



CLOSING THE GAPS IN BUDGET EXECUTION

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Presentation Outline

- Introduction
- Budget Execution reforms
- Independent Oversight on Budget Execution
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- Budget execution and performance
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- Conclusion



Introduction

- The importance of budget execution is reflected in its contribution to economic growth.
- Efficient and effective use of public funds improves the capability of governments and its systems to utilize resources to achieve growth and development targets.
- The responsibility to execute approved budgets is delegated to executive agencies of both national and county governments.
- The budget process provides the platform for the executive and Parliament/legislative assemblies in county governments to level their interests and establish credible contracts aimed at allocating resources to strategic priorities and programmes.

Introduction



- The Constitution of Kenya 2010 lays down the basic principles of public finance: [Article 201](#)
 - Openness
 - Accountability
 - Prudent and responsible use of public funds and
 - Public participation
 - Responsible financial management and clear fiscal reporting
- The constitution captured the public finance management reform agenda and established a number of institutions to improve financial management in the country:
 - i. Controller of Budget
 - ii. Auditor General
 - iii. Salaries and Remuneration Commission
 - iv. Central Bank of Kenya
- These independent institutions were given wider mandates in the oversight of the financial resources of the country and budget execution.

Reforms in Budget Execution in Kenya



- The ongoing Public Finance Management Reform Programme started in 2006 and is coordinated by the National Treasury.
- A number of reforms in the framework have been undertaken in the;
 - Budget Process
 - Accounting and Reporting and
 - Macro Fiscal Framework
- These include reforms in the legislations that assist in financial management (PFMA, Public Procurement, Public Audit Act, etc)
- This reforms have improved budget preparation but there are still gaps in relation to budget execution.

Reforms in Budget Execution Cont.....



- These reforms have therefore made significant impact in improving the budget process by:
 - Implementing MTEF that links policy, planning and budgeting including transforming political priorities into the annual budget allocations
 - Developing a standard chart of accounts that assisted in clear reporting and allowed for comparison
 - Introducing Programme Based Budgeting which focuses on output and outcomes rather than inputs.
 - The use of Treasury Single Account that facilitate proper utilization of cash
 - Implementing IFMIS that assists in tracking expenditures.
 - Development of a proper legal framework.

Reforms in Budget Execution Cont.....



- Some improvement was achieved under this reform framework but there are still challenges in budget execution that contributed to the agitation by the public for the separation of the powers and functions including creation of new public finance institutions in the Constitution of Kenya 2010.
- In this regard, the establishment and operationalization of these institutions, particularly the office of the Controller of Budget, is addressing some of these weaknesses in budget execution.
- The Controller of Budget is therefore a unique institution that was established by the Constitution of Kenya, 2010 and has changed the traditional PFM framework on budget execution in Kenya.



Independent Oversight on Budget Execution

- The Office of Controller of Budget (OCOB) was established under Article 228 of the Constitution of Kenya 2010 to oversee implementation of the budgets of both national and county governments.
- Some of the functions of the OCOB were previously performed by the Treasury and Controller and Auditor General while others did not exist.
- Conflict of interest in the execution of the control function of the Controller and Auditor General undermined monitoring of budget execution.
- The authority for approval of withdrawals from public funds was not being executed as a control function as anticipated by law.

Independent Oversight on Budget Execution

Cont...



- The Controller and Auditor General concentrated on auditing expenditures of MDAs and could not monitor expenditures to due to conflict of interest.
- The Treasury prepared the requisitions for withdrawal of public funds and reported on budget implementation as well. There were also complaints in the way funds were issued to some government agencies.
- The reports by the Treasury were not regular and reporting itself was not anchored in law.

Independent Oversight on Budget Execution Cont...



- Establishment of OCOB therefore split the financial management functions performed by the Controller and Auditor General and extended the reporting function of the Treasury to include monitoring and controlling budget execution to foster prudent and responsible use of public funds.
- OCOB is independent as provided under Article 249 (2) (a) and (b) of the Constitution of Kenya 2010, in the execution of its mandate that entails: overseeing, controlling, reporting, advisory, investigation and mediation/arbitration on all matters involving budget implementation.



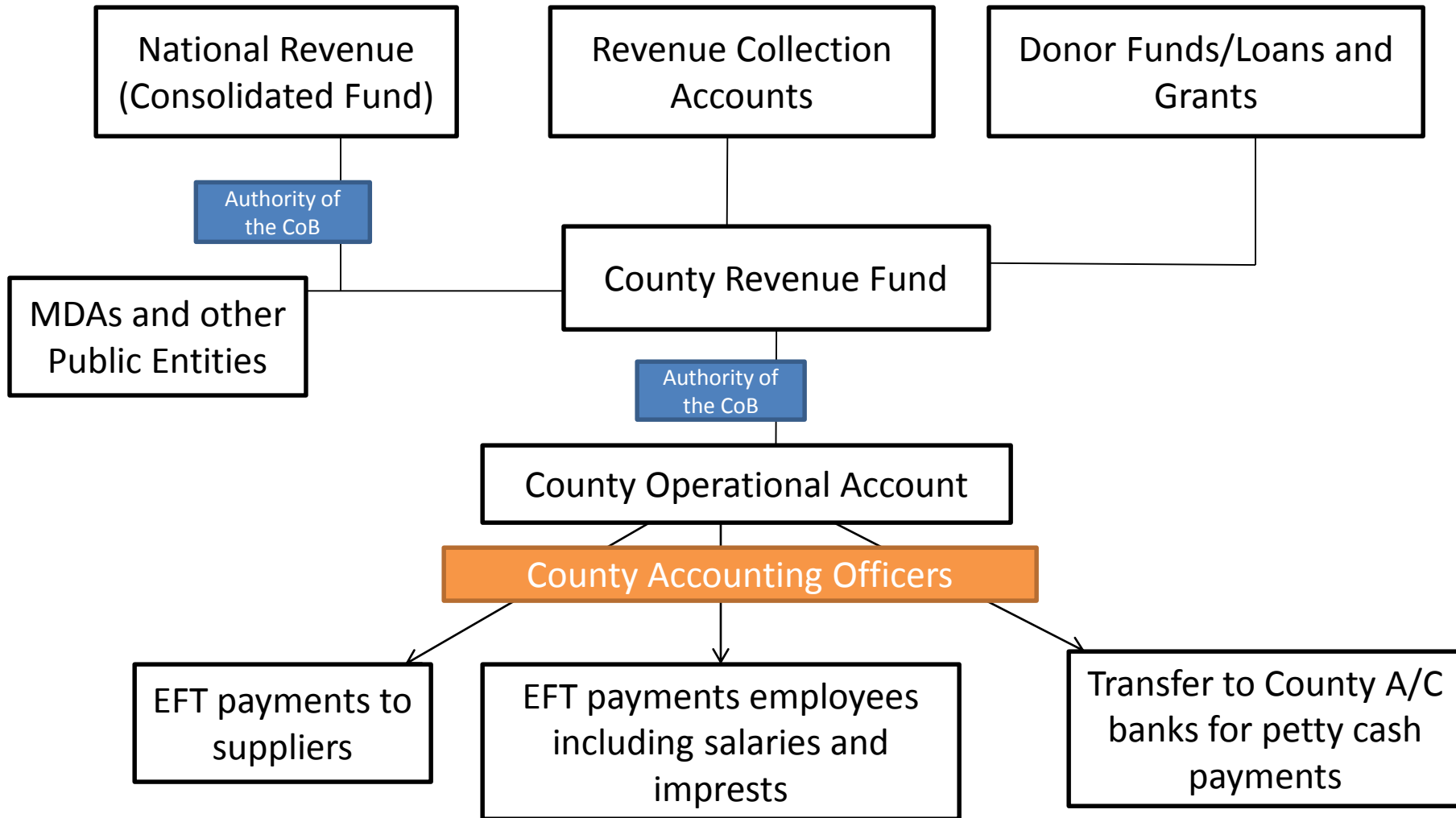
Independent Oversight Cont...

- This independence affords OCOB the impartial stature in overseeing budget implementation.
- OCOB has an administrative oversight through the authorization of withdrawal from public funds to:
 - ✓ Ensure that available resources are released according to approved budget.
 - ✓ The utilization of resources comply with law
 - ✓ Analyze budget execution and report to the National/County Assemblies and the Senate every four months
- The oversight role of OCOB has reinforced Parliamentary oversight on budget execution and enlisted public participation through sensitization and publicitization of reports on budget implementation.
- In ensuring proper budget execution, the OCOB collaborates with other institutions (Office of the Auditor General, EACC, CRA, SRC, The National Treasury, e.t.c)

Controlling Budget Execution by OCOB

- OCOB authorizes withdrawals from public funds: Equalization Fund (Article 204 (9)), Consolidated Fund (Article 206(4)), and Revenue Fund (Article 207 (3)), if satisfied that the same is in accordance with the law (Article 228 (5));
- The controlling role of OCOB in budget execution is illustrated below:

An illustration of the Controlling Role



Controlling Budget Execution by OCOB

- The controlling role promotes transparency and accountability by:
 - a) Ensuring that funds are released only for budgeted activities
 - b) Ensuring equity in the release of funds
 - c) Ensuring that unauthorized activity are funded

- By carrying out these mandate, the Controller of Budget has made some achievements.

Achievements of OCOB in Budget Execution

- Prior to the establishment of OCOB, withdrawal of public funds were at times authorized before the enactment of the Appropriations Act.
- OCOB has since its operationalization ensured that no public funds are withdrawn without the same being authorized by law such as the Appropriations Act.
- OCOB has also sought the documentation for debt agreements and repayment schedules to support authorization of withdrawals from Consolidated Fund to service the public debt.

Achievements Cont....



- OCOB submits quarterly statutory reports to each house of Parliament on implementation of the budgets of national and county governments ([Article 228 \(6\)](#))
- So far, OCOB has submitted seven (7) reports on budget implementation of the national government and one (1) report on budget implementation of county governments.
- OCOB also prepares annual and special reports on budget implementation to the Executive and Parliament. [Articles 254\(1\), \(2\) and 252\(1\)\(a\)](#)
- [The reports are published and publicized widely both in hard and soft copy for transparency.](#)



Reporting on Budget Execution Cont...

- The responsibility to execute approved budgets as planned rest with the executive.
- The challenge is to ensure that approved budgets are executed as planned with appropriate management controls and accountability systems in place.
- OCOB monitors budget implementation by analyzing and compiling statutory reports from:
 - ✓ The monthly revenue and expenditure returns filed by the spending units.
 - ✓ Carrying out regular monitoring exercise on selected projects/programmes



Reporting on Budget Execution Cont...

- The reports highlights:
 - ✓ Level of absorption of public funds (recurrent and development)
 - ✓ Utilization of funds according to the budgets and work plans
 - ✓ Mismanagement/misappropriation of public funds and forward the same to the Auditor General and other agencies for further investigation as well.

- OCOB is able to stop expenditures that are not prudent (Unauthorized grants)

- OCOB cannot release funds to units with huge deficits (Recently OCOB advised county governments to comply with the law before funds are released to them by revising their budget)



Budget Execution and Performance

- OCOB in analysing both national and county budgets gives advice in the context of:
 - Economic growth (allocation to GECLA sector)
 - Macroeconomic stability (Public debt)
 - Financial feasibility (huge deficit by counties)
 - Allocations to strategic priorities and (e.g. Abuja Declaration on Health allocations)
 - Managerial efficiency (prudent use of resources)
- OCOB attempts to answer the most fundamental questions in public finance such as:
 - Did the money go where it was meant to go?
 - Was expenditure consistent with policy priorities?
 - What was achieved by that expenditure?

Budget Execution and Performance Cont....



- Budget execution in Kenya focuses on controlling the utilization of public resources for the delivery of public services to the citizenry to foster economic growth and development.
- For this reason, the utilization of funds allocated to a spending unit is an indicator of its performance.
- In this regard, the OCOB analyses the expenditure patterns of MDA in relation to the funds allocated and released for their spending.
- The absorption rate of MDAs has increased since the establishment of OCOB i.e. 84.0 % in 2011/12 to 86.3 % in 2012/13. (for recurrent)
- However, absorption of development expenditure declined from 55.1% to 44.4% in 2012/2013. which is attributed to the electioneering year.

Outstanding Issues in budget execution in Kenya

The following are the outstanding issues in budget execution that are being addressed by the government of Kenya.

- **Inadequacy of Financial Management Information System:** Data from the IFMIS are not complete posing serious challenges on monitoring and reporting of priority information that facilitates decision making in case of misuse of funds thus affecting budgeting execution. The situation may be dire in countries that use manual systems. In Kenya, connectivity to the devolved units is still a challenge. In addition, the revenues collected from AIA are not declared thus significantly affecting reporting in budget execution.

- ✓ **Shortfalls in revenue:**

The shortfalls in revenue leads to delayed funding to the planned activities which affect budget execution.

- ✓ **Lack of capacity in budgeting:** Institutions do not have adequate capacity in budgeting, accounting, project management and procurement especially at county level.

Outstanding Issues in budget execution Cont....



- ✓ Lengthy Procurement Procedures: There are clear linkages between procurement process and budget execution such that lengthy procurement procedures, poor procurement plans and delays in disbursements of funds affect budget execution
- ✓ Stringent donor conditionalities: most donors have stringent regulations including requirement that donor recipient countries procure from the country of origin or use parallel donor system for reporting hence increasing administrative costs.
- ✓ Inadequate legislation to facilitate financial management e.g. regulations to PFMA
- ✓ Lack of effective M&E framework for budget implementation
- ✓ Low capacity for the units that carry out monitoring and evaluation on budget execution (both in resources and human capital)
- ✓ Unstructured salary harmonization in the public sector that tends to move resources from key priorities to salaries.



Conclusion

- Kenya has made commendable strides to reform public financial management with several achievements though notable challenges still exist in budget execution.
- There is need for M&E to ensure efficient and effective programme/project implementation. This will provide timely information on the work planned and done to all the stakeholders and improve the effectiveness and accountability of project/ programme interventions
- Strict budget monitoring should ensure that revenue and expenditure is constantly kept in check so that appropriate action is taken should significant variances from projections occur.

Conclusion



- Effective and efficient budget execution requires tracking of priority information in budget activities to determine whether budget objectives are being achieved and make whatever changes that are necessary to improve budget performance.
- This requires a legal framework within which all aspects related to public financial management are be managed.
- It is therefore imperative to uphold best practices in the management of public resources in order to close the gaps in budget execution.

THANK YOU