



MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME

PROGRESS REPORT

FOURTH QUARTER 2008/2009
(APRIL-JUNE 2009)

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1. Introduction

1.1. Brief background

The aim of the Public Financial Management Reform (PFMR) programme is to strengthen public financial management systems to enhance transparency, accountability and responsiveness to public expenditure policy priorities. This is meant to contribute to the government overall objectives of economic growth and poverty reduction, improved service delivery and good governance. PFMR is meant to lead to two overall results:

- Improved effectiveness and efficiency in the public service; and
- Substantial improvements in service delivery, increases in allocations in accordance with political priorities.

The programme is managed by the Public Financial Management Reforms Coordinating Unit (PFMRUCU) in the Ministry of Finance. Implementation is undertaken by government departments and agencies organised in 15 components.

The fourth quarter of the programme witnessed significant changes in the management of the programme that impacted directly on its implementation. A World Bank fiduciary review was completed and there were recommendations on structural changes to be implemented. There were delays in granting 'no objections' and most activities stalled from the previous quarter in February 2009 towards the end of June 2009. Funds were officially suspended by Development Partners (DPs) on April 30th 2009 to allow the government implement a financial management action plan that was developed in early April. The government initiated staff changes at the Secretariat and the Programme Manager, Finance and M&E Specialists were recalled at the end of May 2009. This left a staffing gap at the Secretariat for sometime as replacements did not take place immediately.

The above incidences led to limited activities by Components. During the period under review, six components did not undertake any activity under PFMR. The total expenditure for the quarter was **Kshs. 189,180,538.95** against an approved annual budget of **Kshs. 1,260,296,000**. The cumulative expenditure at the end of the quarter was **62.55%** of the budget.

1.2. Key milestones for the quarter

As earlier mentioned the quarter was a challenging one for the programme. However, the following were some of the key achievements:

- ✓ Risk Based Fiduciary Review by the Internal Audit Component of 22 World Bank funded projects was completed which led to the development of a risk management policy and value for money frameworks in government.
- ✓ Establishment of a mini library and registry by the Debt and Guarantee Management Component which is meant to provide updated information on government debt situation.
- ✓ Procurement and installation of the KRA call centre Management Information System to respond to public queries on tax issues, hence improve efficiency in tax administration by reducing queues previously experienced at KRA.

- ✓ Roll out of IFMIS was completed in 47 ministries and departments.

2. Component Achievements

It is important to note that quarterly progress reports by Components has largely been activity based, and previously, Component work plans were not clearly linked to the agreed programme indicators. The quarterly reports therefore focus on activities accomplished for the period against the set outputs and indicators by the Components.

2.1. Budget Formulation

In order to establish a government wide local monitoring system, the Component intended to establish a LAN system. During the quarter under review, they purchased 10 Laptop and 5 desk top computers and two printers in anticipation of the new performance monitoring system.

It is anticipated that the performance monitoring system will enable the budget department prepare quality and timely budget reports, and that government operations will improve.

2.2. Debt and Guarantee Management

Shelves and cabinets were procured and both library and registry established. The Component held a retreat to prepare the annual debt management report which was widely circulated. The creation of a library and registry will enhance efficiency in debt documentation and settlement as debt information will be properly stored. The library is accessible to public servants and to the general public on request.

The publishing of the annual debt management report and eventual dissemination has improved awareness on debt management among key stakeholders. This will create a general understanding among the Kenyan public on government debt situation and improve the management of debt at sustainable levels.

2.3. Kenya Revenue Authority (KRA)

During the quarter, KRA procured the call centre information systems and software. The call centre is to contribute to improved taxpayer query responses and queue reduction at KRA offices and increase service satisfaction rating by 5% per annum. Consequently, domestic tax administration is improving as public queries are responded to in a timely manner and hence increased revenue collection.

2.4. Budget Execution

20 super users were trained in IFMIS operations and computer general reporting. The Officers were from the IFMIS project and government ministries and departments. The use of IFMIS in the government is meant to improve public expenditure management through an on-line integrated financial management system in order to improve accuracy and timeliness of financial reporting and to enhance transparency and accountability. At the end of the financial year 2008/09, IFMIS had been rolled out to 47 government ministries and departments against a target of 46.

2.5. Payroll and Pensions: Pensions Department

The department established work stations and purchased mobile filing racks during the quarter. This has enabled the officers to work more effectively and efficiently to serve the retired civil servants. The government also sponsored 13 officers to undertake the GITS course during the quarter. Improved efficiency in the pensions department is contributing to effective payment controls within government.

2.6. Payroll and Pensions: Teachers Service Commission (TSC)

TSC planned to improve the management of IPPD by training 300 users in IPPD. They managed to train 175 officers during the quarter. This training followed that of the 73 IPPD supervisors undertaken during the 3rd quarter. The component also trained 50 officers in database administration in order to improve skills in database management. Four (4) auditors were trained in managing the audit function while six (6) officers trained in financial management of donor funded projects. The latter training was to improve the management of public sector finances.

It is hoped that a computerised pay systems for teachers will increase the efficiency of payment to the teachers and hence improved service delivery. Further, TSC will be able to track the payments to teachers and reduce losses as a result of faulty payments to officers who have left the service.

2.7. Internal Audit

Twelve Internal Auditors completed their Diploma Course work for research and were awaiting graduation at the end of the quarter. The department also completed Risk Based Fiduciary Review in 22 World Bank funded projects in 33 Implementing Agencies at a cost of 9.9 million.

The resulting report led to the development of risk management policy and value for money frameworks which were lacking in government. The findings of the report led to restructuring of the agencies that were implementing some projects and re-negotiating of other project contracts. PFMR was one of the projects reviewed.

2.8. Kenya National Audit Office (KENAO)

The Component undertook two activities during the quarter. These included purchase of motor vehicles and sponsoring staff on post graduate courses. The vehicles contributed to improved audit efficiency as officers are able to move to the field to undertake assignments. It is hoped that the post-graduate training will improve the staff efficiency in audit functions and hence contribute to better execution of annual audits in a timely manner, effectively and efficiently.

2.9. Parliamentary Oversight

The component held a pre-budget sensitization workshop in April 2009 to build the capacity of Members of Parliament on the budget process. Linkage with the Kenya Institute of Administration was strengthened and a manual developed to train staff at the Institute.

2.10. Public Sector Transformation (PST) Department

Office of the Prime Minister, Public Sector Transformation department is implementing the Capacity Building for Results Component of the Institutional Reform and Capacity Building Project (IRCBP). The Component has two sub-components, Capacity Building Facility (CBF) and Transformative Leadership Values and Ethics. CBF works with specific Ministries to support the implementation of action plans for the realisation of government priority objectives in the Vision 2030 MTP.

During the quarter under review, Ministry of Trade completed its first tranche of funding. PSR&PC engaged a consultant to conduct a comprehensive review of the Ministry's first tranche and the reports were duly completed which showed significant progress made by the beneficiary Ministries by building technical capacity to undertake various government reforms hence contribute to the Vision 2030-MTP objectives . The Ministry of Agriculture revised its work plan and completed the RRI for farmers in Nyanza and Western provinces. Absorption of funds under CBF improved to 76.1% of the first tranche.

CBF has improved the implementation of government reforms in beneficiary ministries and hence contributed to better service delivery by the targeted ministries to Kenyans.

2.11. Public Financial Management Reforms Coordinating Unit (PFMRCU)

PFMRCU is responsible for the coordination of the PFM Reforms with the key activities being the coordination of planning, provision of implementation support to components, monitoring & evaluation and reporting on project activities and IEC on overall PFM reforms. During the quarter under review the secretariat prepared and submitted the required reports (FMR and progress report in respect of quarter 3) within the deadline i.e. by end of April 2009.

20 requests made by the secretariat to the Bank on behalf of components between February and April 2009 were not processed to completion during the quarter as envisaged due to a freeze in the processing of 'No Objection' by the Bank citing fiduciary risks due to weak controls in the financial management system of the programme. Three key personnel at the secretariat were transferred back to their ministries. The staff that remained at the secretariat devoted their time to the implementation of the financial management action plan which was agreed on by the Bank and the Secretariat to ensure the weaknesses were corrected. The suspension on processing of 'No Objections' was finally lifted at the end of the quarter, but as this was the end of the government financial year, limited activities could be implemented.

During the quarter, the Secretariat also produced and circulated the 3rd issue of the Programme's Newsletter. Additionally, other IEC materials such as posters, brochures were produced and distributed.

There were no activities undertaken by the following components during the quarter:

- Economic Affairs Department (Macro-Fiscal)
- Capacity Building for PFMR
- Procurement Department
- PPOA
- External Resources Department
- Payroll and Pensions-IPPD

3. Resource Utilisation

Financial management for the programme is still challenge as the system is manual. Each component is supposed to be issued with an Authority to Incur Expenditure (AIE) at the beginning of every quarter, but this practice has hardly been consistent for all the components. Procurement delays are often experienced as Components hardly comply with the set regulations and procedures or initiate the procurement late.

The following financial report is made based on the specific activities that were undertaken during the quarter.

Table 1: Resource Utilisation by Component¹

| Activities Implemented for the Period | Budgeted Amount | Expenditure 4th Quarter 2008/2009 | Cumulative Expenditure at the end of the quarter | Cumulative as % of budget |
|--|------------------------|---|---|----------------------------------|
| Purchased 10 Laptop and 5 desktop computers and two printers | 2,000,000 | 2,138,000 | 2,138,000 | 106.9% |
| Established DMB mini library and registry | 1,000,000 | 1,000,000 | 1,000,000 | 100% |
| Trained staff in scenario analysis | 4,000,000 | 360,000 | | |
| Sub-total | 5,000,000 | 1,360,000 | | |
| Call centre information systems and software | 10,000,000 | 39,102,186 | 39,102,185 | 391% |

¹ Based on available figures

| Activities Implemented for the Period | Budgeted Amount | Expenditure 4 th Quarter 2008/2009 | Cumulative Expenditure at the end of the quarter | Cumulative as % of budget |
|---|--------------------------|---|--|---------------------------|
| Budget Execution | | | | |
| Staff training in IFMIS (20 pax) | 17,500,000 | 20,000,000 | | |
| Pensions | | | | |
| Mobile filing racks | 17,400,000 | 1,241,664 | 1,241,664 | 7% |
| Work stations | 4,500,000 | 2,997,000 | 2,997,000 | 66.6% |
| Sub-total | 21,900,000 | 4,238,664 | 4,238,664 | 19.4% |
| 175 officers trained as users of IPPD | 15,660,000 | 8,700,000 | 9,903,500 | 63% |
| 50 officers trained on database management skills | 2,610,000 | 2,436,000 | 3,335,520 | 127.8% |
| 4 auditors trained in managing the audit function | 3,600,000 | 2,039,163 | 2,540,863 | 70.6% |
| 6 officers trained on managing donor funded projects | 12,500,000 | 938,436 | 938,436 | 7.5% |
| Sub-total | 34,370,000 | 14,113,163 | 16,718,319 | 48.6% |
| Internal Audit | | | | |
| GoK/World Bank Risk Based Fiduciary Review ² | | 9,028,123 | | |
| Training Costs for Diploma Students at KCA | | 402,590 | | |
| Sub-total | | 9,448,713 | | |
| Motor vehicles | 63,000,000 | 20,366,500 | | |
| Increased capacity by training in post graduate courses | 23,290,000 | 3,519,700 | | |
| Sub-total | 86,290,000 | 23,886,200 | | |
| Pre-budget sensitisation workshop | 1,200,000 | 897,770 | | |
| CBF | 106,956,088 ³ | 24,280,548 | 81,373,992 | 76% |
| IEC | 52,800,000 ⁴ | 10,180,000 | | |
| Office supplies and services | | 595,648 | | |
| Staff Training | 40,000,000 ⁵ | 647,215 | | |
| Sub-total | 92,800,000 | 11,422,863 | | |

² Activity was not in the work plan

³ Amount Disbursed

⁴ 18 months budget

⁵ 18 months budget

The following table is a summary of expenditure by the programme for quarter against the budget.

Table 2: Summary of Expenditure

| ITEM | ANNUAL BUDGET | EXPENDITURE Q4 08/09 |
|----------------------|-------------------------|---------------------------------|
| Training | 481,868,500.00 | 152,276,640.25 |
| Operational expenses | 260,967,500.00 | 22,781,678.25 |
| Goods and Services | 433,860,000.00 | 12,964,864.45 |
| Consultancy | 83,600,000.00 | 1,157,356.00 |
| Total | 1,260,296,000.00 | 189,180,538.95 |

4. Conclusions

The implementation of the programme was slow during the quarter due to management challenges experienced. The government instituted measures to improve the management of the programme during the period.