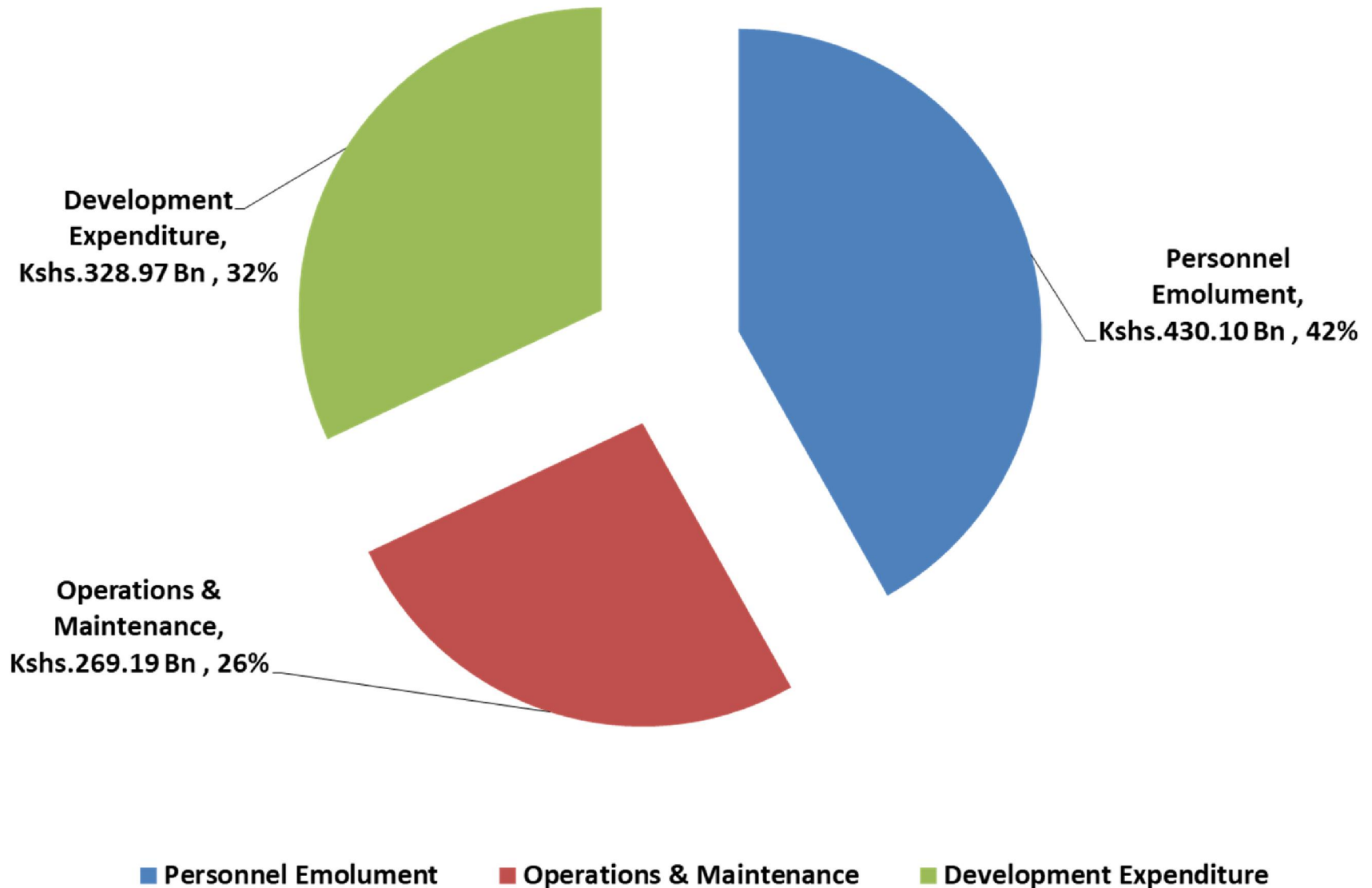
a) Total Aggregate Budgets

- The County Governments budgeted to spend a total **Ksh. 1.35 trillion** in the last five years of which:-
 - ❖ Recurrent Estimates - **Ksh. 791.69 billion (71.0 percent)**. This forms the bulk of the budget expenditure.
 - ❖ Developments Estimates - **Ksh. 562.29 billion (29.0 percent)**

b) Expenditures

- The County Governments spent a total **Ksh. 1.028 trillion** on both recurrent and development activities in last five years
 - ❖ **Recurrent Expenditure** **Ksh. 699.29 billion (68.0 percent)**
 - ❖ **Development Expenditure** **Ksh. 328.97 billion (32.0 percent)**

Expenditure Analysis - FY2013/14 to FY 2016/17

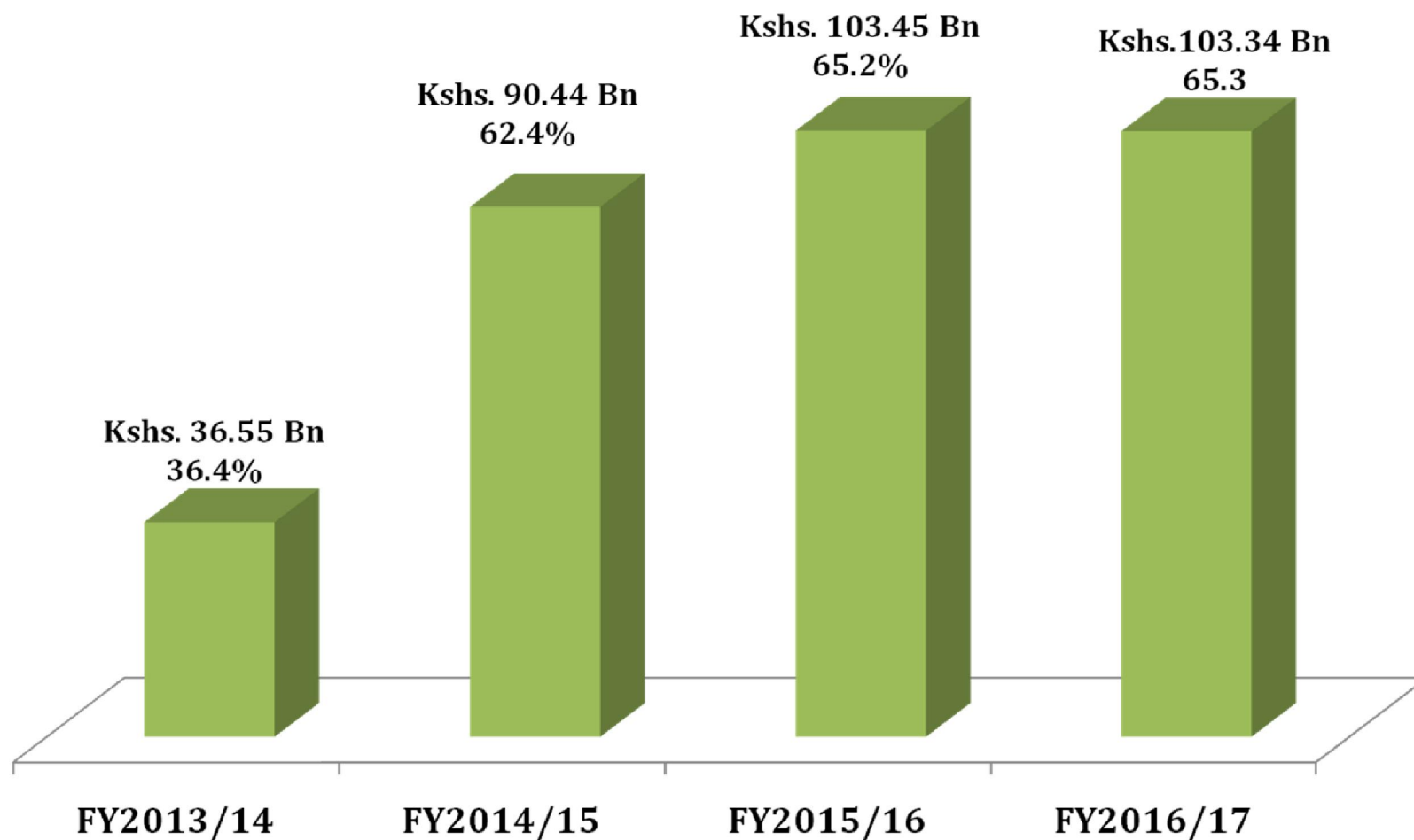


Achievements- Absorption of Development Funds

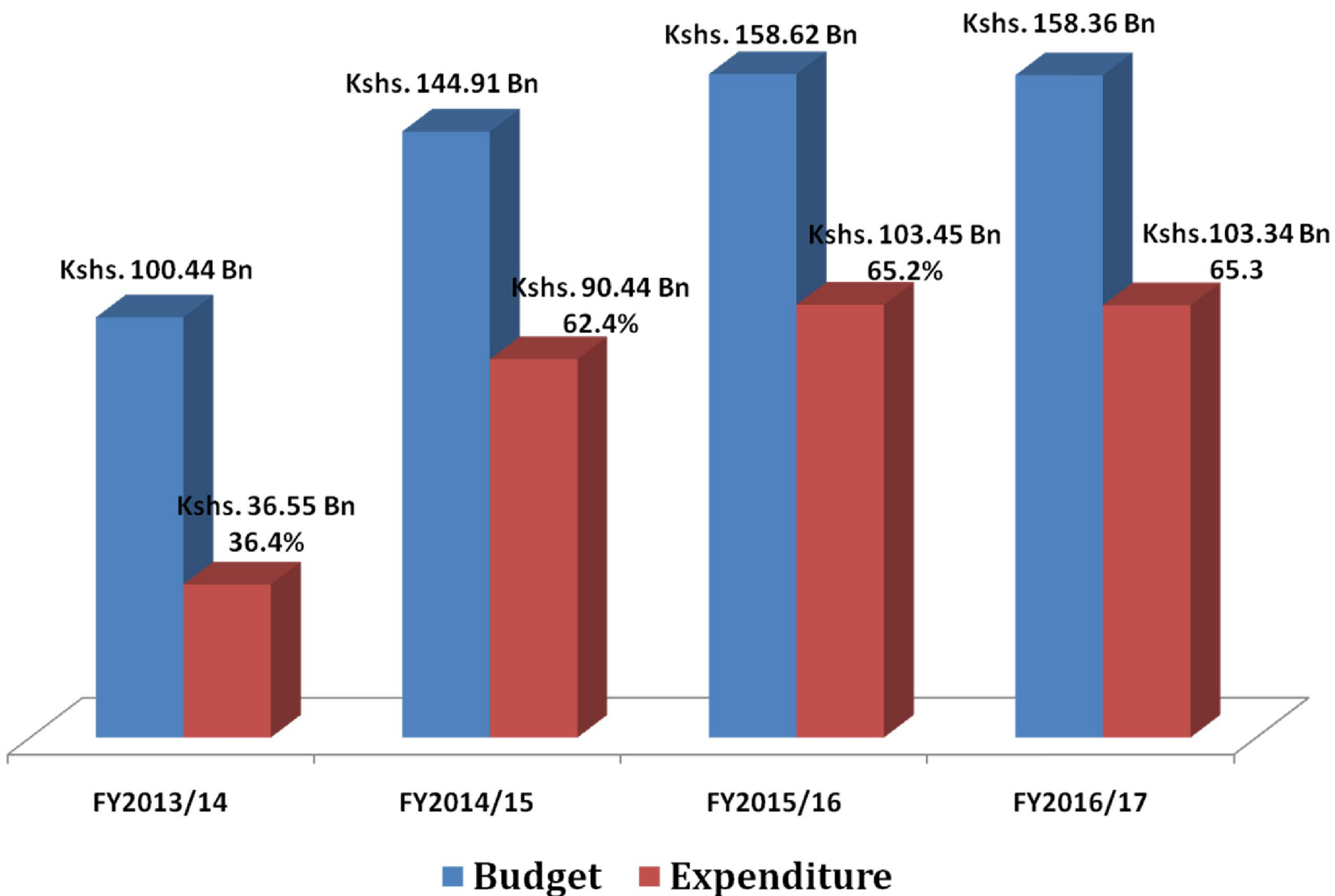
2. Improvement in absorption rates

The absorption of development budget has improved since the onset of devolved system of governance. The absorption increased from 36 per cent in FY2013/14 to 65 per cent in FY2016/17.

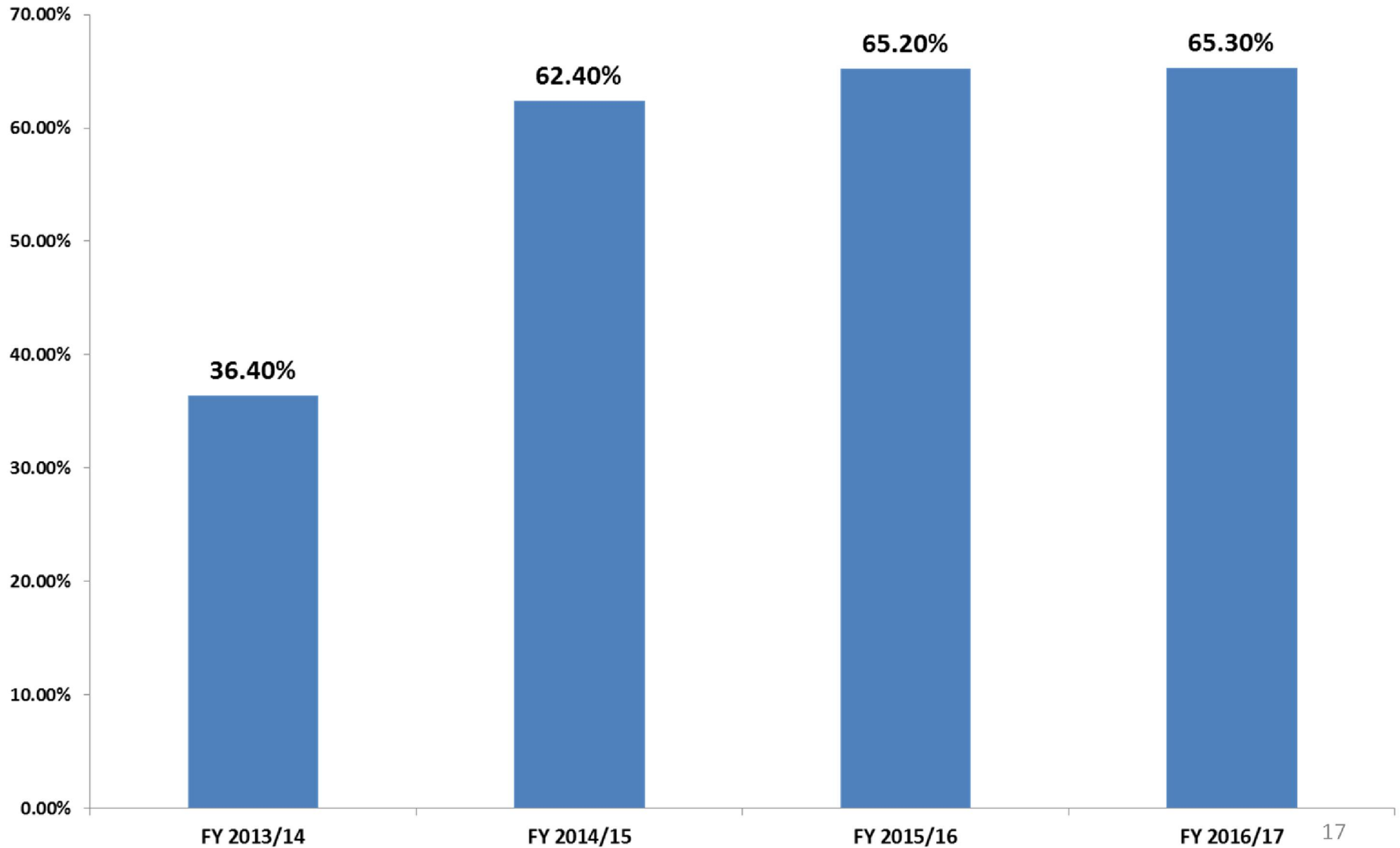
Development Expenditure & Absorption Rate from FY 2013/14 to FY 2016/17



Development Budget, Expenditure & Absorption Rate from FY 2013/14 to FY 2016/17



Development Expenditure Absorption Level from FY 2013/14 to FY 2016/17



Achievements – Staff Capacity

3. Staff Capacity Development

- Most counties have collaborated with the National Government and other stakeholders to build capacity of their staff in public finance management through:-
 - Recruitment of staff for essential services (Procurement, Budgeting, Accounting, Auditing, Engineering etc.)
 - Training of staff on use of IFMIS in financial transactions (use of IFMIS, Planning and Budgeting, Budget Execution, Devolution and Public Participation, Monitoring and Evaluation, Integrated Personnel Payroll Data (IPPD) etc.).

Achievements - Systems

4. Adoption of financial and administrative systems

- In order to ensure transparent financial management and standard financial reporting, the counties adopted the use of systems such as:-
 - IFMIS – for financial transactions
 - E-Revenue – Automation of revenue collection
 - IPPD (Integrated Personnel Payroll Data) – Management of payroll data and information.

Achievements – Internal Control Mechanisms

5. Establishment of Internal Audit Committees-

Most Counties have established Internal Audit Committee as required by [Section 155 of the PFM Act, 2012](#) and Regulation 167 of the PFM (County Governments) Regulations, 2015 and maintain internal audit units as per Section 33 of the PFM (County Governments) Regulations, 2015 to enhance transparency and accountability in the management of public resources.

6. County Budget and Economic Forum

Most Counties have established County Budget and Economic Forum (CBEF) in accordance with [Section 137 of the PFM Act, 2012](#) to provide means for consultation on matters pertaining to budgeting and financial management at the County level.

Achievements - Public Participation

7. Public Participation

- Citizen participation as one of the key principles of governance (Article 10 of CoK).
- Counties have put in place mechanisms to enable the public participate in the planning and budgeting process as required under Article 174(c) of the Constitution.

8. Preparation and approval of planning document

Counties have made significant progress with regard to timely preparation and approval of key planning documents such as CFSP, CBROP, ADP & Budget Estimates resulting in improved implementation of approved programmes.

Drawbacks

Drawbacks Experienced in the First Cycle of Devolution

1. Planning and Budgeting

Weak linkages between planning and budgeting.

- Overestimation of local revenue targets resulting in hidden deficits in budgets; - leading to scaling down on planned activities and increase in pending bills
- Slow implementation of development projects and programmes – as a result of delays in procurement.
- Lack of Project Management Committees and Units,
- Corruption, Mismanagement and Conflict of interest

2. Institutional Conflicts

Persistent institutional conflicts between the County Assembly and County Executive undermine smooth implementation of devolution.

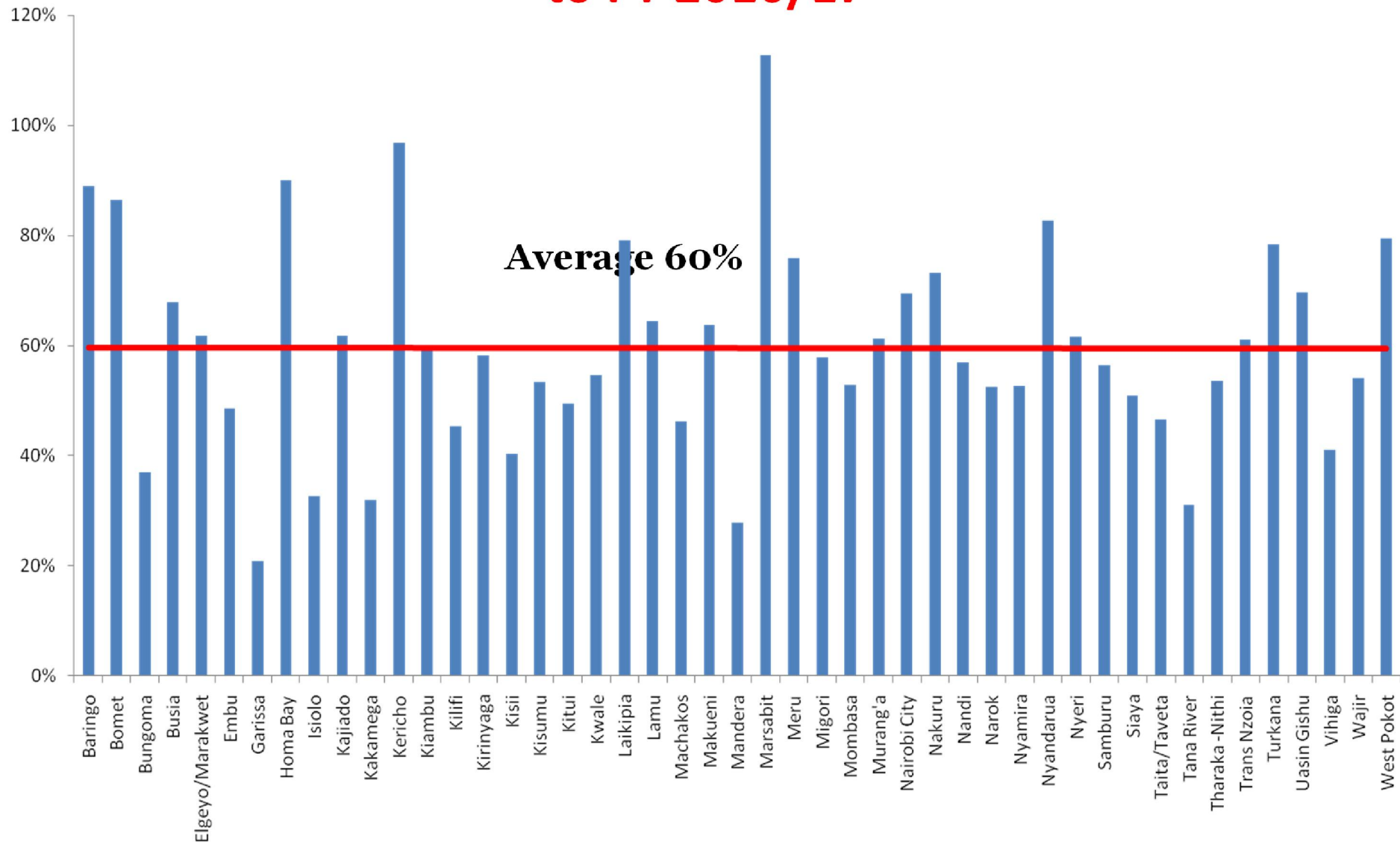
- The two arms of County Government have different responsibilities in the budget process.

Drawbacks experienced in the first cycle of devolution

3. Under-performance in local revenue collection:

- Only 22 counties attained an average of 60% and above of their 4-year local revenue targets. 25 Counties achieved less than 60% of their target resulting to accumulation of pending bills.
- However, aggregate local revenue improved from Kshs.26.3 billion in FY 2013/14 to Ksh. 35.0 billion in FY 2015/16 before declining to Kshs.32.5 billion in FY 2016/17.

Local Revenue Highlights by County from FY 2013/14 to FY 2016/17



22 counties achieved 60% of their 4 year cumulative local revenue targets

4. Use of locally generated revenue at source

- Counties have continued to use local revenue at source contrary to Article 207(1) of CoK, 2010; This may be attributed to weak revenue administration and accountability structures leading to corruption.

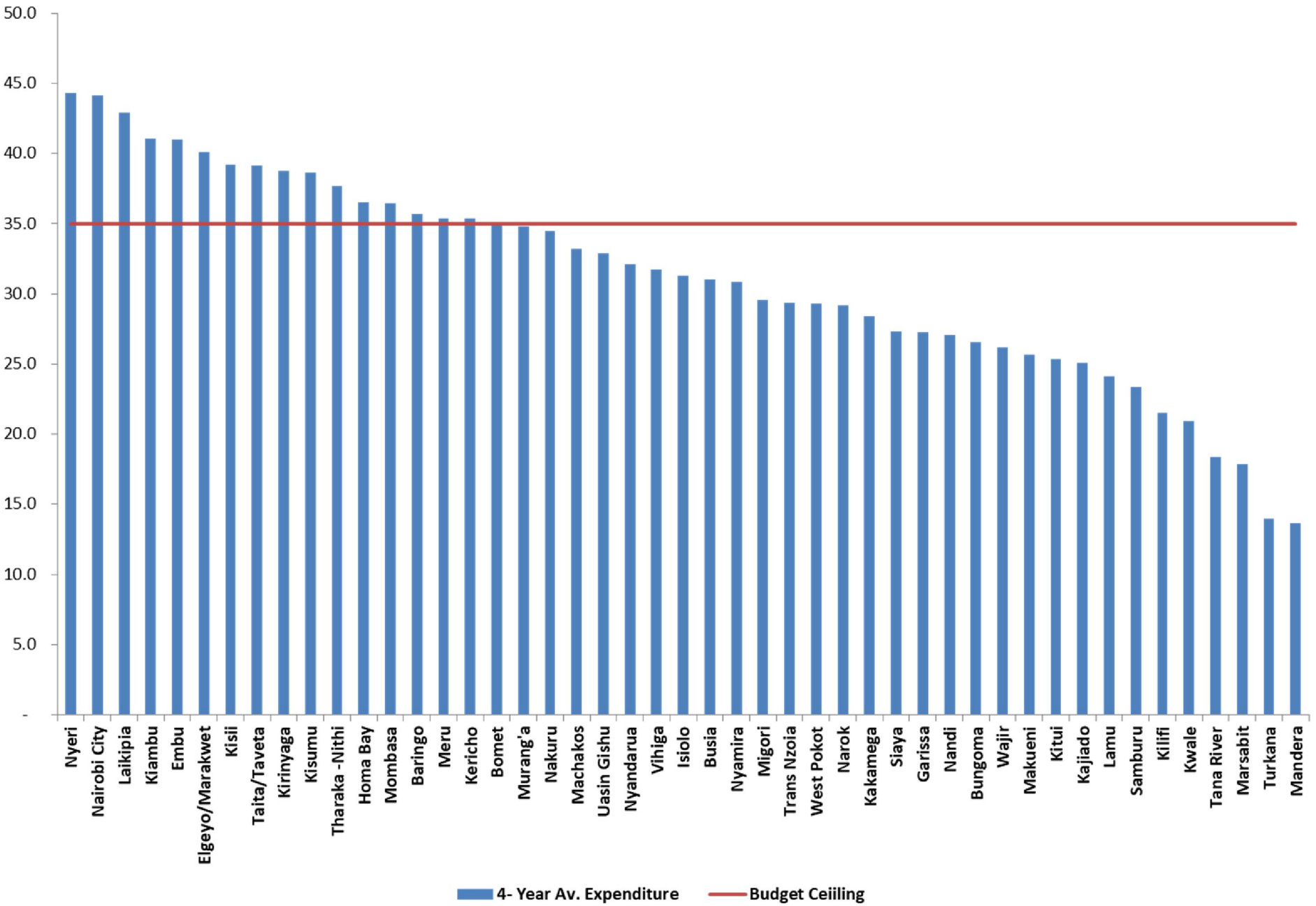
5. Mismanagement of public resources

- There has been widespread mismanagement of public resources. Article 201(d) of CoK, 2010 stipulates that public money shall be used in a prudent and responsible way.

6. High Wage Bill

- Expenditure on PE by counties in the last four years averaged **31.4 percent** of the total revenue. However, 17 counties exceeded the recommended 35 percent ceiling on PE in the same period
- Regulation 25 (b) of the Public Finance Management (County Governments) Regulations, 2015 provides that the county government's expenditure on wages and benefits shall not exceed **35 percent** of the county government's total revenue
- Kenya's wage bill as a percentage of ordinary revenue is **49.2 percent**

4-year Average Ratio of PE expenditure to Total Revenue



7. Huge Pending Bills:

Counties have been accumulating huge pending bills. This affects businesses and disrupts the implementation of planned activities in the subsequent year.

8. Capacity challenges of some County staff

Counties have had inadequate capacity in preparation of budgets, financial reports, etc. leading to challenges in budget execution. Counties should continue to improve the capacity of their technical staff through continuous training.

Drawbacks experienced in the first cycle of devolution

9. Effective Internal Audit Departments and Committees:

A number of counties did not establish effective Internal Audit Departments and Committees to strengthen internal control mechanisms as envisioned under [Section 155 of PFM Act, 2012](#).

10. Verification of Assets and Liabilities

The county governments took over books and records with enormous and unverified balances from the former local authorities. The verification of assets and liabilities inherited from the defunct local authorities by the county governments was not done in good time.

This has resulted to counties being heavily indebted

Recommendations and Way forward

Way Forward

1. Public Participation

- Partnerships between civil society and county governments to design and roll-out participatory processes and ensure representation at the grassroots level, including marginalized groups.
- Counties should allocate adequate resources for public participation in the planning and budgeting processes
- Develop feedback mechanisms and build capacity of government officials to facilitate public consultations and disseminate user-friendly information
- Involvement of professionals e.g. members of ICPAK and other professional organizations

2. Capacity building

- There is need to continue improving the capacity of staff by providing continuous training programs on PFM (budgeting, accounting, reporting, procurement, auditing, etc.), planning, M&E.

Way Forward

3. Managing the Wage Bill

- Counties should maintain the wage bill at 35 percent of the county government's total revenue as required by the law. There is need to establish the optimal staffing levels.

4. Staff Rationalization

- Counties inherited staff from the former local authorities and the National Government. They also employed new staff at different levels. This led to bloated workforce and hence high wage bill.
- There is therefore need to harmonize the salaries of the three categories of staff.

Way Forward

5. Internal Control Mechanisms

- Counties should establish effective Internal Audit Departments and Committees to strengthen internal control mechanisms as provided for under [Section 155 of PFM Act, 2012](#).

6. Huge Pending Bills

- To address the escalating pending bills counties should develop a debt management strategy in line with Section 123 of the PFM Act, 2012. Counties should undertake a verification exercise to ascertain their authenticity before settling them and make arrangements to pay.

Way Forward

7. Improving Absorption Rates of Development funds:

- Counties should come up with measures to improve the absorption of development funds such as the linkages between procurement plans and budgets as well as establishing Project Monitoring units to improve implementation of projects.

8. Underperformance of Local Revenue

- The County Treasuries should formulate and implement strategies to enhance local revenue collection such as automation and training of the revenue officers.
- There is need to seal loopholes leading to revenue leakages.

Conclusion

- The Country is making some progress. The challenges being experienced now are not unique to Kenya, there is need for all stakeholders to work together to tackle them and move the country forward.

Quote:

“Decentralised system may not work from the start but calls for constant evaluation, monitoring and accountability from everybody” Devolved system of government calls for patience from leaders and the public as the process takes time to work” H.E Paul Kagame - The President of the Republic of Rwanda.

OFFICE OF THE CONTROLLER OF BUDGET

