MINISTRY OF FINANCE

PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME

ANNUAL REPORT 2008/2009

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Executive Summary

The overall objective of the Public Financial Management Reform (PFMR) Programme is to strengthen public financial management systems in order to to enhance transparency, accountability and responsiveness to public expenditure policy priorities. The programme is managed by the Public Financial Management Reform Secretariat in the Ministry of Finance.

The financial year 2008/09 witnessed a number of internal and external factors that affected the implementation of the programme. There was a World Bank fiduciary review undertaken which led to a temporary freeze on financing of activities. There were a number of senior management changes resulting in the recal of 3 members of staff who were not immediately replaced. These led to the slowing down in the implementation of the programme.

Despite the above challenges, a number of Components made strides in the implementation of their activities and some significant results were realized. For instance the Indicative Programme Based Budget was published and launched; a Debt Management Strategy was developed and Kenya Revenue Authority established a call centre. The Internal Audit department developed a risk management policy and value for money frameworks for the government. Other Components worked mainly on capacity building of staff through training on various Public Financial Management related courses and programmes. Capacities in some Components were also enhanced through purchase of ICT equipment and improved work conditions e.g. the Pensions department established work stations while KENAO purchased vehicles for field work.

This financial year, the progress report has captured information on the programme indicators. The report on indicators has been prepared based on interviews with Components on their own performance and also on the relevant Public Expenditure Financial Accountability (PEFA) scores for 2008. The challenge for the programme is that data on the indicators is not readily available as indicator reporting was hardly undertaken in the past. However, the government has committed to develop a monitoring and evaluation framework for the programme indicator reporting which will be used to gauge performance of the programme in future.

As a result of these challenges, resource utilization by the programme against the budget was at 37% as shown by the government audited financial statement.

1. Introduction

The overall objective of the Public Financial Management Reform (PFMR) Programme's is to strengthen public financial management systems in order to enhance transparency, accountability and responsiveness to public expenditure policy priorities. This is meant to contribute to the 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 (PFMRCU) in the Ministry of Finance. Implementation is undertaken by government departments and agencies organised in 15 components.

The 2008/09 financial year came after the post-election violence that had adverse effects on all sectors of the country including the implementation of government programmes/projects. To address the activities envisaged in the year the Components developed 18 month work plans running from July 2008 to December 2009 and this were approved six months later in January 2009-implying that there were no significant activities for the first six months of the financial year.

The Government/World Bank fiduciary review undertaken during the period led to a slowdown in the approvals of 'no- objection' requests from February to the end of June 2009. Key staff members were recalled from the programme in May 2009 and were not immediately replaced. Implementation of the programme was therefore significantly slowed down hence leading to limited realization of the intended results.

Chapter one of this report provides a brief background of the programme while Chapter two covers the achievement by Components for the period. Chapter three is an assessment of the programme outcome indicators while a detailed table on all the indicators is provided as an annex to this report. Chapter four provides the resource utilisation and Chapter five is the conclusion.

2. Achievements by Component based on Outputs and Outcomes

The report on the outputs and outcomes achieved for the period is based on the way the programme is organised. The Strategy for the Revitalisation of Public Financial Management System in Kenya was conceptualised around PFMR pillars that are organised into the 15 PFMR Components. The following section covers the achievements of the programme based on specific pillars and by specific Components.

2.1. Pillar 1: Financial Sustainability and Budgeting

a. Macro-Fiscal Policy and Planning- Ministry of Finance, Economic Affairs Department

The **purpose** of this Component is to support stabilisation policy by using high quality macro-economic analysis and to provide sustainable overall budget ceiling. The **main objective** for the Component is to develop a macro-economic model and refine the macro-framework for the budget, improve revenue estimation and capability to analyse effects on poverty.

The following are the Component results for the year:

- Five officers were trained on financial programming used in Kenya with the assistance of IMF East Afritac Technical Advisor.
- To enhance macro-economical and fiscal forecasting, the Component developed and installed the Treasury Macro-Model. The Model is operational and its updating and maintenance is undertaken by the staff. However, the Component is seeking collaboration from KIPPRA to ensure that the macro-model is institutionalised at Treasury.

b. Budget Preparation and Formulation

The **Purpose** of the Component is to establish a clear and transparent presentation of the budget document reflective of policy objectives and allocative efficiency after a credible budget process. The main **Objectives** are to develop budget document which is comprehensive and from which the government's priorities and policy changes are explained and possible to identify; and which is developed within a multi-year framework. The document shall be built upon the provisions from the district level and from which the government's priorities and policy changes are explained and possible to identify.

The following were the results for the period:

- Training of 20 staff members on various courses for improved capacity in Public Financial Management
- Sensitization of all finance officers nationally on Programme Based Budgets (PBB)
- Ministerial Programme Based Budgets were finalised. Training was conducted for Sector Working Groups (SWGs) and MDAs on PBB. The Indicative PBB book (2009) was published and launched.
- Organic Budget law and Regulations were drafted and submitted to the Minister of Finance. Draft Quarterly Budget Review (QBR) was prepared and study on Semi-

Autonomous Government Agencies (SAGAS) and Autonomous Government Agencies was finalised.

- 1500 stakeholders participated in Public Sector hearings where the programme for 2009/10 to 2011/12 MTEF budget was presented and adopted
- Activities towards developing a Performance Budgeting Framework and Public Expenditure Tracking System were initiated including developing TORs for the same.
- In preparation for anticipated performance monitoring system (PMS), the Component purchased 10 Laptop, 5 desk top computers and two printers. The PMS is to enable the budget department prepare quality and timely budget reports and contribute to the improvements in government operations.

c. Debt and Guarantee Management

The **purpose** of this Component is to reduce and manage Kenya's debt, both domestic and external, at sustainable levels and to reduce the cost of borrowing. The **objectives** are to develop and implement a debt management strategy and debt database and to deepen the domestic market for government securities.

The following were the achievements by the Component during the period under review:

- Capacity building workshop on medium term debt strategy where staff were trained on scenario analysis
- Draft debt management strategy document developed
- Sensitization of stakeholders on debt management regulations
- Debt management mini library and registry was established. The library and registry are meant to enhance the efficiency in debt documentation and settlement as debt information is properly stored. The library is accessible to Public Servants and to the general Public on request.
- Two accounts officers were trained in the preparation of financial statements using ICT.
- Annual Public Debt report was produced and disseminated among key stakeholders. The dissemination is meant to enhance awareness on the government debt situation and improve the management of debt to sustainable levels.

2.2. Pillar 2: Resource Mobilization

a. External Resources

The **aim** of the Component is to improve external resources planning and integration with the budget preparation. The **objectives** include enhancing coordination of external finance with the budgetary process through establishment of reporting procedures, databases and forum for dialogue, ensure exhaustiveness of resources accounting for better predictability and budget statistics. The Component did not register any activities supported by the Secretariat during the year.

b. Taxes, Customs and Excise: Kenya Revenue Authority (KRA)

KRA's **aim** under PFMR is to improve revenue forecast and collection in order to support the budgetary process. The **objective** is improvement of customs administration and risk management, improvement in effectiveness of domestic tax administration, and improved taxpayer education.

The following were the achievements of the Component during the period:

- Purchase of ICT equipment including 299 computers, 25 laptops, 100 laser printers, 35 network printers and 2 database servers were also procured to support new business applications e.g. the Integrated Tax Management System (ITMS)
- Preparation of a reforms documentation book
- A call centre was established with information systems and software. The centre is contributing to improved taxpayer query responses and queue reduction at KRA. It is meant to increase service satisfaction by 5% per annum and hence better administration of domestic taxes.

2.3. Pillar 3: Budget Execution

a) Budget Execution, Accounting and Reporting

This Component is two-fold hence two sub-components managed by the same office of the Accountant General. The first is **budget execution** which **aims** to reduce the discretionary element in the allocation of budget releases, reduce the variance between the budget provisions and the releases and improve upon the efficiency of budget execution. The objective is to develop and implement improvements in the cash based release system to obtain better predictability for spending units, improved commitment control and increased efficiency throughout the public sector.

The **second** is **accounting and reporting** which **aims** to provide accurate and timely financial information on the budget implementation. The **objective** is to review the legal and regulatory framework, accounting and reporting system, development of a professional cadre, institutional arrangements for reporting, records management and filing, monthly reporting and bank reconciliations. **IFMIS** is managed under this component.

The following were the achievements by the Component for the period:

- Built professional cadre by training of accountants in CPA and MBA
- 20 super users from the IFMIS project and government MDAs were trained in IFMIS operations and computer general reporting. IFMIS is meant to improve public expenditure management through an on-line integrated financial management system. The ultimate result is to improve accuracy and timeliness of financial reporting and enhance transparency and accountability. At the end of the financial year, IFMIS had been rolled out to 47 MDAs against a target of 46.

b) Payroll and Pensions

The **purpose** of the Component is to maintain and manage a payroll and pension system for the civil service for the efficient delivery of services. The **objective** is to develop and implement personnel databases, payroll and pension systems integrated with the financial management system. **The Component has three sub-components as follows:**

i) Payroll: Integrated Personnel Payroll Database (IPPD)

This sub-component is managed by the Ministry of State for Public Service. It is aimed to improve the internal control and accuracy in the public service payroll system. During the period under review, **38 officers were trained in IPPD and payroll management**.

ii) Payroll: Teachers Service Commission (TSC)

The sub-component is managed by TSC and aims to ensure that the TSC payroll system is integrated with financial information management system. TSC achieved the following milestones during the year:

- 73 managers and 175 users were trained in IPPD
- 75 staff were trained in Database Management-(25 were trained in Oracle based data management while the others were on general database management).
- 24 internal auditors were trained in managing the audit function while 4 officers were trained in computerised accounting system
- 6 officers were trained in financial management of donor funded projects

iii) Pensions

The pensions department aims to ensure that an efficient pensions system is maintained for retired Public Servants to enable them live productive lives after retirement. During the year, the following were the achievements:

- 163 officers trained on computers in readiness for the computerization of the department

- Established work stations and mobile filing racks to improve service delivery by staff

2.4. Pillar 4: Procurement

Under this Pillar there is one Component on Procurement with sub-components; the Directorate of Public Procurement and Public Procurement Oversight Authority (PPOA). The **purpose** is to facilitate cost efficient provision of resources for translation of the Government's policies into budget achievements**.** The **Objective** is to develop and implement new legal and regulatory framework, create professional cadre, establish workable institutional arrangements, support internal control and commitment control and provide expertise to the MDAs to implement their plans and budgets through procurement for better cash management.

During the period under review, one officer from PPOA was sponsored for a course in West Africa.

2.5. Pillar 5: Oversight and Regulation

a. Parliamentary Oversight

This Component aims to ensure that there is public oversight and participation in the formulation and execution of the budget, public monitoring and evaluation of budget outcomes and performance and promotion of the culture of democratic governance, transparency and accountability. The **objective** is to develop the capacity of the parliament to play its oversight role in public resources management and legislative scrutiny of the annual appropriations bill and review of external audit reports.

During the period under review, the Component held post budget sensitization workshop for Members of Parliament after the 2008/2009 budget presentation and a pre-budget sensitization workshop for the 2009/2010 budget. The Component also established linkages with Kenya Institute of Administration and developed a manual for training of parliamentary staff.

b. Internal Audit

The **purpose** of the Component is to strengthen internal controls throughout the public sector for improved public expenditure management and financial accountability and to support management. The **objective** is to develop regulations and manuals, establish policies, develop and train, review institutional arrangements for greater independence, support management in implementing reforms**.**

The following were the achievements for the period:

- 133 internal auditors from Rift Valley, Western and Nyanza provinces were trained on annual work planning, report writing and audit standards.
- 64 officers were trained in World Bank fiduciary review
- Internal Audit provincial workshops to build the capacity of internal auditors on various aspects of government auditing were held in Western and North Eastern.
- Training of 35 Auditors at KCA University for a Diploma in Internal Auditing. Also three auditors enrolled for an MBA at Moi University.
- Department undertook fiduciary review in 22 World Bank funded projects in 33 Implementing Agencies. The resulting report led to the development of risk management policy and value for money frameworks for the government. Findings also led to the restructuring of agencies that were implementing the projects and re-negotiating of other project contracts.

c. Kenya National Audit Office (KENAO)

The **purpose** is to provide timely independent information on the quality of expenditure, the budget execution and the achievements to the public. The **objective** is to review and amend legal framework, develop regulations and manuals, establish policies, expand scope of professional cadre and train, review institutional arrangements, develop mechanisms for upgrading methodologies.

During the period under review, the following were the achievements by the Component:

- Financial audit manual were developed
- Audit accounts of all Local Authorities were developed
- TNA database and training plan were developed
- Six auditors sponsored for MBA training
- Seven vehicles were procured for the programme to be able to undertake audit functions throughout the country hence reduce audit backlogs

2.6. Pillar 6: Cross-Cutting Issues

In the PFM strategy, there are four Components under this pillar including Electronic Service Delivery, Capacity Building and Service Conditions and Consistent Legal Framework for PFM and PFMRCU. However, sub-components under Electronic Service Delivery i.e. IFMIS and IPPD have been covered under point 2.3 above on budget execution and reporting.

a. Electronic Services Delivery (IFMIS, IPPD)

The **purpose** of the Component is to process and record financial transactions, provide timely, accurate and relevant information, minimize risks, and facilitate financial control.

The **Objective** is 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 both transparency and accountability.

b. Capacity Building and Service Conditions

The **purpose** is to strengthen the capacity in the PFM system through functional analysis, generic PFM in-house training programmes, academic training, professional accreditation of PFM professional staff, improved conditions of service. The **objective** is to review the Kenyan Accountancy Regulations, develop training curriculum, develop and promote public finance specialization, Promote international standards, Revised Conditions of service for PFM staff. There were no activities undertaken by this component during the year.

c. Consistent Legal Framework for PFM

The **purpose of the Component is** to have a consistent and harmonized legal framework to support the PFM reform process. The **objective** is to review and harmonise existing legislation on PFM and in the broader context of Public Sector Reform. To build capacity to undertake legislative reforms relating to PFM. This Component is yet to be established.

d. Office of the Prime Minister, Public Sector Transformation

This **Component** is not part of the PFM strategy. However, it is included in PFM reporting as the Component coordinates the implementation of Component Two of the World Bank's Institutional Reform and Capacity Building Project (IRCBP), on Capacity Building for Results. It 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.

i) CBF

Three Ministries benefiting under CBF completed implementation of their action plans. Evaluation was undertaken for CBF ministries which revealed that there was progress in the implementation of government reforms in beneficiary ministries and hence contributed to better service delivery by the targeted ministries to Kenyans. However, the evaluation also highlighted challenges with regard to institutional framework for implementing the CBF which had resulted in slow implementation of activities among others.

ii) Transformative Leadership (TL)

There were minimal activities on TL during the year except for a conference on Governance Excellence (March 2009) and initiating a customer satisfaction survey.

Support to KIA was also undertaken towards the establishment of leadership resource centre.

e. Public Financial Management Reforms Coordinating Unit (PFMRCU)

The **purpose** of the PFMRCU referred to as the PFM Secretariat is to update the PFM Reform Programme Strategy, PFM Reform plan and PFM reform implementation guide and coordinate and monitor PFM Reform implementation. The **objective** is improved Capacity to implement sound Public Financial Management.

As mentioned earlier, the Secretariat experienced staff changes and freeze of funds that affected implementation of activities during the year. Aside from the routine coordinating activities that the Secretariat undertakes, the following were the key milestones during the period:

- Developed a manual for PFM sensitization workshops
- Several IEC activities were undertaken including development and updating of the PFM website; development and distribution of brochures, posters and newsletters; development of an internal communication strategy whose implementation was also initiated through provincial sensitization workshops held in three provinces; a database of e-mail addresses was developed; third issue of PFM newsletter was produced and circulated and a success stories booklet also produced and distributed.
- The Secretariat duly prepared the Financial Monitoring Reports including the procurement reports and submitted them on time as required.

3. Assessment of the Programme Indicators

The PFMR indicators are generally derived from two documents; the PFMR strategy and World Bank Project Approval Document. The PFM strategy is supported by a pool of donors both through pooled funding and bi-laterally. The specific reference to the PAD indicators is largely due to the Development Credit Agreement between the Government and the World Bank. Further, most PFMR indicators are in line with the Public Expenditure and Financial Accountability (PEFA) assessment.

Annual progress reports for the programme in the past did not assess indicators. This is because there has hardly been any prioritisation on the focus areas of the PFMR programme and the indicators as specified in the strategy are far too many (71). The government has initiated this process to enable it to internally give a report card on its performance based on the commitments it has made. In future, the government will make an analysis on the priorities of the programme for specific periods, and be able to focus and report on those within a given period. This assessment is based on self assessment by Components for the non-PEFA indicators. The latest PEFA[1] assessment has been used where applicable. The complete table of indicators is provided as annex to this report.

The following is an assessment based on the outcome indicators as outlined in the World Bank PAD.

a) National budget is aligned with explicitly stated government priorities in the IP-ERS (Vision 2030-MTP)

The government put in place measures within the IP-ERS to ensure implementation of its policies, programme and projects. In this regard, a fiscal strategy was developed to guide mobilisation of financial resources and expenditure targeting and restructuring. The fiscal Strategy developed emphasized strong revenue collection anchored on improvements in tax administration and gradual reduction of recurrent expenditure to allow for a rapid increase in development expenditures[2].

With regard to the revenue and policy framework, the government developed an expenditure strategy to gradually reduce the level of recurrent expenditure to GDP to allow for rapid increase in the development expenditure within a sustainable macro-economic framework. Public expenditure management reforms and the Ministerial Public Expenditure Reviews (MPERs) were to be used to redirect expenditure to national priorities and away from low priorities[3].

The government's assessment at the end of the ERS period indicated that the aggregate expenditure increased from Ksh. 376.3 billion in 2003/04 to Ksh. 478.8 billion in 2006/07 representing a 27 per cent increase. The share of total aggregate expenditure in GDP and recurrent expenditure in aggregate government expenditure declined marginally from 31.3 per cent and 85.5 per cent in 2003/04 to 27.9 per cent and 82.1 per cent in 2006/2007[4]. The share of development expenditure in total government expenditure increased from 14.5 per cent in 2003/04 to 17.9 per cent in 2006/07.

The government noted that these expenditure patterns were consistent with ERS objectives. However, the share of recurrent expenditure in total aggregate expenditure and development expenditure in GDP of 82.1 per cent and 5 per cent attained in 2006/07 fell short of the 78.9 per cent and 6.7 per cent for the same financial year.

The government's high expenditure patterns during the ERS period were recorded in the education sector due to increased investment in education (Free Primary Education) and

[1] PEFA scores are for 2006 and 2008 calendar years respectively
[2] Government of Kenya, End Term review of the ERS-2003-2007 (2009)
[3] Ibid, pg 185
[4] Ibid,pg 192

health for the poor and rapid expansion of infrastructure. Additionally, the government improved terms and conditions of service for civil servants and teachers.

The PEFA indicators[5] on policy based budgeting are based on specific criteria and examines the government's performance in this area. **PEFA indicator 11- orderliness and participation on the budget process** examines the existence and adherence to a fixed budget calendar, guidance on the preparation of budget submissions and timely approval of the budget by the legislature. Kenya scored **C+** in 2008. The PEFA team observed that despite the fact that the government has a clear budget calendar, which usually is presented as an annex to the Budget Outlook Paper, this calendar in 2008, allowed MDAs only 11 days to submit their budget proposals. The Team also noted that Treasury has clear guidance on the preparation of the budget, reflecting ceilings approved by the Cabinet but the budget is usually approved by Parliament by the end of October each year, two months after the beginning of the financial year.

The government scored **C+** on **PEFA Indicator 12- Multiyear perspective in fiscal planning, expenditure policy and budgeting.** This indicator assesses the multi-year fiscal forecasts and functional allocations, scope and frequency of debt sustainability analysis (DSA), existence of costed sector strategies and the linkages between investment budgets and forward expenditure estimates. In this area, the government scored relatively well on scope and frequency of DSA since, the DSA for external and fiscal domestic debt was undertaken in 2008. The government also had costed the nine sector strategies and the documentation exists on the web. Forecasts for fiscal aggregates and sectoral/functional classifications are prepared for three years (MTEF) but economic classification is not reported for total expenditure. Finally, there is no clear demonstrated linkage between the development budget and forward recurrent cost implications.

b) Budget allocation and actual expenditure disparities reduced

At the time of compiling this report, figures on budget and expenditure disparities had not been obtained. However, the **PEFA Indicator 1: Aggregate expenditure outturn compared to original approved budget** provides an indication on the government's performance. However, it should be noted that the PEFA indicator is based on primary expenditure and does not include debt service payment and foreign finance development.

The variations from 2004/05, 2005/06 and 2006/07 were -11%, -6% and -4% respectively. The indicator score for 2008 hence was **B**. In all the three years listed, the outturn

[5] See PEFA report for 2008

represented under-utilisation of the originally approved budget. However, the government indicates that that where big variations occur is often with development budgets.

c) Predictability of annual /mid-term cash allocation flows to line ministries improved by Treasury

The government has since 2005/06 streamlined the cash transfer system from Treasury. Line ministries are required to submit annual cash plan to the MOF. The Cash Management Unit (CMU) at Treasury then prepares a consolidated annual cash plan predicting the cash flow, expenditure shortfalls or surpluses and the proposed domestic borrowing[6]. The **PEFA Indicator 16- Predictability in the availability of funds for commitment of expenditure** observes that the adopted mechanism though reliable for predictability at the ministry headquarters, there is evidence to the fact that the forecast is not reliable at the district level. The overall PEFA score on this indicator was **B+** in 2008. It was observed that the extent to which cash flows are forecast and monitored is good with the cash flows prepared at the beginning of the year and the exchequer committee meeting every second week to monitor the execution of the plans. Spending limits are submitted each month to the MDAs on three month rolling forecast basis based on updated cash flows.

Further, reliability and horizon of periodic in year information to MDAs on ceilings for expenditure is ensured. The MoF, is able to meet its budget release commitments against quarterly rolling spending limits to all line ministries each month save for the cases where the line ministries have excessive balances indicated in mirror accounts. Lastly, the frequency and transparency of adjustments to budget allocations which are decided above the management of MDAs are done two or three times a year with the approval of the MoF and reported to Parliament once year in the form of supplementary budgets.

d) External audit reports prepared and published in a timely fashion in accordance with the Public Audit Act 2003

KENAO is the body mandated to undertake external audits. Currently KENAO has had 100% compliance in undertaking audits for line ministries. There are few backlogs with audits to state corporations as a few do not submit their annual accounts on time. The greatest backlogs that KENAO has had in the past have been with Local Authorities and currently KENAO is working to reduce the backlog.

[6] Ibid, pg-55

e) **Adoption of a Risk Based Internal Audit approach and establishment of effective Ministerial Audit Committees**

The government has established Audit Committees in all line ministries. Although there is commendable progress of streamlining the Internal Audit function within the Ministry of Finance, the PEFA report observed that the extent of management response to internal audit findings is still weak. The working of internal audit committees in ministries is not streamlined and even though some meet and document their decisions, there is little ownership within the line ministries. The PEFA score for the **Indicator 21- Effectiveness of internal Audit was C+.**

f) **Skilled Public Accounts and Public Investments Committees of Parliament in undertaking their statutory functions, submitting reports on an annual basis and eliminate backlog within the second year of project implementation**

The Public Accounts Committee (PAC) is mandated to examine the external audit reports from KENAO and prepare reports with recommendations to Parliament. The PEFA assessment indicated that PAC has considerable backlog in its dealing with reports from KENAO. The PEFA assessment team observed that PAC is dealing with reports from more than one year at a time. Additionally, PAC conducts hearings for most cases brought forward through the KENAO reports and summons accounting officers to appear and explain the cases. The PEFA score for **indicator 18-Legislative scrutiny of external audit reports was D+.**

g) **Skilled Finance Committee in undertaking its statutory functions complies with the budget cycle**

The previous Parliamentary Standing Orders, mandated the Finance Committee to be responsible for the budget. However, the Fiscal Management Act of June 2009 established the Budget Committee to be responsible for the budget. The TORs of the budget committee as specified in the new Standing Orders include to;

- examine Budget Policy Statement presented to the House and shall report to the House, what, if any, economies should be made consistent with the proper carrying into effect of the policies implied in or by such Statement and estimate; and
- evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays.

h) **Accountability and capacity of public servants enhanced for the delivery of public service**

The support for Results Based Management through Component two of IRCBP, Capacity Building for Results has developed capacity of public servants in pilot ministries to improve service delivery. The implementation of Rapid Results Initiative has enabled MDAs to streamline work processes and improve on service delivery. Transformative leadership training on values and ethics, and change management has created an orientation towards better service delivery. The government in 2009 commissioned a national customer satisfaction survey to get feedback on service delivery but the report is yet to be released.

4. Resource Utilisation

Financial Management for the Secretariat has been challenging. The main problem this financial year was the fact that the activity work plans were for 18 months while government budgeting is for 12months. Additionally, components are to be issued with AIE's every quarter based on their financial requests but this has seldom been the case as most components do not submit requests. The Secretariat previously issued AIE's based on past experience of utilisation of funds and in some cases this has been inconsistent with the needs of the Components.

Financial reporting in the past has been generalised and does not capture the actual activities undertaken by Components as specified in the work plans. The following are the expenditure by the Components for the financial year 2008/2009. However, the budgeted figures were for 18months from July 2008 to December 2009

Table 1: Budget and Expenditure by Component

No	COMPONENT NAME	Budget	Expenditure	% Expenditure over budget
1	Macro-Fiscal & Budgeting	23,902,500	4,801,960	**20**
2	Budget Formulation & Preparation	140,000,000	15,604,739	**11**
3	External Resources	42,800,000	615,844	**1**
4	Debt & Guarantee Management	26,200,000	2,978,562	**11**
5	Kenya Revenue Authority	622,350,000	107,249,869	**17**

No	COMPONENT NAME	Budget	Expenditure	% Expenditure over budget
6	Accountants General	74,500,000	28,227,824	**38**
7	**Payroll and Pensions**[7]	**375,500,000**	**21,138,690**	**6**
	7.1 Pensions	41,600,000		
	7.2 Teachers Service Commission	300,800,000		
	7.3 Payroll - DPM	33,100,000		
8	Procurement Directorate	124,400,000	-	
9	Public Procurement Oversight Auth.	168,770,000	1,772,617	**1**
10	Parliamentary Oversight Authority	214,800,000	6,871,661	**3**
11	Internal Audit	269,500,000	62,719,840	**23**
12	External Audit	20,500,000	9,540,101	**47**
13	PFMR Coordination Unit	41,600,000	260,666,384	**627**
14	IFMIS	300,800,000	32,340,000	**11**
15	Capacity Building for PFM	33,100,000	-	
16	**Capacity Building For Results**			
	16.1. CBF		90,963,279	
	16.2. TL		2,691,235	
	16.3. PST Secretariat		18,710,323	
TOTAL		**2,788,663,900**	**827,028,553**	

[7] Includes budget and expenditure of three sub-components

Table 2: Total Budget and Expenditure 2008/09 as captured in the audited final accounts

Item	Budgeted	Actual	Variance
Non-current Assets	59,540,000.00	-	59,540,000.00
Goods and Works (excluding non-current assets)	374,320,000.00	124,061,274.15	250,258,725.90
Training	481,868,500.00	212,365,351.75	269,503,148.25
Consultancies	83,600,000.00	40,220,376.00	43,379,624.00
Operating costs	260,967,500.00	95,516,719.30	165,450,780.70
TOTAL	**1,260,296,000.00**	**472,163,721.20**	**788,132,278.80**

5. Conclusions

The financial year 2008/09 witnessed a number of changes that affected the implementation of the PFMR programme. The freeze of funding and change of staff at the Secretariat led to slow implementation of activities by most Components.

Annex

Assessment of PFM Indicators at the end of 2008/2009 financial year

Performance Indicator		**Baseline**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Component 1: Macro-fiscal Planning						
Multi-year perspective in fiscal planning, expenditure policy and budgeting	PEFA		C		C+	
Public access to key fiscal information:PI-10	PEFA		B		B	
Budget Formulation						
Aggregate expenditure out-turn compared to original approved budget: PI-1	PEFA		C		B	
Within year deviations of actual expenditure from printed estimates reduced by 30% by 2007[8]	PAD Target	Variations do not exceed 8% in line ministries	10%	20%	30%	
	Actual					
Classification of budget:PI-5	PEFA		C		C	
Comprehensiveness of information included in budget documentation:PI-6	PEFA		B		B	
Extent of unreported government operations: PI-7	PEFA		D+		D	
Transparency of intergovernmental fiscal relations-PI-8	PEFA		B		B	
Orderliness and participation in the	PEFA		B		C+	

[8] This indicator is measuring the as P1

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
annual budget process:PI-11						
Multi-year perspective in fiscal planning, expenditure policy and budgeting :PI-12	PEFA		C		C+	
Quality and timeliness of in-year budget reports:PI-24	PEFA		C+		C+	
Debt and Guarantee Management						
Debt management policy produced	In June 2009, the Ministry of Finance Debt Management Department produced a medium term debt management strategy (2009-2012). This document currently acts as the government policy document of debts. The objectives of the strategy are to meet possible long-term borrowing cost, subject to a prudent degree of risk and to deepen the domestic market for government securities. Since the development of the strategy, the government successfully managed to float an infrastructure bond worth 18.7billion in 2009. This has encouraged other players in the market to do the same due to increased confidence.					
Stock and monitoring of expenditure payment	The Debt Management Department monitors stock so as not exceed the Parliamentary approved threshold. This threshold was set at 500billion in the year 2000 and reviewed to 800billion in 2009. Additionally, the department monitors expenditure payment and tracks payment so that only those approved are serviced. This is meant to bring controls and avoid any payments for unauthorised debt.					
Recording and management of cash balances, debt and guarantees:PI-17	PEFA		B		B	
ERD						
KERP produced and quality assessed		The draft KERP is in place. Revision was made to it in 2009 to reflect Post Election Violence and effects of Global Economic Crisis. It is currently awaiting Cabinet approval.				
Predictability of Direct Budget Support:D-1	PEFA		D		D	
Financial information provided by donors for budgeting and reporting on project and programme aid:	PEFA		D		D+	

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
D-2						
Proportion of aid that is managed by use of national procedures: D-3	PEFA		D		D	
Adequate and timely financial reports on external resources[9]						
% use of external resources increases			40%	56%	64%	
REVENUE COLLECTION (KRA)						
Improved tax compliance by 5% per annum (assuming an overall compliance level of 60%)[10]	PAD	60%				
Enhanced revenue collection by an additional Kshs. 15 billion per annum on account of improved compliance[11]	PAD		63Bn	58.9Bn	61.7Bn	30.1Bn June to December 09
Maintenance of cost of collection at below 2% of printed estimates	PAD		1.7%	1.7%	1.6%	1.9% June to December 09
Number of KRA functions fully integrated	PAD		3[12]	4[13]	7[14]	
Number of IT business solutions successfully implemented[15]			2	4	6	

[9] This indicator is the same the PEFA D-2

[10] Study to gauge the level of tax compliance in Kenya yet to be conducted

[11] Administrative measures put in place indirectly contribute compliance and the increase in tax revenues is from a set of administrative measures and tax measures. Internally, Domestic Tax Department voluntary compliance is estimated at 97% with 3% attributed to debt, audit and tax recruitment efforts

[12] All Revenue departments fully integrated to have a functional structure: Domestic tax, Customs services and Road transport (3)

[13] Finance department adopted functional structure (1)

[14] HR, ICT and support departments adopted function structure (3)

[15] 06/07- Two existing new business systems (Customs S2005S and Road Transport Motor Vehicle System), 07/08 Introduction of two new business system for petroleum and dry cargo i.e. Customs Oil Stocks

Performance Indicator		**Baseline**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Quality and timeliness of production of statistics[16] (Annual Average)	PAD		1.4 months	1 month	0.8 month	
Aggregate revenue out-turn compared to original approved budget:PI-3	PEFA		C		A	
Transparency of taxpayer obligations and liabilities:PI-13	PEFA		B		B+	
Effectiveness of measures for tax payer registration and assessment:PI-14	PEFA		C+		B	
Effectiveness in collection of tax payments:PI-15	PEFA		D+		D+	
A gradual increase in revenue over the years without substantial changes in tax rates or tax mix[17]						
Budget Execution						
Composition of expenditure out-turn compared to original approved budget:PI-2	PEFA		A		B	
Stock and monitoring of expenditure payment arrears:PI-4	PEFA		B		B	
Predictability in the	PEFA		B+		B+	

Information System and Cargo Management Information System. 08/09, partial implementation of Integrated Tax Management Systems (ITMS), Implementation of Air Passenger Service Charge System

[16] Timeliness in availing of statistics to the Kenya National Bureau of Statistics attributed to the implementation of the new web based customs system

[17] Component feels that they do not have control over this indicator

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
availability of funds for commitments of expenditure:PI-16						
Transparency of intergovernmental fiscal relations-PI-8	PEFA		B		B	
Accounting and Reporting						
Improved flow of funding to service delivery units		The government has since 2006/07 streamlined the cash transfer systems from Treasury. Through the Real Time Gross Payment System (RTGS), ministries are required to make work plans and procurement plans which are forwarded to the exchequer committee for approval. Once approval is granted, all payments are made through EFTs hence making cash flow to the ministries and districts faster. Claims beyond the approved limits are also discussed and decisions made by the exchequer committee on the same.				
Timely and reliable financial statements in accordance with acceptable standards are produced through the IFMIS: PI-25	PAD Target	No	Yes	Yes	Yes	
	Actual		No	No	Partially	
	PEFA		D+		D+	
% of districts presenting regular, timely and accurate financial records using standard classifications and in line with the budget structure through IFMIS		IFMIS not yet rolled out in districts.	None	None	None	
Financial reporting by SAGAs and LAs on budget and contingent liabilities	PAD Target	Not all agencies currently report on budgets and contingent liabilities	30%	50%	75%	90%
	Actual		20%	30%	50%	
Payment arrears reduced to no more than average monthly expenditure of Government	PAD Target	Payment arrears of more than average monthly non-salary expenditure exist	3months	2months	1 month	
	Actual		3months	3months	2months	
Timeliness and	PEFA		C		C+	

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
regularity of accounts reconciliation: PI-22						
Availability of information on resources received by service delivery units : PI-23	PEFA		B		D+	
Payroll and Pensions						
Effectiveness of payment controls		Pensions Department has in place Pensions Management Information System (PMIS). All payments undertaken through EFT. Training of officers on change management undertaken to support the implementation of reforms in the department. TSC has own IFMIS since 2008/2009. Component also on IPPD. There are improvements in payment controls as Ghost teachers easily detected and internal audit functions have been strengthened to be more preventive rather than detective.				
IPPD rolled out in pilot Ministries		IPPD has been rolled out in all Ministries and TSC though it is decentralised.				
Integrated IFMIS and IPPD for improved internal controls		Currently there is no component working towards realization of this indicator				
Procurement						
Competition, value for money, and controls in procurement :PI-19	PEFA		B		B	
Percentage of reporting entities preparing procurement plans as part of the budget process	PAD Target	Procurement planning not undertaken	25%	60%	90%	100%
	Actual				100%	
Annual procurement audits indicate improvements in compliance with procurement regulations	PAD Target	Procurement not covered as a focus area for Internal Audit	30%	50%	75%	90%
	Actual					
Use of the procurement legislation and		The operationalisation of the Procurement and Disposal Act took place in 2007. Even though implementation still a challenge.				

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
existence of open and fair competition.						
All ministries apply the new legislation and the oversight authority is established and functional.		PPOA established and operational				
Evidence that costs for procured services is being reduced.		Market survey undertaken by KNBS and issuance of general price guidelines for goods and services.				
Parliamentary Oversight						
Legislative scrutiny of the annual budget law: PI- 27	PEFA		D+		D+	
Legislative scrutiny of external audit reports: PI- 28	PEFA		D+		D+	
Internal Audit						
Ministries (Pilot) have established internal audit units. Management in the pilot ministries use recommendations of internal audit units	PAD Target	Independent Internal Audit Units do not exist in all cases. Limited evidence of use audit results.	1	3	5	6
	Actual	All Ministries have internal audit units				
Management in ministries implement recommendations of internal audit units		Audit Management committees established in Ministries but functionality and implementation of recommendations by line ministries differs as there is little ownership within ministries				
Oversight of aggregate fiscal risk from other Public Sector entities:PI-9	PEFA		C		C	
Effectiveness of payroll controls:PI-18	PEFA		D+		C+	
Effectiveness of controls of non-	PEFA		C		C	

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
salary expenditure:PI-20						
Effectiveness of internal audit:PI-21	PEFA		C		C+	
External Audit						
Annual audits are executed in a timely, effective and efficient fashion	PAD Target	Currently only 50% of MDAs are audited	65%	75%	80%	95%
	Actual					
Compliance with the Public Audit Act reporting requirements achieved	PAD Target					95%
	Actual					
Quality and use of recommendations of Parliamentary Committees improved	PAD Target	No evidence that Public Accounts Committee recommendations are implemented	30%	50%	75%	90%
	Actual					
Scope, nature and follow-up of external audit:PI-26	PEFA		D+		C+	
Electronic Service Delivery (IFMIS and IPPD)						
IFMIS is operational in pilot ministries[18]	PAD Target	IFMIS not yet fully operational	1	3	4	6
	Actual		10	26	46	
IPPD is rolled out in pilot ministries	PAD Target	IPPD currently used as stand alone system but yet to be linked through WAN	1	3	4	6
	Actual					
An IT strategy is developed and owned by government	PAD Target	No strategy exists	Yes	Yes	Yes	Yes
	Actual		No	No	No	
Capacity Building and Service Conditions						
Study carried out of existing scheme of service and remuneration as		Internal review of schemes of service on-going, however for terms and conditions of service, the component will have to collaborate with Ministry of State for Public Service who are responsible.				

[18] Ministries of Finance, Agriculture, Trade, Local Government, Planning and National Development

Performance Indicator		Baseline	2006/07	2007/08	2008/09	2009/10
well as of remuneration in the private sector for similar work						
Reports of functional analyses of PFM institutions and functions covering processes, staffing and competencies as well as how to meet challenges following the reform agenda 2006-2011						
Proposals of Kenyan training institutions able to support PFMR		Discussions on-going with KIA.				
Legal Framework						
A legal division set up in PFM Secretariat		Not yet done due to our inability to attractive legal expertise				
Studies done on the PFM legislation with a view to harmonization		Not done				
PFMCU						
Semi-annual progress reports on status of implementation are provided in a timely manner	PAD Target	Not Applicable	100%	100%	100%	100%
	Actual		100%	100%	75%	
External audits reports are timely and unqualified	PAD Target	Not Applicable	100%	100%	100%	100%
	Actual		100%	100%	100%	
Reports of post procurement reviews have satisfactory rating	PAD Target	Not Applicable	100%	100%	100%	100%
	Actual		100%	100%	100%	