IPSAS & PFM WORKSHOP

An Assessment of the Efficiency of PFM systems in counties

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WHAT IS PEFA?

- Public Expenditure and Financial Accountability (PEFA) is an internationally recognized evidence based tool for assessing the status of PFM systems. This enables reforms.
- PEFA has 7 Pillars: budget reliability; transparency of public finances; management of assets and liabilities; policy based fiscal strategy and budgeting; predictability and control in budget execution; accounting and reporting and external scrutiny and audit.
- PEFA Assessments World wide: 590 Nationally and 176 sub nationally (e.g. Uganda, Rwanda, Ghana etc.)
- PEFA has been conducted in Kenya three times at the national government level and this is the first set of subnational PEFA Assessments(6 volunteering counties)
- Assessment was carried out in April 2017 on the basis of three complete fiscal years (at the time) -2013/2014,2014/2015 to 2015/2016

Important to Note:

- **PEFA is strictly evidence based only:** counties are scored according to information they provided in the format and within the specified time.
- **Based on best practices:** Some of which are not required by Kenyan laws or applicable to county governments at this particular time in devolution.
- **PEFA provides the *what* and *how* but not necessarily *why*-** while it provides an accurate snap shot it does not provide the unique underlying causes that have led to where county PFM is.

PILLAR I. BUDGET RELIABILITY

- This pillar assessed whether the budget was realistic and was implemented as originally intended.
- The measurement was done by comparing actual revenues and expenditures with the original approved budget.

Key Highlights

1. Overall, in all the counties assessed, **aggregate expenditure outturn** was between 85%-115% of approved budget in the last 2-3yrs (D score).
2. In terms of **expenditure composition outturn**, it was generally observed that variances in expenditure composition by program, admin or functional classification & economic type were either 15% or more which is a D score.
3. **Expenditure from contingency reserves** were on average observed to be more than 6% but less than 10% of original budget which is a C score.
4. **Revenue outturn was generally below average**. The major contributor to this result being inability of county governments to attain revenue forecasts in each revenue category as envisioned in the budget.

PILLAR II. Transparency of Public Finances

This pillar assess whether the budget and fiscal risks oversights are comprehensive and whether the fiscal and budget information is accessible to the public:

Key Findings:

1. Half of the counties performed well in attaining additional elements (i.e. Deficit financing, Macroeconomic assumptions, Debt stock and financial assets).
2. Evidence indicated that no county reported government revenue and expenditure outside central government financial reports.
3. None of the counties had established further devolved units and therefore transfers were non existent to these government levels.

PILLAR II. Transparency of Public Finances

4. Some counties were able to provide information on budget implementation status though this information was not published.

5. There is little information on performance evaluation carried out across the board.

6.County governments have developed websites- documents such as ADP, CFSP, CIDP, and CBROPs. Key documents missing e.g. budget and Financials.

7.All of the six counties assessed made publicly available less than 4 basic elements concerning fiscal information to which public access is critical e.g. budget execution reports, audited accounts with opinion.

8.None of the additional elements were met (elements (i.e. Deficit financing, Macroeconomic assumptions, Debt stock and financial assets)

PILLAR III. Management of Assets and Liabilities

This pillar assesses the management of Assets and liabilities focusing on Fiscal risk, public investment, public asset management and public debt.

Key findings:

1. The reporting of fiscal risks was characterized by very little monitoring of public corporations for counties that had established them and non reporting of contingent liabilities. None of the counties had established further devolved units.
2. Major features of Public investment management were absent in most counties including the absence of economic analysis of investment proposals, absence of standardized criteria in projects selection, exclusion of recurrent costs in investment costing and poor monitoring and evaluation strategy with the exception of one county.
3. Financial assets were well monitored and reported in the financial statements and books of account for all the counties.
4. Even though there is a borrowing framework for county governments, they are yet to borrow (aside from counties that inherited pending bills from the defunct local authorities).
5. The debt management strategies are available for 3 counties, and while 3 others are yet to be developed

PILLAR IV. POLICY BASED FISCAL STRATEGY & BUDGETING

This pillar assesses if the budgets and fiscal strategies are prepared with due regard to government policies, strategic plans, and adequate macroeconomic and fiscal projections.

1. Counties adopt the national macroeconomic forecasts, fiscal forecasts are contained in the CFSP and CBROP. None of the counties carry out macro sensitivity analysis.
2. Very little is done in terms of assessing the fiscal impact of policy proposals; The CFSP is normally prepared by the executive and adopted by the county assembly; All counties prepare CBROPs which explain progress in fiscal strategy alongside explanations for deviations from objectives/targets.
3. Majority of the counties prepared medium term expenditure estimates for the budget yr and two outer yrs based on admin, econ and program classification. MTEF ceilings are approved after budget circulars are issued. Most strategic plans were not aligned with the budget estimates.
4. There lacked consistency in medium term estimates for the different MTEF periods
5. Five counties, had a budget calendar and the budget circular is appended to the calendar. The calendar was normally adhered to.
6. The County Assembly scrutinizes budget documents to ensure their consistency with the PFM Act.

PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

- This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources(Revenue) are obtained and used as intended.

Key Findings:

- Revenue administration framework in the counties was noted to be weak.
- Procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue in the counties was relatively good.
- Lack of complete revenue accounts reconciliations in terms of assessments, collections, arrears, and transfers to Treasury .
- On expenditure arrears, all counties performed poorly in this indicator due to- Having stock of expenditure arrears in excess of 10% of the total expenditure in at least two of the three last completed fiscal years, Missing information on the stock of expenditure arrears and Lack of disaggregation of the stock of expenditure arrears by age and type.
- Generally good payroll Mgt systems BUT no regular payroll audits.

PILLAR V: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

On Internal Audit

- Some counties did not have a functional internal audit for FY 2015/16 and the newly established unit had not concluded any audit. This was however corrected in the year 16/17.
- Most of the audit functions were focused on adequacy and effectiveness but not on quality assurance-No IPPF of internal audit.
- Aspects of good internal audit were noted in terms of coverage, nature of the audits, standards applied, implementation and response to audit issues

PILLAR VI. ACCOUNTING, RECORDING AND REPORTING

This pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

- There was good financial data integrity in the counties characterized by:
  - Monthly bank account reconciliations-Manual
  - Use of IFMIS to record and process budget data
  - Some counties were noted to monitor the suspense account and advance accounts and reconcile either monthly or annually during the preparation of the AFS

PILLAR VI. ACCOUNTING, RECORDING AND REPORTING

Key Findings.

It was noted across the board that comprehensiveness, accuracy and timeliness of information on budget execution is robust.

However, in most of the counties, coverage and classification of data allows only comparison to the main administrative headings but not all items of budget estimates.

- AFS are generally complete but they do not contain full information on tangible assets, liabilities due to he adoption of IPSAS cash.
- AFS are timely and are submitted for external audit within three months after year end and,
- AFS are consistent with the generally accepted accounting principles and standards through the adoption of IPSAS cash
- No county was able to produce FS directly from IFMIS.

PILLAR VII: EXTERNAL SCRUTINY AND AUDIT

This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Key Findings:

- Generally there was good coverage and standards of external audits across all the counties.
- Material weaknesses were highlighted in the management letters
- There were reported case of late submission of the audit reports to the legislature beyond the three months PEFA threshold
- There were also delays in response to audit issues and no evidence of follow up by the audited entity on areas that required follow up.

Major constraints and challenges

1. Expenditure and Revenue deviations
2. Poor management of assets and liabilities
3. Capacity constraints
   – Macro forecasting
   – Sensitivity analysis of policies
   – Economic analysis of investment projects
   – Impact analysis
4. Revenue and expenditure arrears-pending bills
5. Weak linkages between policy making, planning and budgeting
6. Low levels of public transparency

Recommendations from identified challenges and constraints

1. Improvement of disbursement of revenue by National Treasury and timely submission and approval of audited reports
2. Automation of revenue collection systems and sensitization of revenue payers
3. Capacity building in forecasting, sensitivity analysis and analysis of investment projects
4. Integration of planning – strategic plans, MTPs and CIDPs
5. Enhancement of transparency
6. Strengthening partnerships between Counties and national Government through the Inter-Governmental Relations Technical Committee
7. Improvements in records keeping and management
8. Establishment of strong monitoring and evaluation units

THANK YOU.

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