PUBLIC FINANCE MANAGEMENT WORKSHOP
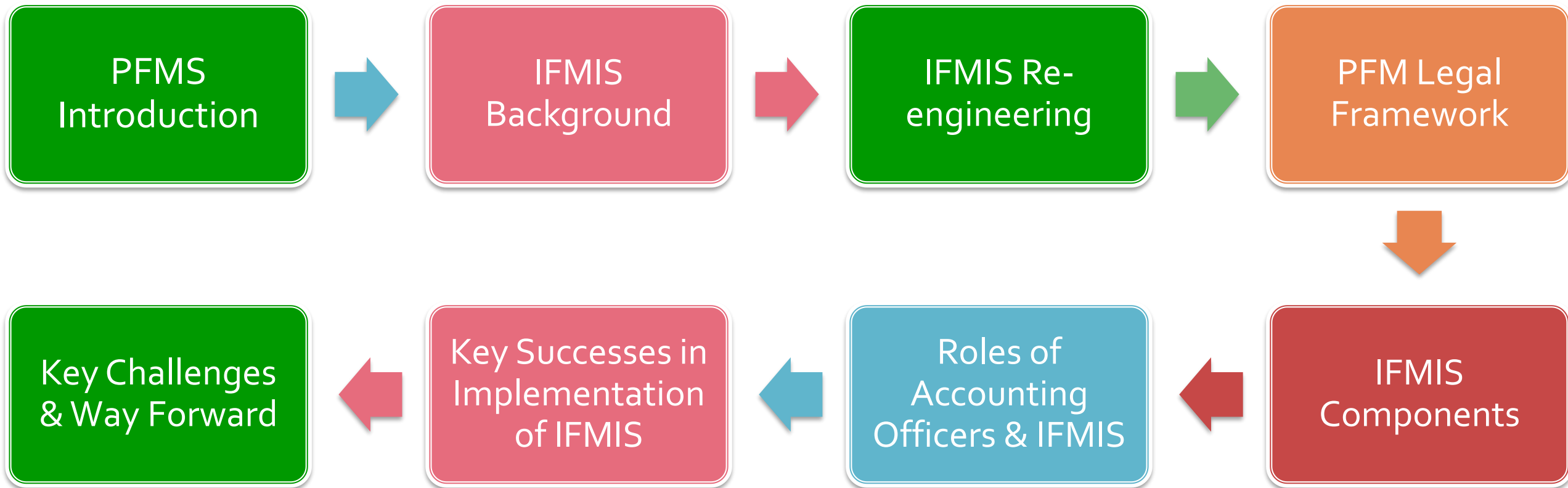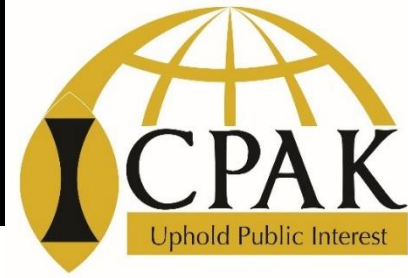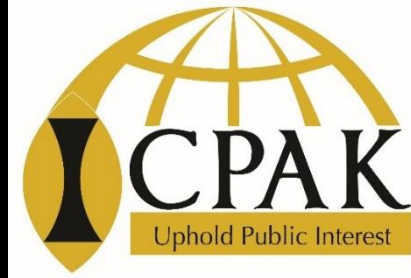
NYANZA BRANCH

IFMIS – AN ENABLER OR INHIBITOR

28th – 29th August 2018
Presented by : Hillary Onami, Manager, Devolution & Branches Public Policy and Research, ICPAK
@ Nyakoe Hotel, Kisii

Uphold   .   Public   .   Interest

SESSION OUTLINE

PFMS Introduction → IFMIS Background → IFMIS Re-engineering → PFM Legal Framework

Key Challenges & Way Forward ← Key Successes in Implementation of IFMIS ← Roles of Accounting Officers & IFMIS ← IFMIS Components
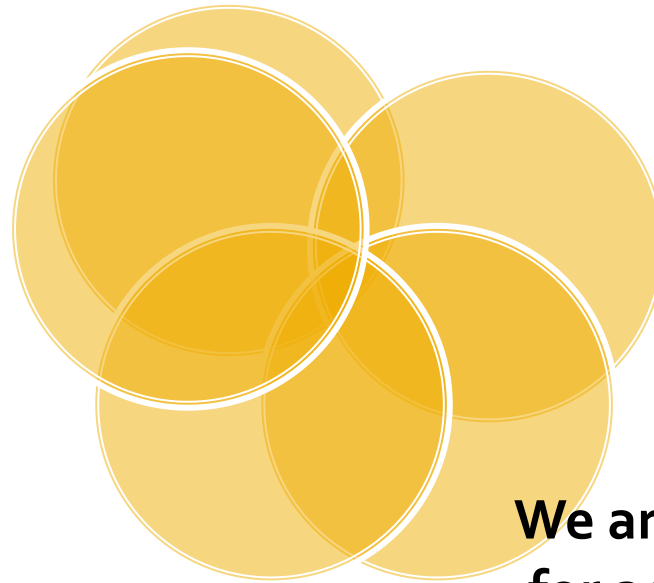
PUBLIC FINANCE MANAGEMENT SYSTEM

Today, strong financial management in the public sector is not a luxury but a necessity

The "stakeholders" of the public sector are demanding more effective and efficient use of public resources

We are in an era of increased demand for accountability and transparency.

- PFMS is absolutely critical to improving the quality of public service outcomes.
- Ensure strong financial stewardship, accountability and transparency in the use of public funds.
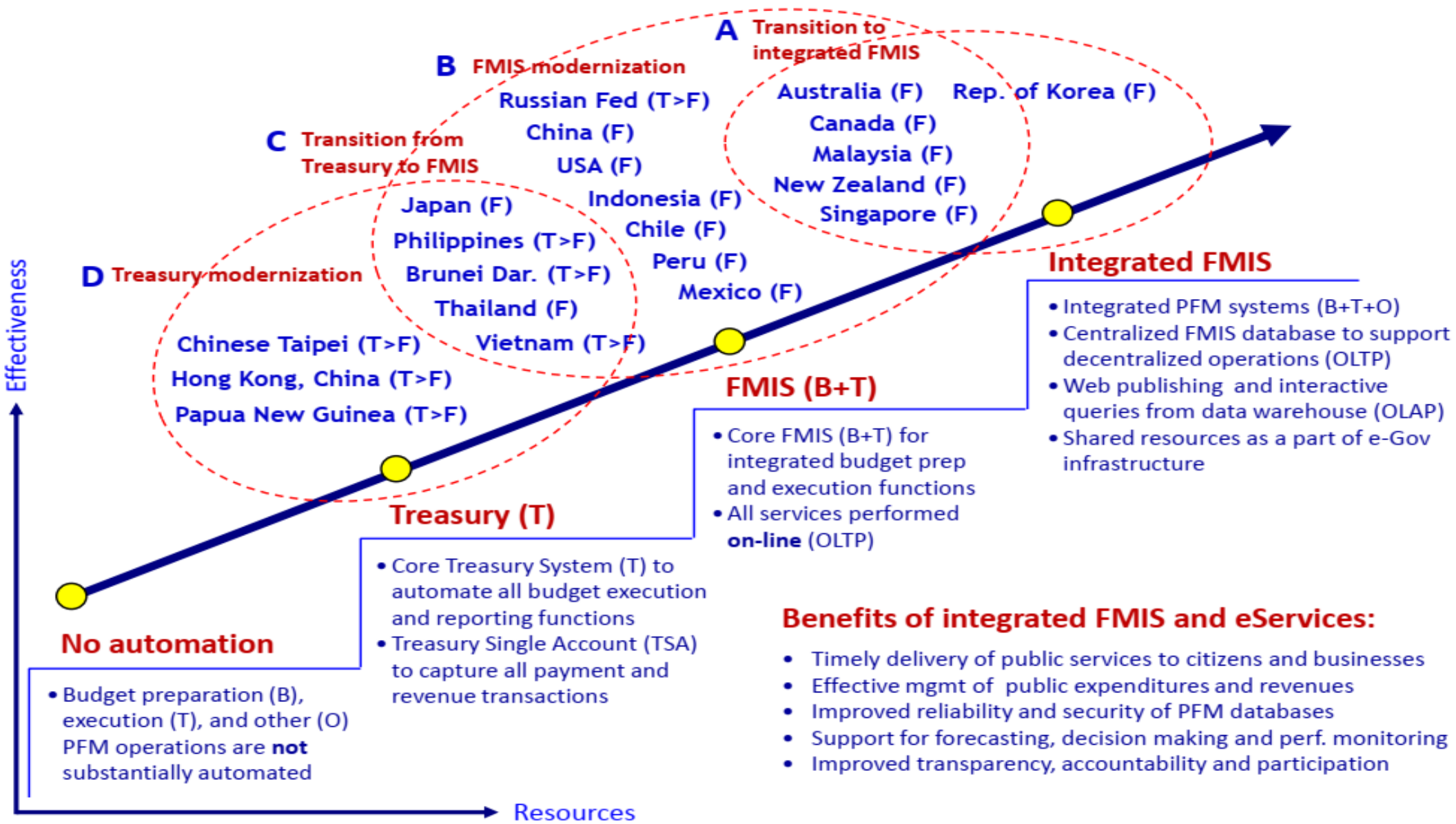
Areas impacted include:

- aggregate financial management – fiscal sustainability, resource mobilization and allocation
- Operational management – performance, value-for-money and budget management
- Governance – transparency and accountability
- Fiduciary risk management – controls, compliance and oversight

IFMIS Background

- **I**ntegrated **F**inancial **M**anagement **I**nformation **S**ystem (IFMIS) is an automated system that is used for public financial management that interlinks planning, budgeting, expenditure management , control, accounting, audit and reporting.
- Initial launch and development of IFMIS in Kenya - **1998.**

  ✓ IFMIS originally limited to the General Ledger (GL), Purchasing Order (PO) and Accounts Payable (AP) modules

  ✓ System functionalities were not sufficiently interlinked. This led to a fragmented approach to the use of the system and reliance on manual processes.

  ✓ IFMIS Re-engineering in 2011, re-oriented IFMIS from a modular implementation to a more integrated system
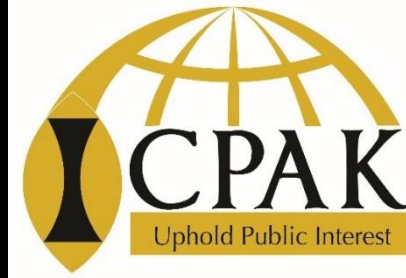
- IFMIS Re-engineering in 2011, re-oriented IFMIS from a modular implementation to a more integrated system

- Original roll out of IFMIS only facilitated purchasing, payment and limited reports.
- Budgeting process not linked to expenditure.
- Existence of multiple stand alone systems Debt Management, Pensions, Payroll were not integrated. Different sets of chart of accounts
- Manual financial transactions; thereby slow payment processes, and lack of access to prompt and accurate information for decision making.
- Harnessing growth of technology to enhance capacity of public servants in ICT.
- Current IFMIS is a web based Oracle application

Objectives Of IFMIS Re- engineering

1 **Increase Efficiency and Effectiveness**: *To enhance service delivery and sound financial decision-making*

- Streamline and re-engineer business processes
- Automation of PFM processes(Planning and Budgeting, Revenue Collection, Exchequer release, Procurement & Payment, Accounting and Reporting)
- Integration with other PFM systems

2 **Enhance Controls & Risk Management:** *To increase Transparency and accountability and enhance development partners and public confidence*

- Define workflows and approval hierarchies
- Enhance data quality and management
- Enhance Internal audit for the system

3 **Ensure sustainability of IFMIS**

- Knowledge transfer
- Business continuity management
- Proper governance mechanisms
- Support
- Continuous improvement

The Constitution of Kenya 2010

Article 201 – Principles of Public Finance: (a) There shall be openness and accountability including public participation in financial matters; (d) Public money shall be used in a prudent and responsible way;

Article 220 & 221 – Budget and Spending; (1) Budgets of the national and county governments shall contain a) estimates of revenue and expenditure, differentiating between recurrent and development expenditure

Article 225 – Financial Control : (2) Parliament shall enhance legislation to ensure both expenditure control and transparency in all governments and establish mechanisms to ensure their implementation.

Article 226(1) – Accounts and Audit : An Act of Parliament shall provide for—

- *'the keeping of financial records and the auditing of accounts of all governments and other public entities, and prescribe other measures for securing efficient and transparent fiscal management;'*

Public Finance Management (PFM) Act, 2012

- **Section 12 (1) (e)** Subject to the constitution and this Act, the National Treasury shall *'design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the constitution'*
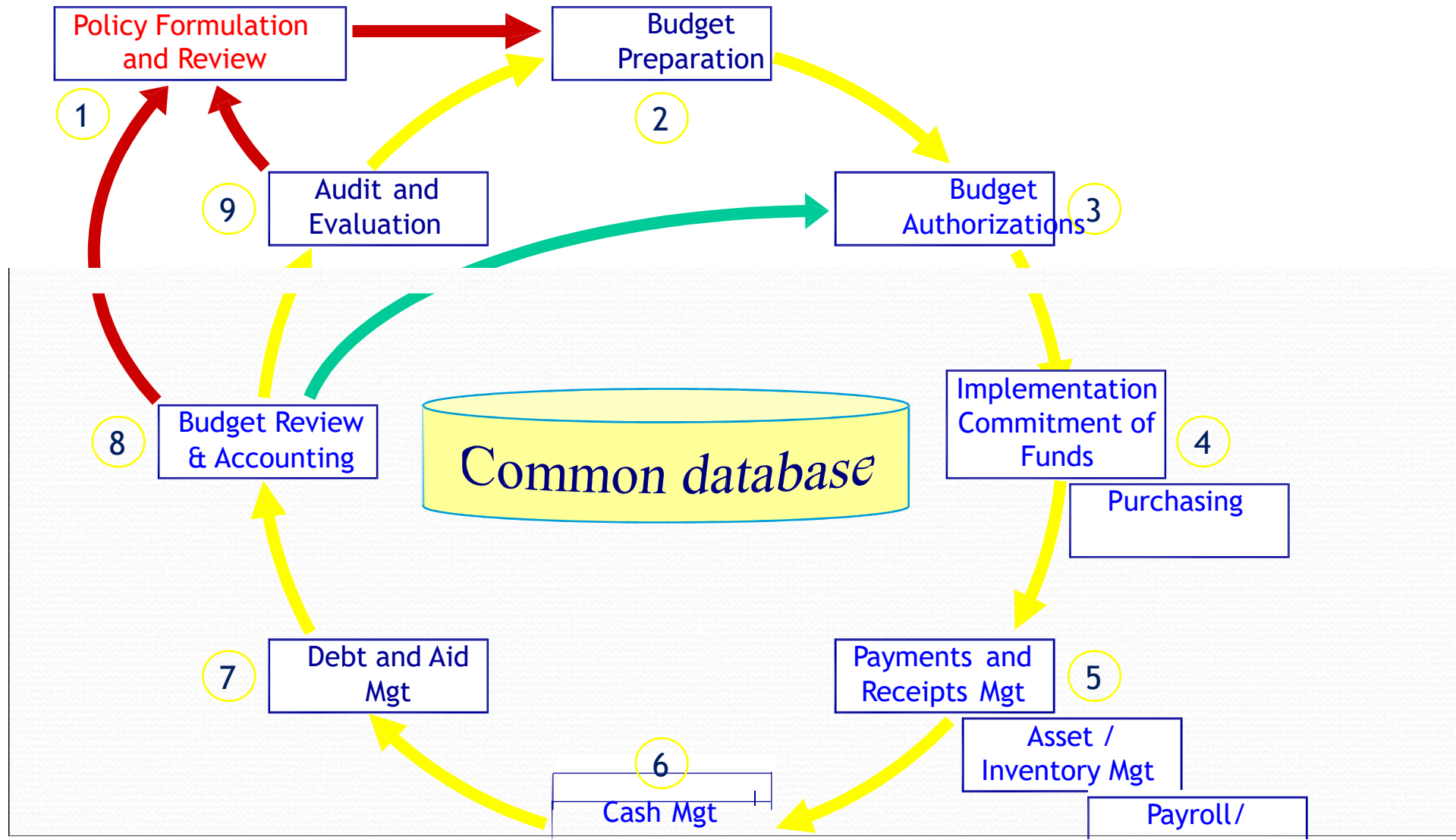
Public Procurement & Asset Disposal Act, 2015

- **Public Procurement Governance**: Establishes Public Procurement and Regulatory Authority (PPRA) to monitor, assess, review public procurement and asset disposal system to ensure they respect the national values and other provisions including Article 227 of the Constitution

- **Section 7, (2)(f)** instructs the National Treasury to "*carry out general research, develop and promote electronic procurement strategies and policies in national and county governments including state corporations..*"

- Use of ICT (**Section 64**) has provided for use of ICT in communicating matters relating to procurement and asset disposal -a clear shift from the previous requirement to have procurement communication run through newspapers of national circulation;

PFM Life Cycle

Policy Formulation and Review → Budget Preparation

1 — **2**

Audit and Evaluation **9**

Budget Authorizations **3**

Budget Review & Accounting **8**

Common database

Implementation Commitment of Funds **4**

Purchasing

Debt and Aid Mgt **7**

Payments and Receipts Mgt **5**

Asset / Inventory Mgt

6

Cash Mgt

Payroll /

IFMIS Component

IFMIS Vision
"An excellently secure, reliable, efficient, effective and fully integrated financial management system"

| Plan to Budget | Revenue to Cash | Procure to Pay | Record to Report |

Re-Engineering for Improved Business Results

ICT to Support

Communicate to Change

PFM Vision
"A PFM system that is efficient, effective and equitable for transparency, accountability and improved service delivery"
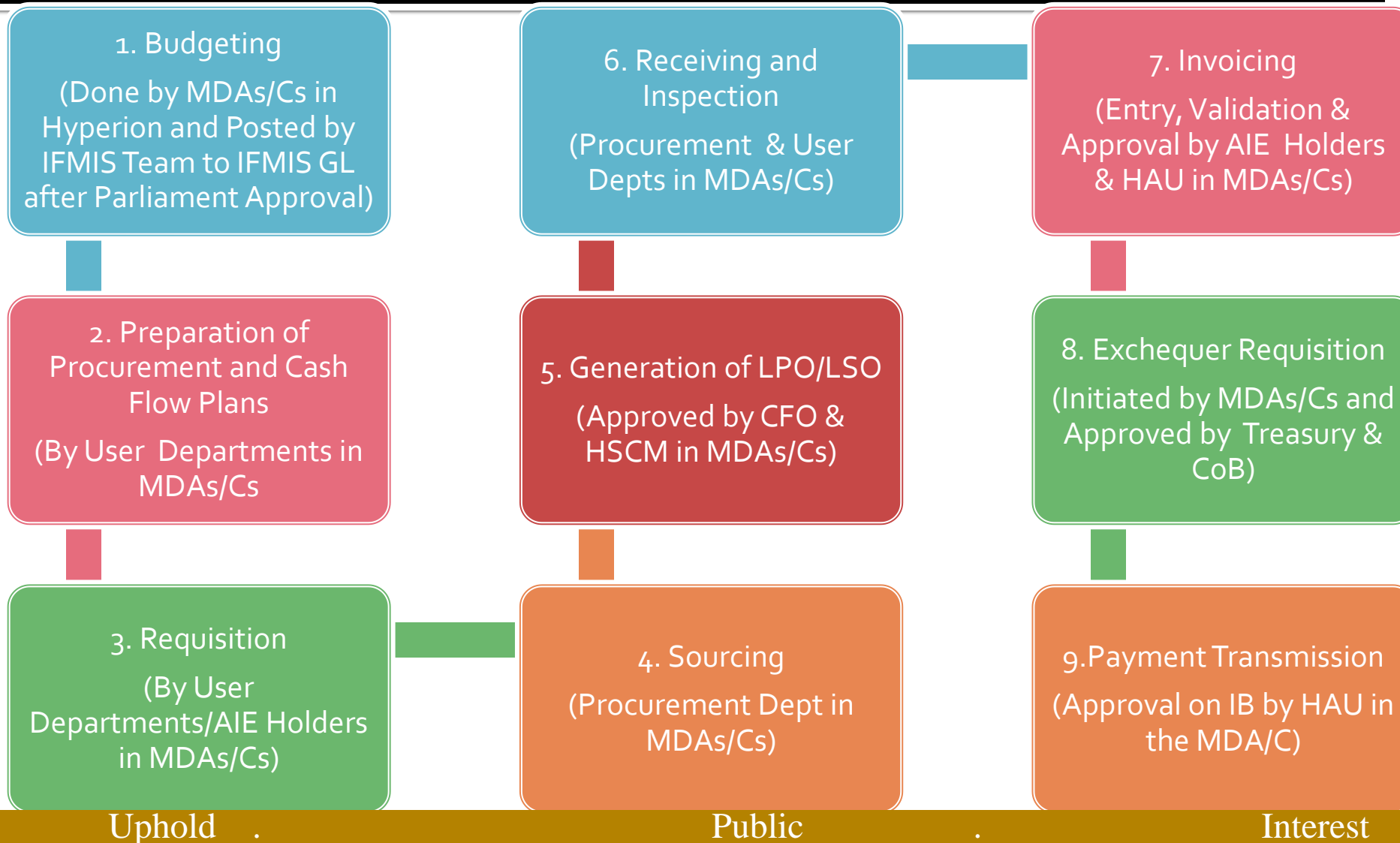
- Structured into 7 components to support all the key PFM Processes (Planning & Budgeting, Budget execution, Reporting & Audit)
- The Components also supports the roles of Accounting Offices
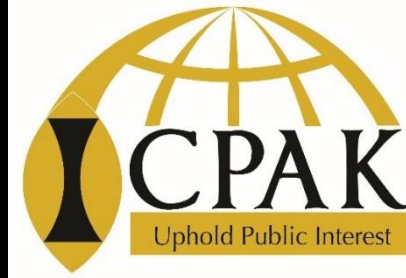
IFMIS BUSINESS PROCESSES

1. Budgeting
(Done by MDAs/Cs in Hyperion and Posted by IFMIS Team to IFMIS GL after Parliament Approval)

2. Preparation of Procurement and Cash Flow Plans
(By User Departments in MDAs/Cs

3. Requisition
(By User Departments/AIE Holders in MDAs/Cs)

6. Receiving and Inspection
(Procurement & User Depts in MDAs/Cs)

5. Generation of LPO/LSO
(Approved by CFO & HSCM in MDAs/Cs)

4. Sourcing
(Procurement Dept in MDAs/Cs)

7. Invoicing
(Entry, Validation & Approval by AIE Holders & HAU in MDAs/Cs)

8. Exchequer Requisition
(Initiated by MDAs/Cs and Approved by Treasury & CoB)

9.Payment Transmission
(Approval on IB by HAU in the MDA/C)

Section 68/149 of PFM Act, 2012

- Keeping of financial and accounting records – IFMIS General Ledger
- Ensure contracts by public entities are lawful – IFMIS E-Procurement
- Prepare estimates of Expenditures and Revenue – IFMIS Plan to Budget
- Prepare annual financial statements for each financial year within 3 months after end of FY – IFMIS GL & Financial Reporting Templates
- Provide information on any fraud – IFMIS controls & audit trails
- Provide the County Assembly with the full and regular reports on matters relating to the County;

Accounting Officer's IFMIS Supervisory rights

Purchase Order Module
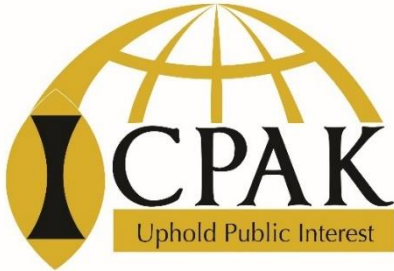- Commitments to Suppliers

General Ledger Module
- Generate Financial Statements
- Run Vote Book

Accounts Payable Module
- All Payments made through IFMIS
- Delayed Payments

Sample Vote Book Report

VOTE D1092 STATE DEPARTMENT FOR TRANSPORT

Development Expenditure VOTE BOOK STATUS REPORT - FOR THE PERIOD FROM JUL-17 TO JUN-18

Head	Sub Head	ITEM-SOURCE-PROGRAMME- GEOGRAPHICAL	TITLE AND DETAILS	Printed Estimate	Reallocation/ Transfer	Supplementary Estimates	Approved Estimates (Net)	Cumulative Expenditure	Outstanding Commitments	Total Payment Commitments	Balance
				Kes	Kes	Kes	Kes	Kes	Kes	Kes	Kes
1001			Mombasa Port Development project								
		1	Headquarters								

IFMIS Plan to Budget Module

- Expenditure budgeting at national and county government
- Budgeting within the County planning framework

IFMIS Cash Management Module

- Enables accounting units to prepare and revise annual cash plans to facilitate timely payments and appropriation of budget
- Minimize costs, reduce risks and guarantee delivery of objectives

IFMIS General Ledger: Keeping of financial and accounting records

- Maintain Chart of Account Values
- Calendar and Period Maintenance
- Definition of Journal Source and Category
- Import Sub Ledger Journals
- Period & Year End Operations
- Consolidation & Financial Statement Generator Report Design
- Currency and Exchange Rate Maintenance

Transparency & Accountability - Section 68 of PFM Act, 2012

IFMIS System controls and audit trails - Provide information on any fraud

- Segregation of IFMIS system responsibilities through the Approval Hierarchy
- Identification of the originator of all transactions

Key Successes

Planning and Budgeting

- Roll out of Oracle Hyperion planning system
- Inward and outward integration with general ledger

Procurement to pay – Budget execution

- Budgetary Control
- Standard Chart of accounts
- E-proc
- Approval Hierarchy
- Cash planning
- Integration with CBK for EFT payment and electronic statements for auto reconciliation
- Integration with KRA system

Revenue Recording and reporting

- Revenue budgets captured using SCOA
- Transparency because of reconciliation
- Analysis of revenue captured vs budget to assist in management decisions

Reporting & Oversight

- Standard across the government
- Adoption of IPSAS across government MDAs and counties
- Availability of real time reports
- Single source of all government financial information
- Configuration of new reports in IFMIS that has aided in reporting under IPSAS cash .
- Access of IFMIS given to oversight bodies OAG, EACC and COB

# Financial Issues --Without IFMIS

- Poor Control – Overspending
- Unrealistic Budgets – Revenue & Expenditure
- Focus on inputs rather than outputs
- Growing Pending Bills Problem
- Spending Not Aligned to Priorities…. Poverty, etc.
- Fraud, Corruption Lack of Transparency & Good Governance
- Poor Management of transactions/documents
- Lack of effective auditability
- Procurement – Poor Value for Money
- And many more leading to poor delivery of Public Services

System Issues –without IFMS
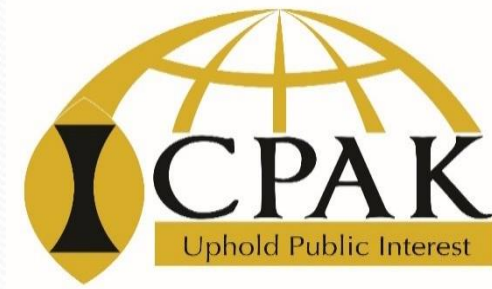
- Fragmented PC Systems and Mainframe system
- Duplication of Data Capture
- Information Locked Away in Systems
- Lack of Real Flexible Reporting – Lack of analysis
- Limited Support to Operations
- Use of Runners to Collect Data Diskettes
- No One Overall System….
- Need for Truly INTEGRATED SYSTEM
- And many more………

Benefits
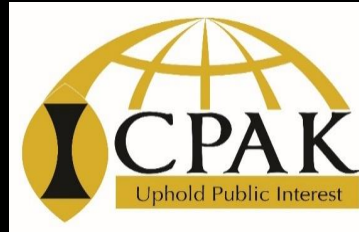
- Facilitates on line budgeting with inbuilt controls and approvals;
- Improves speed of procurement, payment processing and reporting;
- Real time analysis of financial reports, for management decisions;
- Audit trails that enhance ability to determine fraud and mismanagement of resources;
- Enables better oversight, transparency, accountability and promotes good governance.

- System Performance: System have been slow due to overstretched Infrastructure resources

  - New equipment recently being installed and system migrated

- User Support : Turn around in resolution of issues

  - Toll free number 0700 416 766 / url 192.168.2.110/login

  - Cluster leaders

  - Revamp the IFMIS help desk in FY18/19

- Revenue Management and Reporting ;
  - Training on Capturing of Revenues using the AR modules in IFMIS and compliance with SCOA
- IFMIS-KRA Integration – Invalid Suppliers PIN numbers leading
  - Clean up of supplier PIN numbers
- Modules that are not Rolled out or are under utilized (Sourcing and Cash Management- Bank Recs, Cash flow Planning & Exchequer Requisition)
  - Roll out in FY18/19

Planned Initiatives

- Roll out of e-Procurement to State Corporations

- Implementation of HR & Pensions Module in IFMIS

- Implementation of Help desk

- Integration with other PFM systems

- Continuous user training and on the job training

- Sensitize users on E-learning Management System

Conclusion