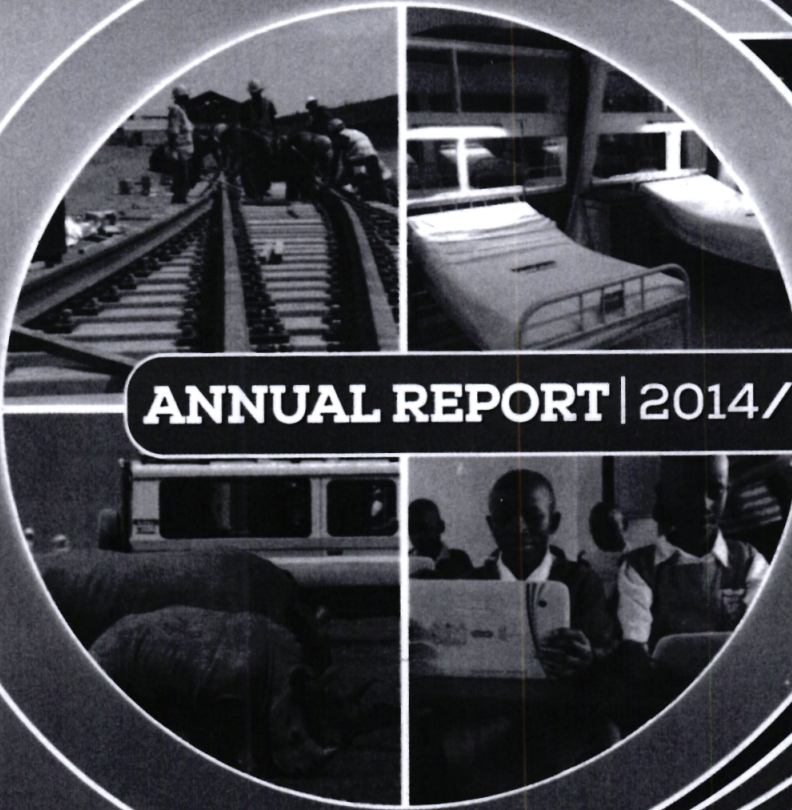




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## OFFICE OF THE CONTROLLER OF BUDGET



**ANNUAL REPORT | 2014/2015**

April, 2016

*Promoting Prudent Financial Management in the Public Sector*



REPUBLIC OF KENYA

## OFFICE OF THE CONTROLLER OF BUDGET

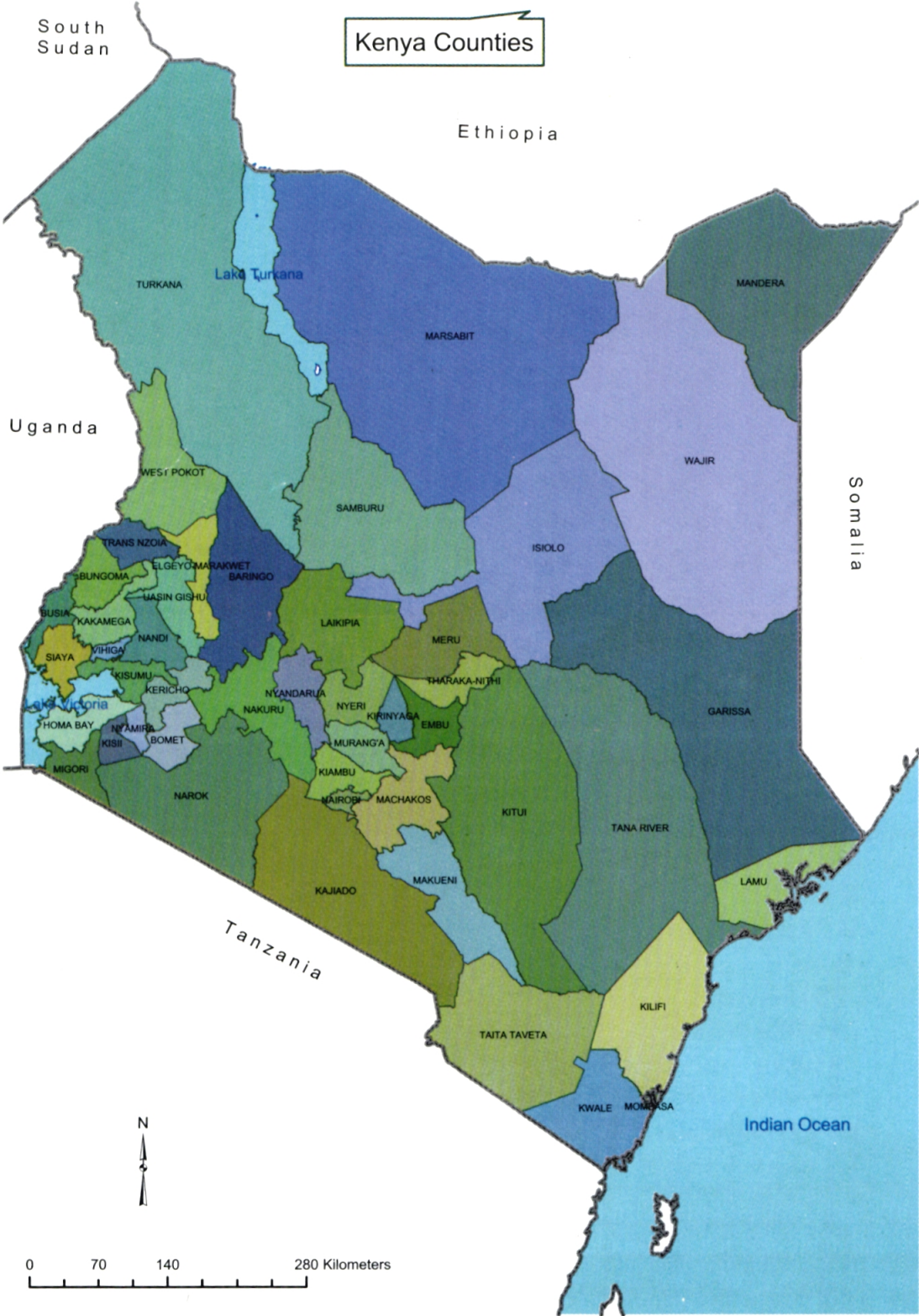
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**ANNUAL REPORT | 2014/2015**

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# Kenya Counties



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## LIST OF ACRONYMS

BIRRs	Budget Implementation Review Reports
CBC	County Budget Coordinators
CECM-F	County Executive Committee Member for Finance
CFS	Consolidated Fund Services
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
CSOs	Civil Society Organizations
COB	Controller of Budget
CSW	Commission on the Status of Women
DANIDA	Danish International Development Agency
FY	Financial Year
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFMIS	Integrated Financial Management Information System
KEGOSES	Kenya Governors Strategic Execution Support Programme
KIPPRA	Kenya Institute for Public Policy Research and Analysis
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PFM	Public Finance Management
PFMA	Public Finance Management Act
PSASB	Public Sector Accounting Standards Board
SGC	Strathmore University Governance Centre
SP	Strategic Plan
USAID	United States Agency for International Development

## STATEMENT FROM THE CONTROLLER OF BUDGET



**T**he fourth Annual Report of the Office of the Controller of Budget is prepared pursuant to the Constitutional requirement stipulated under Article 254(1) which requires every Constitutional Commission and Independent Office to submit a report to the President and Parliament, as soon as practicable, after the end of each financial year. The report provides a summary of the activities undertaken by the Office of the Controller of Budget (OCOB) during the 2014/2015 period in addition to the accomplishments towards the realization

of the constitutional mandate for the Office. The audited financial statements of the Office are also provided in this Report.

The activities of the Office revolved around its mandate of overseeing the implementation of the budgets of both the National and County Governments by authorizing withdrawals from Public Funds. Pursuant to this role, the office has continually published and publicized the quarterly Budget Implementation Review Reports (BIRRs) for both the National and County Governments and prepared other statutory reports as required by the Constitution of Kenya.

The Office endeavored to conduct, whenever necessary, investigations based on its own initiative, requests from the Senate, County Assemblies or on complaints made by members of the public on matters touching on budget implementation. Further, the office conducted alternative dispute resolution among players in the budget implementation process particularly at county level.

During the year, the Office of the Controller of Budget continued to prepare statutory reports to Parliament on the implementation of the budgets of the national and county governments in compliance with Article



228(6) of the Constitution of Kenya 2010. Since its inception, the Office has published twenty four Budget Implementation Review reports to monitor budget execution at both national and county levels of government. These reports highlight key issues such as exchequer releases to both levels of government, total expenditure, absorption of funds released for budget implementation, and other major challenges affecting budget implementation at both levels of government.

In the reports published, the Controller of Budget observed a decline in the absorption of development funds by the National Government Ministries, Departments and Agencies (MDAs) from 52 per cent reported in FY2013/14 to 45.8 per cent in FY2014/15. Further, MDAs accumulated pending bills amounting to Kshs. 111.9 billion by the end of the FY 2014/15. Similarly, the Counties had accumulated pending bills amounting to Kshs. 37.5 billion in the same period. This was partly attributed to the failure or inconsistent release of exchequer to MDAs and Counties by the National Treasury due to revenue short falls. The decline in absorption of development funds was attributed to the slow procurement process occasioned by the implementation of the e-procurement as well as poor reporting and weak monitoring and tracking systems

During the period under review, the Office made considerable progress in reviewing all the County Budgets to ensure compliance

with the law. The review focused on key thematic areas that included adherence to the program based budgeting (PBB) approach, realistic revenue estimates, link between the budget and the planning framework, equitable budget allocation to County Assembly and County Executive, distribution of development projects, and budget allocation to county funds. County budgets had high allocations to personnel costs and non-core activities mainly conferences and training which constitute a sizeable amount in the budgets. The Office recommended proper rationalization and prioritization of resources to ensure better service delivery to the public.

Through the review of the implementation of budgets by County Governments, the Office observed that the Counties were not meeting their local revenue targets which in turn affected the implementation of planned activities. This further impacted negatively on budget execution. Consequently, the Office in collaboration with the Kenya Institute for Public Policy Research and Analysis (KIPPRA) undertook a baseline study to evaluate County Government revenue management systems and performances, and to establish the accuracy of determining local revenue estimates with a view of making feasible policy recommendations to enhance budget implementation.

The Office further raised concerns on the growing public debt that is likely to impact negatively on the country's economic



growth as substantial resources will be spent on debt servicing at the expense of development programmes. For instance, the public debt and publicly guaranteed debts increased by 20.3 per cent from Kshs 2.36 trillion in June 2014 to Kshs 2.84 trillion in June 2015. This translates to 53.1 percent of the Country's Gross Domestic Product (GDP). The rapid increase in public debt can be attributed to the fiscal expansionary policy of the government in order to stimulate growth. Although this is a noble idea, there is need to manage the public debt prudently to ensure its sustainability.

The Office of the Controller of Budget has been committed to ensure that exchequer requests from MDAs and County Governments are approved in time to ensure smooth delivery of services to the public. The Office has made sure that all requisition documents are accurate and are in compliance with the law before public funds are released.

During the FY 2014/15, the Controller of Budget approved exchequer issues amounting to Kshs. 1,627.5 billion to fund national and county government budgets. This was a growth of 27.2 per cent compared to Kshs. 1,279.6 billion released in FY 2013/14. The National Government MDAs' cumulative expenditure in FY 2014/15 amounted to Kshs.1,373.6 billion representing 65.0 per cent of the revised gross estimates (Kshs 2,112.5 billion), while the county governments

cumulative expenditure was Kshs. 258.0 billion representing 98.4 per cent of the total funds released. The cumulative county expenditure of Kshs 258.0 billion translated to 79.1 percent of the annual approved county estimates.

The Office received invaluable support from the National Assembly, the Senate, the National Treasury, all the Ministries, Departments, and Agencies of the National Government, Counties and development partners. In particular, the Office received support from DANIDA to strengthen the IT capacity of the institution and other equipment to generate information. The World Bank funded capacity building on Budget data analysis to all the County Budget Coordinators (CBCs) and some headquarter staff while two officials from the headquarters were trained in South Africa. Through the generous support of USAID AHADI, the Controller of Budget was part of a delegation of eighteen participants who undertook a study tour to the United States of America (USA) covering the states of Tennessee and Oklahoma.

In conclusion, the Office has been committed to ensuring that public resources are used in a prudent and responsible manner to achieve economic transformation for a shared prosperity. To this end, the Office will continue to engage with key stakeholders and in particular, the public to effectively discharge its constitutional mandate of overseeing budget implementation at both



levels of government. It is through public participation that stakeholders can monitor budget implementation and achieve the transformative agenda envisioned in both the National and County government budgets.

A handwritten signature in black ink, reading "A. Odhiambo".

**Agnes Odhiambo (Mrs)**  
**CONTROLLER OF BUDGET**

## EXECUTIVE SUMMARY

The Office of the Controller of Budget is one of the key oversight institutions established under Article 228 of the Constitution of Kenya, 2010 to ensure fiscal transparency, accountability as well as checks and balances in the public financial management process. Since it became operational in August, 2011, the Office has regularly been preparing quarterly and annual budget implementation review reports which enable the Parliament, public and other stakeholders to scrutinize whether national and county governments are spending public funds in line with key priorities articulated in the budgets. These reports also provide a basis upon which the public can assess whether public funds are being used in a manner that conforms to the principles of public finance espoused in the Constitution.

The basis for preparing the 2014/15 Annual Report is anchored in Article 254 (1) of the Constitution of Kenya, 2010 which requires each commission, and each holder of an independent office, to submit a report to the President and to Parliament at the end of each financial year. The Annual Report therefore provides information on the activities implemented by the Office during the financial year 2014/15 as well as the status of the implementation of programs and activities contained in the Strategic Plan and annual work plans. The report

also contains an annex of the Report of the Auditor-General on the Financial Statements of the Office of the Controller of Budget for the period under review.

In the FY 2014/2015, the Office participated in several outreach programmes and collaborative activities geared towards enhancing its institutional capacity to effectively discharge its mandate. In particular, the Office participated in conferences and retreats of national importance both internationally and regionally and forged collaborative efforts with DANIDA, KIPPRA, and World Bank to improve the institutional and human resource capacity to delivery on its mandate.

In order to enhance its oversight function, the Office undertook a monitoring exercise in all the 47 counties to review the implementation status of programmes and projects approved in FY 2013/14 budgets. One of the major challenges cited during the monitoring exercise was the weak link between planning and budgeting which resulted into some projects being carried over to the next financial year due to unavailability funds or budget constraints. The Office prepared the monitoring reports and shared the findings with each respective county.

The total exchequer issues released to MDAs and the County Governments in FY



2014/15 amounted to Kshs. 1,627.5 billion and represented a 27.2 per cent growth compared to the exchequer issues in FY 2013/14 of Kshs. 1,279.6 billion. This comprised of Kshs. 910.6 billion released to MDAs, Kshs. 454.5 billion to Consolidated Fund Services (CFS) and Kshs. 262.3 billion to the County governments, compared to Kshs. 827.4 billion, Kshs. 258.8 billion and Kshs. 193.4 billion issued to MDAs, CFS and County governments respectively, in the last FY 2013/14. There was a decline in the exchequer issues to net estimates from 94.5 per cent in FY 2013/14 to 90.7 per cent in FY 2014/15.

The exchequer releases during the reporting period comprised of Kshs. 270.3 billion for development expenditure and Kshs. 640.3 billion for recurrent expenditure, Kshs. 454.5 billion for Consolidated Fund Services (CFS), and Kshs. 262.3 billion released to the County Governments. The exchequer issues released to fund recurrent activities translated to 94.8 per cent of the revised net recurrent estimates while the exchequer issues released to fund development activities represented 75.8 per cent of the revised net estimates. Further, the exchequer issues released to fund the 47 county governments translated to 88.4 per cent of the net estimates.

The key issues that affected budget implementation during FY 2014/15 include delays in release of funds by the National Treasury to MDAs and county governments which affected implementation of planned activities and resulted in high pending bills. The timing of supplementary budgets adversely affected budget execution at county level. Further the inadequacy in the administration and reporting on public funds established by the counties affected the reporting on budget implementation. There is need therefore for the National Treasury to ensure funds are disbursed according to the approved cash disbursement schedule to ensure planned activities are implemented in time. The Office recommends that both Parliament and County Assemblies should consider and approve budget revisions in good time to allow timely implementation of activities. Further, all established County Public Funds should be managed in compliance with requirements of the PFM Act, 2012.

### 1.0 Background

The Office of the Controller of Budget is one of the key oversight institutions that ensures fiscal transparency, accountability as well as checks and balances in the public financial management process. Since its inception in August, 2011, the Office has regularly prepared and published Quarterly and Annual Budget Implementation Review Reports in compliance with the law to promote accountability in budget execution. These reports highlight critical issues and challenges in national and county budgets and also provide recommendations on how to resolve these problems.

These reports provide facts and figures that are used by the various institutions charged with oversight responsibility. Parliament relies on the reports to oversight the Executive and to hold them accountable to the public for the resources allocated to them. The reports are also used by the County Assemblies to interrogate and hold to account their respective County Executives. The county executives, in turn, rely on the reports to monitor and review their activities and to take corrective action on issues raised. Further, the reports are used by the members of the public to engage both the national and county governments and to hold them to account. The reports provide a basis upon which the public can

determine whether public funds are being used in a manner that conforms to the principles of public finance as envisioned in the Constitution of Kenya, 2010.

The Office of Controller of Budget was established under Article 228 of the Constitution of Kenya, 2010 with the main mandate to oversee (Article 228 (4)) and report (Article 228 (6)) on the implementation of budgets of both the national and county governments and ensure the public has access to information on Budget Implementation (Section 39(8), PFMA).

Other roles include but not limited to:

- **Controlling Role:** To approve and authorize withdrawals from public funds i.e 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));
- **Advisory Role:** To advise Parliament where it may not approve or renew the decision to stop further transfer of funds to a State organ or any other public entity (Article 225 (7)(a))
- **Mediation/Arbitration Role:** The OCOB may conduct alternative dispute resolution mechanisms to resolve



disputes on financial matters between county government(s) and the national government or between Counties. (Article 252(b))

- **Investigation Role:** The OCOB may conduct investigation on its own motion or on a complaint made by a member of the public with regard to budget implementation (Article 252(a)).

The 2014/15 Annual Report is prepared in line with Article 254 (1) of the Constitution of Kenya, 2010 which requires each commission, and each holder of an independent office, to submit a report to the President and Parliament at the end of each financial year. The Annual Report therefore provides information on the activities implemented by the Office during the financial year 2014/15 as well as the status of the implementation of programs and

activities contained in the Strategic Plan and annual work plans. The report also contains an annex of the Report of the Auditor-General on the Financial Statements of the Office of the Controller of Budget for the period under review.

### 1.1 Budget Implementation

Public participation is a core principle underlined by both the Constitution and the Public Finance Management Act, 2012. In particular, Article 254 (3) requires the Office to publish and publicize information on the status of budget implementation at both the National and County government levels. The Office has fully complied with this constitutional requirement by circulating budget implementation reports widely through print media and all interactive website. Further, the Office held public sensitization forums in Nyeri and



Public resources used to improve infrastructure for the benefit of the people



Uasin Gishu counties. Participants in Nyeri were drawn from neighboring counties that included Kiambu, Murang'a, Embu, Kirinyaga, Meru, Laikipia, Nyandarua, Tharaka Nithi and Nyeri County itself. In Eldoret participants were drawn from Uasin Gishu, Elgeyo Marakwet, Kakamega, Trans nzoia, Nakuru, Nandi, Bungoma and Baringo.

In this regard, the Office has been able to build the capacity of the public participate in the formulation of county development plans and budgets at the county level.

Monitoring and evaluation is a core function

in the budget implementation process as it provides a way of checking the progress, achievements, identifying problems and providing structured solutions to ensure that programmes/projects are implemented successfully. In line with this core mandate, the Office undertook a monitoring exercise in all the 47 counties to verify the status of the implementation of programmes and projects approved in FY2013/14 budgets. One of the major challenges cited during the monitoring exercise was the discrepancy between planning and budgeting which resulted into some project being carried over to the next financial year due to



Substantial resources have been dedicated to health care service delivery

inadequate funding as a result of budget constraints. The Office has already prepared the monitoring reports and shared the findings with each respective county.

## 1.2 Scope and Organization of the Report

This report analyses the status of implementation of the activities and



programmes of the Office for the period July 2014 to June 2015. It highlights key achievements, and provides an opportunity for sharing its performance and challenges faced with the people of Kenya. The report has been organized into seven chapters, including this introductory chapter that provides the rationale for the preparation of the annual report. Chapter two presents an overview of the mandate of the Office and articulates the strategic framework and its implementation structure. Chapter three contains analysis of the performance and the main achievements in the process of overseeing budget implementation during the period under review. Specifically, the chapter presents a synopsis of budget implementation by both national and county governments during the reporting period. The chapter also looks at key

activities undertaken by the Office during the period under review. Chapter four presents the challenges encountered by both the national and county governments in the process of implementing their FY 2014/15 budgets while chapter five outlines the recommendations by the Office of the Controller of Budget to address the challenges identified in the implementation of the FY 2014/15 budgets at the two levels of government. Chapter six contains a graphical presentation of the organizational structure of the office including a brief description of the functions of the various directorates. Chapter seven of the report provides the conclusion. Finally, the report includes an annex of the audited financial statements for the Financial Year 2014/2015 for the Office of the Controller of Budget.



Agriculture has been given priority in both levels of government



Education remains a key sector which gets the lions share of budgetary resources



The Constitution lays emphasis on the equity among all groups in the society

## CHAPTER TWO: MANDATE AND STRATEGIC FRAMEWORK

### 2.0 Background

**T**he Office of the Controller of Budget is an independent office established under Article 228 of the Constitution of Kenya, 2010 to oversee and report on the implementation of the budgets of the National and County Governments as provided for under Article 228 (4) and Article 228 (6) of the Constitution respectively. Through its oversight role, the Office authorizes withdrawals from public funds once satisfied that the same is in accordance with the law.

In the implementation of its role on overseeing the execution of the budgets of the two levels of government, the Office submits to each House of Parliament and the executive a Budget Implementation Review Report of both National and County governments every four months.

In addition, Article 254 (1) requires every Constitutional Commission and Independent Office to submit a report to the President and Parliament, as soon as practicable, after the end of each financial year. Similarly, Article 254 (2) of the Constitution stipulates that at any time, the President, the National Assembly or the Senate may require a commission or holder of an independent office to submit a special report on a particular issue related to its mandate. Further, Article 252 (a) of

the Constitution provides that the Office of the Controller of Budget may conduct investigation on its own motion or on a complaint made by a member of the public with regard to budget implementation.

The Constitution of Kenya, 2010 drastically departed from the previous order on matters of public financial management. The Constitution of Kenya, 2010 separated the functions of controlling the budget and those of auditing by establishing an independent office of the Controller of Budget and that of the Auditor-General. This fundamentally split the two functions for proper management of public funds.

In the previous Constitution, the Controller and Auditor General's duties on overseeing budget implementation were limited to approving withdrawals from the Consolidated Fund and yearly audits on the expenditures by all spending entities. The functions of monitoring and reporting on budget implementation in-year were not being done regularly resulting into cases of misuse of budgeted resources. Parliament therefore could not appropriately exercise its mandate over budget execution and correct any waste of resources in good time.

These functions were expanded and consolidated under the newly established position of the Controller of Budget. The Office is expected to be one of the public



institutions responsible for prudent public financial management in the country. Prudent financial management ensures efficient and effective implementation of programmes and projects envisioned in the country's development agenda.

The office was therefore established to:-

- Address the demand by public for separation of financial management functions i.e. monitoring, controlling and reporting on budget implementation and auditing which were hitherto performed by the Treasury and Controller and Auditor General respectively.
- Have an independent institution that will monitor, evaluate and report to Parliament on budget implementation by both the national and county governments and advise on remedies to be taken as the budget is being implemented (provide strong checks and balances).
- Promote fiscal discipline and equitable allocation of available resources.

## 2.1 Mandate of the OCOB

The Office of Controller of Budget was established under Article 228 of the Constitution of Kenya, 2010 with the main mandate to oversee and report on the implementation of budgets of both the national and county governments and ensure the public has access to information on Budget Implementation.

Other functions/roles of the office include:

- Authorizing withdrawals from public funds including the Equalization Fund, the Consolidated Fund and County Revenue Funds, when satisfied that the withdrawal is authorized by law.
- Advising Parliament on the need to renew or not to approve the decision of the Cabinet Secretary in charge of finance to stop the transfer of funds to a State organ or any other public entity.
- Reporting after the end of each financial year, to the President and Parliament.
- Reporting, on a particular issue, as may be required by the President, the National Assembly or the Senate.
- Conducting investigations based on own initiative or on a complaint made by a member of the public.
- Conducting alternative dispute resolution mechanisms including conciliation, mediation and negotiation to resolve budget implementation disputes.
- To ensure that the public has access to information on budget implementation both at the national and county government level in accordance with Article 228 of the Constitution as stipulated in Section 39(8) of the PFM Act, 2012.

Article 249 (2) of the Constitution of Kenya, 2010 ensures that the office executes this mandate independently to enable it give objective reports to Parliament and the



Executive. In executing its mandate, the Office must ensure that all government entities comply with the principles of public finance and objects of commissions and independent offices as stipulated under Articles 201 and 249(1) of the Constitution.

The Office of the Controller of Budget has incorporated the national values in its policy documents to ensure their compliance. Some of the values incorporated in the Strategic Plan and other policy documents such as the Human Resource policy are:

1. Patriotism, national unity, sharing and devolution of power, the rule of law, democracy and participation of people;
2. Human dignity, equity, social justice, inclusiveness, equality, human rights, non-discrimination and protection of the marginalized;
3. Good governance, integrity, transparency and accountability

The office provides shared services to both the national and county governments and ensures that the two levels of government comply with the objects of devolution as provided for in Article 174 of the Constitution.

## 2.2 Strategic Plan (2013-2017) of the OCOB

The Office relies on its Strategic Plan (SP) to guide the execution of its mandate and meet the expectations of the people of Kenya. The Strategic Plan is based on the Constitution of Kenya, 2010 and government policy

blueprints and statutes on public finance management such as the Kenya Vision 2030, and the Public Finance Management (PFM) Act, 2012.

Further, the Office has developed vision and mission statements and strategic objectives in which national values have been incorporated to guide in the execution of its mandate and fulfill the expectations of the people of Kenya.

### 2.2.1 Vision

*"To be a leading and independent oversight institution in public financial management"*

### 2.2.2 Mission

*"To guarantee prudent public financial management through overseeing implementation of the Government budgets by controlling and monitoring the use of public funds and reporting on budget implementation for the benefit of all Kenyans."*

### 2.2.3 Core Values

In carrying out its mandate, the office of the Controller of Budget will uphold the following core values:

*Honesty and Integrity; Professionalism; Accountability and Transparency; Innovation and Creativity; Teamwork; Efficiency; and Independence.*

### 2.2.4 Strategic Objectives

The OCOB identified strategic objectives, strategies and activities that would drive the office to achieve results in its key mandate



areas. The following are the strategic objectives.

1. To ensure timely approval of withdrawals from the Consolidated Fund, County Revenue Fund and Equalization Fund;
2. To oversee and regularly monitor the utilization of public funds released to spending units;
3. To enhance openness, accountability and public participation in prudent financial management;
4. To participate and provide advice on financial, planning and budgeting issues;

5. To build capacity of the Office to deliver on its mandate; and
6. To ensure the public has access to comprehensive, understandable, credible and timely information.

The organizational structure of OCOB presented in chapter six is designed to deliver key results on each of these strategic objectives.

## CHAPTER THREE: PERFORMANCE AND ACHIEVEMENTS

### 3.0 Performance

The Controller of Budget oversees and reports on the implementation of budgets of both the national and county governments. Further, the Controller approves the release of funds from the Consolidated Fund, County Revenue Funds and other public funds. This effectively means that the Controller of Budget has the mandate to control, monitor, evaluate, review, and advise on budget implementation to ensure prudent use of resources, as well as promote transparency and accountability in the public finance management system.

In carrying out its mandate, the Office of the Controller of Budget relies on its Strategic Plan to guide its activities, policy formulation and implementation of programmes in order to achieve its objectives. Within the budgeting framework, the Office has one main programme of controlling and management of public finances. The objective of the programme is to promote prudent public financial management by timely authorization of withdrawals from Public Funds and reporting on budget implementation for both the national and county governments. The programme has four sub-programmes namely:

- i. Authorization of withdrawal from public Funds;
- ii. Budget implementation and Monitoring;
- iii. Administration and Support Services; and,
- iv. Research and Planning.

#### 3.1 Authorization of withdrawals from public Funds Sub-Programme

The main objective of this sub-programme is to ensure approval of exchequer requisitions and withdrawal from the Consolidated Fund, County Revenue Fund and Equalization Fund are done on timely basis as required by law. To this end, the the Office has endeavoured to ensure that exchequer requests from Ministries, Departments and Agencies as well as the County Governments are approved expeditiously to guarantee seamless implementation of the approved programmes. The process of reviewing exchequer requisition documents to ensure compliance with the law is usually completed within one day for the county governments and at most four hours for the national government entities.

The Office has put in place a procedure manual to guide the approval of withdrawals from public funds for both the national and county government.

In addition, the OCOB has been a major stakeholder in various forums including the Intergovernmental Budget and Economic



Council to develop frameworks and regulations to assist in the public financial management and budget implementation for both levels of Government.

### 3.1.1 Exchequer Issues and Resource Absorption

The total exchequer issues released to MDAs and the County Governments in FY 2014/15 amounted to Kshs. **1,627.4 billion** and represented a **27.2 per cent** growth compared to the exchequer issues in FY 2013/14 of Kshs.1, 279.6 billion. This comprised of Kshs.910.6 billion released to MDAs, Kshs.454.5 billion released for Consolidated Fund Services and Kshs. 262.3 billion released to the County governments, compared to Kshs.827.4 billion, Kshs.258.8 billion and Kshs.193.4 billion issued to MDAs, CFS and County governments respectively, in the FY 2013/14. There was a

marginal decline in the exchequer issues to net estimates from 94.5 per cent to 93.9 per cent recorded in FY 2014/15.

Further analysis of the exchequer issues showed that **Kshs.270.3 billion** was released towards development expenditure, **Kshs.1,094.8 billion** for recurrent expenditure, and **Kshs.262.3 billion** to the County Governments. The exchequer issues released to fund development activities represented 75.8 per cent of the revised net estimates while the exchequer issues released to fund recurrent activities translated to 94.8 per cent of the revised net recurrent estimates. In addition, the exchequer issues released to fund the 47 county governments translated to 88.4 per cent of the net estimates (Table 1).

Table 1: Exchequer Issues Processed in the FY2014/15 (Kshs. billion)

Nature of Expenditure	Revised Gross Estimates	Revised Net Estimates	Exchequer Issues Released	Actual Expenditure	Exch. Issues to Net Estimates (%)	Absorption Rate (%)
Recurrent	736.7	675.1	640.3	623.2	94.8	84.6
Development	696.4	356.7	270.3	318.7*	75.8	45.8
CFS	436.9	436.9	454.5	431.7	104.0	98.8
County Governments	326.3	326.3	262.3	258.0	88.4	79.1
<b>Total</b>	<b>2,196.3</b>	<b>1,795.0</b>	<b>1,627.4</b>	<b>1,631.6</b>	<b>90.7</b>	<b>74.3</b>

Source: OCOB

\* Actual development expenditure was higher than the corresponding exchequer issues released partly due to loans A-in-A and grants A-in-A.



### **3.1.2 Recurrent Exchequer Issues and absorption**

During the FY2014/15, the total exchequer issues released to fund recurrent budget for national government amounted Kshs. 1,094.8 billion which was 98.5 per cent of the revised recurrent net estimates. In the same reporting period, the total recurrent expenditure was Kshs. 1,054.9 billion translating to an absorption rate of 89.9 per cent of the revised gross recurrent estimates, a decline in absorption rate from 95.7 per cent reported in the FY 2013/14.

### **3.1.3 Development Exchequer Issues and absorption**

The total exchequer issues released to fund the development programmes by MDAs in FY2014/15 amounted to Kshs. 270.3 billion translating to 75.8 per cent of the annual revised net development estimates. During the period under review, the total expenditure by MDAs was Kshs. 318.7 billion representing an absorption rate of 45.8 per cent of the revised gross development budget. This was a decline from an absorption rate of 52.0 per cent achieved in the FY2013/14.

### **3.1.4 Exchequer Issues to County Governments**

As of June 30<sup>th</sup>, 2015, the Controller of Budget had approved transfers amounting to Kshs.228.5 billion as the county shareable revenue from the Consolidated Fund to the various County Revenue Funds (CRFs). During the reporting period, the Office approved transfer of Kshs. 262.3 billion from

the CRFs to the County Operational Accounts to fund approved county programmes. The approved transfers comprised of Kshs.166.6 billion (63.5 per cent) for recurrent expenditure and Kshs.95.7 billion (36.5 per cent) for development expenditure.

The total expenditure by the County government in FY 2014/15 amounted to Kshs.258.0 billion, translating to an absorption rate of 79.1 per cent of the aggregated annual County budgets, an increase from the 64.9 per cent attained in FY 2013/14 when the total expenditure was Kshs.169.4 billion. Recurrent expenditure amounted to Kshs.167.6 billion, representing an absorption rate of 92.4 per cent of the annual recurrent budget while development expenditure was Kshs.90.4 billion, representing an absorption rate of 62.4 per cent. This performance represents an improvement from absorption rate of **78.4 per cent** and **21.6 per cent** for recurrent and development expenditure respectively recorded in FY 2013/14.

### **3.1.5 Exchequer Releases for Consolidated Fund Services**

Actual exchequer issues in FY 2014/15 amounted to Kshs.454.5 billion, equivalent to 104.0 per cent of the revised net estimates. The exchequer issues for this category comprised of Kshs.416.2 billion issued to service public debt, Kshs.35.1 billion for pensions and gratuities and Kshs.3.2 billion for salaries and allowances of constitutional office holders. However, the expenditure for these categories the exchequer releases by Kshs 22.8 billion. Money is released



by the controller of budget according to the request by the National Treasury as supported by the Pay Advice (PA) for external debt service. The underpayment of Kshs 23.2 billion is significant given that it was released for redemption and interest payment of external debt.

### **3.2 Budget implementation and Monitoring Sub-Programme**

The main objective of this sub-programme is to review and analyze the progress of implementation of both national and county budgets. This entails regularly monitoring and reviewing the utilization of public funds released to spending units and reporting to both Houses of Parliament. In doing so, the office promotes openness, accountability and public participation in prudent public financial management and ensures that the public has access to comprehensive, understandable, credible and timely budget implementation information.

#### **3.2.1 Publishing of Budget Implementation Review Reports**

During the period under review, the Office published and publicized eight budget implementation review reports (4 National reports & 4 County consolidated reports), that tracked how public funds were utilized by spending units at both National and County level, highlighted challenges encountered in budget implementation and provided recommendations to address them. These reports have been publicized

through both the print media and on the OCOB interactive website as well as circulated to both levels of government accordingly.

#### **3.2.2 Review of FY2014/15 and FY2015/16 County Draft Budgets**

The Office analyzed all draft budgets for the FY2014/15 and FY2015/16 submitted to the County Assemblies in April 2015 and addressed pertinent issues arising from the budgets and provided comments to further improve the budgets. Through the intervention of the Office of Controller of Budget, the Appropriations Bills, 2014/15 for County Governments were revised to comply with the law and ensure they had balanced budgets. The law required that beginning FY 2014/15, all county budgets were to be Programme Based Budgets. This was not the case in many counties. Similarly, most counties established County Funds in line with Section 116 of the PFMA, 2012. However, the necessary regulations and the appointment of Administrators as stipulated in Section 116(2) (9) of PFMA, 2012 had not been developed before the allocation of such funds was done in the respective budgets.

#### **3.2.3 Public Sensitization Forums**

The OCOB collaborated with the public to monitor the implementation of the budgets by the various government agencies. In the period under review, the Office carried out a public sensitization forums in Nyeri and Uasin Gishu Counties to sensitize the



public on their role in the budget making process as well as its execution in line with Section 39 (8) of the PFM Act, 2012 which mandates the office to ensure the public gets information on budget implementation at both levels of government.

### 3.2.4 Staff Training and Benchmarking Exercises

The Office has been working with the relevant ministries and other stakeholders (Development Partners) for provision of quality service through competent and professionally qualified personnel. During the period, the office carried out various trainings including budget analysis, report writing, Adobe InDesign, Audit Committee

training, BOOST Platform for budget data management and analysis and continuous professional proficiency among other trainings for staff in different cadres.

Further, in July 2014, the Office took part in a study tour to the USA organized by the Council of Governors with support of USAID and Kenya Governors Strategic Execution Support (KEGOSES) program. The study tour covered the US states of Tennessee and Oklahoma with an objective of learning the unique approaches, structures, strategies and policies, for devolution/ decentralization that have been successfully applied, tried and tested in the US and can be replicated in Kenya. The tour also sought



Controller of Budget making a courtesy call to the Deputy Governor's office in Nyeri County



Participants follow keenly the proceedings of the public sensitization forum in Nyeri County

to promote and establish relationships between key constitutional entities in Kenya (the Counties and Constitutional Commissions) and their principal officers, and their US counterparts, including government officials, at Federal and State level as well as the private US investors.

### 3.2.5 Investigations on issues touching on Public Finance Management

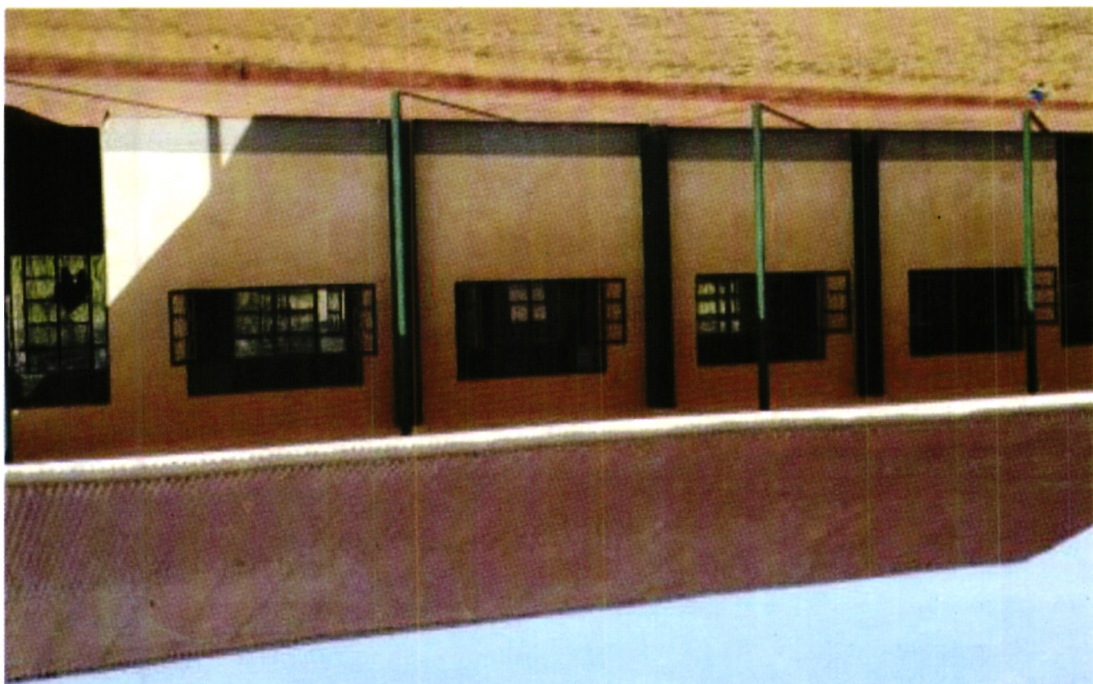
During the period under review, the Office undertook investigations on issues raised by petitioners in a number of Counties: For instance, in Kirinyaga, the Court directed

that the Office of the Controller of Budget undertake investigations on the issues raised in the petition touching on public finance management. In Bomet, the High Court requested the Office of the Controller of Budget to undertake investigations on the budget process for the financial year 2014/15.

### 3.2.6 Partnership and Collaborative Ventures

The Office together with other key stakeholders collaborated in building the human resource capacity of OCOB and infrastructure. Key among them was DANIDA

ECDE Classrooms at Buchirinya Primary School, Kakamega County



Construction of Chemoiboin Footbridge in Elgeyo Marakwet County





local revenue compared to the defunct Local Authorities as well as to evaluate the County Governments' revenue management systems and performance with a view to address the factors affecting budget implementation in the Counties and make feasible policy recommendations to enhance budget execution. The report has since been finalized and will be disseminated to key stakeholders and the public.

The key findings from the study include the following:

- i. National government allocation to the counties constitute about 89 per cent of the total County Government resources
- ii. Counties have a large number of revenue streams (about 150), but only about 10 streams contribute to about 90 per cent of county local revenue
- iii. Counties do not have clear mechanisms for setting local revenue targets and identifying viable revenue streams
- iv. Counties have inadequate revenue management systems and regulatory framework
- v. Levels of effective public participation are inadequate
- vi. Inadequate technical capacity among revenue collectors
- vii. There is weak link between revenue performance and county service delivery
- viii. Counties have weak revenue administration and revenue data management systems.
- ix. It is a misleading notion that the counties are collecting less revenue compared to the defunct local authorities

The study recommends the need for counties to promote transparency, accountability and flexibility in their revenue generation framework. Counties should also consider broad but efficient options on revenue sources that counter overreliance on national government allocations and the thinly spread yet ineffective revenue streams. The options should also be localized taking into consideration individual county comparative advantage.

### **3.4.2 Monitoring Framework for Budget Implementation**

In line with its core mandate, the Office of the Controller of Budget monitored the implementation of selected projects in all the 47 county governments. This exercise was carried out in the months of May and June 2015 and involved monitoring a sample of projects implemented during the FY2013/14 and FY2014/15. The objectives of the monitoring exercise were to identify the selected projects and programmes on the ground, and determine the implementation status of the projects. The exercise was carried out successfully and monitoring reports have been shared with the respective counties. Some of the projects monitored during the exercise are shown below:



### **3.3 Administration and Support Services Sub-Programme**

The sub-programme entails administrative support services whose main objective is ensure effective service delivery through building institutional capacity of the office to deliver on its mandate.

#### **3.3.1 Human Resource Development and Capacity Building for OCOB Staff**

The Office carried out Job Evaluation review to establish the workload and optimum level of its human resource requirement, in view of the additional mandate created by new legislation and operationalization of the County governments. The Office has since recruited additional staff to fill the new positions after the job evaluation review and also replaced those who have left to facilitate proper delivery of services. These included appointment and replacement of County Budget Coordinators, and appointment of additional Internal Auditors, and Administrative Assistants.

#### **3.3.2 Staff Welfare Scheme**

The Office established a staff welfare scheme to cater for welfare matters to enhance service delivery in the OCOB. The aim of establishing the scheme is to empathize with members and show solidarity during hard times of sickness and bereavement. Currently members are contributing Kshs.500 per month towards the kitty. This ensures that there is sufficient amount in the kitty to cater for more than one member in case it happens at the same time.

#### **3.3.3 Deployment of staff to the Pension Unit**

The Office deployed five members of staff, comprising of three internal auditors and two accountants to the pension unit to process pension files in the Pension Unit in a bid to enhance capacity and clear the backlog of pension files.

#### **3.3.4 OCOB Staff Insurance Covers**

The Office runs a Medical cover, Group Personal Accident cover (GPA)/Work Injury Benefit Act (WIBA) and Group cover for its staff. This is usually renewed every year to cater for medical expenses for the OCOB staff.

### **3.4 Research and Planning Sub- Programme**

The sub-programme's main objective is to provide evidence-based policy recommendations on budget implementation by participating and providing advice in the planning and budgeting process.

#### **3.4.1 Baseline Revenue Analysis Survey**

The Office signed a Memorandum of Understanding with the Kenya Institute for Public Policy Research and Analysis (KIPPRA) to conduct a Baseline Revenue Analysis Survey. The main objective of the study was to analyze revenue performance in the counties with a view to improve public financial management across counties and in turn enhance budget implementation. The study sought to establish whether Counties were collecting more or less



which funded key operation items such as procurement of computers and fireproof safes for use by the CBCs, revamping of OCOB website, public participation, training of Audit Committee, and Mobile Platform development among others. The Office also signed a memorandum of understanding with the Kenya Institute for Public Policy Research and Analysis (KIPPRA) to conduct a County Revenue Baseline Study at the county level. The report has been finalized and will be disseminated to stakeholders and the general public. Further, the World Bank funded the training of the BOOST methodology for Budget data analysis to all the CBCs and some headquarter staff and sponsored two officials for further training on budget data management in Cape Town, South Africa.

The Office participated in several stakeholder forums with Parliamentary Committees; Ministries, Departments and Agencies (MDAs) and private sector to ensure provision of quality service to the public and formulation of policy and legal framework for proper functioning of the office. The Office has continued to be part of the Kenya Governors Strategic Execution Support (KEGOSES) consortium, a forum which aims at providing strategic support for the Governors. Other partners include Commission on Revenue Allocation, Council of Governors and Strathmore Governance Centre.

### 3.2.7 Conferences and Retreats

The office has continuously endeavored to participate in conferences and retreats of

national importance both internationally and regionally. Key among the conferences were:

- *The Pan African Stakeholders' Conference on Budgetary Control, Corruption and Human Rights in Africa held in Uganda - Konrad Adenauer Stiftung.*
- *The fifty-ninth (59th) Session of the Commission on the Status of Women (CSW) in New York.*
- *Annual General Meeting of the National Governors' Association held in the State of Tennessee, United States of America - KEGOSES/USAID*
- *Several local Conferences and Retreats such as 2<sup>nd</sup> Devolution Conference held in Kisumu, Chairs of Constitutional Commissions and Independent Office Holders' Retreat, and Framework for National borrowing (experiences from other countries) seminar among others.*

### 3.2.8 Interactive Website and Mobile Application

The Office has developed an interactive mobile application to enable users interrogate our reports, provide feedback on budget implementation and also allow for monitoring and evaluation of development projects. Further, the Office enhanced its interactive website to enable the public access information on budget implementation in real time as well as interact with the Office on budget implementation issues. A Content and Enhancement Team has been formed to oversee the website operations.



Sigor market in West Pokot



Samburu Oryx Airstrip



Dialysis machines and Water treatment plant at Nyeri County Referral Hospital



The Youth Empowerment Centre in Amukura – Busia County



Kalamba Fruit Processing Plant in Makueni County

## CHAPTER FOUR: EMERGING ISSUES IN MONITORING BUDGET IMPLEMENTATION AND RECOMMENDATIONS

### 4.0 Emerging Issues

**A**rticle 228 (6) of the Constitution of Kenya, 2010 requires the Controller of Budget to submit to each House of Parliament a quarterly report on the implementation of the budgets of the national and county governments. The Office has remained committed in discharging its constitutional mandate on reporting to the Legislature, Executive and the public on utilization of funds on various approved programmes at the national and county government levels. In the FY 2014/15, the Office noted improvement in budget implementation by both MDAs and counties compared to FY 2013/14. Cumulatively, the expenditure by the MDAs in FY 2014/15 amounted to Kshs. 1,373.6 billion, translating an absorption rate of **45.8** per cent. This was an increase of 20.6 per cent growth from Kshs. 1, 139.0 billion spent in the FY 2013/14. In the same reporting period, Counties spent a total of Kshs.258.0 billion which translated to an absorption rate of 79.1 per cent of the annual Approved Budget, an improvement from 64.9 per cent achieved in FY2013/14. Although there has been general improvement in the implementation of approved programmes at both levels of government, the Office observed that some challenges affected budget implementation during FY2014/15. These challenges are presented as follows:-

### 4.1 National Government

#### 4.1.1 Low Absorption of Development Funds

In FY 2014/15, a total of Kshs.696.5 billion was allocated to development projects and programmes while 1,173.6 billion went to recurrent expenditure. Development expenditure translated to 37.2 per cent of the total National Government Budget. During the year, development expenditure was Kshs.318.7 billion representing an absorption rate of 45.8 per cent of the development budget allocation while recurrent expenditure was 1,054.9 billion representing an absorption rate of 89.9 per cent. The development expenditure absorption rate of 45.8 per cent was a decline from the absorption rate of 52 per cent attained in FY 2013/14. In order to achieve higher rates of development expenditure, the Office recommends that MDAs should put in place effective project monitoring units and build their capacity to ensure flawless implementation of planned projects/programmes.

#### 4.1.2 Delays in Release of Funds by the National Treasury

As at June 2015, a total of Kshs.111.92 billion was reported as pending bills by the MDAs. The MDAs cited failure by the National Treasury to release exchequer



issues in a timely manner as the reason that occasioned the pending bills. A high level of pending bills negatively affects businesses and in turn the implementation of planned activities in the following financial year as budgeted allocations will be used to settle the pending bills.

The National Treasury should endeavor to release funds to MDAs in a timely manner in line with their cash flow projections and procurement plans to ensure seamless implementation of planned programmes.

#### **4.1.3 Timing of Supplementary Budgets**

During the FY 2014/15, the National Treasury prepared two Supplementary Budgets, which were both approved in the fourth quarter of the financial year. The first Supplementary Budget was approved on 29<sup>th</sup> April, 2015 while the second on 26<sup>th</sup> of June, 2015. While budget revision is permitted under Article 223 of the Constitution and Section 44 of the PFM Act, 2012, the timing of Supplementary Budgets should allow sufficient time for implementation of activities. When supplementary budgets are approved towards the end of the financial year, implementations of activities by the MDAs are likely to be affected. In the FY 2014/15, a number of planned activities were not implemented at both the National and county government which resulted into huge pending bills. The Office recommends that Parliament should consider and approve budget revisions in good time to allow for timely implementation of activities

to benefit the public.

#### **4.1.4 High Public Debt Position**

By June 2015, the total public debt had increased by 20.3 per cent from Kshs.2.36 trillion in June 2014 to Kshs.2.84 trillion translating to 53.1 percent of GDP. Increasing public borrowing may result into undesirable fiscal consequences such as high interest rates, inflation, and overburdening of future generations. The Office takes note of the growing public debt that may not be sustainable in the long-term. The National Treasury should put in place measures to ensure the debt does not reach unsustainable level.

#### **4.1.5 Delay in Submission of Financial Reports by MDAs to OCOB**

Section 83 of the Public Finance Management Act, 2012 requires Accounting Officers to submit quarterly financial reports to the Controller of Budget. In order to facilitate timely reporting, the Office of the Controller of Budget requested all MDAs to submit financial reports by 10<sup>th</sup> of the month following the end of each quarter in line with the PFMA, 2012 Regulations. Despite this requirement, some of the MDAs did not submit their annual financial reports in time for the office to finalize its Annual Budget Implementation Review Report.

The Office recommends that all MDAs should submit financial reports by 10<sup>th</sup> of the month following end of each quarter to facilitate timely reporting by the OCOB on



budget implementation. In order to ensure compliance, there is need to fast-track the passing of the Office of the Controller of Budget Bill to provide sanctions to those who do not submit their financial reports as provided in the PFMA, 2012 regulations.

## 4.2 County Governments

This section highlights the key challenges faced by the County Governments in budget implementation during the reporting period and the corresponding recommendations from the Office of the Controller of Budget.

### 4.2.1 Low Revenue Collection

Article 209 (3) of the Constitution allows counties to impose property rates, entertainment taxes, and any other tax authorized by an Act of Parliament. In FY 2014/15, counties targeted to collect Kshs.50.38 billion; a decrease from Kshs.54.21 billion targeted in FY 2013/14. The total collection in FY 2014/15 was Kshs.33.85 billion compared to Kshs.26.30 billion in FY 2013/14 representing 67.2 per cent of the annual target, an increase compared to 48.5 per cent in FY 2013/14. The continued low performance of local revenue collections has been pointed out in previous CBIRRs and affects implementation of planned activities.

There is need therefore, for counties to review their local revenue collection mechanisms and strategies in order to achieve the set targets and fund the planned activities. Further, the county local revenue targets should be realistic and based

on previous revenue trends. In order to increase efficiency, counties should consider the automation of revenue collection.

### 4.2.2 High Level of Pending Bills

As at June 2015, a total of Kshs.37.6 billion was reported as pending bills by the counties. These bills were attributed to failure by the counties to effectively manage the procurement function coupled with the delay by the National Treasury to disburse national transfers to the counties in a timely manner. A high level of pending bills affects implementation of planned activities in the following financial year as budgeted funds will be used to settle pending bills.

Counties should effectively manage pending bills by aligning procurement plans and cash flow projections to avoid unnecessary commitment of the county government when funds are not available. In addition, the National Treasury should make an effort to disburse the equitable share of revenue in line with the approved disbursement schedule as provided in the County Allocation of Revenue Act. The Office further recommends that the Auditor General should audit the huge pending bills incurred by the counties to ascertain their authenticity.

### 4.2.3 Large Outstanding Imprests

Government financial regulations require that an imprest must be accounted for by the due date or recovered from the imprest holder's salary. In addition, an officer is prohibited from holding more than one



imprest at any particular time. During the reporting period, the office established that counties continued to issue imprest to individuals before the surrender of previously held imprest. This is contrary to public financial management regulations that require an officer to surrender any outstanding imprest before a new one is issued.

County Treasuries should ensure strict adherence to financial regulations on management of imprest as this may result to loss of public resources. Regular reconciliations should be carried out and any unaccounted imprest recovered as provided in law.

#### **4.2.4 High Expenditure on Personnel Costs**

Section 107 of the PFM Act, 2012 requires the County Treasury to enforce fiscal responsibility principles. Further, Section 107 (2)(c) of the PFM Act, 2012 mandates the County Executive Committee Member for Finance (CECM-F) to prescribe through regulations, a percentage of expenditure on wages and benefits for the public officers as a percentage of the County government's total revenue which should be approved by the County Assembly. In FY 2014/15, counties aggregately spent Kshs.101.10 billion on Personnel Emoluments (PE) which was 30.6 per cent growth from Kshs.77.4 billion spent in FY 2013/14. The PE expenditure in FY 2014/15 was 61.5 per cent of the total recurrent expenditure and 39.7 per cent of

the total expenditure.

The Office recommends that counties ensure that personnel expenditure is kept at sustainable levels. In order to address this challenge, counties should rationalize their staffing levels to address the escalating personnel emolument costs.

#### **4.2.5 Expenditure in Excess of Approved Budget Allocations**

The law requires the County Assemblies to approve budgetary allocations to County entities for both recurrent and development expenditure while the County Treasury is expected to ensure access and expenditure of the same in line with the approved allocations. Section 154 (2) of the PFM Act 2012 provides limited power to accounting officers to reallocate approved funds. However, the reallocations must be regularized through a Supplementary Budget. During the reporting period, the Office observed that some counties incurred expenditure that exceeded their revised budget estimates. Four counties exceeded their revised recurrent estimates while fourteen counties exceeded their allocation for MCAs' sitting allowances.

County Treasuries should ensure strict adherence to budget provisions as approved by the County Assemblies. There should be regular reconciliations between exchequer issues, expenditure, and the vote book. In case of budget reallocations as envisioned in the law, a deliberate effort should be taken to regularize the same through a



Supplementary Budget.

#### **4.2.6 Inadequate Administration and Reporting on Public Funds Established by the Counties**

Section 116 of the PFM Act, 2012 allows Counties to establish County Public Funds, which should be managed by an Administrator appointed by the CECM-F. The Administrators are required to ensure preparation and submission of quarterly financial reports of Funds to the County Treasury and the Controller of Budget in line with Section 168 of the PFM Act, 2012. The Office observed that the reporting and administration of County Funds was inadequate in FY 2014/15. There was lack of autonomy in the administration of the County Funds from other County operational accounts. In some counties, the CECM-F did not appoint an Administrator to oversee operations of the established Funds. The Office recommends that all established County Public Funds should be managed in compliance with requirements of the PFM Act, 2012.

#### **4.2.7 Lack of Effective Monitoring and Evaluation Frameworks**

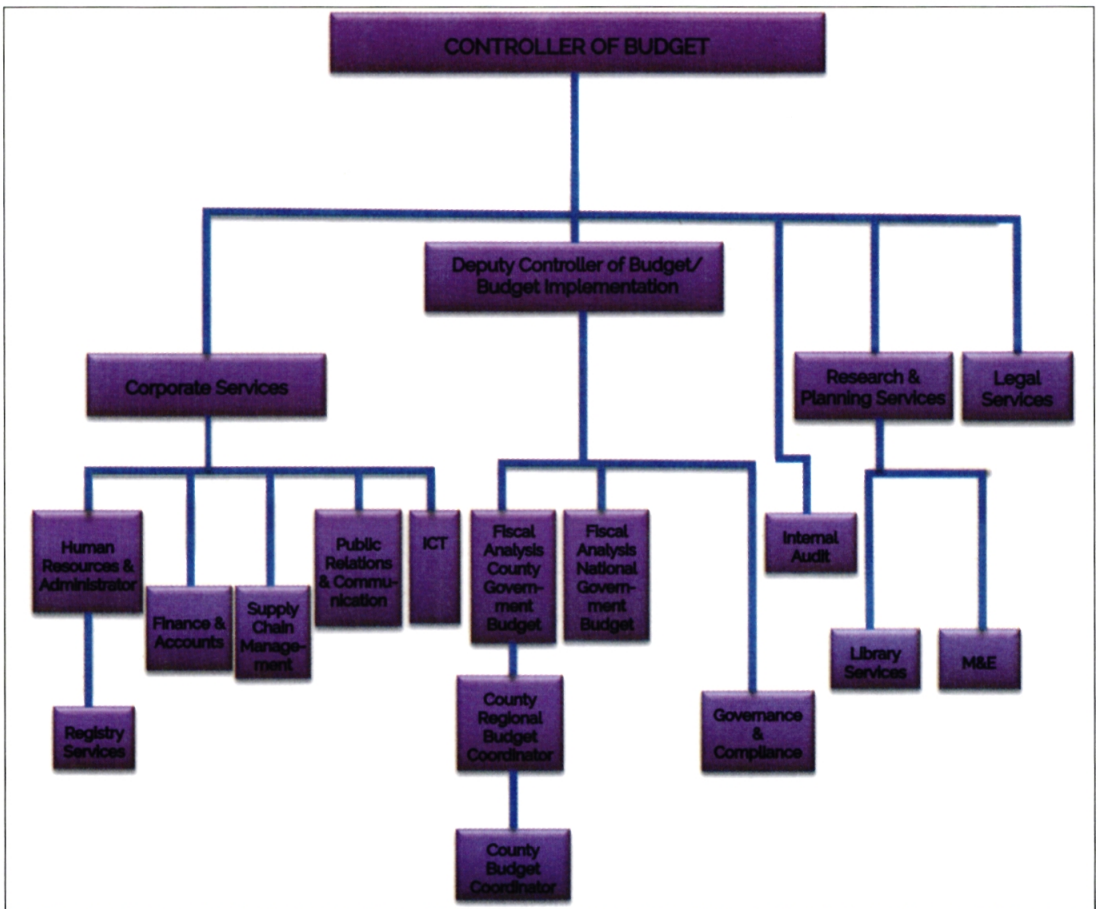
During the period under review, it was observed that a number of County Governments did not establish project management teams to enhance M&E in the budget implementation. Section 103 (3) of the PFM Act, 2012 identifies the CECM-F as the head of the County Treasury. The responsibilities of the County Treasury include among others; monitoring, evaluation and overseeing the management of public finances and economic affairs of the County government as provided for under Section 104(1) of PFM Act, 2012. In order to ensure effective project implementation, County entities should establish project management teams to enhance monitoring and evaluation of development projects.

## CHAPTER FIVE: ORGANIZATION STRUCTURE

The organizational structure of OCOB comprises of the Controller of Budget at the apex, who is supported by the Deputy Controller of Budget and the head of the Directorate of Budget Implementation. Other directorates include the directorate of Corporate Services; Directorate of Research and Planning; Legal Affairs Division and Internal Audit Division. The Office has put

in place sound measures to ensure that each directorate has optimal staff level to ensure smooth implementation of OCOB strategic goals. Further, the Office continues to build capacity of its staff through training to enhance their efficiency levels and ensure proper delivery of service to the public.

Figure 1: OCOB Organizational Chart





## 5.1 Budget Implementation Directorate

This directorate is headed by the Deputy Controller of Budget who reports to the Controller of Budget. The Deputy Controller of Budget oversees the implementation of the budgets of the national and county governments and ensures timely preparation of Budget Implementation and Review Reports.

## 5.2 Corporate Services Directorate

This directorate is headed by the Director Corporate Services, who reports to the Controller of Budget. The Director is responsible for facilitating the development of organizational policies, systems and procedures and coordinates the delivery of quality services in Accounting, ICT, Human Resources and Supply Chain Management, Corporate Communications and Public Relations Divisions.

## 5.3 Research and Planning Directorate

The Directorate is headed by the Director, Research and Planning Services, who reports to the Controller of Budget. The directorate is responsible for ensuring strategic leadership in the formulation and implementation of research and planning policies, systems and procedures.

## 5.4 Legal Affairs Directorate

The Director, Legal Services who reports to the Controller of Budget, heads this directorate. The directorate is responsible for the formulation and implementation of legal, Governance and Compliance policies, systems and procedures in addition to overseeing research on legal matters.

## 5.5 Internal Audit Division

The Internal Audit Division is headed by the Chief Internal Auditor who reports to the Controller of Budget administratively but functionally reports to the audit committee. The Chief Internal Auditor has the responsibility of implementing and reviewing control systems, the internal audit policy, systems and procedures in line with the audit plan.



**Mrs. Agnes Odhiambo**  
Controller of Budget



**Mr. Stephen Masha**  
Deputy Controller of Budget &  
Head, Budget Implementation



**Mr. Macklin Ogolla**  
Director Corporate Services



**Mr. Joshua Musyimi**  
Director Research and Planning



**Ms. Selina Iseme**  
Director Legal Affairs



**Mr. Joseph Tulula**  
Chief Internal Auditor



**Mr. Patrick Kamore**  
Chief Fiscal Analyst,  
National Government



**Mr. Mark Kipkoech**  
Chief Fiscal Analyst,  
County Government



**Mr. Stephen Wangaji**  
Chief Manager Public  
Relations Communications



**Mrs. Irene Kathambi**  
Chief Manager Human  
Resources and Administrations



**Ms. Judith Muli**  
Chief Fiscal Analyst,  
County Government



**Pamela Okatch**  
Manager Finance and  
Accounts



**Anthony Lusuli**  
Manager, Supply Chain  
Management



**Waweru Tuti**  
Manager, Legal Affairs

## CHAPTER SIX: CONCLUSION

The FY 2014/15 Annual Report is prepared in fulfilment of the constitutional requirement as envisioned in Article 254 (1) of the Constitution of Kenya, 2010. The Annual Report therefore provides information on the activities implemented by the Office during the financial year 2014/15 as well as the status of implementation of programs and activities contained in the OCOB Strategic Plan and its annual work plans. The report highlights the achievements, emerging issues and challenges that might have affected budget execution during the FY2014/15 and provides recommendations to address the issues observed during the implementation period. In this regard, the Office is committed to facilitate MDAs and County Governments by ensuring that exchequer requests are approved in a timely manner to guarantee seamless implementation of the approved programmes.

As a result, the total exchequer released to MDAs and County Governments in FY 2014/15 grew by 27.2 per cent from Kshs.1, 279.6 billion released in FY 2013/14 to Kshs.1,627.4 billion released in FY 2014/15. This comprised of Kshs.910.6 billion released to MDAs, Kshs.454.5 billion released for Consolidated Fund Services and Kshs. 262.3 billion released to the County governments, compared to

Kshs.827.4 billion, Kshs.258.8 billion and Kshs.193.4 billion issued to MDAs, CFS and County governments respectively, in the FY 2013/14. Despite the increased release of exchequer requisitions to the National Government Ministries, Departments and Agencies (MDAs), absorption of development funds declined from 52 per cent reported in FY 2013/14 to 45.8 per cent in FY 2014/15. This observation was further worsened by the accumulation of huge pending bills by the MDAs in the period under review. Counties spent a total of Kshs.258.0 billion which translated to an absorption rate of 79.1 per cent of the annual Approved Budgets, an improvement from 64.9 per cent achieved in FY2013/14. Despite this improvement in absorption rates, the counties accumulated pending bills amounting to Kshs. 37.5 billion. This has a negative effect on the business communities at the county level.

The Office continued to forge collaboration with the public and key stakeholders to monitor the implementation of the budgets by the various government agencies. The Office carried out two public sensitization forums in Eldoret and Nyeri respectively, to sensitize the public on their role in the budget making process and share information in line with Section 39 (8) of the PFM Act, 2012. In addition, the Office partnered with the Kenya Institute for Public



Policy Research and Analysis (KIPPRA) to undertake a baseline study to evaluate the County Governments' revenue management systems and performance with a view to address the factors affecting budget implementation in the Counties. The results of the study will provide a benchmark to be used to accurately determine local revenue estimates to be factored in county budgets in order to make feasible policy recommendations to enhance budget execution. The report has been finalized and will be published and disseminated to all stakeholders. Through such spirit of partnership and joint ventures, the Office intends to enhance its capacity to discharge its key mandate of overseeing budget implementation at both National and County level.

The delay in the release of funds by the National Treasury to both the MDAs and the Counties is still a challenge that needs to be addressed. The release of funds needs to be streamlined to ensure that the spending entities implement their planned activities with certainty. Further, the spending entities should ensure that their cash flow projections are aligned to their procurement plans to reduce cases of pending bills whenever funds are not availed in time.

The over dependence of Counties on the national shareable revenue from the national government cannot be overemphasised. Counties should enhance their local revenue collection mechanisms to supplement the shareable revenue and stimulate growth in their respective localities.

The Office takes note of the growing public debt that may not be sustainable in the long-term. The National Treasury should put in place measures to ensure the debt does not reach unsustainable level.

The late submission of expenditure reports by MDAs and County Treasuries has impacted negatively on the timely preparation and submission of the quarterly budget implementation review reports (BIRRs) to Parliament and other stakeholders. The Office therefore appeals to all spending units both at national and county levels to ensure that financial returns are submitted in time to enable the Office meet its statutory obligation.

Lastly, the enactment of Controller of Budget Bill is long overdue and has affected the ability of the Office to discharge its administrative functions effectively. The Office is therefore appealing to Parliament to facilitate the passage of the Bill.



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

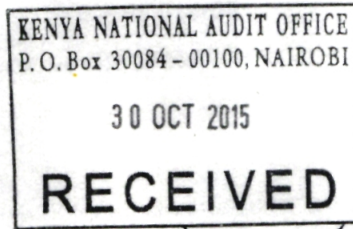
**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
THE OFFICE OF THE CONTROLLER OF  
BUDGET**

**FOR THE YEAR ENDED  
30 JUNE 2015**



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OFFICE OF THE CONTROLLER OF BUDGET  
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2015

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Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector  
Accounting Standards (IPSAS)



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**Reports and Financial Statements**  
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**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**(a) Background information**

The Office of the Controller of Budget (OCOB) is a creation of the Constitution as promulgated on 27<sup>th</sup> August, 2010. OCOB is an independent office and it became operational upon the appointment of the Controller of Budget on 27<sup>th</sup> August, 2011.

**As an independent office, COB has the following mandate: -**

- To oversee implementation of the budgets of the National and County Governments. (Article 228 (4)).
- Authorize withdrawals from Public Funds including the Equalization Fund (Article 204 (9)), the Consolidated Fund (Article 206 (4)), and County Revenue Fund (Article 207 (3)) when satisfied that the withdrawal is authorised by law (Article 228 (5));
- Report, every four month to each house of Parliament on the implementation of the budgets on the national and county governments(Article 228(6));
- Report after the end of each financial year ,to the President, the National Assembly or Senate(Article 254(2))
- Report ,on a particular issue, as may be required by President, the National Assembly or the Senate(Article 254(2))
- Advise Parliament on the need to renew or not to approve the decision of the Cabinet Secretary in charge of finance to stop the transfer of funds to a State Organ or any other Public Entity (Article 225 (2)).
- Conduct investigations based on its own motion or on a complaint made by a member of the public (Article 252 (1) (a)).
- Conduct alternative dispute resolution mechanisms including conciliation, mediation and negotiation to resolve budget implementation disputes (Article 252 (1)(b);and
- Ensure the public has access to information on budget implementation both at the national and county levels(Article 35) section 39(8) of the Public Finance Management Act,2012



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**Vision**

“To be the leading and independent oversight institution in public financial management”

**Mission**

To guarantee prudent public financial management through overseeing implementation of the government budgets by controlling and monitoring the use of public funds and reporting on budget implementation for the benefit of all Kenyans.

**Core Values**

In carrying out its mandate, the Office of the Controller of Budget will uphold the following core values: Honesty and Integrity, Professionalism, Accountability and Transparency, Innovation and Creativity, Teamwork, Efficiency and, Independence.

**Key Strategic Objectives**

**Strategic Objective 1:**

To ensure timely approval of withdrawals from the Consolidated Fund, County Revenue Fund and Equalization Fund.

**Strategic Objective 2:**

To oversee and regularly monitor the utilization of public funds released to government entities.

**Strategic Objective 3:**

To enhance openness, accountability and public participation in prudent public financial management.

**Strategic Objective 4:**

To provide advice on financial, planning and budgeting issues.

**Strategic Objective 5:**

To build capacity of the office to deliver on its mandate.

**Strategic Objective 6:**

To ensure the public has access to comprehensive, understandable, credible and timely information



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**(b) Principal Activities.**

The core mandate of the Office of the Controller of Budget is to oversee the implementation of budgets of both national and county governments, approve withdrawals from public funds and report to Parliament on budget implementation every four months.

**(i) The roles and functions**

- Oversight Role
- Controlling Role
- Reporting Role
- Advisory Role
- Investigation Role
- Arbitration/Mediation Role
- Public Participation

**(ii) Key Strategic Priorities**

During the year the Office of the Controller of Budget undertook the implementation of the following key strategic priorities:

- Monitoring of budget implementation for both national and county governments' projects and programmes .
- Capacity building of both OCOB staff and county staff on skills to improve budget execution.
- Timely Processing of exchequer requests for both national and county governments.
- Preparing quarterly budget implementation reports and special reports to both houses of Parliament for the national and county governments.
- Reviewing budgets of county governments to ensure compliance with the law.
- Providing budget implementation information to the public through media and public forums.
- Capacity building of the public through sensitization to effectively participate in the budgeting process and hold public officials to account through social accountability audit frameworks.
- Performing research on budget implementation key issues raised in the Quarterly Budget Implementation report to advise both Parliament and Executive accordingly.
- Participating in the budget preparation process as envisaged in the law.



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**(c) Key Management.**

The *entity's* day-to-day management is composed of;

S/NO.	NAME	DESIGNATION
1	Mrs. Agnes Odhiambo	• Controller of Budget
2	Mr. Stephen Masha	• Deputy Controller of Budget
3	Mr. Macklin Ogolla	• Director Corporate Services
4	Mr. Joshua Musyimi	• Director Research and Planning
5	Mr. Joseph Tulula	• Chief Internal Auditor
6	Mr. Patrick Kamore	• Chief Fiscal Analyst-National Government
7	Mr. Mark Kipkoech	• Chief Fiscal Analyst-County Government
8	Mr. Stephen Wangaji	• Chief Manager Public Relations & Communication
9	Ms. Irene Arimi	• Chief Manager Human Resource & Administration
10	Ms. Judith Muli	• Chief Manager Information Communication and Technology
11	Ms. Pamela Okatch	• Manager Finance & Accounts
12	Mr. Anthony Lusuli	• Manager, Supply Chain Management
13	Mr. George Tuti	• Legal Officer

**(d) Fiduciary Management.**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2015 and who had direct fiduciary responsibility were:

S/NO.	NAME	DESIGNATION
1	Mrs. Agnes Odhiambo	• Controller of Budget
2	Mr. Stephen Masha	• Deputy Controller of Budget
3	Mr. Macklin Ogolla	• Director Corporate Services
4	Mr. Joshua Musyimi	• Director Research and Planning
5	Mr. Joseph Tulula	• Chief Internal Auditor
6	Ms. Pamela Okatch	• Manager Finance & Accounts
7	Mr. Anthony Lusuli	• Manager, Supply Chain Management
8	Mr. George Tuti	• Legal Officer



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**(e) Fiduciary Oversight Arrangements**

**(i) Audit Committee Activities**

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. The OCOB has established an Audit Committee which has the authority to ensure that the OCOB adopts, maintains and applies appropriate accounting and financial reporting processes and procedures; facilitate the independence of the internal and external audit process and addressing issues arising from the audit process; and ensure that the OCOB maintains effective risk management and internal control systems. The Committee monitors the effectiveness of the internal control systems and regularly receives reports from the internal and external auditors. The Audit Committee has direct access to the External Auditors, and OCOB internal audit function.

The Committee's membership comprises of 3 members namely:

S/NO.	NAME	ROLE
1	Mr. Joshua Musyimi	• Chairperson
2	Ms. Judith Muli	• Member
3	Ms. Pamela Okatch	• Member
4	Mr. Joseph Tulula	• Secretary

Our key achievements during the year included the following:-

- Reviewed the Internal Audit's reports on various OCOB's functions
- Reviewed the OCOB Risk Management Policy
- The members of the committee attended a seminar on how to effectively conduct the Audit Committee business

**(ii) Parliamentary Committee Activities**

Article 228 (6) of the Constitution requires the Controller of Budget to submit to each house of parliament a report on budget implementation of the national and county governments every four months. In line with this requirement, OCOB has continually engaged Parliamentary Committees to increase awareness on budget implementation and debate on issues under consideration by Parliament. This has benefited the overall budget implementation process by informing the review of proposed laws, facilitating more informed policy-making and ensuring greater government accountability. The OCOB engagement



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with Parliament ranged from making written submissions, giving evidence and presentations during committee hearings, consultation on budget implementation, and provision of expert advice on findings and recommendations for action by Government and Parliament. Specifically, key engagements were with the following committees:

- Senate Committee on Finance, Commerce and Budget
- Standing Public Accounts Committee of the National Assembly
- Standing committee on Budget and Appropriations of the National Assembly
- Departmental committee on Finance, Planning and Trade of the National Assembly.

The main engagement with Parliament was in the submission of quarterly budget implementation review reports per Article 228 (6) of the Constitution. Other engagements were on financial management in the Public sector as follows:

- 30<sup>th</sup> July 2014: Held a meeting with the Senate committee on Finance, Commerce and Budget on the amendments to the Public Finance Management Act, 2012.
- 21<sup>st</sup> August 2014: Presentation to the Finance, Planning and trade of the National Assembly a special report on expenditure on rent for all commissions and Independent offices.
- 2<sup>nd</sup> October 2014: Held a meeting with the Senate Sessional Committee on County Public Accounts and Investment on the withdrawals of the public funds by County Governments.
- 14<sup>th</sup>, 15<sup>th</sup> and 16<sup>th</sup> October: Held a consultative meeting with the Sessional committee on Devolved Government on the mediation efforts with the County of Makueni in matters of financial management and budget process.
- 30<sup>th</sup> October 2014: Held a meeting with the Departmental Committee on Education, Research and Technology regarding the unpaid pension dues for the retired teachers.
- 10<sup>th</sup> November 2014 :Attended retreat organised by the National Assembly Budget and Appropriation Committee to discuss issues raised on our 2013/14 annual budget implementation review report
- 8<sup>th</sup> and 9<sup>th</sup> December 2014: Held a meeting with the Clerks of Parliament and County Assemblies on the development and modalities of strengthening their roles, establishing a forum through which the clerks can share their experiences and best practices.
- 23<sup>rd</sup> January 2015: Held a meeting with the Senate committee on Finance, Commerce



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and Budget on the analysis of budget utilization by the Narok County Government.

- 3<sup>rd</sup>-6<sup>th</sup> February 2015: Attended a workshop organised by the Budget and Appropriation Committee of National Assembly on the review on the strategic options for the 2015/16 budgets and 1<sup>st</sup> supplementary FY 2015/16.
- 23<sup>rd</sup> February 2015: Held a meeting with the Departmental Committee of Finance, Planning and Trade on the budget policy statements.
- 3<sup>rd</sup> March 2015: Held a meeting with the Senate committee on Finance, Commerce and Budget on the implications of the High Court Ruling on petition no.368 of 2014 regarding the circulars issued by the Commission of Revenue Allocation on budget ceiling, Failure by the Makueni County Executive to transfer funds to the County Assembly, the budget making process for Isiolo County.
- 19<sup>th</sup> March 2015: Held a consultative meeting with the Senate Sessional Committee on County Public Accounts and Investment to discuss on the County Budget Implementation Review report for the 1<sup>st</sup> quarter FY 2014/15
- 7<sup>th</sup> April 2015: Held a meeting with the Senate Committee on Finance, Commerce and Budget regarding the County Allocation of revenue Bill.
- 17<sup>th</sup> May 2015: Presentation of the County public accounts committee and other stakeholders in the accountability process organised by the Senate Sessional Committee on County Public Accounts and Investment.
- 20<sup>th</sup> May 2015: Held a meeting with the Departmental Committee on Finance, Planning and Trade on the budget estimates for the FY 2015/2016 for the office.

Parliament and the OCOB have complemented each other in their oversight roles. This has enhanced accountability among public entities.

#### **(iii) Development Partner Oversight Activities**

The Office of the Controller of Budget has collaborated with development partners, in particular GIZ, Germany, DANIDA, USAID and World Bank to build capacity for its staff, county government staff and the staff of county assemblies to facilitate proper and efficient delivery of its mandate and improve budget implementation. Some of the activities undertaken under DANIDA funds through Public Finance Management Reforms(PFMR) among others includes: procure computers to enhance reporting by the county budget coordinators, equip the county budget coordinators officers with fire proofs cabinets to safe guard data and records, revamping of the website for information dissemination on



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use of public funds, development of mobile application software, Adobe- in –design training of staff ,revenue baseline survey by KIPPRA and public participation forums in order to enhance public participation in the budget execution process.

**(iv) Other Oversight Activities.**

The Controller of Budget in running the office is assisted by various committees with specific terms and reference in carrying out the activities and includes; Executive Management Committee, Tender Committee, Human Resource Management Advisory /Training Committee, Budget Implementation Committee, ICT Steering Committee, Some of the key functions undertaken by the committees are as follow:

**1. Executive Management Committee**

This committee makes recommendations and policies on major decisions that have impact on the office operations. The committee is composed of the Controller of Budget, Deputy Controller of Budget, Directors and Heads of Departments. The role and functions of the Executive Management Committee include:

- Planning – establishing and reviewing strategic and operational plans for office of the Controller of Budget (OCOB).
- Policy and decision making – establishing policies/procedures that guide the operations of OCOB and record decisions and actions on matters concerning OCOB.
- Management – ensuring that all staff properly perform their tasks according to their job descriptions and further ensuring that the OCOB mandate is properly executed.
- Legal – ensuring that at all times, OCOB complies with the laws of Kenya in discharge of its mandate.
- Financial – ensuring that all finances are properly managed; that financial records are audited annually and that the principles of public finance management articulated under Article 201 of the Constitution are adhered to.
- Evaluation – monitoring all activities of OCOB and ensuring that the feedback contributes to the continuous improvement in governance and service delivery.

In execution of its functions, the Management Committee has the power to appoint sub-committees to assist it in discharging its mandate.



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In discharging their duties, Members of the Executive Management Committee are:

- Guided by the provisions of Chapter Six of the Constitution;
- Adhere to the rule of law;
- Make decisions impartially, without fear or favour in accordance with Article 249 of the Constitution.

**2. Tender committee**

This committee is constituted in accordance with the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006. The main function is to adjudicate on tender and procurement transactions to facilitate the office and advise COB on procurement related issues. The committee's also ensures goods and services supplied are as per specifications and there is value for money.

**3. The Human Resource Management Advisory/Training Committee (HRMAC)**

The Human Resources Management Advisory/Training Committee advises, the Controller of Budget on the HR issues and staff development. It is composed of Directors and all Heads of Departments. Some of its functions include;

- To consider officers training requests and recommend to the Controller of Budget those to be trained for the approved training programmes.
- Investigates and make recommendations to the Controller of Budget on staff disciplinary matters;
- Discuss and make recommendations on existing HR regulations and policies to the Controller of Budget;
- Discuss and make recommendations to Controller of Budget on general staff welfare and motivation issues among others

**4. Budget Implementation Committee**

This is a sub-committee of the Executive management committee set up to ensure the resources are utilised as per the OCOB budgetary allocation and work plan. It also monitors the implementation of the departmental budgets to ensure efficient and effective utilisation of the resources by the office while delivering its mandate.



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**5. ICT Steering Committee**

The committee provides advice to the Controller of Budget with regard to strategic decision in Information and Communication Technology (ICT) with particular attention to risk management, compliance and change management. The Committee ensures that OCOB's ICT strategic objectives and their implementation remain aligned with the mandate and strategic objectives of the organization.

During the Fiscal Year 2014/2015 the ICT Steering Committee oversaw the following ICT Projects and activities aimed at enhancing ICT use, innovation & adoption in the organization.

- Institutional strategy and vision
  - Adoption and operationalization of the approved OCOB ICT policies and Plans
  - Drafting of an ICT Service Charter.
- Connectivity and Technology infrastructure
  - Overseeing ICT Infrastructure and resource Improvements
  - Enhancing the Networks infrastructure & internet access capacity at OCOB
  - Improvements in ICT resource access and security measures
  - The adoption of a new OCOB website and Intranet with improved navigation and capacity for information.

The adoption of a Mobile application to enhance the Collaboration/dissemination of OCOB information and reports.

**Legal Activities**

In the FY 2013/14, there was public outrage on the excessive spending by County governments both the Executive and the Assembly on what was perceived to be non-core areas such as domestic and foreign travel and training conferences. Pursuant to their mandate under Article 216(2) of the Constitution, the Commission on Revenue Allocation costed the functions under the new structures being the County Executive (Governors plus the County Executive Members) and the County Assembly. CRA then made recommendations on the maximum amount to allocate for the new structures.

In the FY 2014/15, the County Assemblies had amended the budget estimates presented by the CEC/F by reducing allocations in crucial areas and allocating the same to the County Assembly for non-core expenditure like travel, catering and trainings.



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OCOB analysed the budgets for the FY 2014/15 and after the analysis, produced a report on each of the 47 budgets outlining the areas that had failed to comply with the relevant laws in public finance management. OCOB therefore referred back the budgets to the Counties due to non-compliance with the provisions of the Public Finance Management Act and the recommendations of CRA on the maximum allocation to the County Executive and the County Assembly, the so called “ceilings”.

Being aggrieved by the decision of CRA and OCOB, all the 47 County Assemblies moved to Court *vide* NRB High Court Petition no. 368 of 2014- The Speaker, Nakuru County Assembly & 46 others –*vs-* the Controller of Budget & 2 Others.

The Petitioners sought for a declaration that the recommendations by CRA on ceilings were illegal, an order of *certiorari* to quash the decision of CRA and OCOB and an order of *mandamus* to compel CRA and OCOB to implement the budgets as passed by the County Assembly.

This case raised a myriad of complex legal and constitutional issues. OCOB therefore procured the services of Messers Rachier & Amollo Advocates one of the leading professional firms in Kenya.

Judgement in this matter was rendered on 20<sup>th</sup> February, 2015 by Justice Lenaola upholding the OCOB decision to enforce the principles of public finance and ensure all budgets adhere to the law.



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**(i) Entity Headquarters**

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**(j) Entity Contacts**

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**(k) Entity Bankers**

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**(l) Independent Auditors**

Auditor General  
Kenya National Audit Office  
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**(m) Principal Legal Adviser**

The Attorney General  
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City Square 00200  
Nairobi, Kenya



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**II. FORWARD BY THE CONTROLLER OF BUDGET**

This report covers the FY 2014/15. During this period, the Office of the Controller of Budget (OCOB) was allocated Ksh.430.0 million which was revised to Ksh.396.0 million in the Supplementary Estimates to cater for the main programme of *control and management of public finances* in four sub-programmes, namely Budget Review and Analysis; County Services; Research and Planning and Administrative Support Services.

The actual expenditure of Ksh.369.0 million was based on economic classification and included: Compensation of employees (Kshs.190.0m), use of goods and services (Kshs.144.3m), social security benefits (Kshs.4.0m) and acquisition of non -financial assets (Kshs.30.5m). To realise its strategic objectives, the Office relied on its strategic plan to guide activities, policy formulation and work plans and made the following progress and achievements:

**1. Approval of withdrawals from public funds.**

Exchequer requests from MDAs and County Governments are approved in time to ensure smooth delivery of services to the public.

**2. Exchequer Issues to National and County Government.**

Total exchequer issues of Kshs.1.59 trillion or 93.9 per cent of the total revised net estimates was released. This is an increase of 24.6 per cent compared to Kshs.1.28 trillion issued in FY 2013/14. This comprises of Kshs.910.36 billion to MDAs, Kshs.454.5 billion to Consolidated Fund Services and Kshs.229.3 billion to County governments, compared to Kshs.827.4 billion, Kshs.258.8 billion and Kshs.193.4 billion issue to MDAs, CFS and Country Services respectively, in last FY 2013/14. There was a marginal decline in the exchequer issues to net estimates from 94.5 percent to 93.9 per cent recorded in the FY 2014/15.

**3. Exchequer Releases for Consolidated Fund Services**

The Office released Kshs. 454.47 billion Equivalent to 104.0 per cent of the revised gross estimates to cater for Consolidated Fund Services, which was allocated Kshs. 436.89 billion during the year 2014/2015 after revision in the fourth quarter of the year. The actual expenditure on CFS was Kshs.431.7 billion representing an absorption rate of 98.8 per cent.



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**4. Monitoring and reporting on budget implementation**

The OCOB monitored and prepared four statutory reports to Parliament on the implementation of the budgets of the national and county government in compliance with Article 228(6) of the Constitution of Kenya, 2010. These reports highlighted the following key challenges among others;

**National Government**

- Delays in submission of Expenditure Reports by MDAs
- Failure to Adopt IFMIS by some MDAs
- Discrepancies between IPPD,IFMIS and Programme Implementation Reports
- Reconciliation of Consolidated Fund Services
- Failure to Report on Programme Achievements by MDAs
- Low Absorption of Recurrent and Development Budget
- High Public Debt position
- Lack of Guidelines on Refund of Unspent Funds at the end of the Financial year
- Non -disclosure of A-I-A by the MDAs
- Discrepancies of the Public Debt Account.
- Discrepancies of Consolidated Fund Services Account
- Monitoring of the development expenditure
- Timing of the Supplementary Budgets
- Delays in the Release of Funds by the National Treasury.

**County Government**

- Lapse in Financial Controls by the County Treasury
- Delayed disbursement of funds by the National Government due to delayed enactment of the County Allocation of Revenue Act,2014
- Inadequate Administration and Reporting on Public Funds Established by the Counties.
- Unauthorised Diversion of Exchequer Releases.
- Lack of Internal Audit Arrangements
- Non-Compliance to SRC Circulars on Remuneration and Benefits of Public Officers



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- Failure to adopt IFMIS by some County Assemblies
- Use of Local Revenue at Source
- Formulation of Supplementary Budgets
- Lack of Effective Monitoring and Evaluation Frameworks.
- Frequent Strike Actions by Health Workers
- High Expenditure on Personnel Costs.
- Payment of Ward Employees under the County Assembly.
- Large outstanding imprest by the Counties.

The office provided the following recommendations that will improve budget implementation.

**National Government**

- All MDAs should submit their financial returns by 10<sup>th</sup> of the subsequent month to the end of each quarter to ensure timely preparation of the Budget Implementation Review Reports(BIRRs)
- The National Treasury to ensure all MDAs adopt IFMIS to enhance completeness, accuracy and timeliness in financial reporting.
- All IFMIS generated expenditure reports should be reconciled to the IPPD reports on personnel compensation costs on a regular basis and explanation provided where discrepancies occur.
- The National Treasury should urgently reconcile actual expenditure to CFS( Consolidated Fund Services) exchequer issues
- All budget performance reports should contain adequate information on the progress made towards achieving targets set under the programme based framework(PPB) to ensure full compliance
- There is need for timely release of both recurrent and development funds and re-alignment of the releases to workplans.In addition Parliament should expedite passing of the Public Procurement and Asset Disposal Bill, 2014 to streamline procurement process.
- The National Treasury should take appropriate measures to ensure that public debt does not reach unsustainable levels in view of the constitutional provision allowing county governments to borrow.



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- The Public Sector Accounting Standards Board (PSASB) should develop guidelines to guide on the refund of unspent balances as envisaged in section 45(2) of the PFM Act.
- The National Treasury should institute appropriate measures to ensure that MDAs report on generated A-I-A to enhance accountability, transparency and completeness in financial reporting.
- Special Audit to be undertaken by the Auditor General to establish the cause of the differences in the CFS and Public Debt Accounts.
- The National Treasury to formulate strategies aimed at ensuring that absorption of development funds is enhanced.
- The Parliament should consider and approve budget revisions in good time to allow timely implementation activities.
- The National Treasury should fund MDAs and County governments in a timely manner in line with their cash flow projections and procurement plans.

#### **County Government**

- The county Treasuries should strengthened financial controls in management of public funds as stipulated in section 104 of the PFM Act,2015. Departments requisitions submitted to County Treasuries should be supported by the approved work plans to minimise instances of under/over absorption of funds.
- Parliament should enact legislations relating to budget execution on time to allow for disbursement of funds by the National Treasury to the Counties
- All established County Public Funds should be managed by a designated Fund Administrator who should prepare quarterly financial reports in line with Section 168 of the PFM Act, 2012.
- County Treasuries should ensure strict exchequer controls and prohibit diversion of exchequer issues to other purposes rather what was contained in the approved work plans against which exchequer releases were based.
- All county governments should establish an internal audit function in compliance with Section 155 of the PFM Act,2015
- All counties must adhere to SRC circulars on staff remuneration and benefits and should recover all payments made in contravention of the circulars.



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- The County Assemblies that have not compiled with the adoption of IFMIS should liaise with their respective County Treasuries to fast track the adoption.
- All Counties should ensure that all locally generated revenue is deposited intact into the County Revenue Fund.
- All Supplementary Budgets should be aligned to the released exchequer issues, expenditure and commitments to avoid budgets with negative balances that cannot be implemented.
- Counties to develop and monitor a robust monitoring and evaluation framework and should establish effective M & E units and also incorporate aspect of monitoring in the budget process.
- Counties should find a long lasting solution to the frequent labour actions in order to ensure smooth delivery of health services to the public.
- The County Public Service Board and the County Assembly Public Service Board should liaise with the National Government to review staff establishment with a view to optimising staff levels. This will optimize expenditure on personnel costs and also ensure County governments have adequate resources to undertake development projects that benefit the citizens.
- All County Assemblies should regularized the employment ward employees under the County Assembly and also ensure that all payments related to the ward officers and ward employees are processed through ifmis. All irregular payments should be recovered.
- County Treasuries should ensure strict adherence to financial regulations on management of imprest .Regular reconciliations should be done on the imprest account and any unaccounted imprest recovered as provided by the law.

**5. Enhancing Public Access to budget execution information**

The Office of the Controller of Budget is mandated, under Section 39(8) of the Public Finance Management Act, 2012 and Article 35 of the Constitution, to ensure that the public has access to information and participates in a democratic manner in the development and execution of budgets.

In order to fulfil this mandate, the Office held public forums in Eldoret and Nyer during this period to explain the mandate of the Office, educate the public on budgeting process, encourage public participation in budget formulation and to discuss the role of the



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public in budget formulation and monitoring,

The Eldoret forum, which was held on 5<sup>th</sup> December 2014, drew participants from Baringo, Elgeyo Marakwet, Nandi, Trans Nzoia, Nakuru, Bungoma and Kakamega counties. The other forum held in Nyeri on 23<sup>rd</sup> June 2015 drew participants from Nyeri, Kirinyaga, Muranga, Kiambu, Nyandarua, Meru, Tharak Nithi, Laikipia and Embu counties.

At the end of these forums, we established that the public was eager to have a better understanding of the budgeting process and would like to play a more active role in assisting the Office in monitoring the utilization of public funds as required by Law.

**6. Enhancing Capacity for Budget Implementation**

• **Capacity Building at the County level.**

The Office, in collaboration with key stakeholders has actively been involved in the development of mobile application for staff to enhance public access to OCOB reports and other information for public consumption.

• **Improved Institutional Capacity at OCOB**

The OCOB has continuously carried out training for its staff to equip them with the necessary skills to enable the office achieve its mandate. The office conducted Adobe in-design software training for staff in data analysis and report writing on budget implementation.

**7. Enhancing prudent public financial management.**

The office has developed the procedure manuals for regulations and guidelines for exchequer withdrawal requests to be used by MDAs and County governments when processing their exchequer requests. The office has also developed a framework for monitoring usage of public funds at both the National and County levels.

**8. Monitoring and Evaluation of Programmes/Projects by OCOB**

During the FY 2014/15, the Office of the Controller of Budget (OCOB) conducted County visits to undertake monitoring and evaluation of programmes/projects undertaken by both the National and County Governments. The main objective of the monitoring and evaluation exercise was to ensure the planned activities are undertaken in line with the budget provisions and the corresponding work plans.

The Monitoring involved the collection and analysis of data about budget activities. The data



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collected should allow budget implementers to keep track of budget activities to determine whether budget objectives are being achieved and make whatever changes which are necessary to improve budget performance. The main purpose of the monitoring is therefore to ensure that there is efficient and effective program/project implementation. The exercise provides timely information on the work planned and done to all the stakeholders. The Primary concern of monitoring is the delivery process of ensuring that inputs inform of the budgetary resources to the planned activities, are transformed into outputs and outcomes in the form of benefits to the beneficiaries or the targeted groups.

From the monitoring exercise, the OCOB established that all the counties are making commendable progress towards service delivery to the public. Progress has been made in a number of sectors namely: the Health sector, Water and sanitation sector, Infrastructure and Roads, Education particularly the ECDs and Youth polytechnics, Trade, Investment and Industrialization sector, and the Agriculture Sector among others.

The findings show that most of the programmes/projects are still on-going way after the end of the financial year. This has been attributed to lengthy procurement processes and poor project planning which led to late project commencement and implementation. There was poor linkage between planning and budgeting which resulted to incidents of projects stalling halfway and outcomes of the projects not being realized.

The OCOB recommends the need for counties to link planning to budget to ensure enhanced implementation of projects and programmes. The National and County Governments should embrace Programme Based Budgeting (PBB) which lay more emphasis on outputs and outcomes for increased benefits to the citizenry. Further, the governments should enhance their internal M&E functions to continuously monitor their project implementation and address issues arising as the projects are being implemented with corrective actions being taken in real time. Monitoring and evaluation should be an integral part of the operations of both national and county governments and must be used as a management tool if governments are to achieve their aspirations.

#### **9. Revenue Baseline Survey by KIPPRA**

During FY 2014/15, the Office of the Controller of Budget (OCOB) commissioned the Kenya Institute for Public Policy Research and Analysis (KIPPRA) to undertake a study evaluating county revenue management systems and performances, and to establish the accuracy of determining local revenue estimates with a view to making policy



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recommendations that will improve the budget execution.

The specific study objectives were to:

- Analyse key sources of revenue collection in County governments and their prospects and limitations based on application, coverage and seasonality of revenue streams.
- Examine systems, regulations and procedures used to collect, record, report and transfer collected revenue to County Revenue Fund Account.
- Evaluate internal control mechanism put in place by County governments to minimize risks including revenue leakages.
- Assess accuracy of local revenue estimates incorporated in budgets and process of integrating them in budget revenue estimates.

The study aimed at providing the following outputs:

- Report on key sources, prospects and limitations of local revenue collection in the County governments.
- Evidence for targeting local revenue estimates (collections) into the annual County budgets.
- Baseline information to provide a benchmark for development of strategies and programmes to improve local revenue collection in County governments.

**Challenges and emerging issues**

In undertaking its activities to ensure that management of public finances complies with the Constitution of Kenya, 2010 and the PFM Act, 2012, the Office experienced number of challenges that largely affected the execution of budgets. These included:

**1. Legal framework**

OCOB is a new institution that requires adequate legal framework to enable it to function properly. The Controller of Budget Bill 2011 is yet to be passed by Parliament and enacted into law that will facilitate operationalization of the office.

**2. Staffing Capacity**

As a new office with expanding mandate and responsibilities as provided for by both the Constitution of Kenya, 2010 and the Public Finance Management Act, 2012, OCOB needs to enhance its capacity by providing continuous training and development to its staff for effective delivery of its mandate.



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**3. Delay in Submission of Expenditure Reports**

Section 83 of the Public Finance Management Act, 2012 requires accounting officers to submit quarterly financial reports to the Controller of Budget. Further, in order to facilitate timely reporting in accordance with Article 228(6) of the Constitution of Kenya 2010, the Office has requested all MDAs and county governments to submit financial reports by 10<sup>th</sup> of the month following the end of each quarter. Despite this requirement, MDAs and County governments do not submit their quarterly report in accordance with the law.

Mrs. Agnes Odhiambo

**CONTROLLER OF BUDGET**

19/10/15  
DATE



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**III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES**

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the *Office of the Controller of Budget* is responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the *Office of the Controller of Budget* accepts responsibility for the *entity's* financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2015, and of the *entity's* financial position as at that date. The Accounting Officer charge of the *Office of the Controller of Budget* further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the *Office of the Controller of Budget* confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the *entity's* financial statements



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have been prepared in a format that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

**Approval of the financial statements**

The *entity's* financial statements were approved and signed by the Accounting Officer on 19<sup>th</sup> October, 2015.

Mrs. Agnes Odhiambo

**CONTROLLER OF BUDGET**



## REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

### OFFICE OF THE AUDITOR-GENERAL

#### REPORT OF THE AUDITOR-GENERAL ON THE OFFICE OF THE CONTROLLER OF BUDGET FOR THE YEAR ENDED 30 JUNE 2015

##### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Office of the Controller of Budget set out on pages 26 to 40, which comprise the statement of financial position as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation- recurrent, summary statement of deposits, summary statement of provisionings and statement of budget execution for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

##### **Management's Responsibility for the Financial Statements**

The Accounting officer – Office of the Controller of Budget is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting officer is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

##### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9(2) and(3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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*Office of the Controller of Budget – Annual Report and Financial Statements for the year ended*



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Controller of Budget as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

**FCPA Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**24 March 2016**



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**OFFICE OF THE CONTROLLER OF BUDGET**  
**Reports and Financial Statements**  
**For the year ended June 30, 2015 (Kshs'000)**

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**IV. REPORT OF THE AUDITOR GENERAL ON THE OFFICE OF THE  
CONTROLLER OF BUDGET (VOTE 2121) FOR THE YEAR ENDED 30<sup>TH</sup>  
JUNE 2015**



**OFFICE OF THE CONTROLLER OF BUDGET**  
**Reports and Financial Statements**  
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**V. STATEMENT OF RECEIPTS AND PAYMENTS**

Current Period: JUL-14 To JUN-15 Compare With: JUL-13 To JUN-14			
	Note	Current Period	Previous Period
		Kshs '000'	Kshs '000'
<b>RECEIPTS</b>			
Exchequer releases	1	341,500	370,000
Reimbursements and Refunds	2	-	138
<b>TOTAL RECEIPTS</b>		<b>341,500</b>	<b>370,138</b>
<b>PAYMENTS</b>			
Compensation of Employees	3	189,982	159,470
Use of goods and Services	4	144,334	119,683
Social Security Benefits	5	4,048	3,591
Acquisition of Assets	6	30,452	23,965
<b>TOTAL PAYMENTS</b>		<b>368,816</b>	<b>306,709</b>
<b>SURPLUS/DEFICIT</b>		<b>-27,316</b>	<b>63,429</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch

Date:

19/10/15

Reviewed By: Mr. Macklin Ogolla

Date:

19/10/15

Approved By: Mrs. Agnes Odhiambo

Date:

19/10/15



**OFFICE OF THE CONTROLLER OF BUDGET**  
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**VI. STATEMENT OF FINANCIAL POSITION**

Current Period: JUL-14 To JUN-15 Compare With: JUL-13 To JUN-14			
	Note	Current Period	Previous Period
		Kshs '000'	Kshs '000'
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	7A	39,271	64,872
Cash Balances	7B	370	392
<b>Total Cash And Cash Equivalents</b>		<b>39,641</b>	<b>65,264</b>
Accounts Receivables - Outstanding Imprest and Clearance Accounts	8	470	658
<b>TOTAL FINANCIAL ASSETS</b>		<b>40,111</b>	<b>65,922</b>
<b>Financial Liabilities</b>			
Accounts Payables - Deposits	9	-3,998	-2,493
<b>NET FINANCIAL ASSETS</b>		<b>36,113</b>	<b>63,429</b>
<b>REPRESENTED BY</b>			
Fund Balance b/fwd	10	63,429	-
Surplus/Deficit for the Year		-27,316	63,429
<b>NET FINANCIAL POSITION</b>		<b>36,113</b>	<b>63,429</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch  Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla  Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo  Date: 19/10/15

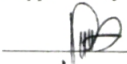



**OFFICE OF THE CONTROLLER OF BUDGET**  
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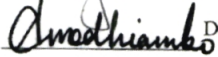
**VII. STATEMENT OF CASH FLOW**

		Current Period: JUL-14 To JUN-15	
		Compare With: JUL-13 To JUN-14	
	Note	Current Period	Previous Period
		Kshs '000'	Kshs '000'
<b>Receipts and operating income</b>			
Exchequer releases	1	341,500	370,000
Reimbursements and Refunds	2	-	138
<b>Payments for Operating Expenses</b>			
Compensation of Employees	3	-189,982	-159,470
Use of goods and Services	4	-144,334	-119,683
Social Security Benefits	5	-4,048	-3,591
<b>Adjusted for :</b>			
Increase in Receivables	11A	188	-658
Increase in Payables	11B	1,505	2,493
<b>Net Cash From Operating Activities</b>			
	A	<b>4,829</b>	<b>89,229</b>
<b>Cash Flow From Investing Activities</b>			
Acquisition of Assets	6	-30,452	-23,965
<b>Net Cash Flow From Investing Activities</b>	B	<b>-30,452</b>	<b>-23,965</b>
<b>Cash Flow From Borrowing Activities</b>			
Proceeds from Domestic Borrowings		-	-
<b>Net Cash Flow From Financing Activities</b>	C	<b>-</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>	A+B+C	<b>-25,623</b>	<b>65,264</b>
<b>Cash and Cash Equivalent at BEGINNING of The Year</b>		<b>65,264</b>	<b>-</b>
<b>Cash and Cash Equivalent at END of The Year</b>	7A+7B	<b>39,641</b>	<b>65,264</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch  Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla  Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo  Date: 19/10/15





**OFFICE OF THE CONTROLLER OF BUDGET**  
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**VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT**

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>RECEIPTS</b>						
<b>RECEIPTS</b>						
Exchequer releases	429,963	-34,000	395,963	341,500	54,463	86%
Transfers from Other Government Entities	-	-	-	-	-	-
Domestic Currency and Domestic Deposits	-	-	-	-	-	-
<b>TOTALS</b>	<b>429,963</b>	<b>-34,000</b>	<b>395,963</b>	<b>341,500</b>	<b>54,463</b>	<b>86%</b>
<b>PAYMENTS</b>						
Compensation of Employees	227,643	-34,000	193,643	189,982	3,661	98%
Use of goods and services	180,843	-15,400	165,443	144,334	21,109	87%
Social Security Benefits	4,500	-	4,500	4,048	452	90%
Acquisition of Assets	16,977	15,400	32,377	30,452	1,925	94%
<b>TOTALS</b>	<b>429,963</b>	<b>-34,000</b>	<b>395,963</b>	<b>368,816</b>	<b>27,147</b>	<b>93%</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch  Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla  Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo  Date: 19/10/15



**OFFICE OF THE CONTROLLER OF BUDGET**  
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**IX. STATEMENT OF PROVISIONS**

**Details of General Accounts On Vote**

	<b>Current Period</b>	<b>Previous Period</b>
	<b>Kshs '000'</b>	<b>Kshs '000'</b>
GAV Provisioning account balance	27,147	64,769

**Details of Exchequer Account**

	<b>Current Period</b>	<b>Previous Period</b>
	<b>Kshs '000'</b>	<b>Kshs '000'</b>
Exchequer Provisioning account balance	54,463	1,478

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch

Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla

Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo

Date: 19/10/15





**OFFICE OF THE CONTROLLER OF BUDGET**  
**Reports and Financial Statements**  
**For the year ended June 30, 2015 (Kshs'000)**


**X. SUMMARY STATEMENT OF DEPOSITS**

	Current Period	Previous Period
	Kshs '000'	Kshs '000'
Opening Balance	2,493	4,133
Transfers of retentions during the year	1,592	2,180
Payments made out of deposit account during the year	-112	-3,820
<b>Closing Balance</b>	<b>3,973</b>	<b>2,493</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch  Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla  Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo  Date: 19/10/15





**OFFICE OF THE CONTROLLER OF BUDGET**  
**Reports and Financial Statements**  
**For the year ended June 30, 2015 (Kshs'000)**

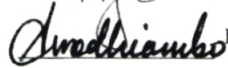
**XI. EXECUTION BY HEADS AND PROGRAMMES**

Head	Program	Description	Approved Budget	Actual Payments	Variance
			Kshs '000'	Kshs '000'	Kshs '000'
2121000100		<b>Administration Support Services</b>	202,459	190,478	11,981
	730000000	Control and Management of Public finances	202,459	190,477	11,982
2121000200		<b>Research and Planning</b>	9,282	7,691	1,591
	730000000	Control and Management of Public finances	9,282	7,691	1,591
2121000300		<b>Budget Review and Analysis</b>	34,050	31,845	2,205
	730000000	Control and Management of Public finances	34,050	31,845	2,055
2121000400		<b>County Services</b>	150,172	138,802	11,370
	730000000	Control and Management of Public finances	150,172	138,802	11,370
		<b>Grand Total</b>	<b>395,963</b>	<b>368,816</b>	<b>27,147</b>

The Statement has been prepared, reviewed and approved by the following:

Prepared By: Ms. Pamela Okatch  Date: 19/10/15

Reviewed By: Mr. Macklin Ogolla  Date: 19/10/15

Approved By: Mrs. Agnes Odhiambo  Date: 19/10/15



**OFFICE OF THE CONTROLLER OF BUDGET**  
**Reports and Financial Statements**  
**For the year ended June 30, 2015 (Kshs'000)**

**XII. SIGNIFICANT ACCOUNTING POLICIES**

The principle accounting policies adopted in the preparation of these financial statements are set out below:

**1. Statement of compliance and basis of preparation.**

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the *entity* and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented. The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *entity*.

**2. Recognition of revenue and expenses**

The *entity* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*. In addition, the *entity* recognises all expenses when the event occurs and the related cash has actually been paid out by the *entity*.

**3. In-kind contributions**

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded

**4. Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are



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readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**5. Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the *entity* at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

**6. Budget**

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The *entity's* budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the *entity's* actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

**7. Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

**8. Subsequent events.**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.



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**XIII. NOTES TO THE FINANCIAL STATEMENTS**

**1 Exchequer releases**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Exchequer Releases/ Provisioning Account	9910201	341,500	370,000
<b>TOTAL</b>		<b>341,500</b>	<b>370,000</b>

**2 Reimbursements and Refunds**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Reimbursements and Refunds - Other (Budget)	4540199	-	138
<b>TOTAL</b>		<b>-</b>	<b>138</b>

**3 Compensation of Employees**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Basic Salaries - Permanent Employees	2110100	135,192	158,897
Personal Allowances paid as part of Salary	2110300	54,590	344
Employer Contributions to Compulsory National Social Security Schemes	2120100	200	229
<b>TOTAL</b>		<b>189,982</b>	<b>159,470</b>



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<b>4 Use of goods and Services</b>			
<b>Item Description</b>	<b>Item Code</b>	<b>Current Period</b>	<b>Previous Period</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
Utilities, Supplies and Services	2210100	246	805
Communication, Supplies and Services	2210200	8,303	11,333
Domestic Travel and Subsistence, and Other Transportation Costs	2210300	20,386	15,024
Foreign Travel and Subsistence, and other transportation costs	2210400	4,283	2,197
Printing , Advertising and Information Supplies and Services	2210500	34,337	22,496
Rentals of Produced Assets	2210600	1,280	1,354
Training Expenses	2210700	12,074	9,173
Hospitality Supplies and Servi	2210800	10,191	10,025
Insurance Costs	2210900	28,704	23,150
Specialised Materials and Supp	2211000	1,434	1,473
Office and General Supplies and Services	2211100	6,899	10,905
Fuel Oil and Lubricants	2211200	3,152	3,393
Other Operating Expenses	2211300	8,656	4,980
Routine Maintenance - Vehicles	2220100	2,671	1,199
Routine Maintenance - Other Assets	2220200	1,718	2,176
<b>TOTAL</b>		<b>144,334</b>	<b>119,683</b>



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**5 Social Security Benefits**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Government Pension and Retirement Benefits	2710100	4,048	3,591
<b>TOTAL</b>		<b>4,048</b>	<b>3,591</b>

**6 Acquisition of Assets**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Refurbishment of Buildings	3110300	15,403	12,425
Purchase of Office Furniture and General Equipment	3111000	11,801	1,686
Purchase of Specialised Plant, Equipment and Machinery	3111100	3,248	9,854
<b>TOTAL</b>		<b>30,452</b>	<b>23,965</b>

**7A Bank Balances**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Recurrent Bank Accounts-CBK 1000181338	6530000	35,298	62,379
Deposit Bank Account-CBK-1000182369	6550000	3,973	2,493
<b>TOTAL</b>		<b>39,271</b>	<b>64,872</b>

**7B Cash Balances**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Cash in Hand	6580000	370	392
<b>TOTAL</b>		<b>370</b>	<b>392</b>



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**8 Accounts Receivables - Outstanding Imprest and Clearance Accounts**

<b>Item Description</b>	<b>Item Code</b>	<b>Current Period</b>	<b>Previous Period</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
Other Debtors & Pre-payments	6740000	470	658
<b>TOTAL</b>		<b>470</b>	<b>658</b>

**9. Accounts Payable**

<b>Item Description</b>	<b>Item code</b>	<b>Current Period</b>	<b>Previous Period</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
Other Liabilities	7320000	3,547	2,159
Deposits	7310000	451	334
<b>TOTAL</b>		<b>3,998</b>	<b>2,493</b>

**10. Fund balances brought forward**

<b>Item Description</b>	<b>Item Code</b>	<b>Current Period</b>	<b>Previous Period</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
Opening Balance Bank	9990101	64,872	42,612
Opening Balance-Cash	9990201	392	68
Opening Balance Receivables - Imprest and Clearance Accounts	9990301	658	234
Opening Balance - Deposits	9990401	-2,493	0
<b>TOTAL</b>		<b>63,429</b>	<b>42,914</b>

**11A. Changes in Receivables**

<b>Item Description</b>	<b>Item Code</b>	<b>Current Period</b>	<b>Previous Period</b>
		<b>Kshs '000'</b>	<b>Kshs '000'</b>
Receivables at the beginning of the Year		658	-
Changes during the Year		-188	658
<b>Receivables at the end of the Year</b>		<b>470</b>	<b>658</b>



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**11B. Changes in Payables**

Item Description	Item Code	Current Period	Previous Period
		Kshs '000'	Kshs '000'
Payables at the beginning of the Year		2,493	0
Changes during the Year		1,505	2,493
<b>Payables at the end of the Year</b>		<b>3,998</b>	<b>2,493</b>

This comprises of the increase /decrease in the accounts receivable and payables at the beginning and end of the year.

**12. Prepayment**

Name of Officer	Balance B/F	Amount Recovered	Balance C/F
	Kshs '000'	Kshs '000'	Kshs '000'
Dennis Okungu (Training Levy)	658	188	470

**Analysis of the Deposit Account**

Description	Current Period	Previous Period
	Kshs '000'	Kshs '000'
Retention –Fine Tops Enterprises	1,217	1,217
Retention –Specicom Technologies Ltd	497	497
Retention –Africa Management Solutions Ltd	132	132
Retention-Pong Agencies and Real Insurance	201	313
Commissions-payroll	76	14
Insurance Refund	311	311
AIA-Sale of Tender	39	9
Retention-Pekals Ltd	1,500	
<b>Total</b>	<b>3,973</b>	<b>2,493</b>

Monies received on behalf of other parties as retention have been captured as payables in the statement of the financial position.



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**XIV. ANNEX 1 – SUMMARY OF FIXED ASSET REGISTER**

<b>Asset class</b>	<b>Historical Cost Current Period Kshs '000'</b>	<b>Historical Cost Previous Period Kshs '000'</b>
Office equipment, furniture and fittings	7,297	1,686
ICT Equipment, Software and Other ICT Assets	7,462	9,854
<b>Total</b>	<b>14,759</b>	<b>11,540</b>