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TWELFTH PARLIAMENT (SIXTH SESSION)

THE SENATE

STANDING COMMITTEE ON FINANCE & BUDGET

REPORT ON THE EFFICACY OF INTEGRATED FINANCIAL  
MANAGEMENT INFORMATION SYSTEM (IFMIS) AND ITS APPLICATION IN  
DISBURSEMENT OF FUNDS

② cos

Recommended for  
approval for tabling

Clerk's Chamber,  
First Floor,  
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NAIROBI

Eg 14/06/2022

② Hon. Speaker

You may approve for  
tabling. M. Adji

14/6/22

June 2022

① DC E.G.

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## TABLE OF CONTENTS

<b>PREFACE</b> .....	3
<b>Mandate and Functions of the Committee</b> .....	3
<b>Membership of the Committee</b> .....	4
<b>ACKNOWLEDGMENTS</b> .....	9
<b>CHAPTER ONE</b> .....	10
<b>INTRODUCTION</b> .....	10
<b>Components of IFMIS</b> .....	10
<b>CHAPTER TWO</b> .....	12
<b>SUBMISSION BY STAKEHOLDERS</b> .....	12
<b>Submission by the Office of the Auditor General</b> .....	12
<b>Submission by the Office of the Controller of Budget</b> .....	23
<b>Submission by the Council of Governors</b> .....	26
<b>Submission/ Response by the National Treasury and Planning</b> .....	35
<b>CHAPTER THREE</b> .....	40
<b>COMMITTEE OBSERVATIONS AND RECOMMENDATIONS</b> .....	40
<b>Observations</b> .....	40
<b>Recommendations</b> .....	42

## PREFACE

### Mandate and Functions of the Committee

Article 124 of the Constitution of Kenya, provides for the establishment of Committees by either House of Parliament. Committees are central to the workings, roles and functions of Parliament as set out in Article 94 and more specifically in Article 96 of the Constitution as regards the Senate.

Parliamentary Committees consider policy issues, scrutinize the workings and expenditure of the national and county governments and examine proposals for legislation. The end result of any process in Committees is the report, which is tabled in the House for consideration.

The Standing Committee on Finance and Budget is established under Section 8(1) of the Public Finance Management, 2012 and Standing Order 218(3) of the Senate *Standing Order* and is mandated-

- a) *To investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to examine –*
  - i. *the Budget Policy Statement presented to the Senate;*
  - ii. *report on the Budget allocated to Constitutional Commissions and independent offices;*
  - iii. *the Division of Revenue Bill, County Allocation of Revenue Bill, and cash disbursement schedule for county governments.*
  - iv. *to consider all matters related to resolutions and Bills for appropriations, share of national revenue amongst the counties and all matters concerning the National Budget, including public finance and monetary policies and public debt, planning and development policy; and*
  
- b) *To pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments.*

## Membership of the Committee

The Standing Committee on Finance and Budget was constituted by the House on Thursday 14<sup>th</sup> December, 2017 during the First Session of the Twelfth Parliament. The Committee was later reconstituted on Wednesday, 24<sup>th</sup> June, 2020, during the Fourth Session of the Twelfth (12<sup>th</sup>) Parliament. The Committee as currently constituted, comprises the following Members-

1. Sen. Charles Kibiru, M.P. - Chairperson
2. Sen. (Dr.) Ochillo Ayacko, EGH, MP - Vice Chairperson
3. Sen. Wetang'ula Moses Masika, EGH, MP - Member
4. Sen. Mutula Kilonzo Junior, CBS, MP - Member
5. Sen. Aaron Cheruiyot, MP - Member
6. Sen. Kimani Wamatangi, MP - Member
7. Sen. Rose Nyamunga, CBS, MP - Member
8. ~~Sen. CPA Farhiya Haji, MBS, MP - Member~~
9. Sen. Millicent Omanga, MP - Member

Following frequent requests for statements by Senators on the Integrated Financial Management Information System (IFMIS) and its application in the disbursement of funds, the Committee resolved to undertake an investigation/inquiry on the efficacy of IFMIS. The statements sought include-

- a) Statement by Sen. Fatuma Dullo, MP, on consistent problems being experienced by Counties in the use of the Integrated Financial Information Management System.
- b) Statement by Sen. (Dr.) Agnes Zani, MP, on the Status of operationalization of IFMIS in the 47 counties.
- c) Statement by Sen. Petronilla Were Lokorio, MP, on efficacy of the Integrated Financial Management Information System (IFMIS) and its application in the disbursement of funds to counties.

IFMIS is a financial management system anchored under section 12 (1) (e) of the Public Finance Management (PFM) Act 2012, which necessitates the National Treasury to design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting as contemplated in Article 226 of the Constitution.

IFMIS is a key PFM reform initiative and an Oracle-based Enterprise Resource Planning (ERP) used at both the National and County levels of government. It was among many innovations introduced, designed to facilitate the government's ability to leverage on Information Technology (IT) to facilitate prudence in public financial management in 2003.

IFMIS is designed to provide a full cycle end-to-end integrated approach which covers the whole Public Finance Management Cycle of National and County governments as well as Ministries, Departments, and Agencies (MDAs).

The initial IFMIS implementation consisted of only three (3) modules: General Ledger, Purchase Order, and Accounts Payable. The upgraded IFMIS system comprises six (6) components namely-

- 1) Plan to Budget- Focuses on linking planning, policy objectives, and budget allocation.

- 2) Procure to Pay- Develops a fully integrated and automated supply chain management system and payment. The component manages the procurement plan, vote book, commitments, suppliers' portal, procurement process, and payment.
- 3) Revenue to Cash- Focuses on auto- reconciliation of revenue and payments.
- 4) Record to Report – Provides a means for the production of accurate statutory reports in real-time.
- 5) ICT to support – Provides user support for software, hardware, and infrastructure running the IFMIS system. There is an IFMIS department at the National Treasury headed by the Director who reports to the Director General, Accounting Services, and Quality Assurance.
- 6) Communicate to Change – Includes IFMIS Academy, which provides for capacity building and continuous learning for both new and existing users of IFMIS.

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IFMIS has been integrated with the i-Tax system from the Kenya Revenue Authority (KRA) and internet banking from the Central Bank of Kenya (CBK). The integration with CBK has enabled the government to pay directly from the MDA account held at the central bank to the payee account held in a commercial bank. However, there is need for integration between IFMIS and the systems used by the Office of the Auditor-General and the Office of the Controller of Budget for the purpose of statutory audits and reports.

The KRA integration has enabled suppliers to directly register their companies and business names in IFMIS after validating the data from KRA, do self-registration in the IFMIS system, and get their IFMIS numbers within two (2) hours

In considering the matter, the Committee held consultative meetings with, and received submissions from several stakeholders inclusive of-

- a) The National Treasury and Planning;
- b) The Office of the Auditor-General (OAG);
- c) The Governor, Central Bank of Kenya (CBK);
- d) The Office of the Controller of Budget (OCOB);
- e) The Council of Governors (CoG); and

f) The Institute of Certified Public Accountants of Kenya (ICPAK).

The Committee reviewed the submissions and noted several shortcomings concerning the operation of IFMIS that have made the system not to achieve its intended purpose. These shortcomings include-

- a) Inadequate link between different modules of the systems.
- b) Failure of integration with external systems.
- c) Accessibility of audit trail reports by Auditor-General.
- d) Effectiveness of the System in promoting Integrity and Elimination of Fraud.
- e) Insufficient safeguards towards Monitoring and Evaluation.
- f) Inadequate Internal Controls.
- g) Users can back-date transactions thus reducing the validity of real-time balances.
- h) Frequent downtimes.
- i) IFMIS fails to keep a record of assets acquired over time.
- j) Accessibility of information on Public Debt Monitoring.

The system, if optimally exploited and rolled out, can be instrumental in the prudent and transparent use of public resources through increased visibility of financial transactions by the Government. Additionally, integration with other government agencies enables cross-referencing of data which can greatly reduce any opportunities for fraud. The system aims at enhancing accountability and transparency, reforming the core PFM systems of budget formulation and execution, public procurement, and financial reporting.

Upon consultation, with the National Treasury, the Committee considered all the issues raised and made several recommendations among them-

- a) The Ministry of Information, Communication and Technology should extend ICT infrastructure/ NOFBI in all counties and sub-counties to mitigate the frequent outages experienced within the counties while using the IFMIS system.
- b) In order to ensure smooth operations, the National Treasury should continuously engage with IFMIS users at both national and county levels of government with

view of continuous capacity building on the upgrades that have been done on the system.

- c) The National Treasury should ensure IFMIS system has seamless integration with other systems operated by Kenya Revenue Authority, Controller of Budget and Office of the Auditor General. This will promote accountability and transparency for the purpose of integrity and elimination of fraud.
- d) The National Treasury should promote adherence to set guidelines on budgeting and reporting and ensure configurations of the IFMIS system does not permit the manual input of backdating transactions as previously been experienced.
- e) The National Treasury through Public Sector Accounting Standards Board (PSAB) should facilitate and ensure all the Ministries, Departments, Agencies and County governments adopt the accrual basis (or modified accrual basis) of accounting in order to promote accountability and reporting which is in harmony with the IFMIS.
- f) The National Treasury should ensure there is an interface between the system managing public debt and the system managing the projects financed by such funding. The system should as well be linked to the IFMIS.

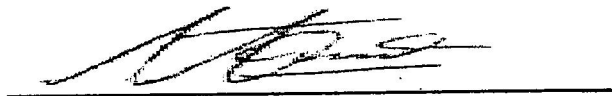
## ACKNOWLEDGMENTS

The Committee acknowledges the National Treasury, Governor of the Central Bank of Kenya, the Controller of Budget, the Office of the Auditor-General, the Council of Governors and the Institute of Certified Public Accountants of Kenya for their cooperation and contributions during the preparation of this report.

Furthermore, the Committee appreciates the Offices of the Speaker, the Clerk of the Senate, and the Parliamentary Budget Office, for the continued and steadfast support extended to it during the consideration of this Report.

It is now our pleasant duty, pursuant to Standing Order 232(2), to present the Report of the Standing Committee on the Status of Public Debt Stock in Kenya.

SIGNATURE: \_\_\_\_\_



**SEN. CHARLES KIBIRU, MP.**  
**(CHAIRPERSON, STANDING COMMITTEE ON FINANCE AND BUDGET)**

DATE: 9<sup>th</sup> June, 2022

# CHAPTER ONE

## INTRODUCTION

1. The Public Finance Management (PFM) Act, 2012, section 12(1)(e) requires the National Treasury to design and prescribe an efficient financial management system for both National and County Governments, to ensure transparent financial management and standard financial reporting as contemplated in Article 226 of the Constitution.
2. The Integrated Financial Management Information System is a financial management system anchored in law under section 12 (1) (e) of the Public Finance Management (PFM) Act 2012.
3. The National Treasury is mandated to ensure that operations of the system respect and promote the distinctiveness of the National and County levels of Government.
4. The financial management system (IFMIS) is an Oracle based Enterprise Resource Planning (ERP) and it is one of the key reforms in core public financial management systems of budget formulation and execution, public procurement and financial reporting. It was also adopted to mitigate the drawbacks of manual public management systems.
5. IFMIS was first launched in Kenya in 2003 although with limited modules. The three modules were General ledger, accounts payable and purchase order. It underwent several reengineering interventions in a bid to improve efficiency and effectiveness in public financial management and it currently has seven modules.

### Components of IFMIS

6. The system consists of the following modules-
  - a. Plan to Budget- focused on linking, planning, policy objectives and budget allocation,
  - b. Procure to Pay (P2P) - develops a fully integrated and automated supply chain management system and payment,
  - c. Revenue to Cash (R2C) - focuses on auto- reconciliation of revenue and payments,

- d. Record to Report (R2R) – provides a means to the production of accurate statutory reports in real time,
- e. ICT to support – provides user support for software, hardware and infrastructure running the IFMIS system; and
- f. Communicate to change – includes IFMIS Academy, which provides for capacity building and continuous learning for both new and existing users of IFMIS.

### **Key issues of concern**

- 7. Despite the long period the system has been in use within both levels of government, there has been some lingering issues that have made the financial management system not as efficient as it is intended to be. These include-
  - a) Inadequate Link between different modules of the system;
  - b) Failure of integration with external systems;
  - c) Accessibility of audit trail reports by Auditor General;
  - d) Effectiveness of the system in promoting integrity and elimination of fraud;
  - e) Insufficient safeguards towards monitoring and evaluation;
  - f) Inadequate internal controls; and
  - g) Accessibility of information on Public Debt.

## CHAPTER TWO

### SUBMISSION BY STAKEHOLDERS

This chapter presents the views and recommendations from various stakeholders-

#### **Submission by the Office of the Auditor General**

The Auditor-General appeared before the Committee and presented as follows-

8. That the Office of the Auditor-General was both a user and the Auditor of the system, in addition to interacting with the system while carrying out statutory audits of the entities using the system both at the National and County Governments levels. The Office of the Auditor-General carried out audits on the system and the information generated from the system. Their memorandum was therefore based on their experience as users as well as auditors of the system.

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#### **The Linkage between different Modules of the System**

9. IFMIS had six (6) components as follows-

##### **A) Plan to Budget**

10. The component was focused on linking planning, policy objectives and budget allocation. The budget was captured in a different system called Hyperion as per the approved budget policy statement as line items which were aggregated by the system into individual programmes and sub-programmes. Budget ceilings for each of the various categories of expenditure (Personnel Emoluments, Use of Goods, Development, Strategic Interventions) were used as a control. The Hyperion system fed the budget into IFMIS.
11. The budgeting module was an effective way of capturing and aggregating all budgets at MDAs, County, or National levels.

#### **Strengths of Plan to budget module**

- a) There was an automated interface between Hyperion and IFMIS;
- b) The Hyperion system did not allow arbitrary adjustments of the budget;

- c) It was open for a limited time period. The Hyperion system would be locked after budget/supplementary budget preparation period and thus it was not open for manipulation; and
- d) This component was linked to all the other components and the General Ledger.

### **Weaknesses of Plan to budget module**

- a) Weak budgetary controls allowing users to override controls. This is due to the following-
  - i. The Chart of Accounts setup at the budgeting level can be overridden during payment process.
  - ii. Users can circumvent controls by selecting control accounts (below-the-line accounts) instead of selecting expense accounts.
- b) There have been cases of users preparing budgets outside the Hyperion System using applications such as MS-Excel and later re-input the same in Hyperion after the Appropriation Bills are passed. This was prone to errors.

### **B) Procure to Pay**

12. This component was focused on developing a fully integrated and automated supply chain management system and payment. All procurements beyond low-value procurements should be processed through IFMIS. The component manages the procurement plan, vote book, commitments, suppliers' portal, procurement process, and payment.

### **Strengths of Procure to pay module**

- a) Suppliers were in a position to bid and submit their documents electronically;
- b) Procurements were pegged on availability of budget;
- c) Budget commitments were made at the requisition's approval stage therefore it could not commit beyond what was budgeted;
- d) Budget allocation can only be accessed via the County Revenue Fund CBK account; and

- e) The Central Bank account can only be accessed through Internet Banking (IB) which only allows transactions from IFMIS.

#### **Weaknesses of Procure to pay module**

- a) Manual link with the Controller of Budget approval process for counties;
- b) At the county level, the e-procurement module was not fully utilized as not all procurements were raised in the system. Users applied a combination of manual and automated procurement workflow. This had led to users being able to commit more than what was approved in the procurement plan;
- c) Users can make commitments for procurements to below-the-line accounts such as imprests, salaries and general suspense. That could lead to overspending of the budget when those commitments crystallize into expenditures; and
- d) Users may exploit the system controls by choosing which supplier to pay selectively and make payments to suppliers despite approval of pay and funds availability. This was also extended to making payments in CBK Internet Banking. This has led to creation of pending bills.

#### **C) Revenue to Cash**

13. This component focused on auto-reconciliation of revenue and payments.

#### **Strengths of Revenue to Cash module**

- a) Bank reconciliation process was automated.

#### **Weaknesses of Revenue to Cash module**

- a) In counties, IFMIS was used to only report historical information instead of being used at point of collection of revenue. It relied on information from external revenue collection systems, and therefore was prone to errors, fraud and non-disclosure of revenue; and
- b) IFMIS did not allow disaggregation of revenue into various revenue streams as collected by the third-party systems making tracking difficult.

## **D) Record to Report**

14. The component focused on providing a means to the production of accurate statutory reports in real-time.

### **Strengths of Record to Report module**

- a) Financial statements could be generated from the system;
- b) Financial statements templates were aligned to the requirements of the Public Sector Accounting Standards Board; and
- c) There was a standardized and uniform reporting.

### **Weaknesses of Record to Report module**

- a) The system was designed for accrual accounting. Therefore, it had to be customized to accommodate the cash basis of accounting. Critically, essential information such as payables and assets could not be generated by the system;
- b) Users can back-date transactions thus reducing the validity of real time balances;
- c) Closing balances in IFMIS varied with the CBK Internet Banking balances. That resulted to large variances between financial statements prepared by counties and records generated from the IFMIS system;
- d) Ability to adjust balances for prior financial periods had led to poor data validity in relation to reported balances; and
- e) Off-IFMIS transactions/expenditures were not recorded in IFMIS rendering financial statements inaccurate. This had been observed over the years, where entities processed transactions off IFMIS.

## **E) ICT to Support**

15. The component was focused on providing user support for software, hardware and infrastructure running the IFMIS system. There was a dedicated IFMIS Department headed by a Director who reported to the Director General, Accounting Services and Quality Assurance at the National Treasury.

## **F) Communicate to Change**

16. The component included the IFMIS Academy, which provided capacity building and continuous learning for new and existing users of IFMIS.

## **G) Other Components**

17. There were two (2) important components that had not been rolled out-

- a) Inventory and Asset Management
- b) Human Resource Management

## **Linkage to Other External Systems**

18. One of the main advantages of IFMIS was its scalability and therefore could be interfaced with other systems. IFMIS was at the time integrated with the following external systems-

### **(i) KRA Integrated Tax Management System (i-Tax)**

19. The integration has enabled withholding of taxes and the automated generation of withholding certificates for suppliers in the national and county levels of government and posting in the suppliers' ledger. This has provided an opportunity for streamlining and enforcing tax payments and compliance by suppliers.

### **(ii) Central Bank Internet Banking (IB)**

20. This was intended to provide a secure two-way interface with CBK for accurate, up to date information on the GOK financial position and the production of real time statutory reports.

## **Strengths of linkage to Central Bank Internet Banking**

- a) Eliminated cash and cheque payments in government;
- b) Enabled the government to pay directly from the MDA account held at the Central Bank to the payee account held in commercial banks; and
- c) Secure money transfers.

## **Weaknesses of linkage to Central Bank Internet Banking**

There was only a secure one-way interface with CBK (IFMIS to IB).

## **The Ability to Access Various Real Time Reports**

### **21. Strengths**

- a) The system generated various reports depending on a user's role or responsibility.
- b) Some reports such as budgets and commitments were real time.
- c) The Office of Auditor-General was able to access various reports, which the OAG considered key in providing financial audit data. These included procurement plans, appropriation accounts, LPOs, invoice registers, payment details, among others.

### **22. Weaknesses**

- a) There are very many reports that can be generated by the system and users need to be educated on what information was on which report.
- b) Reports on revenue and expenditures were not real time due to the one-way interface with CBK Internet Banking and manual recording of revenue. This required updating through the bank reconciliation process.

## **Accessibility of Audit Trail Reports**

23. The system had the ability to keep an audit trail and a log of users' activities. Auditors granted rights to generate reports can also query the system and keep track of users' activities. The audit trails could not be edited or erased by users.

## **Weaknesses**

24. Purchase Orders to Invoices - Vendor Invoices should be processed against the issued purchase orders. However, not all the vendor invoices were matched against the LPOs so as to track what was ordered and what had been invoiced. This cast doubt on the integrity of the system in processing these transactions, which could be attributed to either non-configuration of the system or deliberate failure to have a proper audit trail.

25. Invoices to Payments - There was no clear audit trail of which invoices were paid in IFMIS despite the invoices being captured and an invoices register being maintained. Payments made to vendors could not be reliably matched to a specific invoice processed in the system. In addition, it was difficult to estimate the pending bills (in terms of unpaid invoices) from the system.

### **Effectiveness of the System in Promoting Integrity and Elimination of Fraud**

26. IFMIS was a good system for promoting integrity and minimizing fraud. However, some counties had continued to maintain manual records and ledgers even when they were required to process all transactions and generate financial reports using IFMIS.

### **Strengths of the IFMIS System in promoting integrity and elimination of fraud**

- a) It keeps a permanent record of users' activities and transactions and therefore is a good means of deterring fraud;
- b) Has allowed segregation of duties ensuring transactions are processed by multiple users at different stages;
- c) Has allowed supplier self-definition eliminating the possibility of one supplier being defined multiple times by different MDAs and Counties;
- d) Automated processes from procurement to payment;
- e) The system is configured to only operate from specific computers; and
- f) Flexible and can be accessed from anywhere using a VPN and at designated times.

### **Weaknesses of the IFMIS System in promoting integrity and elimination of fraud**

- a) The system was not used for revenue collection, thereby introducing manual recording and posting which is prone to abuse. We have also noted instances of revenue being used at source;
- b) i-Supplier portal has the ability of the suppliers to create invoices and view the status of their invoices (which is not activated) this feature would enhance integrity of the system and minimize entity-to-vendor interactions, which may have an impact in reducing fraud and collusion;

- c) The opportunity to introduce Below-The-Line transactions at the invoicing stage remains vulnerable because it is possible to process supplier payments by avoiding the procurement process;
- d) Backdating of transactions is still possible which may allow users to hide fraudulent entries;
- e) Data Integrity Issues in Vendor Master Data - The vendor information maintained in IFMIS had data integrity issues including duplicate vendor names and vendors with more than one supplier number. This was an indication that the vendor creation was decentralized even within the same entity and there was need to conduct data cleaning of the master data;
- f) Budgetary control configuration had three set-ups; absolute, advisory and none. In most entities, the budgetary control setting was advisory thus, the system did not ensure adherence to the budgetary ceilings. An absolute level of control for all entities would ensure that expenditures was within the stipulated budgets;
- g) Like any good system, it could be manipulated through collusion;
- h) Allowed for idle users to remain active in the system. They could be used to effect fraudulent transactions; and
- i) Allowed weak passwords which could be decrypted easily.

### **The Efficiency of Backups in Cases of System Malfunctions**

27. The National Treasury had put in place an effective disaster recovery system which included a backup function. This enabled efficient and effective recovery in case of system malfunction or disaster.

28. However, frequent downtimes occurred especially during the close of the financial year indicating that it could be done deliberately at the point of control.

### **Recommendations by the OAG**

The OAG proposed the following recommendations to improve efficacy of IFMIS-

29. Migration to Accrual Basis of Accounting -the Government should adopt accrual basis of accounting. This was critical to the accountability process and would inform Government decision-making from a whole-of-government perspective. It would also assist the Government in providing a comprehensive account of the use of resources and the assets and liabilities belonging to various entities. This would-

- a) Eliminate pending bills;
- b) Eliminate reflection of commitments in financial statements and backdating of transactions;
- c) Provide real time reports as below-the-line ledger will be non-existent; and
- d) Provide a clear picture of how well government entities were performing.

30. The Public Sector Accounting Standards Board (PSASB)- the PSASB needed to be urgently reconstituted to enable the process of development reviewing and updating relevant accounting standards, reporting templates and guidelines to ensure the PFM reform agenda was not derailed and to guide optimal use of IFMIS. That would enable enhanced financial accountability as the Government moved to adopting accrual accounting.

31. Enabling Unutilized Components-The National Treasury had gazetted the National Assets and Liabilities Management Policy. That would provide an opportunity to enable the Inventory and Asset Management module. It would also enable tracking of assets and inventory for enhanced transparency and accountability. Other unutilized components should also be activated for optimal use of the system.

32. Enhance Vote Book Control- Payments should be clearly locked to the budget through the vote book. That would enhance implementation of budgeting by programmes and sub-programmes.

33. Proper system configuration to limit manual interventions and ensure continuous use of the system by the entities.

**Submission by the Central Bank of Kenya**

The Governor of the Central Bank of Kenya appeared before the Committee and submitted as follows-

34. The Central Bank of Kenya was not a user of the IFMIS per se. The linkage between CBK and IFMIS was through a secure connectivity/interface using CBK's Internet Banking (IB) platform which was CBK's core Banking system to facilitate transmission of payment instructions for both national and county governments from IFMIS in line with its mandate as a Banker to Government. The submission was therefore based on the role of CBK in Government payments within its systems and processes which did not include IFMIS.

### **Role of CBK in county payments and disbursement of funds**

35. CBK was the banker to the Government and maintained various bank accounts for National Government -Ministries, Departments and Agencies (MDAs) through National Treasury (NT) and County Governments through the county treasuries.

36. Main types of Accounts maintained by CBK include-

- a) National Government- the Consolidated Fund Account (Exchequer) operated by National Treasury and Operational Accounts for each individual MDAs (Recurrent, Development and Deposit *Et cetera*).
- b) For counties- the County Revenue Fund (CRF) Account and Operational Accounts (Recurrent, Development and Deposit *Et cetera*) operated by the County Executive Committee Member for Finance (CECM-F/County Treasury). That included the County Assembly accounts as well.

37. Payment Processes/County Disbursement of Funds

#### **a) Leg 1- funding sharable Revenue for Counties**

The National Treasury periodically funded counties from the exchequer to the individual county CRFs. The process was such that National Treasury issued instructions to CBK to debit the Exchequer Account and credit respective County CRFs. that instruction (treasury Order) was accompanied by Controller

of Budget (COB) Grant of Credit approval, which was a requirement of the law for CBK to sight before processing the instruction. The process was manual and did not involve IFMIS.

**b) Leg 2- Spending by Counties**

For counties to spend, they had to seek authority of the COB to move funds from their respective CRFs to the Operational accounts (Recurrent, Development *Et cetera*) all maintained at CBK.

CBK required the CECM-F as the mandate holder of county accounts at CBK to provide the instruction (Treasury Order) accompanied by COBs Grant of Credit. The process was also manual and was done outside of IFMIS.

**c) Leg 3- Payments by Counties**

Counties initiated payment requisitions in IFMIS for disbursements to various third parties. Once requisition was approved in IFMIS to CBKs IB platform for processing of payments from the county operational accounts at CBK, authorized county officials would log into IB and approve those payment items, which were then processed through the CBK's RTGS (KEPSS) to respective recipient commercial banks for accounts beneficiaries.

38. The MDAs or counties had exclusive mandate for the initiation, verification and approval of payments in both the IFMIS and IB systems. The CBK had no capability of amending any transactions as the files received from IFMIS into IB were encrypted. The role of CBK in the payment process was to provide a secure platform through which payments approved by the MDAs and County Governments in IFMIS were transmitted to Commercial Banks.

39. CBK interventions in the Payment Process- the CBK in certain instances could be require to intervene in the payment process as outlined below-

- a) In case a Ministry or county realized that they had made an erroneous payment, they would request CBK, in writing or email, to recall the funds from the

Commercial bank. The CBK would then execute the recall instructions to the commercial bank and await the return of the funds that were directly credited to the respective ministry or county account.

- b) Where a Commercial bank suspects the authenticity of a payment that had been received in its client's account from a ministry or County, it would in writing request the CBK to obtain the confirmation. CBK would in turn write to the Ministry or County with a copy to the Director General Accounting Services National Treasury and request for confirmation of the payment, complete with all supporting documents. Once obtained, the same would be communicated to the commercial bank to enable them complete the processing of the payment.
- c) CBK also supported investigation agencies to provide information that could be required with regard to payments made by MDAs or County Governments' subject to obtaining Court Orders. In such cases, the CBK only provided information on transactions effected by the above, from the system by providing details of the dates when payments were made, the specific amounts involved, details of the remitting entities and recipients of funds. That information would be obtained from the system audit trails and could not be altered in any way.

40. Challenges of the current processes- the CBK, National Treasury and OCOB had recognized the need to improve the above processes in Leg 1 and Leg 2 which besides being cumbersome and inefficient portended numerous risks. The three entities were at an advanced stage of automating those two Legs and to put them to IFMIS. Automation would enhance system security standards and minimize inherent risks, improve efficiency, minimize operational costs and avail online/real-time information and reports to users thereby streamlining the funding process for counties.

#### **Submission by the Office of the Controller of Budget**

The Controller of Budget appeared before the Committee and highlighted the following challenges faced by National and County Government entities-

- 41. Delay in uploading budgets and procurement plans which was occasioned by delay in defining user responsibilities at the start of the financial year. This resulted in delay in

disbursement of development funds into IFMIS and resulted in low absorption of funds affecting budget implementation. Although the modules were defined, linkage should be done on time to enable timely implementation of the planned activities.

42. Allowing capture of negative budget amounts, negative commitment and negative expenditure- This led to negative vote balances. Further, the system allowed reallocations from line items which had already been spent (incurred expenditure) during the supplementary budget. This should not be allowed.
43. IFMIS allowed overdrawing of votes, both programmes and sub-programmes such that expenditure exceeded the budget. That had also been witnessed during supplementary budgets where budget cuts were affected across at a given percentage subsequently resulting in overdrawing of some votes. To overcome this, expenditure and budget should be linked such that it cannot exceed budget and funds available for a given activity.
44. Below the line expenditure- IFMIS allowed payment of activities not budgeted for under the “below the line” default account provision. OCOB had noted that that was necessary to allow expenditure during emergencies and where there may be insufficient budget allocation but should be regularized through supplementary budget. However, experience showed that that provision was misused and had led to incorrect reporting. Therefore, the provision should be controlled to avoid misuse.
45. The system allowed posting of past transactions. There was no defined cut-off time for closure of posting of past transactions. This implied that financial reports kept on changing and therefore affected the credibility of reporting.
46. MDAs and County Governments took time to reconcile IFMIS data at the end of the month and such data could not be accurate until reconciliation was finalized. To ensure accuracy in data, data should be updated and reconciled on a daily basis to ensure data generated at a given time was accurate.
47. The Revenue module was not fully developed and linked to the budget, procurement and payment function of IFMIS. However, the system should not allow complete payment when no cash was available.

48. Counties had developed and procured their own revenue systems which were not linked to IFMIS. There was need to allow for data exchange with IFMIS.
49. Asset register was not fully developed in IFMIS. The system should keep records of Assets acquired by the government over time and not just in one financial year.
50. Chart of Accounts should be improved to capture programmes definition by respective county governments. The system should recognize those unique programmes to certain counties.
51. Geographical location codes needed to include Ward Level and/or Village Level. Not just the default "County Wide".
52. The system did not link budget estimates to approved planning documents such as Vision 2030, CIDP, BPS, ADP, CFSP etc.
53. IFMIS did not report pending bills. That was despite procurement, payments and commitments being processed through the system.
54. IFMIS did not report on projects implementation status and on non-financial performance. Projects being implemented and non-financial modules should be developed and linked to IFMIS to ensure transparency and accountability in the budget implementation.
55. The system did not capture exchequer issues to spending entities. This therefore implied that there was no tracking of exchequer issues against payments made.
56. Exchequer release was manual and not linked to IFMIS. When approving exchequer requests, submission was done manually and not pegged on the actual expenditure in the System. Exchequer release should be linked to the IFMIS and should be real time to avoid double funding of a budget line.
57. Public debt was run on an independent system which was only accessible to specific defined personnel. There should be an interface such that public debt expenditure could be accessed through IFMIS.
58. IPPD was not linked to IFMIS and there was a need to link the two systems for timely reporting and to promote transparency.

59. System availability- on various occasions, IFMIS had been unavailable to users while sometimes, it was slow and did not allow processing of transactions.
60. Control of some modules by IFMIS Directorate to bar access to budget execution information. For example, when reporting, data drilling access was blocked such that one cannot get details for specific payments. This was seen as a deliberate move by the IFMIS Directorate to bar access to some expenditure by spending entities.
61. User Management-Users had experienced delays in reset of login passwords through the online platform (emails).

### **Submission by the Council of Governors**

In their submission, CoG highlighted the following-

#### **Linkage between different modules of the system-**

62. The Programme Based Budgeting system was not fully configured with County Specific economic items codes. That led to County Governments having to create new economic items in the Hyperion model in the budgeting stage. That did not always update in the system leading to loss or incorrect data.
63. There were challenges in uploading and transmitting payments to Internet Banking (IB) as a result of downtime on either side of systems. That often led to transactions not appearing on the Internet Banking side for payment.
64. Transactions could not complete without KRA validation. In most cases when running the electronic fund transfer (eft) transactions failed to go through due to downtime on Kenya Revenue Authority system leading to delays in uploading of transactions to IB.
65. Tax codes configured in IFMIS were not up to date. In the event one was processing a payment that contained a tax code that was not already in the system, one needed to follow up with the National Treasury to input the code manually leading to undue delay.
66. Recommendation: there was need to update different modules with updated codes.

#### **Ability to access various real time reports**

67. Due to gaps in configuration of different modules, a number of reports did not give real time data. This included the payment detail report due to lack of integration between IB and IFMIS.
68. IFMIS generated reports as per the templates in the standard financial Statements (PSASB) with aggregate expenditure. Templates prescribed by COB could differ with PSASB templates. There were discrepancies between the data captured in IFMIS and data generated by counties through work plans.
69. Since the P2B module was an extension of IFMIS, data gaps were also reflected in the General Ledger (GL), making it difficult for cashiers or OCOB to make informed approvals and track budget implementation.
70. General Ledger -vote books did not indicate the interventions, location nor the target of the projects implemented. The title and details only showed the lumped resource requirements for all projects which made it very difficult to automatically control or monitor during payment.
71. Only a few of the Work Plan details were captured via Hyperion. The finance and accounting departments were unable to distinctly tell what intervention/activity they were paying for. They could also not tell the outstanding balance as per the programmed interventions. Vote book reports printed from IFMIS would indicate monies had been spent but the planned activities as per the entity work plans remained unimplemented.
72. Recommendation: Integration with other modules within and out of IFMIS system.
73. Other Issues of concern included-
- a) Connectivity issues
  - b) Frequent and prolonged downtime especially towards the end of the financial year.
74. Recommendation- The number of servers to be increased and spread out across the Country. Further, the capacity of servers should be enhanced to avoid downtime when the number of concurrent users increases.

**Submission by the Institute of Certified Public Accountants of Kenya (ICPAK)**

75. ICPAK appeared before the Committee and highlighted the following observations on the challenges of IFMIS and proposed recommendations-

	<b>Thematic Area</b>	<b>Weaknesses</b>	<b>Recommendations</b>
1.	<b>Human Resource factors.</b>	a) Shortage of skilled managers and staff to run IFMIS b) Lack of continuous capacity building for users of the system.	<ol style="list-style-type: none"> <li>1. Put in place a framework to employ skilled staff to oversee the projects; these include economists to advise on the impact of projects, accountants and IT experts to assist both at county and national levels.</li> <li>2. Identify the users of the IFMIS system and continuously improve their level of knowledge on the system and train them from time to time on how to get the best from the system.</li> <li>3. Establish an organizational unit within government and staff it with employees paid at special market-based salary scales (for external personnel and qualified civil servants) to attract professionals on long-term contracts</li> <li>4. Hire the technical skills directly from the market on year-to-year contracts and manage them through regular, mainstreamed civil servants.</li> <li>5. Outsource the systems technical maintenance and operation to</li> </ol>

			specialized firms.
2.	<b>Internal Controls and System Security</b>	<p>a) The system allows for two imprests at the same time to an individual even when the first one has not been surrendered.</p> <p>b) Incomplete listing of outstanding imprests.</p> <p>c) The auto-reconciliation submodule not functional leading to delays in imprest surrender and incorrect financial statement.</p>	<ol style="list-style-type: none"> <li>1. Enhance systematic controls to curb abuse and corruption relating to imprests.</li> <li>2. Synchronize imprest management and centralize payments through the IFMIS system</li> </ol>
		<p>a) Rates of per diem to staff were not pre-defined on the system which resulted in over or under payment of staff.</p> <p>b) Lack of a system calendar to track travel history of individuals resulting in double payments without the system detection.</p> <p>c) Some employees were defined more than once in the system which could</p>	<ol style="list-style-type: none"> <li>1. Integrate staff personal data (job group department and scale), payroll and per diem management with IFMIS.</li> <li>2. IFMIS should be integrated with each county's banking platform.</li> <li>3. No payment should be done until journal entries are made and proper accounting is done.</li> </ol>

		result in misappropriation of funds.	
		<p>a) Default code below the line items did not affect the vote book. Government funds were misappropriated using the default code 00000000000000</p> <p>b) Lack of input in the fixed asset register which would help track fictitious payments.</p> <p>c) There was no feature to customize a report to the specific user needs.</p> <p>d) There was an issue with fraud. IFMIS operators were awarding tenders to themselves and not delivering on the work.</p> <p>e) Variances between IFMIS budget execution report and figures in the financial statements.</p>	<ol style="list-style-type: none"> <li>1. The default code 00000000000000 should be done away with as it gave users the ability to spend over the budget and other opportunities for pilferage.</li> <li>2. The county asset register should be added to the system so as to facilitate accurate procurement.</li> <li>3. The entire system needed to be secured from unauthorized access through the use of password controls and other appropriate information security protocols.</li> <li>4. Internal audit departments should be involved in system design, to ensure that appropriate internal control strategy is embedded in the systems design including appropriate controls and reports.</li> <li>5. There was need to synchronize the IFMIS generated reports and actual spending.</li> </ol>
3.	Technological	a) There was concern on poor/no internet	1. Standardize the level of ICT infrastructure in the respective state

	factors.	<p>connectivity in many areas across the country hindering effective utilization of the system.</p> <p>b) Frequent system outage affected seamless working of the system.</p> <p>c) With the existing hardware and software, most of the counties could not handle revenue collection using IFMIS.</p> <p>d) Other modules such as the direct procurement module were yet to be developed.</p> <p>e) Full integration with third party systems e.g. revenue collection system and the payroll system had also not been achieved which did not allow counties to realize the full potential of the system.</p>	<p>agencies and county government receiving the funds</p> <p>2. There was need for a multi-sectoral approach to manage the system such as the National Treasury (Director-IFMIS), Ministry of ICT and the Ministry of Interior (which was the line ministry responsible for the Computer Misuse and Cybercrimes Act) working together to have stable internet supply and to continuously monitor and upgrade the system and safeguard it against cyber related crimes.</p> <p>3. Develop the remaining modules such as; revenue collection, payroll (IPPD) and the direct procurement module.</p> <p>4. Integration of IFMIS with; KRA i-Tax &amp; Tax Invoice Management System (TIMS), National Land Information Management System (Ardhisasa) Electronic Project Management Information System, Pension Management Information System (PMIS), Government Human Resource Information System (GHRIS) among others.</p>
4.	<b>Policy and</b>	The Data Protection Act, 2019	1. Ensure compliance with the Data Protection Act, 2019 and attendant

<p><b>Regulatory -Data Protection Act, 2019</b></p>	<p>requires a Data Protection Impact Statement be done where processing of personal data may result to significant breach of an individual’s rights and freedoms for purposes of Risk identification and mitigation thereof.</p> <p>In addition, the IFMIS system was an automated system which could result to data breaches including</p>	<p>Regulations.</p> <ol style="list-style-type: none"> <li>2. The system should allow for backup and storage of data up to requisite years permissible by law.</li> <li>3. There was need for the Ministry to formulate an IFMIS Data Protection Policy in line with the Data Protection Act, 2019.</li> <li>4. Designation or appointment of Data Protection Officer(s) for the IFMIS system in line with section 24 of the Act.</li> </ol>
	<p>profiling individuals hence there was need to ensure that a decision against an individual was not solely based on the automated process(profiling) and other avenues for human intervention were provided and safeguarded. (Refer to sections 2 and 35 of the Data Protection Act on the definition of profiling and automated decision making, respectively.)</p> <p>There was need to have the server of the system located within Kenya or its serving copy as provided under section 50 of the</p>	

		Data Protection Act, 2019.	
6.	<b>Political will</b>	There has been resistance from users, perceived sabotage and deliberate disregard of control mechanisms during implementation.	<ol style="list-style-type: none"> <li>1. Strengthen the approval role of the Controller of Budget and the oversight role of the internal audit function, audit committees, and the County Assembly in the implementation of IFMIS.</li> <li>2. Senate should push for implementation of the Controller of Budget and Auditor General's recommendations on IFMIS.</li> <li>3. Legislatures – Parliament and County Assemblies should be capacity built to focus on public expenditure management, public sector budgeting internal audit and risk management among other important public finance tenets.</li> <li>4. Review the penalty and sanctions regime on the Public Finance Management Act on the violators of IFMIS requirements.</li> <li>5. The levels of bureaucracy in decision making should be minimized as this delays making payments and budget implementation.</li> </ol>
7.	<b>Budget Approval</b>	Delay of disbursement of funds by the National Treasury had hampered effective budget	<ol style="list-style-type: none"> <li>1. Procedures for budget release and warrants should be improved so that allocations are available for</li> </ol>

	<b>and Exchequer Releases</b>	implementation in line with procurement plans and cash flow projections by spending units.	<p>implementation of respective programs and subprograms to start from the first day of the new fiscal year. (Ensure timely release of funds to spending units)</p> <p>2. Revenue forecasting should be based on ambitious but attainable revenue projections to deal with aspects of shortfalls that affected disbursements to spending units.</p>
<b>8.</b>	<b>Corruption</b>	Facilitated corruption through the system such as inflation of tender prices for approved county projects was also having serious challenges to the system.	Public Procurement Regulatory Authority (PPRA) guiding ceilings and market surveys should be incorporated in the IFMIS system for standardized purchases.
<b>9.</b>	<b>Enforcement</b>	The application of the Computer Misuse and Cybercrimes Act.	<p>The Computer Misuse and Cybercrimes Act was intended to curb white collar crime which the IFMIS system was prone to.</p> <p>The prosecution of offenses or breaches under the Act would increase the compliance with the provisions of the Act.</p>

## **Submission/ Response by the National Treasury and Planning**

76. The Committee, having met stakeholders and deliberated on the efficacy of IFMIS in the disbursement of funds noted the following shortcomings concerning the operation of IFMIS-

- a) Inadequate link between different modules of the systems.
- b) Failure of integration with external systems.
- c) Accessibility of audit trail reports by Auditor-General.
- d) Effectiveness of the System in promoting integrity and elimination of fraud.
- e) Insufficient safeguards towards Monitoring and Evaluation.
- f) Inadequate Internal Controls.
- g) Users can back-date transactions thus reducing the validity of real time balances.
- h) Frequent downtimes.
- i) IFMIS failed to keep a record of assets acquired over time.
- j) Accessibility of information on Public Debt Monitoring.

77. The Committee, therefore, resolved to invite the National Treasury to respond to the issues raised on the Integrated Financial Management Information System and its application. In its response, the National Treasury stated as follows-

### **(i) Linkages of IFMIS Modules**

78. Integrated Financial Management and Information System (IFMIS) system is an integrated system prescribed by the National Treasury, in line with Section 12 (e) of the PFM Act, 2012 for use by both the National and County Governments. It had the following modules-

- a) Planning and budgeting.
- b) Account payables.
- c) Account Receivables.
- d) General Ledger.
- e) Cash management.
- f) Purchasing.

g) i-procurement.

79. The system supported the end-to-end PFM cycle from planning and budgeting, budget execution (expenditure), accounting and reporting through the above modules which were interlinked by workflows. In addition, the system allowed interaction with government suppliers through the Kenya Suppliers Portal where suppliers were able to receive and respond to Government tenders.

#### **(ii) Integration with external systems**

80. IFMIS was integrated with external systems such as KRA's i-tax and CBK's Internet Banking. The integrations were enabled through a middleware that had the ability to connect to any other PFM system. The integration with KRA had enabled suppliers to do self-registration on the IFMIS system. The suppliers were also able to get their IFMIS numbers within two hours. It had also enabled validation of supplier's PIN numbers in IFMIS ensuring that relevant taxes were attached to suppliers' payments. The integration with CBK had enabled electronic payment for services rendered to the government.

#### **(iii) Accessibility of Reports by the Auditor-General**

81. The Auditor General's office had been given access to the system to enable them undertake audits of the MDAs and counties. The OAG officers relied on the reports from the system for comparison of books of accounts maintained by the entities. While a number of entities still had differences between their books and the IFMIS reports, the National Treasury had continued to build capacity for the entities to do the required accounting procedures in IFMIS in order to generate accurate financial reports.

#### **(iv) Effectiveness of IFMIS in promoting Integrity and elimination of fraud**

82. The IFMIS system maintained audit trails for all transactions, including details of the user, their IP address and transaction time. That enabled the various investigative bodies such as DCI, EACC and KRA to mine data from IFMIS for purposes of investigations as well as evidence gathering when prosecuting economic crimes. The National

Treasury had given access and trained officers from those bodies on the use of IFMIS. In addition, whenever called upon, the National Treasury provided officers to give expert evidence in court with regard to data generated from IFMIS.

**(v) Safeguards toward Monitoring and Evaluation**

83. Function of coordinating monitoring and evaluation for all government policies, programmes and projects domiciled in the State Department of Planning. The IFMIS system provided financial reports on projects' implementation but did not maintain the qualitative metrics for M&E.
84. For the IFMIS programme, the IFMIS department had established a Project management Office (PMO) which was charged with the responsibility of monitoring compliance with project management standards and procedures. The PMO also coordinated project closure to distill best practices and ensure documentation of lessons learnt. The Auditor General's Office also conducted special audits of the system periodically and provided recommendations for improving the system. The National Treasury also engaged consultants to provide quality assurance on IFMIS.

**(vi) Internal controls**

85. IFMIS provided for segregation of duties (between planning, budget, procurement, pay and accounts), separation of roles implemented through approval hierarchies and separation of ledgers for the different counties. Within the functional areas, there was further segregation of duties such that different officers were involved at different stages of processing a transaction. The officers were provided with a personal username and password and an audit trail was maintained for all transactions.
86. The National Treasury had also invested in the security infrastructure with real time monitoring of their networks and the systems to ensure there was no unauthorized access.

**(vii) Backdating of transactions**

87. IFMIS systems as configured did not allow backdating of transactions. The issue was flagged out in a past special audit and had since been resolved. However, the National Treasury during year-end may allow a window of backdating transaction to June to enable entities finalize accounting procedures and capture expenditure relating to the fiscal year. Backdating could also be occasioned by the second supplementary budget being passed by the National Assembly late in the fiscal year.

**(viii) IFMIS Downtime**

88. The National Treasury had over time invested a lot of resources on the IFMIS infrastructure such as acquisition of new servers and establishment of Disaster Recovery site which was completed in 2019. That had ensured higher availability of the system; over the last 3-4 years they had not had any major system outage. The National Treasury had noted that some entities, especially counties did not have proper ICT Infrastructure and therefore connectivity to the system was not stable. To address this, they had provided VPN access so that the system could be accessed over the internet using alternative internet providers. They had also provided modems for the counties to further enable accessibility of the system in areas with poor or no internet connectivity.

**(ix) Record of Assets in IFMIS**

89. The Fixed Assets module in IFMIS had not been rolled out given that until 2021 there was no guiding policy on definition, recognition, classification, depreciation and de-recognition of fixed and tangible assets. In addition, the central government reports on a cash basis where assets are expensed. The national Treasury had also developed a draft policy on Asset and Liabilities which would enable implementation of an Enterprise Asset Management system integrated with an asset register which shall be maintained in IFMIS.

**(x) Accessibility of Information on Public Debt Monitoring**

90. IFMIS was largely an expenditure management and reporting system. Debt acquired for budgetary support was managed and reported using a different system, the Meridian

System which had recently replaced the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The National treasury had started working on the integration of IFMIS, the new meridian system and CBK to enable processing of debt obligations through IFMIS.

## CHAPTER THREE

### COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

#### Observations

91. The Committee, having considered the submissions from stakeholders as well as the memorandum from the National Treasury made the following observations-

- a) The system for managing the public debt is Meridian System which is different from the IFMIS. However, the two systems may be integrated for easier monitoring and reporting.
- b) The IFMIS System had seven components that were operational. It supported the end-to-end PFM cycle from planning and budgeting, expenditure, accounting and reporting through the modules that were interlinked by workflows. This promoted efficiency in the PFM cycle. However, the Inventory and Asset Management module and the Human Resource Management module had not been rolled out. This therefore implied that the FMIS system was not being utilized at its full capacity.
- c) There was need to develop and implement an Asset recognition Policy for the Government. This would enable implementation of the Fixed Assets Module on IFMIS.
- d) The i-procurement module was not fully utilized by all entities, especially at the county-level as not all procurements were raised in the system. The combination of manual and automated procurement could lead to entities committing more than what was approved in the procurement plans. Further, the use of both automated and manual procurements did not create a level playing field for all suppliers. Therefore, to promote accountability and integrity in procurements processes, it would be prudent that all procurements are done on the IFMIS.
- e) ICT infrastructure is critical to the success of IFMIS. It is therefore important that all counties have access to reliable internet to be able to fully utilize the IFMIS system and to eliminate downtimes.

- f) Adequate checks and balances on the system are important. For instance, it was not prudent to have one person originating a payment, validating and paying. This could promote fraud as a user could exploit the system to make fraudulent payments to fictitious suppliers. Maintaining separation of duties for different officers throughout the IFMIS processes was important for preserving the integrity of the system.
- g) The IFMIS should be able to support all financial operations of government through integration of all the processes of financial management to reduce irregularities in public procurement processes, public debt repayment and revenue collection. It is therefore important that the system is further linked to the Public Debt Management System and the Government Human Resources Management System to promote transparency, accountability and good governance.
- h) There was need to eliminate all the manual processes within the payment system. For instance, the process of seeking approval for payment for counties from the Office of the controller of Budget was still manual. Automation of all processes will ultimately promote efficiency in the public service.
- i) Allocation of adequate resources and having the staff with requisite knowledge and skills to support the IFMIS project are significant considerations for the success of IFMIS.
- j) Successful implementation of IFMIS requires that all government entities adopt common accounting standards. The IFMIS was configured to use Accrual basis of accounting, yet there were entities still using cash basis. This therefore presented challenges in reporting of accounts.
- k) Security of government data is a significant consideration. Thus investing in a secure back-up, such as acquisition of a private cloud should be prioritized by the National Treasury.
- l) Delays in disbursements of funds had hampered effective implementation of the budget. For instance, release of funds after the close of the financial year or delay

in passing supplementary budget necessitated the National Treasury to permit backdating of transactions on IFMIS to the fiscal year that lapsed. Whereas this was necessary for the purpose of records, it could be a potential avenue for fraudulent transactions.

## **Recommendations**

92. The Committee recommends as follows-

- a) The Ministry of Information, Communication and Technology should extend ICT infrastructure/ NOFBI in all counties and sub-counties to mitigate the frequent outages experienced within the counties while using the IFMIS system.
- b) In order to ensure smooth operations, the National Treasury should continuously engage with IFMIS users at both national and county levels of government with view of continuous capacity building on the upgrades that have been done on the system.
- c) The National Treasury should ensure IFMIS system has seamless integration with other systems operated by Kenya Revenue Authority, Controller of Budget and Office of the Auditor General. This will promote accountability and transparency for the purpose of integrity and elimination of fraud.
- d) The National Treasury should promote adherence to set guidelines on budgeting and reporting and ensure configurations of the IFMIS system does not permit the manual input of backdating transactions as previously been experienced.
- e) The National Treasury through Public Sector Accounting Standards Board (PSAB) should facilitate and ensure all the Ministries, Departments, Agencies and County governments adopt the accrual basis (or modified accrual basis) of accounting in order to promote accountability and reporting which is in harmony with the IFMIS.
- f) The National Treasury should operationalize the Asset Management Module for both national and county government entities within six (6) months of the adoption of this Report.

- g) The National Treasury should operationalize the Human Resource Management Module for both national and county government entities within six (6) months of the adoption of this Report.
- h) The National Treasury should fast-track development of the IFMIS regulations and submit them to Parliament for approval.
- i) In order to cope with the issues of inadequate link between different modules of the system as well as cases of the users running a parallel system, there is need for the government to migrate to accrual basis of accounting to assist in providing a comprehensive account of the use of resources and the assets and liabilities belonging to various entities.
- j) The National Treasury should ensure there is an interface between the system managing public debt and the system managing the projects financed by such funding. The system should as well be linked to the IFMIS.



**MINUTES OF THE 286<sup>TH</sup> MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 9<sup>TH</sup> JUNE, 2022 ON ZOOM ONLINE PLATFORM AT 9:00 A.M.**

**PRESENT**

- |   |   |             |
|---|---|-------------|
| 1. Sen. Charles Kibiru, MP              | - | Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP       | - | Member      |
| 3. Sen. Mutula Kilonzo Junior, CBS, MP  | - | Member      |
| 4. Sen. Rose Nyamunga, CBS, MP          | - | Member      |
| 5. Sen. Moses Wetangula Masika, EGH, MP | - | Member      |

**ABSENT WITH APOLOGY**

- |                                       |   |                  |
|---------------------------------------|---|------------------|
| 6. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - | Vice-Chairperson |
| 7. Sen. Kimani Wamatangi, MP          | - | Member           |
| 8. Sen. Aaron Cheruiyot, MP           | - | Member           |
| 9. Sen. Millicent Omanga, MP          | - | Member           |

**SECRETARIAT**

- |                             |   |                 |
|-----------------------------|---|-----------------|
| 1. Mr. Christopher Gitonga  | - | Clerk Assistant |
| 2. Ms. Beverlyne Chivadika  | - | Clerk Assistant |
| 3. Ms. Lucy Radoli          | - | Legal Counsel   |
| 4. Ms. Sharon Rotino        | - | Researcher      |
| 5. Ms. Yunis Amran          | - | Fiscal Analyst  |
| 6. Mr. William Wambiru      | - | Fiscal Analyst  |
| 7. Ms. Doris Nyambura Mburu | - | Intern          |

**MIN. NO. 4065/06/2022: PRELIMINARIES**

The Chairperson called the meeting to order at 9.20 a.m. and thereafter followed by a word of prayer.

**MIN. NO. 4066/06/2022: ADOPTION OF THE AGENDA**

The agenda was adopted after it was proposed by Sen. CPA Farhiya Haji, MBS, MP, and seconded by Sen. Rose Nyamunga, CBS, MP.

**MIN. NO. 4067/06/2022: CONFIRMATION OF MINUTES OF THE PREVIOUS SITTINGS**

- a) The minutes of the 282<sup>nd</sup> sitting held on Thursday, 19<sup>th</sup> May, 2022 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee after having been proposed by Sen. Rose Nyamunga, CBS, MP, and seconded by Sen. CPA Farhiya Haji, MBS, MP.
- b) The minutes of the 283<sup>rd</sup> sitting held on Thursday, 19<sup>th</sup> May, 2022 at 10:00 a.m. were confirmed as a true record of the proceedings of the Committee after having

been proposed by Sen. CPA Farhiya Haji, MBS, MP, and seconded by Sen. Rose Nyamunga, CBS, MP.

- c) The minutes of the 284<sup>th</sup> sitting held on Tuesday, 31<sup>st</sup> May, 2022 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee after having been proposed by Sen. CPA Farhiya Haji, MBS, MP, and seconded by Sen. Rose Nyamunga, CBS, MP.
- d) The minutes of the 285<sup>th</sup> sitting held on Tuesday, 31<sup>st</sup> May, 2022 at 10:40 a.m. were confirmed as a true record of the proceedings of the Committee after having been proposed by Sen. Rose Nyamunga, CBS, MP, and seconded by Sen. CPA Farhiya Haji, MBS, MP.

**MIN. NO. 4068/06/2022:                    CONSIDERATION OF THE NATIONAL  
TREASURY REQUEST FOR APPROVAL TO  
GUARANTEE THE LAIKIPIA COUNTY  
GOVERNMENT TO BORROW KSHS. 1.16  
BILLION**

The Committee was briefed as follows-

- a) The PFM Act, 2012 under section 58 provides that the Cabinet Secretary responsible for finance may guarantee a loan to a county government or any other borrower on behalf of the National Government and that loan shall be approved by Parliament.
- b) Laikipia County submitted a request to the National Treasury for a guarantee to issue Kshs. 1.16 billion infrastructure bond.
- c) Laikipia County was the first county to submit a request for the guarantee for the issuance of a domestic bond in the form of an infrastructure bond.
- d) The main objective of the Laikipia infrastructure bond is to implement projects including the provision of water for production, upgrading markets, and town infrastructure.
- e) The purpose of the loan is to finance the upgrading of its 10 towns and market centers in accessibility, security, drainage, waste disposal systems and expanding two dams to provide adequate water for commercial and domestic use.
- f) According to the National Treasury, the county has followed the laid down procedures of borrowing and conditions as per the PFM Act, 2012 and guidelines as set by the National Treasury.
- g) The National Government through the National Treasury supports Laikipia County issuance of an infrastructure bond of Kshs. 1.16 billion as it will be within the debt ceiling currently set at Kshs. 9 trillion.
- h) The proposed Laikipia County Infrastructure bond is of seven (7) years tenor with an indicative interest rate of 12 percent per annum, with a bullet repayment at the end of the 7-year maturity period.
- i) The actual pricing of the bond will be determined by the market when the issuance takes place.

- j) The total cost of the projects is Kshs. 1.247 billion which is more than the bond amount. This, therefore, indicates that the additional Kshs. 87 million will be financed from the county budget.
- k) The amount of the bond is informed by the ability of the county to repay based on the County's Own Source Revenue performance over the past seven years. The average OSR target for the period under review was Kshs. 680.11 million of which the county has managed to collect Kshs. 559.86 million representing a collection of 83%.
- l) A look at the recent bond issues both in the corporate and public sector shows that the coupon rate ranges between 10.8-13.75%.

The Committee resolved to recommend that the House approves the CS request to guarantee Laikipia County Government to borrow Kshs.1.16 billion. The Committee made the following observations-

- a) Laikipia County is the first county to submit a request for the guarantee for the issuance of a domestic bond in the form of an infrastructure bond. Therefore, approval of the request by the Committee shall serve as a reference for borrowing by other counties in the future.
- b) The financial position of the County is satisfactory based on the County's Own Source Revenue performance over the past seven years, increased allocations in form of an equitable share of revenue, and conditional grants. Thus, the County will be able to meet its debt service obligations when it falls due.
- c) Laikipia County government has accumulated pending bills amounting to Kshs. 720.50 million as at December 2021.
- d) Analysis of the fiscal performance of the County Government of Laikipia indicates that it has the ability to repay the costs associated with the proposed bond issue.

**MIN. NO. 4069/06/2022:            CONSIDERATION AND ADOPTION OF  
REPORT ON THE EFFICACY OF IFMIS AND ITS  
APPLICATION ON DISBURSEMENT OF FUNDS**

The Committee considered the report on the efficacy of (Integrated Financial Management Information System) IFMIS and its application in the disbursement of funds.

The Committee unanimously adopted the report after having been proposed by Sen. CPA Farhiya Haji, MBS, MP, and seconded by Sen. Mutula Kilonzo Junior, CBS, MP, with the following recommendations-

- a) The Ministry of Information, Communication and Technology should extend ICT infrastructure/ NOFBI in all counties and sub-counties to mitigate the frequent outages experienced within the counties while using the IFMIS system.

- b) In order to ensure smooth operations, the National Treasury should continuously engage with IFMIS users at both national and county levels of government with view of continuous capacity building on the upgrades that have been done on the system.
- c) The National Treasury should ensure IFMIS system has seamless integration with other systems operated by Kenya Revenue Authority, Controller of Budget and Office of the Auditor General. This will promote accountability and transparency for the purpose of integrity and elimination of fraud.
- d) The National Treasury should promote adherence to set guidelines on budgeting and reporting and ensure configurations of the IFMIS system does not permit the manual input of backdating transactions as previously been experienced.
- e) The National Treasury through Public Sector Accounting Standards Board (PSAB) should facilitate and ensure all the Ministries, Departments, Agencies and County governments adopt the accrual basis (or modified accrual basis) of accounting in order to promote accountability and reporting which is in harmony with the IFMIS.
- f) The National Treasury should operationalize the Asset Management Module for both national and county government entities within six (6) months of the adoption of this Report.
- g) The National Treasury should operationalize the Human Resource Management Module for both national and county government entities within six (6) months of the adoption of this Report.
- h) The National Treasury should fast-track the development of the IFMIS regulations and submit them to Parliament for approval.

**MIN. NO. 4070/06/2022:**

**ADJOURNMENT**

There being no other business, the Chairperson adjourned the meeting at 10:11 a.m. The next meeting shall be by notice.

**SIGNATURE:** 

**(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)**

**DATE: 9<sup>th</sup> June, 2022**

**MINUTES OF THE 284<sup>TH</sup> MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 31<sup>ST</sup> MAY, 2022 ON ZOOM ONLINE PLATFORM AT 9:00 A.M.**

**PRESENT**

- |  |   |             |
|--|---|-------------|
| 1. Sen. Charles Kiburu, MP             | - | Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP      | - | Member      |
| 3. Sen. Mutula Kilonzo Junior, CBS, MP | - | Member      |
| 4. Sen. Rose Nyamunga, CBS, MP         | - | Member      |
| 5. Sen. Millicent Omanga, MP           | - | Member      |

**ABSENT WITH APOLOGY**

- |   |   |                  |
|---|---|------------------|
| 6. Sen. (Dr.) Ochillo-Ayacko, EGH, MP   | - | Vice-Chairperson |
| 7. Sen. Kimani Wamatangi, MP            | - | Member           |
| 8. Sen. Aaron Cheruiyot, MP             | - | Member           |
| 9. Sen. Moses Wetangula Masika, EGH, MP | - | Member           |

**SECRETARIAT**

- |                             |   |                 |
|-----------------------------|---|-----------------|
| 1. Mr. Christopher Gitonga  | - | Clerk Assistant |
| 2. Ms. Beverlyne Chivadika  | - | Clerk Assistant |
| 3. Ms. Lucy Radoli          | - | Legal Counsel   |
| 4. Ms. Sharon Rotino        | - | Researcher      |
| 5. Ms. Yunis Amran          | - | Fiscal Analyst  |
| 6. Mr. William Wambiru      | - | Fiscal Analyst  |
| 7. Mr. Ian Otieno           | - | Audio Officer   |
| 8. Ms. Doris Nyambura Mburu | - | Intern          |

**IN ATTENDANCE**

**The National Treasury and Planning**

- |                          |   |   |
|--------------------------|---|---|
| 1. Dr. Julius Muia       | - | Principal Secretary                         |
| 2. Mr. Albert Mwenda     | - | Director General, Budget and Fiscal Affairs |
| 3. Mr. Bernard Ndungu    | - | Director General, Accounting Services       |
| 4. Mr. James Mungai      | - | Director,                                   |
| 5. Mr. Stanley Kamanguya | - | Director, IFMIS                             |
| 6. Mr. Joseph Mbatha     |   |   |

**MIN. NO. 4055/05/2022: PRELIMINARIES**

The Chairperson called the meeting to order at 9.18 a.m. and thereafter followed by a word of prayer.

**MIN. NO. 4056/05/2022: ADOPTION OF THE AGENDA**

The agenda was adopted after it was proposed by Sen. CPA Farhiya Haji, MBS, MP, and seconded by Sen Rose Nyamunga, CBS, MP.

**MIN. NO. 4057/05/2022: CONSIDERATION OF THE EFFICACY OF THE INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS) AND ITS APPLICATION**

After introduction, the Chairperson welcomed the team from the National Treasury and planning to make a presentation on the efficacy of IFMIS and its application in the disbursement of funds. The Principal Secretary presented as listed below on each of the issues raised by the Committee-

IFMIS has progressively being improved from time to time. Initially, it required stabilisation of the application and infrastructure. Auditor General conducted a special audit of the system and raised several issues including approval hierarchy and registration of suppliers. The National Treasury has been working on the queries raised. Secondly, there has been effort to build the capacity of the officers involved in operation of the system. On issues raised by the Principal Secretary made presentation as follows-

**a) Inadequate link between different modules of the system**

- IFMIS has the following modules- Planning and Budgeting, Account Payables, Account Receivables, General Ledger, Cash Management, Purchasing, and i-procurement.
- The system supports the end-to-end PFM cycle from planning and budgeting, budget execution (expenditure), accounting, and reporting through the above modules which are interlinked by workflows.
- In addition, the system allows interaction with Government suppliers through the Kenya Suppliers Portal where suppliers are able to receive and respond to Government tenders.

**b) Integration with external systems**

- IFMIS is integrated with external systems such as KRA's i-Tax and CBK'S Internet Banking. The integrations are enabled through a middleware that has the ability to connect to any other PFM system.
- The integration with KRA has enabled suppliers to do self-registration in the IFMIS system, and get their IFMIS numbers within two (2) hours. It has also enabled validation of supplier's PIN numbers in IFMIS ensuring that relevant taxes are attached to supplier's payments. The integration with CBK has enabled electronic payment for services rendered to the government.

**c) Accessibility of audit trail reports by Auditor-General**

- The Auditor-General's Office has been given access to the system to enable them to undertake audits of the MDAs and Counties. The OAG officers rely on the reports from the system for comparison of the book of accounts maintained by the entities.
- While a number of entities still have differences between their books and the IFMIS reports, Treasury has continued to build capacity for the entities to do the required accounting procedures in IFMIS in order to generate accurate financial reports.

**d) Effectiveness of the system in promoting integrity and elimination of fraud**

- The audit trail captures the user details, Internet Protocol (IP) addresses and transaction time. In addition, no single user can execute two (2) transaction subsequently.
- This enables the various investigative bodies such as DCI, EACC, and KRA to mine data from IFMIS for purposes of investigations as well as evidence gathering when prosecuting economic crimes. National Treasury has given access and trained officers from these bodies on the use of IFMIS.
- In addition, whenever called upon, the National Treasury provides officers to give expert evidence in court in regards to data generated from IFMIS.

**e) Insufficient safeguards toward monitoring and evaluation**

- The function of coordinating, monitoring, and evaluation of all Government policies, programmes, and projects is domiciled in the State Department of Planning.
- The IFMIS system provides financial reports on project implementation but does not maintain the qualitative metrics for M&E.

**f) Inadequate internal controls**

- IFMIS has provided for segregation of duties (between planning, budget, procurement, pay, and accounts), separation of roles implemented through approval hierarchies, and separation of ledgers for the different counties.
- There is further segregation of duties such that different officers are involved at different stages of processing a transaction.
- The officers are provided with a personal username and password and an audit trail is maintained for all transactions. They have also invested in the security infrastructure with real-time monitoring of our networks and the system, this ensures no unauthorized access to the system.

**g) Users can date transactions thus reducing the validity of real-time balances**

- IFMIS system as currently configured does not allow backdating of transactions. This issue was flagged out in a past special audit and has since been resolved.

- However, the National Treasury, during year-end may allow a window of backdating transactions to June to enable entities to finalize accounting procedures and capture expenditure relating to the fiscal year. This could also be occasioned by the second supplementary budget being passed by the National Assembly late in the fiscal year.

**h) Frequent downtimes**

- The National Treasury has over time invested in the IFMIS infrastructure such as the acquisition of new servers and the establishment of a Disaster Recovery site which was completed in 2019. This has ensured higher availability of the system- over the last 3-4 years there has not been any major system outage.
- Some entities, especially counties do not have proper ICT infrastructure and therefore connectivity to the system is not stable. To address this, Treasury provided VPN access so that the system can be accessed over the internet using alternative internet providers.
- Modems were provided to the counties to further enable accessibility of the system in areas with poor or no internet connectivity.

**i) IFMIS fails to keep a record of assets acquired over time**

- The Fixed Assets module in IFMIS has not been rolled out given that until 2021 there was no guiding policy on the definition, recognition, classification, depreciation, and de-recognition of fixed and intangible assets.
- In addition, the central government reports on a cash basis where assets are expensed. The National Treasury has developed a draft policy on Assets and Liabilities which will enable the implementation of an Enterprise Asset Management system integrated with an asset register which shall be maintained in IFMIS.

**j) Accessibility of information on Public Debt Monitoring**

- IFMIS is largely expenditure management and reporting system. Debt acquired for budgetary support is managed and reported using a different system, the Meridian system which replaced the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).
- The National Treasury was working on the integration of IFMIS, the new Meridian system, and CBK to enable the processing of debt obligations through IFMIS.

The Committee noted that-

- a) The National Treasury has not fully utilised but plans were in place for optimum utilisation of the system.

- b) The issues raised by the Office of the Auditor-General in the Special Audit report had been addressed. However, about 10% remaining would be addressed during the system upgrade.
- c) The IFMIS system maintains audit trails for all transactions.
- d) The National Treasury plans to provide a platform where MDAs and counties are able to capture and process verified pending bills, which shall be accessible in the subsequent financial year.
- e) The National Treasury was developing IFMIS operational regulations which would guide on the usage of the system and prevent off-system procurement. The Regulations will consolidate IFMIS circulars and guidelines.
- f) The system in recording assets should be able to include GPS coordinates for mapping acquired assets.
- g) The Auditor-General audits public debt yearly. However, the linkage between the IFMIS and the debt system (Meridian system) is in progress.
- h) Procurement has continued to be done outside the IFMIS system despite the operationalization of the e-procurement module.
- i) The budget module is fully operational.
- j) The challenge faced in operations of IFMIS in regards the Asset recording is in relation to project is early completion yet funds are availed in subsequent financial years.
- k) County OSR module- efforts were being made to integrate county revenue collection system into IFMIS. This would prevent usage of OSR outside the IFMIS.

**MIN. NO. 4058/05/2022: STATUS OF THE PENDING BILLS AT THE NATIONAL AND COUNTY LEVELS OF GOVERNMENT WITHIN THE FINANCIAL YEAR 2021/2022**

The Committee was informed as follows-

- a) Office of the Auditor General (OAG) conducted a Special Audit to verify the stock of pending bills by County Governments as at 30<sup>th</sup> June, 2018.
- b) The Special Audit indicated that out of a total of Kshs. 88.98 billion pending bills presented for audit to the OAG, bills amounting to Kshs. 51.2 billion were reported as payable while Kshs. 37.7 billion lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment.
- c) A report by the Controller of Budget (COB) indicates that by 30<sup>th</sup> June, 2021, Counties had paid Kshs.40.49 billion (79.1% of the eligible pending bills) leaving an outstanding balance of Kshs. 10.79 billion. The National government released to the Counties significant resources to enable them to clear their pending bills.

- d) As at 30<sup>th</sup> June, 2021, the National Treasury had released to County governments Kshs. 399.0 billion as their equitable share of revenue raised nationally and conditional grants for FY 2020/21.
- e) As at 30<sup>th</sup> June 2021, County governments had verified and paid Kshs. 6.88 billion of the ineligible pending bills.
- f) According to the National Treasury's analysis of the Special Audit Reports, a total of Kshs. 161.16 billion pending bills presented for audit to the OAG, bills amounting to Kshs. 47.55 billion were reported as payable while Kshs. 108.89 billion lacked sufficient documentation to support services rendered or work done and therefore were not recommended for payment.
- g) Further, the Special Audit indicated that by 30<sup>th</sup> April, 2021, Counties had paid Kshs. 10.52 billion (22% of the eligible pending bills) leaving an outstanding balance of Kshs. 34.06 billion.
- h) According to a report submitted to IBEC by OCOB on the status of County Governments' pending bills as of 31<sup>st</sup> March, 2022 based on County Treasuries, Counties had accumulated pending bills amounting to Kshs. 106.4 billion as of 30<sup>th</sup> June, 2021. Out of this, Kshs. 15.1 billion (14.2% of the accumulated pending bills) had been paid as of 31<sup>st</sup> March, 2022 leaving an outstanding balance of Kshs. 91.3 billion.

The Committee noted the following-

- a) The National Treasury is working jointly with the CoB and Central Bank to automate the process of release of funds to the operational accounts of various MDAs in the National Government and from CRF to the operational accounts.
- b) Electronic Government Procurement (eGP) payment service to be integrated with procurement will enable tracking of the service provider.
- c) Enhancement needed to give effect to FIFO method of settling pending bills.
- d) There is a need to budget for historical pending bills.

**MIN. NO. 4059/05/2022: ADOPTION OF THE AGENDA**

There being no other business the Chairperson adjourned the meeting at 10:40 a.m. The next meeting shall be by Notice.

SIGNATURE: 

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 9<sup>th</sup> June, 2022

**MINUTES OF THE 228<sup>TH</sup> MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 7<sup>TH</sup> JULY, 2021 AT 9 AM VIA ZOOM ONLINE PLATFORM**

**PRESENT**

- |  |               |
|--|---------------|
| 1. Sen. Charles Kiburu, MP               | - Chairperson |
| 2. Sen. Aaron Cheruiyot, MP              | - Member      |
| 3. Sen. Millicent Omanga, MP             | - Member      |
| 4. Sen. Rose Nyamunga, CBS, MP           | - Member      |
| 5. Sen. Mutula Kilonzo Junior, CBS, MP   | - Member      |
| 6. Sen. Wetang'ula Moses Masika, EGH, MP | - Member      |
| 7. Sen. CPA Farhiya Haji, CBS, MP        | - Member      |

**ABSENT WITH APOLOGY**

- |                                       |                     |
|---------------------------------------|---------------------|
| 8. Sen. (Dr.) Ochillo Ayacko, EGH, MP | - Vice- Chairperson |
| 9. Sen. Kimani Wamatangi, MP          | - Member            |

**SECRETARIAT**

- |                            |                       |
|----------------------------|-----------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant     |
| 2. Ms. Lucy Radoli         | - Legal Counsel       |
| 3. Ms. Yunis Amran         | - Fiscal Analyst      |
| 4. Ms. Beverlyne Chivadika | - Hansard Officer III |
| 5. Ms Brenda Michira       | - Legal Pupil         |

**INATTENDANCE-**

**A. Central Bank of Kenya**

- |                        |                                   |
|------------------------|-----------------------------------|
| 1. Dr. Patrick Njoroge | – Governor, Central Bank of Kenya |
| 2. Mr. Michael Ebesa   |                                   |
| 3. Mr. Mwenda Marete   |                                   |
| 4. Mr. Kennedy Abuga   |                                   |

**B. Council of Governors (COG)**

- |                          |   |
|--------------------------|---|
| 1. Hon. Muriithi Nderitu | - Chairman, COG Technical Committee on Finance, Economic Affairs and Planning |
| 2. Mr. Kizito Wangalwa   | - Director, COG   |
| 3. Ms. Mercy Wangui      |   |
| 4. Ms. Eunice Fedha      |   |
| 5. Mr. Stephen Momanyi   |   |

**C. Office of the Controller of Budget**

- |                                |                        |
|--------------------------------|------------------------|
| 1. CPA (Dr.) Margret Nyakang'o | - Controller of Budget |
|--------------------------------|------------------------|

**D. Office of the Auditor General**

1. CPA Nancy Gathungu, CBS - Auditor General
2. Mr. Anthony Waiganjo
3. Mr. George Otieno
4. Mr. David Munyaka

**MIN. NO. 1183/07/2021: PRELIMINARIES**

The Chairperson called the meeting to order at 9.04 am and thereafter followed a word of prayer. Thereafter, the Chairman welcomed the Members and the guests to the meeting.

**MIN. NO. 1184/07/2021: ADOPTION OF THE AGENDA**

The agenda of the meeting was adopted after it was proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. Aaron Cheruiyot, MP.

**MIN. NO. 1185/07/2021: MEETING WITH THE GOVERNOR, CENTRAL BANK OF KENYA, THE CONTROLLER OF BUDGET, THE AUDITOR GENERAL AND THE COUNCIL OF COUNTY GOVERNORS TO DELIBERATE ON THE EFFICACY OF IFMIS AND ITS APPLICATIONS IN DISBURSEMENT OF FUNDS**

The Chairman made remarks on purpose of the meeting and called upon the members and the guests to introduce themselves.

**Submission by the Controller of Budget**

Upon invitation, the Controller of Budget informed the Committee as follows-

- a) Delay in uploading budgets and procurement plans which is occasioned by delay in defining user responsibilities at the start of the financial year. This results to delay in disbursement of development funds into IFMIS and results to low absorption of funds affecting budget implementation. Although the modules are defined, linkage should be done on time to enable timely implementation of the planned activities.
- b) Allowing capture of negative budget amount, negative commitment and negative expenditure. This leads to negative vote balances. Further, the system allows reallocations from line items which have already been spent (incurred expenditure) during supplementary budget. This should not be allowed. IFMIS has allowed overdrawn of votes, both programmes and sub-programmes such that, expenditure exceed the budget. This has also been witnessed during supplementary budgets where budget cuts are affected across on a given percentage subsequently resulting to overdrawn of some votes. To overcome this, expenditure and budget should be linked such it can't exceed budget and funds available for a given activity.

- c) Below the line expenditure. IFMIS allows payment of activities not budgeted for under the “*below the line*” default account provision. We note this was necessary to allow expenditure during emergencies and where there may be insufficient budget allocation and to be regularized through supplementary budget. Experience has shown that this provision is being misused and has led to incorrect reporting. This provision should be controlled to avoid misuse.
- d) The system allows posting of past transactions. There is no defined cut-off time for closure of posting of past transactions. This implies that financial reports keep on changing and therefore affects credibility of reporting. MDAs and County Governments take time to reconcile IFMIS data at the end of the month and such data may not be accurate until reconciliation is finalized. To ensure accuracy in data, data should be updated and reconciled on daily basis to ensure data generated at a given time is accurate.
- e) Revenue module not fully developed and not linked to the budget, procurement and payment function of IFMIS. The system should not allow complete payment when no cash is available.
- f) Counties have developed and procured their own revenue systems which are not linked with IFMIS. There is need to allow for data exchange with IFMIS.
- g) Asset register not fully developed in IFMIS. The system should keep records of Assets acquired by government over time and not just in one financial year.
- h) Chart of Accounts should be improved to capture programmes definition by respective county governments. The system should recognize those unique programme to certain counties.
- i) Geographical location codes need to include Ward Level and/or Village Level. Not just the default “County Wide”.
- j) Not linking budget estimates to approved planning documents such as Vision 2030, CIDP, BPS, ADP, CFSP etc. The system does not require loading of planning documents.
- k) IFMIS does not report pending bills. This is despite procurement, payments and commitments being processed through the system.
- l) Lumping together of development votes which has limited ability to monitor individual development projects. The system does not generate a report on projects being implemented by government and non-financial reports such as on achievement of key performance. IFMIS does not report on projects implementation status and on non-financial performance. Projects been implemented and non-financial modules should be developed and linked to IFMIS to ensure transparency and accountability in the budget implementation.

- m) The system does not capture exchequer issues to spending entities. This therefore implies that there is no tracking of exchequer issues against payments being made. Exchequer release is manual and not linked to IFMIS. When approving exchequer requests, submission is done manually and not pegged on the actual expenditure in the System. Exchequer release should be linked to the IFMIS and should be real time to avoid double funding of a budget line.
- n) Public debt is run on an independent system which is only accessible to specific defined personnel. There should be an interface such, Public debt expenditure can be accessed through IFMIS.
- o) IPPD is not linked to IFMIS and there is a need to link the two systems for timely reporting and to promote transparency.
- p) System availability. On various occasions, IFMIS has been unavailable to users while sometimes, it is slow and does not allow processing of transactions. IFMIS experiences frequent downtime and you may not access report on need basis. There is need to ensure the system is up and running through out such it can be accessed on need basis.
- q) Control of some modules by IFMIS Directorate to bar access to budget execution information. For example, when reporting, data drilling access is blocked such that you cannot get details for specific payments. This is seen as deliberate move by IFMIS Directorate to bar access to some expenditure by spending entities.
- r) User management. Users have experienced delays in reset of login passwords through the online platform (emails)

### **Submission by the Governor Central Bank of Kenya**

Upon invitation, the Governor, CBK informed the Committee as follows-

- a) CBK linkage with IFMIS is through a secure connectivity/interface using CBK's Internet Banking (IB) platform, which is a Core Banking System to facilitate transmission of payment instructions for both national and county governments from IFMIS. CBK considers IFMIS a useful system in the government payment processes but could be improved and made better.
- b) The role of CBK in County payments and disbursement of funds- CBK is Banker to Government and maintains various bank accounts for National Government — Ministries Departments and Agencies (MDAs) through National Treasury (NT) and County Governments through the County Treasuries. The main types of accounts maintained

- i) National Government - The Consolidated Fund Account (Exchequer) operated by NT and Operational Accounts for each individual MDAs (Recurrent, Development and Deposit etc.).
  - ii) For Counties — The County Revenue Fund (CRF) Account and Operational Accounts (Recurrent, Development and Deposit etc.) operated by the County Executive Committee Member for Finance (CECM-F/County Treasury). This includes the County Assembly accounts as well.
- c) The payments processes/county disbursement of funds
- i) Leg 1 - Funding Sharable Revenues for Counties
    - > NT periodically funds counties from the Exchequer to the individual county CRFs.
    - > Process- the process is such that NT issues instructions to CBK to debit the Exchequer Account and credit respective County CRFs. This instruction (Treasury Order) is accompanied by Controller of Budget (COB) Grant of Credit approval, which is a requirement of the law for CBK to sight before processing the instruction. (This process is manual and does not involve IFMIS).
  - ii) Leg 2 - Spending by Counties
    - > For counties to spend, they have to seek authority of the COB to move funds from their respective CRFs to the Operational Accounts (Recurrent, Development etc.) all maintained at CBK.
    - > Just like funding out of the Exchequer, CBK requires the CECM-F as the mandate holder of county accounts at CBK, to provide the instruction (Treasury Order) accompanied by COBs Grant of Credit. (This process is manual and outside IFMIS).
  - iii) Leg 3 - Payments by Counties
    - > Counties initiate payment requisitions in IFMIS for disbursement to various third parties.
    - > Once requisition is approved in IFMIS, an encrypted electronic file with payment items is generated and uploaded from IFMIS to CBKs IB platform for processing of payments from the county operational accounts at CBK.
    - > Authorized county officials will log into IB and approve those payment items, which are then processed through the CBKs RTGS (KEPSS) to respective recipient commercial banks for accounts of beneficiaries.

The MDAs/ Counties have exclusive mandate for the initiation, verification and approval of payments in both the IFMIS and 1B systems. The CBK has no capability of amending any transactions as the files received from IFMIS into 1B are encrypted. The role of CBK in the payment process is to provide a secure platform through which payments approved by the MDAs and County Governments in IFMIS are transmitted to Commercial Banks.

d) CBK interventions in the Payment Process

The CBK in certain instances may be required to intervene in the payment process as outlined below-

- i) In case a Ministry or County realizes that they have made an erroneous payment, they will request CBK, in writing or email, to recall the funds from the commercial bank. The CBK will then execute the recall instructions to the commercial bank and await the return of the funds that are directly credited to the respective ministry or county account.
- ii) Where a commercial bank suspects the authenticity of a payment that has been received in its client's account from a Ministry or County, it will in writing request the CBK to obtain the confirmation. CBK will in turn write to the Ministry/County with a copy to the Director General, Accounting Services National Treasury and request for confirmation of the payment, complete with all supporting documents. Once this is obtained, the same is communicated to the commercial bank to enable them complete the processing of the payment.
- iii) CBK also supports Investigation Agencies to provide information that may be required with regard to payments made by MDA's or County Governments subject to obtaining Court Orders. In such cases, CBK can only provide information on transactions effected by the above, from the system, by providing details of the dates when payments were made, the specific amounts involved, details of the remitting entities and recipients of funds. This information is obtained from the system audit trails and cannot be altered in any way.

e) Challenges of the Current Processes

CBK, NT and OCOB have recognized the need to improve the above processes in Leg I & 2, which besides being cumbersome and inefficient portend numerous risks. The three entities are at an advanced stage of automating these two legs and put them into IFMIS. Automation will-

- i) enhance system security standards and minimize inherent risks, improve efficiency, minimize operational costs and avail online/real-time information and reports to users thereby streamline the funding process for counties.

**Copies to:**

**Ms. Farida Karoney, EGH,**  
Cabinet Secretary,  
Ministry of Lands and Physical Planning,  
Ardhi House,  
1<sup>st</sup> Ngong Avenue, off Ngong Road,  
**NAIROBI.**

**Mr. Gershom Otachi Bw'Omanwa,**  
Chairperson,  
National Land Commission,  
P. O. Box 44417-00100,  
**NAIROBI.**

**Sen. Paul Mwangi Githiomi, MP.,**  
Chairperson, Standing Committee on Land Environment and Natural Resources,  
P. O. Box 41842 – 00100,  
Parliament Buildings,  
**NAIROBI.**

REPUBLIC OF KENYA

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Clerk's Chambers  
The Senate  
Parliament Buildings  
P. O. Box 41842 -00100  
Nairobi, Kenya

PARLIAMENT  
OFFICE OF THE CLERK OF THE SENATE

Ref. SEN. /12/5/PETITIONS (R)/ No.8/21

Date: 7<sup>th</sup> July, 2021

**The Petitioners,**  
C/O Sen. Anuar Loitiptip, MP,  
P. O. Box 41842-00100,  
**NAIROBI.**

Dear

*Petitioners,*

**RE: REPORT ON THE PETITION CONCERNING ILLEGAL ENCROACHMENT OF LAND COVERING THE VILLAGES OF PANGANI, NYATHA, KAISARI, MAVUNO, PROMOKO AND WIDHO IN LAMU COUNTY BY WITU LIVESTOCK COOPERATIVE SOCIETY**

During the Sitting of the Senate held on 4<sup>th</sup> March, 2021, the Senator for Lamu County, Sen. Anuar Loitiptip, MP, presented to the Senate your Petition concerning Illegal encroachment of land covering the villages of Pangani, Nyatha, Kaisari, Mavuno, Promoko and Widho in Lamu County by Witu Livestock Cooperative Society.

Pursuant to the provisions of Standing Order 232 (1) of the Senate, the Petition was committed to the Standing Committee on Land, Environment and Natural Resources. Pursuant to Standing Order 232(2), the Committee reported back to the Senate by way of a Report laid on the Table of the Senate on Wednesday, 7<sup>th</sup> July 2021.

In accordance with the provisions of Standing Order 233, enclosed herewith is a copy of the Report on your Petition to the Senate for your information and records.

By a copy of this letter, we have forwarded a copy of the Report to the Ministry of Lands and Physical Planning and the National Land Commission to whom the Committee's recommendations have been addressed for necessary action.

Yours

*Sincerely,*

**M. A. MOHAMED, MBS,  
FOR: CLERK OF THE SENATE.**

## 5.0 REFERENCES

- A Handbook on Financial Management Information Systems for Government -- World Bank  
<https://documents1.worldbank.org/curated/en/147241467987856662/pdf/A-handbook-on-financial-management-information-systems-for-government-a-practitioners-guide-for-setting-reform-priorities-systems-design-and-implementation.pdf>
- <https://ir-library.ku.ac.ke/handle/123456789/19299>
- [http://erepository.uonbi.ac.ke/bitstream/handle/11295/102926/Omar\\_Effect%20of%20Integrated%20Financial%20Management%20Information%20Systems%20on%20Financial%20Performance%20of%20Garissa%20County.%20Kenya.pdf?isAllowed=y&sequence=1](http://erepository.uonbi.ac.ke/bitstream/handle/11295/102926/Omar_Effect%20of%20Integrated%20Financial%20Management%20Information%20Systems%20on%20Financial%20Performance%20of%20Garissa%20County.%20Kenya.pdf?isAllowed=y&sequence=1)
- [https://www.businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/8591/PMF\\_2017\\_01\\_Jared.pdf](https://www.businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/8591/PMF_2017_01_Jared.pdf)
- Lessons from Reforming Financial Management Information Systems -- World Bank <https://ieq.worldbankgroup.org/sites/default/files/Data/reports/fmis.pdf>

#	Thematic Area	Weaknesses	Recommendations	Justification
7.	Corruption	Facilitated corruption through the system such as inflation of tender prices for approved county projects is also having serious challenges to the system.	Public Procurement Regulatory Authority (PPRA) guiding ceilings and market surveys should be incorporated in the IFMIS system for standardized purchases.	To curb corruption and inflation of prices.
8.	Enforcement	The application of the Computer Misuse and Cybercrimes Act.	The Computer Misuse and Cybercrimes Act is intended to curb white collar crime which the IFMIS system is prone to.  The prosecution of offences or breaches under the Act would increase the compliance with the provisions of the Act.	Many breaches in the IFMIS system mostly fall with the ambit of the Computer Misuse and Cybercrimes Act.  Prosecution of perpetrators of the IFMIS system will enhance compliance and safeguard the interest of the public.

#### 4.0 CONCLUSION

The Integrated Financial Management System has immense potential to transform the public financial management at both levels of government if appropriately utilized. Kenya has taken great steps towards the attainment of this. However, more still needs to be done as outlined above. The Institute hopes that the Senate Standing Committee on Finance and Budget will consider the proposals contained here-in.

#	Thematic Area	Weaknesses	Recommendations	Justification
6.	Budget Approval and Exchequer Releases	Delay of disbursement of funds by the National Treasury has hampered effective budget implementation in line with procurement plans and cash flow projections by spending units.	<ul style="list-style-type: none"> <li>• Procedures for budget release and warrants should be improved so that allocations are available for implementation of respective programs and sub-programs to start from the first day of the new fiscal year. (Ensure timely release of funds to spending units)</li> <li>• Revenue forecasting should be based on ambitious but attainable revenue projections to deal with aspects of shortfalls which affect disbursements to spending units.</li> </ul>	<p>implemented an IFMIS with a set of core modules, but expenditure management was still lacking because of weaknesses in the control environment. Security firewall protocols were dismantled without authorization and other control mechanisms were ignored because of a breakdown in the accountability chain. This led to a major corruption episode. Disregard for existing systems and processes caused this situation, not an IFMIS technical failure. Therefore, it is essential to communicate these aspects to counterparts in government and donor partners and obtain government commitment to address these as required.</p> <p>To ensure that there is minimal disruptions in the implementation of budgets at both levels of government.</p>

#	Thematic Area	Weaknesses	Recommendations	Justification
5.	Political Will	<p>profiling and automated decision making, respectively.)</p> <p>There is need to have the server of the system located within Kenya or its serving copy as provided under section 50 of the Data Protection Act, 2019.</p> <p>There has been resistance from users, perceived sabotage and deliberate disregard of control mechanisms during implementation.</p>	<ul style="list-style-type: none"> <li>Strengthen the approval role of the Controller of Budget and the oversight role of the internal audit function, audit committees, and the County Assembly in the implementation of IFMIS.</li> <li>Senate should push for implementation of the Controller of Budget and Auditor General's recommendations on IFMIS.</li> <li>Legislatures – Parliament and County Assemblies should be capacity built to focus on public expenditure management, public sector budgeting, internal audit and risk management among other important public finance tenets.</li> <li>Review the penalty and sanctions regime on the Public Finance Management Act on the violators of IFMIS requirements.</li> <li>The levels of bureaucracy in decision making should be minimized as this delays making payments and budget implementation.</li> </ul>	<p>In Slovakia, it's noted and commented that the system was successful due to the political will of the country to implement the system. This was made possible by the country coming up with good strategies on how to implement the system and put a time frame to achieve that. It's said that Slovakia defined the need, came up with the tools to be used, defined the system, acquired it, tested, configured and switched-on time in the beginning of the year. This was efficient enough to pay for the investment in less than nine months of its operation.</p> <p>A functioning IFMIS in Malawi did not deliver because of a lack of political commitment. The government successfully</p>

#	Thematic Area	Weaknesses	Recommendations	Justification
		<ul style="list-style-type: none"> <li>With the existing hardware and software, most of the countries cannot handle revenue collection using IFMIS.</li> <li>Other modules such as the direct procurement module are yet to be developed.</li> <li>Full integration with third party systems e.g revenue collection system and the payroll system has also not been achieved which does not allow countries to realize the full potential of the system.</li> </ul>	<ul style="list-style-type: none"> <li>Develop the remaining modules such as; revenue collection, payroll (PPD) and the direct procurement module.</li> <li>Integration of IFMIS with; KRA i-Tax &amp; Tax Invoice Management System (TIMS), National Land Information Management System (Ardisasa), Electronic Project Management Information System, Pension Management Information System (PMIS), Government Human Resource Information System (GHRIS) among others.</li> </ul>	<ul style="list-style-type: none"> <li>To deal with the issue of manipulation by operators of the system.</li> <li>Integration with other systems such as TIMS will help expand the tax base for the growth of the economy</li> </ul>
<b>C. Policy and Regulatory</b>				
4.	Data Protection Act, 2019	<p>The Data Protection Act, 2019 requires a Data Protection Impact Statement be done where processing of personal data may result to significant breach of an individual's rights and freedoms for purposes of Risk identification and mitigation thereof.</p> <p>In addition, the IFMIS system is an automated system which may result to data breaches including profiling individuals hence there is need to ensure that a decision against an individual is not solely based on the automated process (profiling) and other avenues for human intervention are provided and safeguarded. (refer to sections 2 and 35 of the Data Protection Act on the definition of</p>	<ul style="list-style-type: none"> <li>Ensure compliance with the Data Protection Act, 2019 and attendant Regulations.</li> <li>The system should allow for backup and storage of data up to requisite years permissible by law.</li> <li>There is need for the Ministry to formulate an IFMIS Data Protection Policy in line with the Data Protection Act, 2019.</li> <li>Designation or appointment of Data Protection Officer(s) for the IFMIS system in line with section 24 of the Act.</li> </ul>	For protection of personal data pursuant to Article 31 of the Constitution.

#	Thematic Area	Weaknesses	Recommendations	Justification
		<ul style="list-style-type: none"> <li>Some employees are defined more than once in the system which can result in misappropriation of funds.</li> <li>Default code below the line items does not affect the vote book. Government funds are misappropriated using the default code 0000000000000000</li> <li>Lack of input in the fixed asset register which will help track fictitious payments</li> <li>There is no feature to customize a report to the specific user needs.</li> <li>There is an issue with fraud. IFMIS operators are awarding tenders to themselves and not delivering on the work.</li> <li>Variances between IFMIS budget execution report and figures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>The default code 0000000000000000 should be done away with as it gives users the ability to spend over the budget and other opportunities for pilferage.</li> <li>The county asset register should be added to the system so as to facilitate accurate procurement.</li> <li>The entire system needs to be secured from unauthorized access through the use of password controls and other appropriate information security protocols.</li> <li>Internal audit departments should be involved in system design, to ensure that appropriate internal control strategy is embedded in the systems design including appropriate controls and reports.</li> <li>There is need to synchronize the IFMIS generated reports and actual spending.</li> </ul>	This will enable transparency of transactions.
3.	Technological factors.	<ul style="list-style-type: none"> <li>There has been concern on poor/no internet connectivity in many areas across the country hindering effective utilization of the system.</li> <li>Frequent system outage affects seamless working of the system.</li> </ul>	<ul style="list-style-type: none"> <li>Standardize the level of ICT infrastructure in the respective state agencies and county governments receiving the funds</li> <li>There is need for a multi-sectoral approach to manage the system such as the National Treasury (Director-IFMIS) , Ministry of ICT and the Ministry of Interior (which is the line ministry responsible for the Computer Misuse and Cybercrimes Act) working together to have stable internet supply. Which would continuously monitor and upgrade the system and safeguard it against cyber related crimes.</li> </ul>	For innovation and seamless flow of work within the IFMIS framework.

#	Thematic Area	Weaknesses	Recommendations	Justification
			<p>qualified civil servants) to attract professionals on long-term contracts.</p> <ul style="list-style-type: none"> <li>• Hire the technical skills directly from the market on year-to-year contracts and manage them through regular, mainstreamed civil servants. This is a short-term measure usually adopted in the development phases of projects such as the Pakistan Improvement to Financial Reporting and Auditing Financial Accounting and Budgeting System implementation.</li> <li>• Outsource the systems technical maintenance and operation to specialized firms. Countries with a developed market for services and firms that regularly cater to these needs (such as the United States) mainly use this option.</li> </ul>	
<b>B.</b>	<b>Internal Controls and System Security</b>			
2.	Internal Controls	<ul style="list-style-type: none"> <li>• The system allows for two imprests at the same time to an individual even when the first one has not been surrendered.</li> <li>• Incomplete listing of outstanding imprests.</li> <li>• The auto-reconciliation submodule not functional leading to delays in imprest surrender and incorrect financial statement</li> <li>• Rates of per diem to staff are not pre-defined on the system which results in over or under payment of staff.</li> <li>• Lack of a system calendar to track travel history of individuals resulting in double payments without the system detection.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance systematic controls to curb abuse and corruption relating to imprests.</li> <li>• Synchronize imprest management and centralize payments through the IFMIS system</li> <li>• Integrate staff personal data (job group, department and scale), payroll and per diem management with IFMIS.</li> <li>• IFMIS should be integrated with each county's banking platform.</li> <li>• No payment should be done until journal entries are made and proper accounting is done.</li> </ul>	<p>This will enable transparency of transactions</p> <p>This will weed out ghost workers and assist in verification of payments. This will enable transparency of transactions</p>

The findings were in tandem with various studies carried out in Kenya investigating the effect of IFMIS on financial performance and factors affecting implementation of IFMIS. These studies included; a study by Simiyu, (2013) on Integrated Financial Management System in Kilifi, a study in Nyandarua county on Assessments of factors affecting the implementation of IFMIS in the County Governments by (Kahari; et.al, 2015) and a study on Effect of IFMIS of Financial Performance in Garissa County by Ibrahim, (2017).

All these studies indicated that IFMIS had a significant impact on reduction of fraud and corruption and to a large extent improved transparency and accountability of county payments.

### 3.0 SUMMARY OF RECOMMENDATIONS

In spite of the benefits that IFMIS has brought about to the public finance system, there are still some weaknesses that have impaired its implementation. This paper presents consolidated comments from the ICPAK membership as highlighted below:

#	Thematic Area	Weaknesses	Recommendations	Justification
A.	<b>Administrative and Management</b>			
1.	Human Resource factors.	<ul style="list-style-type: none"> <li>• Shortage of skilled managers and staff to run IFMIS</li> <li>• Lack of continuous capacity building for users of the system.</li> </ul>	<ul style="list-style-type: none"> <li>• Put in place a framework to employ skilled staff to oversee the projects.</li> <li>• Ensure they have county economists to advise on economic impact of the projects.</li> <li>• Recruit a qualified accountant with expertise in both public and private accounting system and</li> <li>• Recruit skilled county IT experts to assist with servers both at the county headquarters and sub counties.</li> <li>• Identify the users of IFMIS system and continuously improve their level of knowledge on the system and train them from time to time on how to get the best from the system. Training and capacity building should be a continuous and permanent process.</li> <li>• Establish an organizational unit within government and staff it with employees paid at special market-based salary scales (for external personnel and</li> </ul>	This will improve on confidence and reduce levels of resistance in the institutions

## **1.0 INTRODUCTION**

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of accountants established under the Accountants Act of 1978, and as repealed under the Accountants Act Number 15 of 2008, mandated to develop and regulate the Accountancy Profession in Kenya. It is also a member of the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession and Pan Africa Federation of Accountants (PAFA), the continental body of Accountants.

The Institute has been invited by the Senate Standing Committee on Finance and Budget to give views on the efficacy of the Integrated Financial Management Information System (IFMIS) and its application in the disbursement of funds. As major users of the system, the Institute collated the views of accountants being critical players in the implementation of IFMIS.

The Public Financial Management (PFM) system has undergone various reforms since the implementation of the 2010 constitution aimed at ensuring both fiscal efficiency and discipline in the use of public finances to make it more efficient, effective, participatory and transparent. Cognizance that sound systems, strong legal and regulatory frameworks as well as a competent and productive civil service, are the cornerstones of an efficient Public Finance Management (PFM) regime, the government set up the Integrated Financial Management System (IFMIS). IFMIS is an Oracle based Enterprise Resource Planning (ERP), aimed at enhancing accountability and transparency at both the National and County levels of government. It has reformed the core PFM systems of budget formulation and execution, public procurement and financial reporting.

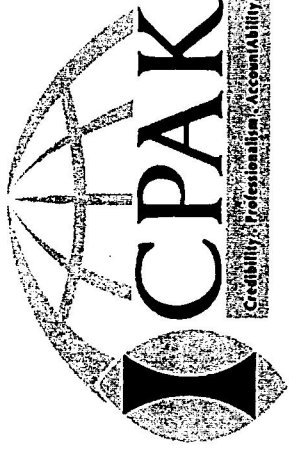
In 2020, the Institute conducted a study on the public finance building blocks and the impact of devolution in Kenya and observed that whilst all the 47 counties had adopted IFMIS, only half of the counties were proficient in its use.

This paper presents consolidated comments from the ICPAK membership.

## **2.0 STRENGTHS OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM**

A study conducted in South Africa by Hendriks, (2012) on Guidelines for effective implementation of IFMIS by the public sector indicated that, IFMIS had the following characteristics which also serve as its strengths.

1. As a management tool; IFMIS enables management to do the following:
  - a) Control aggregate spending and the deficit.
  - b) Prioritize expenditure across policies, programmes and projects to achieve efficiency, effectiveness and equity in the allocation of resources.
  - c) Make better use of budgeted resources, namely, to achieve outcomes and produce outputs at the lowest possible cost.
2. Implementation of IFMIS was also considered a very efficient tool in the fight against corruption due to an increased risk of detection of corruption.



Institute of Certified Public Accountants of Kenya

**PAPER ON THE EFFICACY OF IFMIS AND ITS APPLICATION IN THE DISBURSEMENT OF FUNDS**

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SEPTEMBER 2021

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- b) Where a commercial bank suspects the authenticity of a payment that has been received in its client's account from a Ministry or County, it will in writing request the CBK to obtain the confirmation. CBK will in turn write to the Ministry/County with a copy to the Director General, Accounting Services National Treasury and request for confirmation of the payment, complete with all supporting documents. Once this is obtained, the same is communicated to the commercial bank to enable them complete the processing of the payment.
- c) CBK also supports Investigation Agencies to provide information that may be required with regard to payments made by MDA's or County Governments subject to obtaining Court Orders. In such cases, CBK can only provide information on transactions effected by the above, from the system, by providing details of the dates when payments were made, the specific amounts involved, details of the remitting entities and recipients of funds. This information is obtained from the system audit trails and cannot be altered in any way.

#### **5. Challenges of the Current Processes**

CBK, NT and OCOB have recognized the need to improve the above processes in Leg 1 & 2, which besides being cumbersome and inefficient portend numerous risks. The three entities are at an advanced stage of automating these two legs and put them into IFMIS. Automation will enhance system security standards and minimize inherent risks, improve efficiency, minimize operational costs and avail online/real-time information and reports to users thereby streamline the funding process for counties.

**CENTRAL BANK OF KENYA**

July 7, 2021

### 3. Payments Processes/County Disbursement of Funds

#### a) Leg 1 - Funding Sharable Revenues for Counties

- NT periodically funds counties from the Exchequer to the individual county CRFs.
- Process: - the process is such that NT issues instructions to CBK to debit the Exchequer Account and credit respective County CRFs. This instruction (Treasury Order) is accompanied by Controller of Budget (COB) Grant of Credit approval, which is a requirement of the law for CBK to sight before processing the instruction. *(This process is manual and does not involve IFMIS).*

#### b) Leg 2 - Spending by Counties

- For counties to spend, they have to seek authority of the COB to move funds from their respective CRFs to the Operational Accounts (Recurrent, Development etc.) all maintained at CBK.
- Just like funding out of the Exchequer, CBK requires the CECM-F as the mandate holder of county accounts at CBK, to provide the instruction (Treasury Order) accompanied by COBs Grant of Credit. *(This process is manual and outside IFMIS).*

#### c) Leg 3 - Payments by Counties

- Counties initiate payment requisitions in IFMIS for disbursement to various third parties.
- Once requisition is approved in IFMIS, an encrypted electronic file with payment items is generated and uploaded from IFMIS to CBKs IB platform for processing of payments from the county operational accounts at CBK.
- Authorized county officials will log into IB and approve those payment items, which are then processed through the CBKs RTGS (KEPSS) to respective recipient commercial banks for accounts of beneficiaries.

#### **Comment: Mandate and Roles**

*The MDAs/ Counties have exclusive mandate for the initiation, verification and approval of payments in both the IFMIS and IB systems. The CBK has no capability of amending any transactions as the files received from IFMIS into IB are encrypted. The role of CBK in the payment process is to provide a secure platform through which payments approved by the MDAs and County Governments in IFMIS are transmitted to Commercial Banks.*

### 4. CBK interventions in the Payment Process

The CBK in certain instances may be required to intervene in the payment process as outlined below:

- a) In case a Ministry or County realizes that they have made an erroneous payment, they will request CBK, in writing or email, to recall the funds from the commercial bank. The CBK will then execute the recall instructions to the commercial bank and await the return of the funds that are directly credited to the respective ministry or county account.



## Central Bank of Kenya

### INQUIRY INTO THE EFFICACY OF INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS) AND IT'S APPLICATION IN THE DISBURSEMENT OF FUNDS

#### 1. Background

This is in reference to the letter from the Clerk of the Senate REF: SEN/DCS/SCF&B/2021/052 dated June 30, 2021 to the Central Bank of Kenya and others on the above subject. The Standing Committee of Finance and Budget of the Senate requires Central Bank of Kenya (CBK) as one of the main users of IFMIS, make a presentation on July 7, 2021 at 9.00am via a Zoom online link and provide inputs on:-

- a) the linkage between different modules of the system;
- b) the ability to access various real time reports;
- c) accessibility of audit trails reports;
- d) effectiveness of the system in promoting integrity and elimination of fraud; and
- e) the efficiency of backups in case of system malfunction.

**Comment and Clarification:** *The CBK is not a user of IFMIS per se. CBK linkage with IFMIS is through a secure connectivity/interface using CBK's Internet Banking (IB) platform, which is of our Core Banking System to facilitate transmission of payment instructions for both national and county governments from IFMIS in line with its mandate as a Banker to Government. That aside, CBK considers IFMIS a useful system in the government payment processes but could be improved and made better.*

Hence, the input by CBK to this inquiry by the Senate Committee will be on the role of CBK in Government payments within its systems and processes, which does not include IFMIS.

#### 2. Role of CBK in County payments and disbursement of funds

CBK is Banker to Government and maintains various bank accounts for National Government – Ministries Departments and Agencies (MDAs) through National Treasury (NT) and County Governments through the County Treasuries.

##### Main Types of Accounts Maintained –

- a) **National Government** - The Consolidated Fund Account (Exchequer) operated by NT and Operational Accounts for each individual MDAs (Recurrent, Development and Deposit etc.).
- b) **For Counties** – The County Revenue Fund (CRF) Account and Operational Accounts (Recurrent, Development and Deposit etc.) operated by the County Executive Committee Member for Finance (CECM-F/County Treasury). This includes the County Assembly accounts as well.

### **(iii) Enabling Unutilized Components**

The National Treasury has gazetted the National Assets and Liabilities Management Policy. This provides an opportunity to enable the Inventory and Asset Management module. This will enable tracking of assets and inventory for enhanced transparency and accountability.

Other unutilized components should also be activated for optimal use of the system.

### **(iv) Enhance Vote Book Control**

Payments should be clearly locked to the budget through the vote book. This will enhance implementation of budgeting by programmes and sub-programmes.

**(v)** Proper system configuration to limit manual interventions and ensure continuous use of the system by the entities.

## **10. Conclusion**

The Government has utilized a lot of funds and other resources in the acquisition and maintenance of IFMIS since inception. The Government has also made heavy investments in training accountants, finance and procurement officers in use of IFMIS at both the National and County Government levels.

IFMIS is a robust and reliable system if well used. It is, therefore, imperative that those charged with its governance should put in place proper controls to ensure that the system is efficient and effective in managing public finances and that there is value for money in the heavy investment.

With enhanced adherence to business process controls, transparency and accountability can be achieved while deterring wastage of public funds and fraudulent transactions.

In most entities, the budgetary control setting is advisory thus, the system does not ensure adherence to the budgetary ceilings. An absolute level of control for all entities would ensure that expenditures are within the stipulated budgets.

- Like any good system, it can be manipulated through collusion.
- Allows for idle users to remain active in the system: They can be used to effect fraudulent transactions.
- Allows weak passwords which can be decrypted easily.

## **8. The Efficiency of Backups in Cases of System Malfunctions**

The National Treasury has put in place an effective disaster recovery system which includes a backup function. This enables efficient and effective recovery in case of system malfunction or a disaster.

However, frequent downtimes occur especially during the close of financial year indicating that this may be done deliberately at the point of control.

## **9. Main Recommendations**

### **(i) Migration to Accrual Basis of Accounting**

The Government should adopt accrual basis of accounting. This is critical to the accountability process and will inform Government decision-making from a whole-of-government perspective. It will also assist the Government in providing a comprehensive account of the use of resources and the assets and liabilities belonging to various entities. This will:

- Eliminate pending bills.
- Eliminate reflection of commitments in financial statements and backdating of transactions.
- Provide real time reports as below-the-line ledger will be non-existent.
- Provide a clear picture of how well government entities are performing.

### **(ii) The Public Sector Accounting Standards Board (PSASB)**

The PSASB needs to be urgently reconstituted to enable the process of development reviewing and updating relevant accounting standards, reporting templates and guidelines to ensure the PFM reform agenda is not derailed and to guide optimal use of IFMIS. This will enable enhanced financial accountability as we move to adopting accrual accounting.

## Strengths

- It keeps a permanent record of users' activities and transactions and therefore is a good means of deterring fraud.
- Has allowed segregation of duties ensuring transactions are processed by multiple users at different stages.
- Has allowed supplier self-definition eliminating the possibility of one supplier being defined multiple times by different MDAs and Counties.
- Automated processes from procurement to payment.
- The system is configured to only operate from specific computers.
- Flexible and can be accessed from anywhere using a VPN and at designated times.

## Weaknesses

- ~~The system is not used for revenue collection, thereby introducing manual recording and posting which is prone to abuse. We have also noted instances of revenue being used at source.~~
- iSupplier portal has the ability of the suppliers to create invoices and view the status of their invoices (which is not activated) this feature would enhance integrity of the system and minimize entity-to-vendor interactions, which may have an impact in reducing fraud and collusion.
- The opportunity to introduce Below-The-Line transactions at the invoicing stage remains vulnerable because it is possible to process supplier payments by avoiding the procurement process.
- Backdating of transactions is still possible which may allow users to hide fraudulent entries.
- **Data Integrity Issues in Vendor Master Data** - The vendor information maintained in IFMIS has data integrity issues including duplicate vendor names and vendors with more than one supplier number. This is an indication that the vendor creation is decentralized even within the same entity and there is need to conduct data cleaning of the master data.
- Budgetary control configuration has three set-ups; absolute, advisory and none, where;
  - (i) Absolute ensures that the entity can only utilize funds that have been committed as per the budget,
  - (ii) Advisory is where the entity can make commit/make payments regardless of the budget ceiling and therefore lead to over-commitment off funds, and
  - (iii) None is setting where commitment can be done even where funds are not available.

- The Office of Auditor-General is able to access various reports, which we consider key in providing financial audit data. These include procurement plans, appropriation accounts, LPOs, invoice registers, payment details, among others.

### **Weaknesses**

- There are very many reports that can be generated by the system and users need to be educated on what information is on which report.
- Reports on revenue and expenditures are not real time due to the one-way interface with CBK Internet Banking and manual recording of revenue. This requires updating through the bank reconciliation process.

### **6. Accessibility of Audit Trail Reports**

The system has ability to keep an audit trail and keeps a log of users' activities. Auditors granted rights to generate reports can also query the system and keep track of users' activities.

### **Strength**

The audit trails cannot be edited/erased by users.

### **Weaknesses**

- **Purchase Orders to Invoices** - Vendor Invoices should be processed against the issued purchase orders. However, not all the vendor invoices are matched against the LPOs so as to track what was ordered and what has been invoiced. This casts doubt on the integrity of the system in processing these transactions, which may be attributed to either non-configuration of the system or deliberate failure to have a proper audit trail.
- **Invoices to Payments** - There is no clear audit trail of which invoices are paid in IFMIS despite the invoices been captured and an invoices register being maintained. Payments made to vendors cannot be reliably matched to a specific invoice processed in the system. In addition, it is difficult to estimate the pending bills (in terms of unpaid invoices) from the system.

### **7. Effectiveness of the System in Promoting Integrity and Elimination of Fraud**

IFMIS is a good system for promoting integrity and minimising fraud. However, some counties have continued to maintain manual records and ledgers even when they are required to process all transactions and generate financial reports using IFMIS.

#### **g) Other Components**

There are two (2) important components that have not been rolled out:

- i. Inventory and Asset Management
- ii. Human Resource Management

#### **4. Linkage to Other External Systems**

One of the main advantages of IFMIS is its scalability and therefore can be interfaced with other systems. IFMIS is currently integrated with the following external systems:

##### **(i) KRA Integrated Tax Management System (iTax)**

The integration has enabled withholding of taxes and the automated generation of withholding certificates for suppliers in the national and county levels and posting in the suppliers' ledger. This has provided an opportunity for streamlining and enforcing tax payments and compliance by suppliers by suppliers.

##### **(ii) Central Bank Internet Banking (IB)**

This is intended to provide a secure two-way interface with CBK for accurate, up to date information on the GOK financial position and the production of real time statutory reports.

#### **Strengths**

- Eliminated cash and cheque payments in government.
- Enabled the government to pay directly from the MDA account held at the Central Bank to the payee account held in commercial banks.
- Secure money transfers.

#### **Weaknesses**

- However, currently there is only a secure one-way interface with CBK (IFMIS to IB).

#### **5. The Ability to Access Various Real Time Reports**

##### **Strengths**

- The system generates various reports depending on a user's role or responsibility.
- Some reports such as budgets and commitments are real time.

#### **d) Record to Report**

This component is focused on providing a means to the production of accurate statutory reports in real-time.

##### **Strengths**

- Financial statements can be generated from the system.
- Financial statements templates are aligned to the requirements of the Public Sector Accounting Standards Board.
- There is standardized and uniform reporting.

##### **Weaknesses**

- The system was designed for accrual accounting. Therefore, it had to be customised to accommodate cash basis of accounting. Critically, essential information such as payables and assets are not generated by the system.
- Users can back-date transactions thus reducing the validity of real time balances.
- Closing balances in IFMIS vary with the CBK Internet Banking balances. This has resulted to large variances between financial statements prepared by counties and records generated from the IFMIS system.
- Ability to adjust balances for prior financial periods has led to poor data validity in relation to reported balances.
- Off-IFMIS transactions/expenditures are not recorded in IFMIS rendering financial statements inaccurate. This has been observed over the years, where entities process transactions off IFMIS.

#### **e) ICT to Support**

This component is focused on providing user support for software, hardware and infrastructure running the IFMIS system. There is a dedicated IFMIS Department headed by a Director who reports to the Director General, Accounting Services and Quality Assurance at the National Treasury.

#### **f) Communicate to Change**

This component includes the IFMIS Academy, which provides capacity building and continuous learning for new and existing users of IFMIS.

### **Strengths**

- Suppliers are in a position to bid and submit their documents electronically
- Procurements are pegged on availability of budget.
- Budget commitments are made at the requisition's approval stage therefore it cannot commit beyond what is budgeted.
- Budget allocation only accessed via County Revenue Fund CBK account.
- Central Bank account is only accessed through Internet Banking (IB) which only allows transactions from IFMIS.

### **Challenge/Weakness**

- Manual link with the Controller of Budget approval process for counties
- Currently, at the county level, the e-procurement module is not fully utilized as not all procurements are raised in the system. Users apply a combination of manual and automated procurement workflow. This has led to users being able to commit more than what is approved in the procurement plan.
- Users can also make commitments for procurements to below-the-line accounts such as imprests, salaries and general suspense. This can lead to overspending of the budget when those commitments crystallize into expenditures.
- Users may exploit the system controls by choosing which supplier to pay selectively and make payments to suppliers despite approval of pay and funds availability. This is also extended to making payments in CBK Internet Banking. This has led to creation of pending bills.

### **c) Revenue to Cash**

This component is focused on auto-reconciliation of revenue and payments.

#### **Strengths**

- Bank reconciliation process is now automated.

#### **Challenge/Weakness**

- In counties, IFMIS is used only to report historical information instead of being used at point of collection of revenue. It relies on information from external revenue collection systems, and therefore prone to errors, fraud and non-disclosure of revenue.
- IFMIS does not allow disaggregation of revenue into various revenue streams as collected by the third-party systems making tracking difficult.

## **a) Plan to Budget**

This component is focused on linking planning, policy objectives and budget allocation. The budget is captured in a different system called Hyperion as per the approved budget policy statement. The budget is captured in line items which are aggregated by the system into individual programmes and sub-programmes. Budget ceilings for each of the various categories of expenditure (Personnel Emoluments, Use of Goods, Development, Strategic Interventions) are used as a control. The Hyperion system feeds the budget into IFMIS.

The budgeting module is an effective way of capturing and aggregating all budgets at MDAs, County or National levels.

### **Strengths**

- There is an automated interface between Hyperion and IFMIS
- The Hyperion system does not allow arbitrary adjustments of the budget.
- It is open for a limited time period. The Hyperion system is locked after budget/supplementary budget preparation period and thus it is not open for manipulation
- This component is linked to all the other components and the General Ledger

### **Weaknesses**

Weak budgetary controls allowing users to override controls. This is due to the following:

- The Chart of Accounts setup at the budgeting level can be overridden during payment process
- Users can circumvent controls by selecting control accounts (below-the-line accounts) instead of selecting expense accounts.
- There have been cases of users preparing budgets outside the Hyperion System using applications such as MS-Excel to line by line items and later re-input the same in Hyperion after the Appropriation Bills are passed. This is prone to errors.

## **b) Procure to Pay**

This component is focused on developing a fully integrated and automated supply chain management system and payment. All procurements beyond low value procurements should be processed through IFMIS. The component manages the procurement plan, vote book, commitments, suppliers' portal, procurement process and payment.

## **1. Introduction**

Article 229(4) of the Constitution of Kenya, 2010, mandates the Auditor-General to audit the accounts of the National and County Governments, National Assembly and County Assemblies, all Funds and authorities of National and County Governments, accounts of all Courts, Public Debt and all institutions, programmes or projects funded by public funds. Article 229(6) further mandates the Auditor-General to confirm whether or not public money has been applied lawfully and in an effective way.

## **2. The Integrated Financial Management Information System**

The integrated Financial Management Information System (IFMIS) has been in use for the last eighteen (18) years as it was deployed to the Ministries, Departments and Agencies in 2003. It was deployed to the County Governments with the advent of devolution in 2012/2013.

IFMIS is anchored in law under Section 12(1)(e) of the Public Finance Management Act, 2012 which requires the National Treasury to design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the Constitution. The National Treasury is also mandated to ensure that operations of the system respect and promote the distinctiveness of the National and County levels of Government.

IFMIS is designed to provide full cycle end-to-end integrated approach which covers the whole Public Finance Management Cycle. It has undergone several re-engineering interventions in a bid to improve efficiency and effectiveness in public financial management and service delivery to citizens.

The Office of the Auditor-General is both a user and the auditor of the system, in addition to interacting with the system while carrying out statutory audits of the entities using the system both at the National and County Governments levels. We have carried audits on the system and the information generated from the system.

My memorandum is, therefore, based on the experience as a user and an auditor of the system.

## **3. The Linkage Between Different Modules of the System**

Currently, IFMIS has six (6) components as follows:



**MEMORANDUM ON EFFICACY OF THE  
INTEGRATED FINANCIAL MANAGEMENT  
INFORMATION SYSTEM (IFMIS) AND ITS  
APPLICATION IN THE DISBURSEMENT OF  
FUNDS**

17. Control of some modules by IFMIS Directorate to bar access to budget execution information. For example, when reporting, data drilling access is blocked such that you cannot get details for specific payments. This is seen as deliberate move by IFMIS Directorate to bar access to some expenditure by spending entities.
18. User management. Users have experienced delays in reset of login passwords through the online platform ( emails)

**Complied by CFA-CG & CFA-NG**

11. IFMIS does not report pending bills. This is despite procurement, payments and commitments being processed through the system.
12. Lumping together of development votes which has limited ability to monitor individual development projects. The system does not generate a report on projects being implemented by government and non-financial reports such as on achievement of key performance indicators.

IFMIS does not report on projects implementation status and on non-financial performance. Projects been implemented and non-financial modules should be developed and linked to IFMIS to ensure transparency and accountability in the budget implementation.

13. The system does not capture exchequer issues to spending entities. This therefore implies that there is no tracking of exchequer issues against payments being made.  
Exchequer release is manual and not linked to IFMIS. When approving exchequer requests, submission is done manually and not pegged on the actual expenditure in the System. Exchequer release should be linked to the IFMIS and should be real time to avoid double funding of a budget line.
14. Public debt is run on an independent system which is only accessible to specific defined personnel. There should be an interface such, Public debt expenditure can be accessed through IFMIS.
15. IPPD is not linked to IFMIS and there is a need to link the two systems for timely reporting and to promote transparency.
16. System availability. On various occasions, IFMIS has been unavailable to users while sometimes, it is slow and does not allow processing of transactions.

IFMIS experiences frequent downtime and you may not access report on need basis. There is need to ensure the system is up and running through out such it can be accessed on need basis.

insufficient budget allocation and to be regularized through supplementary budget. Experience has shown that this provision is being misused and has led to incorrect reporting. This provision should be controlled to avoid misuse.

4. The system allows posting of past transactions. There is no defined cut-off time for closure of posting of past transactions. This implies that financial reports keeps on changing and therefore affects credibility of reporting.

MDAs and County Governments take time to reconcile IFMIS data at the end of the month and such data may not be accurate until reconciliation is finalized. To ensure accuracy in data, data should be updated and reconciled on daily basis to ensure data generated at a given time is accurate.

5. Revenue module not fully developed and not linked to the budget, procurement and payment function of IFMIS. The system should not allow complete payment when no cash is available.
6. Counties have developed and procured their own revenue systems which are not linked with IFMIS. There is need to allow for data exchange with IFMIS.
7. Asset register not fully developed in IFMIS. The system should keep records of Assets acquired by government over time and not just in one financial year.
8. Chart of Accounts should be improved to capture programmes definition by respective county governments. The system should recognize those unique programme to certain counties.
9. Geographical location codes need to include Ward Level and/or Village Level. Not just the default "County Wide".
10. Not linking budget estimates to approved planning documents such as Vision 2030, CIDP, BPS, ADP, CFSP etc. The system does not require loading of planning documents.

# OFFICE OF THE CONTROLLER OF BUDGET



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6<sup>th</sup> July 2021

## INQUIRY INTO THE EFFICIENCY OF THE INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS) AND ITS DISBURSEMENT OF FUNDS

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### Some of the issues include:-

1. Delay in uploading budgets and procurement plans which is occasioned by delay in defining user responsibilities at the start of the financial year. This results to delay in disbursement of development funds into IFMIS and results to low absorption of funds affecting budget implementation. Although the modules are defined, linkage should be done on time to enable timely implementation of the planned activities.
2. Allowing capture of negative budget amount, negative commitment and negative expenditure. This leads to negative vote balances. Further, the system allows reallocations from line items which have already been spent (incurred expenditure) during supplementary budget. This should not be allowed.

IFMIS has allowed overdrawing of votes, both programmes and sub-programmes such that, expenditure exceed the budget. This has also been witnessed during supplementary budgets where budget cuts are affected across on a given percentage subsequently resulting to overdrawing of some votes. To overcome this, expenditure and budget should be linked such it can't exceed budget and funds available for a given activity.

3. Below the line expenditure. IFMIS allows payment of activities not budgeted for under the "*below the line*" default account provision. We note this was necessary to allow expenditure during emergencies and where there may be





## COUNCIL OF GOVERNORS

		<p>projects implemented. The title and details only shows the lumped resource requirements for all projects which are very difficult to automatically control or monitor during payment.</p> <ul style="list-style-type: none"> <li>➤ Only a few of the Work Plan details are captured via Hyperion, the finance and accounting departments are unable to distinctly tell what intervention/activity they are paying for nor can they tell the outstanding balance as per the programmed interventions. Vote book reports printed from IFMIS will indicate monies have been spent but the planned activities as per the entity work plans remain unimplemented</li> </ul>	
3.	Other Issues of Concern	<ul style="list-style-type: none"> <li>➤ Connectivity issues</li> <li>➤ Frequent downtime</li> <li>➤ Prolonged downtime especially towards the end of the financial year.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The number of servers to be increased and spread out across the Country.</li> <li>➤ Enhance the capacity of servers to avoid downtime when the number of concurrent users increases.</li> </ul>



## COUNCIL OF GOVERNORS

		<p>are not up to date. In the event one is processing a payment that contain a tax code that is not already in the system, one need to follow up with the National Treasury to input the code manually leading to delay undue delay.</p>	
2.	Ability to access various real time reports	<ul style="list-style-type: none"> <li>➤ Due to gap in configuration of different modules, a number of report do not give real time data. This includes the payment detail report due to lack of integration between IB and IFMIS.</li> <li>➤ IFMIS generates reports as per the templates in the standard financial Statements (PSASB) with aggregate expenditure. Templates prescribed by COB may differ with PSASB templates. There are discrepancies between the data captured in IFMIS and data generated by counties through work plans.</li> <li>➤ Since the P2B module is an extension of IFMIS, data gaps are also reflected in the General Ledger (GL), making it difficult for cashiers or OCOB to make informed approvals and track budget implementation.</li> <li>➤ General Ledger -vote books do not indicate the interventions, location nor the target of the</li> </ul>	Integration with other modules within and out of IFMIS system



## COUNCIL OF GOVERNORS

### ENQUIRY INTO THE EFFICACY OF THE INTEGRATED FINANCIAL MANAGEMENT INFORMATION SYSTEM (IFMIS) AND ITS APPLICATION IN THE DISBURSEMENT OF FUNDS

S.no	Issues of Concern	Description	Recommendation
1.	Linkage between different modules of the system	<ul style="list-style-type: none"><li>➤ The Programme Based Budgeting system is not fully configured with County Specific economic items codes. This leads to County Governments having to create new economic items in the Hyperion model in the budgeting stage. This does not always update in the system leading to loss or incorrect data.</li><li>➤ There are challenges in uploading and transmitting payments to Internet Banking (IB) as a result of downtime on either side of systems. This often leads to transactions not appearing on the Internet Banking side for payment.</li><li>➤ Transactions cannot complete without KRA validation. In most cases when running the electronic fund transfer (eft) transactions fail to go through due to downtime on Kenya Revenue Authority system leading to delays in uploading of transactions to IB.</li><li>➤ Tax codes Tax codes configured in IFMIS</li></ul>	<ul style="list-style-type: none"><li>➤ Update different modules with update codes</li></ul>



replaced the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).  
The National Treasury has started working on the integration of IFMIS, the new Meridian system  
and CBK to enable processing of debt obligations through IFMIS.

Yours

*Sincerely,*



**HON. (AMB.) UKUR YATANI, EGH**  
**CABINET SECRETARY/NATIONAL TREASURY & PLANNING**

#### **(vi) Internal Controls**

IFMIS has provided for segregation of duties (between planning, budget, procurement, pay and accounts), separation of roles implemented through approval hierarchies and separation of ledgers for the different counties. Within the functional areas there is further segregation of duties such that different officers are involved at different stages of processing a transaction. The officers are provided with a personal username and password and an audit trail is maintained for all transactions.

We have also invested in the security infrastructure with real time monitoring of our networks and the system, this ensures no unauthorized access to the system.

#### **(vii) Backdating of Transactions**

IFMIS system as currently configured does not allow backdating of transactions. This issue was flagged out in a past special audit and has since been resolved. However, the National Treasury, during year-end may allow a window of backdating transaction to June to enable entities finalize accounting procedures and capture expenditure relating to the fiscal year. This could also be occasioned by the second supplementary budget being passed by the National Assembly late in the fiscal year.

#### **(viii) IFMIS Downtime**

The National Treasury has over time invested a lot of resources on the IFMIS infrastructure such as acquisition of new servers and establishment of Disaster Recovery site which was completed in 2019. This has ensured higher availability of the system; over the last 3-4 years we have not had any major system outage. We are aware that some entities, especially counties do not have proper ICT infrastructure and therefore connectivity to the system is not stable. To address this, we have provided VPN access so that the system can be accessed over the internet using alternative internet providers. We have also provided modems for the counties to further enable accessibility of the system in areas with poor or no internet connectivity.

#### **(ix) Record of Assets in IFMIS**

The Fixed Assets module in IFMIS has not been rolled out given that until 2021 there was no guiding policy on definition, recognition, classification, depreciation and de-recognition of fixed and intangible assets. In addition, the central government reports on a cash basis where assets are expensed. The National Treasury has now developed a draft policy on Asset and Liabilities which will enable implementation of an Enterprise Asset Management system integrated with an asset register which shall be maintained in IFMIS.

#### **(x) Accessibility of Information on Public Debt Monitoring**

IFMIS is largely an expenditure management and reporting system. Debt acquired for budgetary support is managed and reported using a different system, the Meridian system which has recently

The system supports the end-to-end PFM cycle from planning and budgeting, budget execution (expenditure), accounting and reporting through the above modules which are interlinked by workflows. In addition, the system allows interaction with Government suppliers through the Kenya Suppliers Portal where suppliers are able to receive and respond to Government tenders.

#### **(ii) Integration with External Systems**

IFMIS is integrated with external systems such as KRA's i-Tax and CBK'S Internet Banking. The integrations are enabled through a middleware that has the ability to connect to any other PFM system. The integration with KRA has enabled suppliers to do self-registration in the IFMIS system, the suppliers are able to get their IFMIS numbers within two hours. It has also enabled validation of supplier's PIN numbers in IFMIS ensuring that relevant taxes are attached to supplier's payments. The integration with CBK has enabled electronic payment for services rendered to the government.

#### **(iii) Accessibility of Reports by Auditor-General**

The Auditor General's office has been given access to the system to enable them undertake audits of the MDAs and Counties. The OAG officers relies on the reports from the system for comparison of book of accounts maintained by the entities. While a number of entities still have differences between their books and the IFMIS reports, we have continued to build capacity for the entities to do the required accounting procedures in IFMIS in order to generate accurate financial reports.

#### **(iv) Effectiveness of IFMIS in promoting Integrity and Elimination of Fraud**

The IFMIS system maintains audit trails for all transactions, including details of the user, their IP addresses and transaction time. This enables the various investigative bodies such as DCI, EACC and KRA to mine data from IFMIS for purposes of investigations as well as evidence gathering when prosecuting economic crimes. National Treasury has given access and trained officers from these bodies on the use of IFMIS. In addition, whenever called upon, The National Treasury provides officers to give expert evidence in court in regards to data generated from IFMIS.

#### **(v) Safeguards toward Monitoring and Evaluation**

Function of coordinating monitoring and evaluation for all Government policies, programmes and projects is domiciled in the State Department of Planning. The IFMIS system provides financial reports on projects implementation but does not maintain the qualitative metrics for M&E.

For the IFMIS Programme, the IFMIS department has established a Project Management Office (PMO) which is charged with the responsibility of monitoring compliance with project management standards and procedures. The PMO also coordinates project closure to distil best practices and ensure documentation of lessons learnt. The Auditor General's Office also conducts special audits of the system periodically and provides recommendations for improving the system. The National Treasury also engages external consultant to provide quality assurance on IFMIS.

2019/2020 which was conducted from May 2021 to December 2021. According to the National Treasury's analysis of the Special Audit Reports, a total of **Kshs. 161.16 billion** pending bills presented for audit to the OAG, bills amounting to **Kshs. 47.55 billion** were reported as payable while **Kshs. 108.89 billion** lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment. Further, the Special Audit indicated that by 30<sup>th</sup> April 2021, Counties had paid **Kshs. 10.52 billion** (22% of the eligible pending bills) leaving an outstanding balance of **Kshs. 34.06 billion**.

According to a report submitted to IBEC by OCOB on the status of County Governments' pending bills as of 31<sup>st</sup> March, 2022 based on County Treasuries- self reporting (see attached), Counties had accumulated pending bills amounting to **Kshs. 106.4 billion** as of 30<sup>th</sup> June, 2021. Out of this, **Ksh. 15.1 billion** (14.2% of the accumulated pending bills) had been paid as of 31<sup>st</sup> March, 2022 leaving an outstanding balance of **Kshs. 91.3 billion**.

In order to ensure that pending bills do not accumulate, a number of mechanisms have been put in place. These measures include;

- All Counties are to regularly report on pending bills in accordance with the financial reporting template by the Public Service Accounting Standards Board (PSASB) in which they disclose in a note to the financial statements, details of all pending bills, including the date, beneficiary, description and amount and the reason why the amount was not settled by the due date.
- The COB will continue to provide regular updates on the progress made on settlement of eligible pending bills; and,
- To ensure that pending bills are settled, the County Governments are required to budget for the outstanding pending bills and submit a payment plan and a status of payment report to the COB, with a copy to the Cabinet Secretary, the National Treasury and Planning.

## **PART B: EFFICACY OF IFMIS IN DISBURSEMENT OF FUNDS AT BOTH THE COUNTY AND NATIONAL GOVERNMENTS**

### **(i) Linkages of IFMIS Modules**

IFMIS system is an integrated system prescribed by the National Treasury, in line with Section 12(e) of the PFM Act 2012, for use by both the National and County Governments. It has the following modules;

- a) Planning and Budgeting
- b) Account Payables
- c) Account Receivables
- d) General Ledger
- e) Cash Management
- f) Purchasing
- g) i-procurement



REPUBLIC OF KENYA  
THE NATIONAL TREASURY & PLANNING

**BRIEF TO THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET ON  
THE EFFICACY OF IFMIS IN DISBURSEMENT OF FUNDS AND STATUS OF  
PENDING BILLS AT THE COUNTY GOVERNMENTS**

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Reference is made to your letter dated 20<sup>th</sup> May, 2022, REF: SEN/DCS/SCF&B/2022/017 dated 20<sup>th</sup> May 2022 and SEN/DCS/SCF & B/2022/005 dated 11<sup>th</sup> March, 2022 inviting the National Treasury to the above-mentioned meeting.

The National Treasury hereby submits as follows:

**PART A: STATUS OF COUNTY GOVERNMENTS' PENDING BILLS**

The Public Finance Management Act, 2012, provides for mechanisms to assess and determine financial problems encountered by National Government entities and County Governments. Section 94(1)(a) of the PFM Act, 2012, indicates that a State organ or public entity is in serious material breach or persistent material breach if it has failed to make any payments as and when due. In Section 96(1) of the PFM Act, 2012, where the Cabinet Secretary responsible for finance finds a State organ which is a County Government entity to be in serious or persistent material breach of its obligations or financial commitments, the Cabinet Secretary shall, in accordance with article 225 of the Constitution, immediately stop the transfer of funds.

Office of the Auditor General (OAG) conducted a Special Audit to verify the stock of pending bills by County Governments as at 30<sup>th</sup> June 2018. The Special Audit indicated that out of a total of **Kshs. 88.98 billion** pending bills presented for audit to the OAG, bills amounting to **Kshs. 51.2 billion** were reported as payable while **Kshs. 37.7 billion** lacked sufficient documentations to support services rendered or work done and therefore were not recommended for payment.

A report by the Controller of Budget (COB) indicates that by 30<sup>th</sup> June 2021, Counties had paid **Kshs.40.49 billion** (79.1% of the eligible pending bills) leaving an outstanding balance of **Kshs. 10.79 billion**. During this period, the National government released to the Counties significant resources to enable them clear their pending bills. As at 30<sup>th</sup> June 2021, the National Treasury had released to County governments **Kshs. 399.0 billion** as their equitable share of revenue raised nationally and conditional grants for FY 2020/21.

The Intergovernmental Budget and Economic Council (IBEC) through a resolution of 18<sup>th</sup> June 2019 instructed all County governments to establish Ineligible Pending Bills Committee to verify these bills. Once verified, it was resolved that the arrears should be prioritized and paid. As at 30<sup>th</sup> June 2021, County governments had verified and paid **Kshs. 6.88 billion** of the ineligible pending bills.

Additionally, the National Treasury is in receipt of the OAG Special Audit Reports of pending bills for County governments as at 30<sup>th</sup> June 2020 for the Financial Years 2018/2019 and

- iv) Two parallel systems are not advisable since the current problems are not as a result of having one system. Secondly, one system ensures comprehensive report on the total wealth of a nation.

After deliberation, it was observed that-

- a) One of the main challenges of IFMIS was on governance and structure;
- b) The matter required a structured problem solving approaches;
- c) The National Treasury acted as an agent of National Government whereas its supposed to be independent and serve both levels of Government; and
- d) At times the National Treasury used IFMIS as expenditure control.

**MIN. NO. 1186/07/2021: ADJOURNMENT**

There being no other business the Chairman adjourned the meeting at 11:50 am.

**SIGNATURE:**



**(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)**

**DATE: 21<sup>st</sup> July, 2021**

- (i) Migration to Accrual Basis of Accounting - The Government should adopt accrual basis of accounting. This is critical to the accountability process and will inform Government decision-making from a whole-of government perspective. It will also assist the Government in providing a comprehensive account of the use of resources and the assets and liabilities belonging to various entities. This will:
- Eliminate pending bills.
  - Eliminate reflection of commitments in financial statements and backdating of transactions.
  - Provide real time reports as below-the-line ledger will be non-existent.
  - Provide a clear picture of how well government entities are performing.
- (ii) The Public Sector Accounting Standards Board (PSASB)- The PSASB needs to be urgently reconstituted to enable the process of development reviewing and updating relevant accounting standards, reporting templates and guidelines to ensure the PFM reform agenda is not derailed and to guide optimal use of IFMIS. This will enable enhanced financial accountability as we move to adopting accrual accounting.
- (iii) Enabling Unutilized Components- The National Treasury has gazetted the National Assets and Liabilities Management Policy. This provides an opportunity to enable the Inventory and Asset Management module. This will enable tracking of assets and inventory for enhanced transparency and accountability. Other unutilized components should also be activated for optimal use of the system.
- (iv) Enhance Vote Book Control - Payments should be clearly locked to the budget through the vote book. This will enhance implementation of budgeting by programmes and sub-programmes.
- (v) Proper system configuration to limit manual interventions and ensure continuous use of the system by the entities.
- j) Conclusion
- i) The Government has utilized a lot of funds and other resources in the acquisition and maintenance of IFMIS since inception. The Government has also made heavy investments in training accountants, finance and procurement officers in use of IFMIS at both the National and County Government levels.
  - ii) IFMIS is a robust and reliable system if well used. It is, therefore, imperative that those charged with its governance should put in place proper controls to ensure that the system is efficient and effective in managing public finances and that there is value for money in the heavy investment.
  - iii) With enhanced adherence to business process controls, transparency and accountability can be achieved while deterring wastage of public funds and fraudulent transactions.

- iSupplier portal has the ability of the suppliers to create invoices and view the status of their invoices (which is not activated) this feature would enhance integrity of the system and minimize entity-to-vendor interactions, which may have an impact in reducing fraud and collusion.
- The opportunity to introduce Below-The-Line transactions at the invoicing stage remains vulnerable because it is possible to process supplier payments by avoiding the procurement process.
- Backdating of transactions is still possible which may allow users to hide fraudulent entries.
- Data Integrity Issues in Vendor Master Data - The vendor information maintained in IFMIS has data integrity issues including duplicate vendor names and vendors with more than one supplier number. This is an indication that the vendor creation is decentralized even within the same entity and there is need to conduct data cleaning of the master data.
- Budgetary control configuration has three set-ups; absolute, advisory and none, where;
  - (i) Absolute ensures that the entity can only utilize funds that have been committed as per the budget,
  - (ii) Advisory is where the entity can make commit/make payments regardless of the budget ceiling and therefore lead to over-commitment off funds, and
  - (iii) None is setting where commitment can be done even where funds are not available.

In most entities, the budgetary control setting is advisory thus, the system does not ensure adherence to the budgetary ceilings. An absolute level of control for all entities would ensure that expenditures are within the stipulated budgets.

- Like any good system, it can be manipulated through collusion.
- Allows for idle users to remain active in the system. They can be used to effect fraudulent transactions.
- Allows weak passwords which can be decrypted easily.

#### h) The Efficiency of Backups in Cases of System Malfunctions

The National Treasury has put in place an effective disaster recovery system which includes a backup function. This enables efficient and effective recovery in case of system malfunction or a disaster.

However, frequent downtimes occur especially during the close of financial year indicating that this may be done deliberately at the point of control.

#### i) Main Recommendations

The system has ability to keep an audit trail and keeps a log of users' activities. Auditors granted rights to generate reports can also query the system and keep track of users' activities.

#### Strength

The audit trails cannot be edited/erased by users.

#### Weaknesses

- Purchase Orders to Invoices - Vendor Invoices should be processed against the issued purchase orders. However, not all the vendor invoices are matched against the LPOs so as to track what was ordered and what has been invoiced. This casts doubt on the integrity of the system in processing these transactions, which may be attributed to either non-configuration of the system or deliberate failure to have a proper audit trail.
- **Invoices to Payments** - There is no clear audit trail of which invoices are paid in IFMIS despite the invoices been captured and an invoices register being maintained. Payments made to vendors cannot be reliably matched to a specific invoice processed in the system. In addition, it is difficult to estimate the pending bills (in terms of unpaid invoices) from the system.

#### g) Effectiveness of the System in Promoting Integrity and Elimination of Fraud

IFMIS is a good system for promoting integrity and minimising fraud. However, some counties have continued to maintain manual records and ledgers even when they are required to process all transactions and generate financial reports using IFMIS.

#### Strengths

- It keeps a permanent record of users' activities and transactions and therefore is a good means of deterring fraud.
- Has allowed segregation of duties ensuring transactions are processed by multiple users at different stages.
- Has allowed supplier self-definition eliminating the possibility of one supplier being defined multiple times by different MDAs and Counties.
- Automated processes from procurement to payment.
- The system is configured to only operate from specific computers.
- Flexible and can be accessed from anywhere using a VPN and at designated times.

#### Weaknesses

- The system is not used for revenue collection, thereby introducing manual recording and posting which is prone to abuse. We have also noted instances of revenue being used at source.

One of the main advantages of IFMIS is its scalability and therefore can be interfaced with other systems. IFMIS is currently integrated with the following external systems:

i) KRA Integrated Tax Management System (iTax)

The integration has enabled withholding of taxes and the automated generation of withholding certificates for suppliers in the national and county levels and posting in the suppliers' ledger. This has provided an opportunity for streamlining and enforcing tax payments and compliance by suppliers by suppliers.

ii) Central Bank Internet Banking (IB)

This is intended to provide a secure two-way interface with CBK for accurate, up to date information on the GOK financial position and the production of real time statutory reports.

Strengths

- Eliminated cash and cheque payments in government.
- Enabled the government to pay directly from the MDA account held at the Central Bank to the payee account held in commercial banks.
- Secure money transfers.

Weaknesses

There is only a secure one-way interface with CBK (IFMIS to IB).

e) The Ability to Access Various Real Time Reports

Strengths

- The system generates various reports depending on a user's role or responsibility.
- Some reports such as budgets and commitments are real time.
- The Office of Auditor-General is able to access various reports, which we consider key in providing financial audit data. These include procurement plans, appropriation accounts, LPOs, invoice registers, payment details, among others.

Weaknesses

There are very many reports that can be generated by the system and users need to be educated on what information is on which report.

- Reports on revenue and expenditures are not real time due to the one-way interface with CBK Internet Banking and manual recording of revenue. This requires updating through the bank reconciliation process.

f) Accessibility of Audit Trail Reports

iv) Record to Report

This component is focused on providing a means to the production of accurate statutory reports in real-time.

- Strengths

- Financial statements can be generated from the system.
- Financial statements templates are aligned to the requirements of the Public Sector Accounting Standards Board.
- There is standardized and uniform reporting.

- The weaknesses

- The system was designed for accrual accounting. Therefore, it had to be customised to accommodate cash basis of accounting. Critically, essential information such as payables and assets are not generated by the system.
- Users can back-date transactions thus reducing the validity of real time balances.
- Closing balances in IFMIS vary with the CBK Internet Banking balances. This has resulted to large variances between financial statements prepared by counties and records generated from the IFMIS system.
- Ability to adjust balances for prior financial periods has led to poor data validity in relation to reported balances.
- Off-IFMIS transactions/expenditures are not recorded in IFMIS rendering financial statements inaccurate. This has been observed over the years, where entities process transactions off IFMIS.

v) ICT to Support

This component is focused on providing user support for software, hardware and infrastructure running the IFMIS system. There is a dedicated IFMIS Department headed by a Director who reports to the Director General, Accounting Services and Quality Assurance at the National Treasury.

vi) Communicate to Change

This component includes the IFMIS Academy, which provides capacity building and continuous learning for new and existing users of IFMIS.

c) Other Components

There are two (2) important components that have not been rolled out:

- i. Inventory and Asset Management
- ii. Human Resource Management

d) Linkage to Other External Systems

procurement plan, vote book, commitments, suppliers' portal, procurement process and payment.

#### The Strengths

- Suppliers are in a position to bid and submit their documents electronically and Procurements are pegged on availability of budget.
- Budget commitments are made at the requisition's approval stage therefore it cannot commit beyond what is budgeted.
- Budget allocation only accessed via County Revenue Fund CBK account.
- Central Bank account is only accessed through Internet Banking (IB) which only allows transactions from IFMIS.

#### The Challenge/Weakness

- Manual link with the Controller of Budget approval process for counties
- Currently, at the county level, the e-procurement module is not fully utilized as not all procurements are raised in the system. Users apply a combination of manual and automated procurement workflow. This has led to users being able to commit more than what is approved in the procurement plan.
- Users can also make commitments for procurements to below-the-line accounts such as imprests, salaries and general suspense. This can lead to overspending of the budget when those commitments crystallize into expenditures.
- Users may exploit the system controls by choosing which supplier to pay selectively and make payments to suppliers despite approval of pay and funds availability. This is also extended to making payments in CBK Internet Banking. This has led to creation of pending bills.

#### iii) Revenue to Cash

This component is focused on auto-reconciliation of revenue and payments.

##### - The strengths

Bank reconciliation process is now automated.

##### - The challenge/weakness

- In counties, IFMIS is used only to report historical information instead of being used at point of collection of revenue. It relies on information from external revenue collection systems, and therefore prone to errors, fraud and nondisclosure of revenue.
- IFMIS does not allow disaggregation of revenue into various revenue streams as collected by the third-party systems making tracking difficult.

The office also carries out audits on the system and the information generated from the system.

b) The Linkage Between Different Modules of the System

The IFMIS has six (6) components as follows:

- i) Plan to Budget - focused on linking planning, policy objectives and budget allocation. The budget is captured in a different system called Hyperion as per the approved budget policy statement. The budget is captured in line items which are aggregated by the system into individual programmes and sub-programmes. Budget ceilings for each of the various categories of expenditure (Personnel Emoluments, Use of Goods, Development, Strategic Interventions) are used as a control. The Hyperion system feeds the budget into IFMIS.

The budgeting module is an effective way of capturing and aggregating all budgets at MDAs, County or National levels.

- The strengths

There is an automated interface between Hyperion and IFMIS

- The Hyperion system does not allow arbitrary adjustments of the budget.
- It is open for a limited time period. The Hyperion system is locked after budget/supplementary budget preparation period and thus it is not open for manipulation
- This component is linked to all the other components and the General Ledger

- The weaknesses

Weak budgetary controls allowing users to override controls. This is due to the following:

- The Chart of Accounts setup at the budgeting level can be overridden during payment process
- Users can circumvent controls by selecting control accounts (below-the-line accounts) instead of selecting expense accounts.
- There have been cases of users preparing budgets outside the Hyperion System using applications such as MS-Excel to line by line items and later reinput the same in Hyperion after the Appropriation Bills are passed. This is prone to errors.

ii) Procure to Pay

This component is focused on developing a fully integrated and automated supply chain management system and payment. All procurements beyond low value procurements should be processed through IFMIS. The component manages the

- v) Only a few of the Work Plan details are captured via Hyperion, the finance and accounting departments are unable to distinctly tell what intervention/activity they are paying for nor can they tell the outstanding balance as per the programmed interventions. Vote book reports printed from IFMIS will indicate monies have been spent but the planned activities as per the entity work plans remain unimplemented.

**Recommendation-** Integration of all modules within and out of IFMIS system.

c) Other Issues of Concern

- i) Connectivity issues
- ii) Frequent/ prolonged downtime
- iii) Prolonged downtime especially towards the end of the financial year
- iv) Interference which compromise reliability of IFMIS reports
- v) Difficulties in defining user rights for evaluation committees (which is Ad-hoc Committee within procurement process)
- vi) User rights limited to chief officers whereas in some instances Directors of certain departments should be able to access and use the system. Decentralizing from Chief officer is a challenge.

**Recommendations** - The number of servers to be increased and spread out across the Country.

-Enhance the capacity of servers to avoid downtime when the number of concurrent users increase.

-There is need to allow customization of the hierarchy structure.

**Submission by the Auditor General**

Upon invitation, the Auditor General informed the Committee as follows-

a) The Integrated Financial Management Information System (IFMIS)

The IFMIS has been in use for the last eighteen (18) years as it was deployed to the Ministries, Departments and Agencies in 2003.

- i) It was deployed to the County Governments with the advent of devolution in 2012/2013. IFMIS is anchored in law under Section 12(1)(e) of the Public Finance Management Act, 2012.
- ii) IFMIS is designed to provide full cycle end-to-end integrated approach which covers the whole Public Finance Management Cycle.
- iii) The Office of the Auditor-General is both a user and the auditor of the system, in addition to interacting with the system while carrying out statutory audits of the entities using the system both at the National and County Governments levels.

- ii) Avoid the process of officers walking from one office to the other carrying physical documents.

### **Submission by the Council of Governors Representative**

Upon invitation, the Hon. Muriithi Ndiritu, Chairman, technical Committee on Finance, Economic Affairs and Planning informed the Committee as follows-

- a) Linkage between different modules of the system- this refers to-
  - i) The Programme Based Budgeting system is not fully configured with County Specific economic items codes. This leads to County Governments having to create new economic items in the Hyperion model in the budgeting stage. This does not always update in the system leading to loss or incorrect data.
  - ii) There are challenges in uploading and transmitting payments to Internet Banking (IB) as a result of downtime on either side of systems. This often leads to transactions not appearing on the Internet Banking side for payment.
  - iii) Transactions cannot complete without KRA validation. In most cases when running the electronic fund transfer (EFT) transactions fail to go through due to downtime on Kenya Revenue Authority system leading to delays in uploading of transactions to IB.
  - iv) Tax codes configured in IFMIS are not up to date- In the event one is processing a payment that contain a tax code that is not already in the system, one need to follow up with the National Treasury to input the code manually leading to undue delay.

**Recommendation-** Update different modules with update codes.

- b) Ability to access various real time reports
  - i) Due to gap in configuration of different modules, a number of report do not give real time data. This includes the payment detail report due to lack of integration between IB and IFMIS.
  - ii) IFMIS generates reports as per the templates in the standard financial Statements (PSASB) with aggregate expenditure. Templates prescribed by COB may differ with PSASB templates. There are discrepancies between the data captured in IFMIS and data generated by counties through work plans.
  - iii) Since the P2B module is an extension of IFMIS, data gaps are also reflected in the General Ledger (GL), making it difficult for cashiers or OCOB to make informed approvals and track budget implementation.
  - iv) General Ledger -vote books do not indicate the interventions, location nor the target of the projects implemented. The title and details only shows the lumped resource requirements for all projects which are very difficult to automatically control or monitor during payment.