

PUBLIC EXPENDITURE CONTROL AND MONITORING

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Governments and Other Public Sector Entities

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Presentation Outline



1. Introduction
2. Budget Execution and Monitoring
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4. The Implications to Fiscal responsibility Principles
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Introduction



- Public expenditure control is a constitutional mandate of the legislature, Commissions and Independent Offices and other statutory bodies who scrutinize and oversee the executive actions of any state organ.
- Effective management of government entities results in improved service delivery for the achievement of better quality of life for all citizens.
- Public entities are accountable to the people (Article 249(1) of the Constitution of Kenya, 2010).

Importance of Expenditure Control



- The Constitution (Article 201) calls for openness, accountability and public participation in financial matters.
- The article aims to detect and prevent abuse, arbitrary behavior or illegal and unconstitutional conduct on the part of the government and public agencies.
- It holds the government to account in respect of the use of taxpayers' money
- It ensures government policies are delivered.
- It aims to improve the transparency of government operations to enhance public trust in the government.

Budget Execution and Monitoring

Budget Execution



- A budget, as a financial plan, is a **policy document** where objectives are translated into **activities** and implemented in concrete terms.
- As a **policy vehicle**, it enables the government to reconcile competing objectives by developing and implementing financial interventions to achieve the desired **outcome** within **scarce resources**.

Objectives of a Budget



- A budget must meet these 3 objectives
 - ✓ Total level of spending must be **affordable**, for the economy to continue to deliver growth and other macro-economic objectives
 - ✓ Funds should be allocated to reflect the **country's priorities. (Expenditure Monitoring)**
 - ✓ Efficiency is necessary to deliver service at lowest cost **(Expenditure Control)**.
- These objectives form the basis for public expenditure control and monitoring

Prioritizing Budget Items

Expenditure on wages and benefits for public officers

- ✓ National government spent approx. 18 percent of the total revenue (Kshs. 2.58 Trillion) on personnel emolument (PE) in FY2019/20 - less than the 35 percent threshold
- ✓ County Governments spent Kshs.171.8 Billion on PE translating to 41.7 percent of the total county government revenue for the FY2019/20 - higher than the 35 percent threshold
- ✓ To what extent is PE a priority expenditure?

Why Budget Execution?



- Budget execution (BE) is the process by which the financial resources available to an agency are **directed and controlled** toward achieving the purposes and objects for which budgets were approved
- BE enables program implementation by:
 - ✓ Ensuring resources flow to the programs
 - ✓ Enabling program managers to achieve the set objectives

Principles of Budget Execution & Monitoring



Article 201 of the constitution lays down basic principles of public finance as follows:-

- 1) Demands openness and accountability, including public participation in financial matters.
- 2) Public finance system to promote an equitable society and in particular
 - i. The burden of taxation shall be shared fairly
 - ii. Revenue raised nationally shall be shared equitably among national and county governments; and
 - iii. Expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas
- 3) The burdens and benefits from use of resources and public borrowing shall be shared equitably between present and future generations.

Principles of Budget Execution & Monitoring



- 3) Public money shall be used in a prudent and responsible way; and
- 4) Financial management shall be responsible, and fiscal reporting shall be clear.

Role of COB in Budget Execution



- [Article 228 \(4\)](#) of the constitution provides that, the Controller of Budget shall oversee the implementation of the budgets of the National and County governments by authorizing withdrawals from the public funds under [Articles 204, 206, and 207](#)” if satisfied that the withdrawal is in accordance to the law.
- [Section 5 \(b\)](#) of the [CoB Act, 2016](#) requires the COB to ensure prudent & efficient use of public funds by [monitoring, evaluating, reporting](#) and making recommendations to the national and county governments on measures to **improve budget implementation** in accordance with [Article 228](#) of the Constitution;
- The role and scope of the Controller of Budget, therefore, is very wide as it covers the entire government

Budget Execution at County Level



- Once the County Assemblies have approved the expenditure estimates, an Appropriation Bill is passed to facilitate **withdrawals** from the County revenue fund.
- The County government entities prepare annual **cash-flow** forecasts which are submitted to the County treasuries with copies to COB
- The County entities subsequently requisition for funds through County Treasuries
- County Treasuries consolidate the requisitions to the Controller of Budget for the withdrawal of funds from the County Revenue Fund (**Section 109 (6) PFM Act, 2012**)

Budget Execution at County Level Cont..



- The requisition from the County Treasury with instructions on the budget item, followed by the approval by the Controller of Budget are sufficient authority for the withdrawal of funds
- The County government entities utilize the funds according to their **budgets** and **work plans**
- The entities then submit quarterly **financial reports** to the COB and county treasury

Budget Monitoring

Why Budget Monitoring?



- Budget Monitoring is the continuous or **periodic review** of programme/project implementation to assess delivery, identify problem areas and recommend remedial action.
- Budget monitoring involves the collection and analysis of data on budget activities.
- The data should allow **budget operators** to keep track of budget activities to determine whether the budget objectives (**performance**) are being achieved and make any changes that is necessary to improve budget performance.

Why Budget Monitoring Cont..?



- The key purpose of monitoring is to ensure efficient and effective programme/project implementation.
- It provides timely information to all the stakeholders on the **work planned** and accomplished or otherwise
- The primary concern of monitoring, therefore, is the **delivery process that** ensures **inputs (resources)**, through **activities**, are transformed into **outputs** and **outcomes**.

Why Budget Monitoring Cont..?



- Budget monitoring continuously assesses the project/programme implementation in relation to the **plans, resources, infrastructure**, as well as the eventual access to services by the project beneficiaries;
- Further, it improves the effectiveness and **accountability** of project interventions;
- Also promotes **budget credibility**

MONITORING BUDGET EXECUTION COUNTY LEVEL



- Section 104 of the PFM Act (2012) requires county government entities to institute mechanisms to monitor, evaluate and oversee the management of public finances as well as the implementation of budgets within the fiscal year
- Similarly, the COB is mandated to monitor budget implementation to ensure that the set budget objectives are being achieved while recommending remedial measures that are necessary for improving budget implementation within the fiscal period.

Linkages between Planning and Financial Reporting

National and County Planning



- The Constitution of Kenya 2010, recognizes the importance of planning , specifying that there should be a **development plan** before any funds are appropriated.
- [Article 220\(2\)](#) states that “national legislation shall prescribe the structure of **development plans and budgets**”.
- [Section 125, PFM Act, 2012 further](#) states that the budget process for county governments in any financial year shall consist of:-
 - ✓ [An integrated development planning process which shall include both long term and medium-term planning;](#)
 - ✓ [planning and establishing financial and economic priorities for the county over the medium term;](#)
- **No public funds should be appropriated** without a development plan ([Section 104 –County Government Act 2012](#)).

Planning Documents and Policy Framework



The National and County level Planning processes are anchored in the following **key** planning and policy documents.

- ✓ Vision 2030 – [the long-term development plan](#)
- ✓ Medium Term Plan 2018-2022 – [5-year implementation plan](#)
- ✓ Sectoral Policies with a bias on devolved functions
- ✓ Sustainable Development Goals ([SDGs](#))
- ✓ The Budget Policy Statement
- ✓ County Integrated Development Plans([Section 104, CGA, 2012](#)).
- ✓ Annual Development Plans ([Section 126 \(4\) PFMA, 2012](#))
- ✓ County Budget Review and Outlook Paper ([C-BROP](#)) ([Section 118, PFMA](#)).
- ✓ County Fiscal Strategy Paper ([C-FSP](#)) ([Section 117, PFMA](#))

Why Integrated Development Planning?



- Integrated development planning is “a process through which efforts at **national and devolved levels** of government and other relevant public institutions are coordinated at the local level and through which **economic, social, environmental, legal** and spatial aspects of development are brought together to produce a plan that meets the needs and benefit of local communities”.
- The County Executive Committee Member for Planning is expected to prepare and submit a development plan to the County Assembly for approval before **1st September every year**.

SDGs



African Union's Agenda 2063

7 Aspiration of Agenda 2063



Why Link Planning and Financial Reporting?

Linking Plans to Reports



- Linking planning to financial reporting ensures that the plans which are translated into budgets (**through activities**) relate the **resources (inputs)** to the expected **results or outcomes**
- The plans should integrate the **end-product or outcome** at the beginning, and not the end.
- The identification of the desired outcomes ensures that public management is results-oriented
- It also improves the efficiency and/or effectiveness of activities undertaken
- Targets for the priority areas are sets with **key performance indicators** that are monitored regularly to ensure achievement of intended results

Linking Plans to Reports Cont..



- The activities (Workplans) in the priority areas are then costed to form the budget – **this becomes the financial plan**
- **Monitoring and evaluation** becomes an integral part of the planning and budgeting process
- At each stage, there is mechanism to **measure progress** using the set **performance indicators**
- Once these processes are mainstreamed, then financial management bears the responsibility for clear **fiscal reporting** as anticipated by **Article 201(e), CoK, 2010**

Why the Linkage is Important



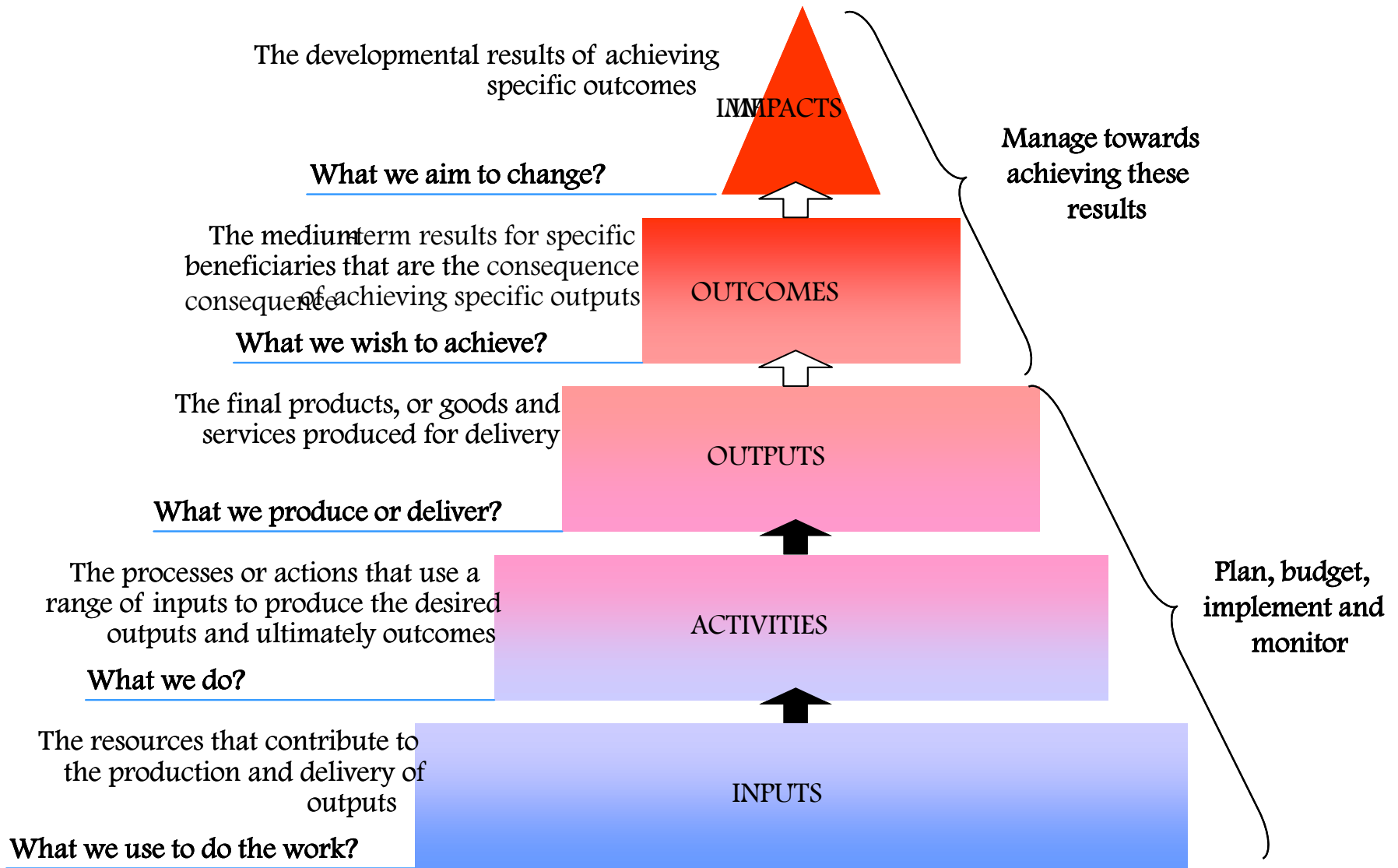
1. Planning frameworks facilitate efficiency and cost-effectiveness in public financial management.
2. Planning frameworks improve resource allocation through the identification, and prioritization of programmes ;
3. They improve the efficiency of budget management by including performance information in budget documents, thereby assisting in monitoring and evaluation;
4. The frameworks use performance information to guide outlays on different activities, providing a more structured resource allocation, both within and across sectors.

Practicing the Linkage between Plans and Reports



- Both the Constitution (2010) and PFM Act (2012) lay emphasis on the importance of linking planning, policies and budgeting.
- [Section 12](#) of the [Second Schedule](#) of [PFM Act, 2012](#) requires both national and county governments to implement Programme-Based Budgets (PBB)
- Under the PBB framework, government budgets and the use of resources are directly linked to public policy objectives and intended [outcomes](#)
- [Section 9](#) of the [CoB Act, 2016](#) requires the COB to prepare budget implementation reports that are in line with the PBB framework
- Spending entities are therefore required to submit financial reports that focuses more on achievements of programme outputs and outcomes.
- Financial reports submitted to COB often lack information on achievement of [outputs and outcomes](#).

Linking Plans to Results



Implications to Fiscal Responsibility Principles

Fiscal Responsibility Principles



- Section 15 & 107 of the PFM Act, 2012 sets out the principles for managing public finance by both national & county governments
 - a. over the medium-term a minimum of 30 (thirty) percent of the national and county governments budget shall be allocated to the development expenditure.
 - b. the national government's expenditure on wages and benefits for its public officers shall not exceed 35% of the National/County government revenue as prescribed by regulations;
 - c. over the medium- term, the national government's borrowings shall be used only for the purpose of financing **development expenditure** and not for recurrent expenditure;
 - d. public debt and obligations shall be maintained at a **sustainable level** as approved by Parliament and County Assembly

Fiscal Responsibility Principles Cont..



a) Allocation & expenditure on development programmes

Our budget implementation reports show that the fiscal responsibilities are not being followed to the letter

- ✓ National government allocated **25 Percent** of the total budget towards development programmes-less than the minimum threshold of **30 percent**
- ✓ National government development expenditure was **24.3 percent** of the total expenditure in in FY2019/2020
- ✓ County Governments allocated **37.6 percent** of their total budget for development programmes in FY2019/2020
- ✓ Five counties (Taita Taveta, Kirinyaga, Meru, Nyamira, & Nairobi) allocated less than **30 percent** for development in FY2019/20
- ✓ County governments spent a paltry **27.2 percent** of the total expenditure on development programmes in FY2019/2020

Fiscal Responsibility Principles Cont..



The reality on the ground.....what does this speak to our fiscal responsibility?

Public Debt stock was Kshs. 6.7 trillion (US\$62.8 Billion) equivalent to 65.7% of GDP as at end June 2020

- ✓ Budget Deficit for Fiscal Year 2019/20 is Kshs. 657.4 billion
 - Foreign Financing-Kshs. 353.5 billion
 - Net Domestic Financing-Kshs. 303.9 billion
- ✓ Interest payments for Fiscal Year 2019/2020 is Kshs. 441.4 billion equivalent to 24% of ordinary revenues
 - Foreign debt interest-Kshs. 150.9 billion
 - Domestic debt interest-Kshs. 290.5 billion
- ✓ As of June30 2020, Counties reported accumulated pending bills amounting to Kshs.113.9 billion

Emerging Issues

Emerging Issues on Expenditure Control



- We have severally noted weak linkages between planning and budgeting and reporting attributed to:
 - ✓ Lack of clear *work plans or logical frameworks, linking activities to results*
 - ✓ Budget management and *credibility issues* – budgets are never followed in line with the PFM Act, 2012 (Article 223 is misapplied)
 - ✓ Unrealistic cash flow projections – Activities cannot be implemented as planned, leading to pending bills
 - ✓ Procurement plans not synchronized with cash flow plans
 - ✓ Accumulation of pending bills – *No proper mechanisms or good-will to settle the pending bills*

Recommendations

Recommendations



1. Both the NG and County Treasuries to link planning and the outcomes – One sure way would be to implement the Programme-Based Budgeting framework. This would enhance M&E and reporting.
2. Establish Project Monitoring Units to monitor budget implementation in order to provide clear performance reports in line with the established performance indicators.
3. The PFM Act, 2012 requires accounting officers to meet their financial obligations whenever they fall due. However, there has been a worrying trend on the accumulation of pending bills. A root-cause analysis should be undertaken
4. Pending bills settlement to stimulate economic growth at the devolved level. Pending bills should be the first charge in every budget.

Conclusion



- The PFM Act provides the legal framework that underpins the management and control of public expenditure.
- Budget monitoring ensures that public expenditure is constantly kept in check with appropriate actions taken should significant variances occur.
- It is imperative to uphold best practices in the management of public expenditure to ensure achievement of the expected performance results and outcomes for the benefit of citizenry.
- Financial reporting ,ultimately, is the report card, and is only as good as the budgeting and budget execution

Q&A Session

