REPUBLIC OF KENYA

OFFICE OF THE CONTROLLER OF BUDGET

ANNUAL REPORT | 2015/2016

April 2017

Promoting Prudent Financial Management in the Public Sector

Paper Laid on the Table of the House by the Leader of the Majority Party on Wednesday 13th September 2017. Afternoon

THE REPUBLIC OF KENYA

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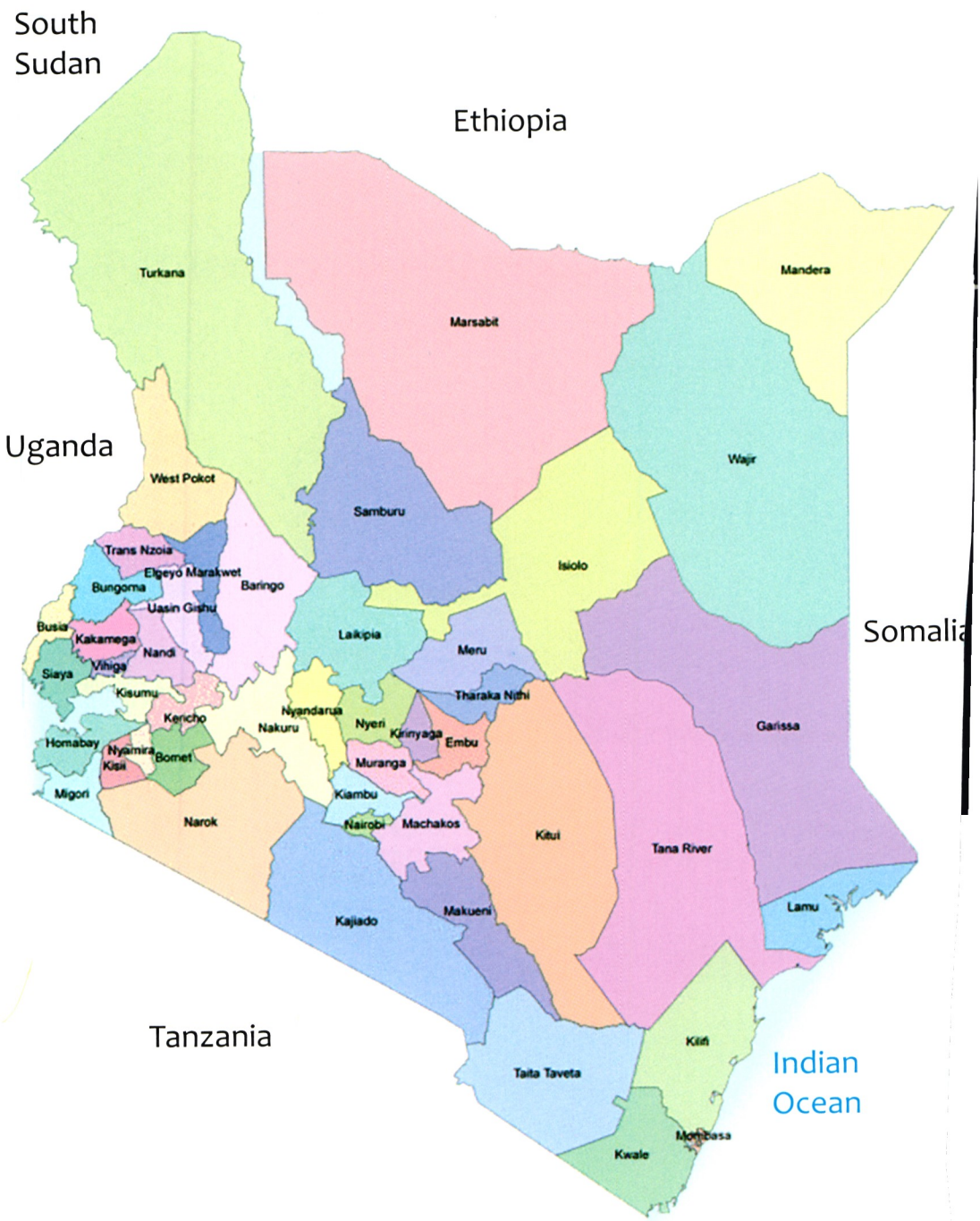
Providing Product Financial Management in the Public Sector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LIST OF ACRONYMS

BIRRs	Budget Implementation Review Reports
CBEF	County Budget and Economic Forums
CFS	Consolidated Fund Services
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
COB	Controller of Budget
CSW	Commission on the Status of Women
DANIDA	Danish International Development Agency
FY	Financial Year
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFMIS	Integrated Financial Management Information System
MDAs	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PFM	Public Finance Management
PFMA	Public Finance Management Act
SP	Strategic Plan
USAID	United States Agency for International Development

STATEMENT FROM THE CONTROLLER OF BUDGET

It is with great pleasure that I present the fifth Annual Report of the Office of the Controller of Budget (OCOB) in accordance with Article 254 of the Constitution of Kenya, 2010 and Section 5(b) of the Controller of Budget Act, 2016. The report is an accountability statement to the people of Kenya on the achievements made by the Office in the implementation of its mandate and covers the period July 2015 to June 2016. The report contains a description of the activities of the Office and the financial statements.

The report gives the status of implementation of OCOB activities during the Financial Year (FY) 2015/16 in line with its key constitutional mandate which is to oversee the implementation of budgets of both the National and County Governments and submit to Parliament a report on the implementation of the budgets of the national and county governments every four months. Specifically it provides a synopsis on the withdrawal from public funds particularly the Consolidated Fund and Revenue Fund.

During the 2015/16 Financial Year, the Office registered a number of achievement as enumerated in this report. The Office continued to prepare statutory repor on implementation of the budgets of the national and county governments ar submitted to Parliament in accordance with Article 228(6) of the Constitutior Kenya, 2010. The reports highlight key issues such as exchequer releases to levels of government, total expenditure, absorption of funds released fo implementation, challenges affecting the Office in the discharge of it and other major challenges affecting budget implementation at bot government.

The Office has restructured some of its key processes to ensure timely approval of exchequer requisition from Ministries, Departments and Agencies as well as the County Governments. In particular, the Office reviewed the procedures manual that guide the process of approval of withdrawals from public funds by spending entities. As a result, the total exchequer issues released to both levels of government amounted to **Kshs.1,833.2 billion** representing a **12.6 per cent** increase compared to the exchequer issues released in FY 2014/15. A total of **Kshs.720.3 billion** was released to fund recurrent budget for the National Government which was equivalent to **98.1 per cent** of the revised recurrent net estimates. The National Government total recurrent expenditure was **Kshs.706.5 billion** translating to an expenditure rate of **87.1 per cent** of the revised gross recurrent estimates, an increase in expenditure rate from **84.6 per cent** recorded during the previous year. Absorption rate for development expenditure increased to **66.3 per cent** of the revised gross development budget estimates from **62.4 per cent** recorded in the previous year.

The Office approved the transfer of **Kshs. 303.5 billion** to the County Operational Accounts from the CRFs. These comprised of **Kshs.195.7 billion** (64.5 per cent) for recurrent expenditure and **Kshs.107.8 billion** (35.5 per cent) for development expenditure. On the other hand, the County governments' total expenditure amounted to **Kshs.295.3 billion** during the period under review. This translates to an absorption rate of **80.4 per cent** which is an improvement by 1 percentage point compared to Kshs. 258.0 billion spend in the previous year. Recurrent expenditure amounted to **Kshs.191.9 billion** representing 91.9 per cent of the annual recurrent budget, and a decline from 92.4 per cent reported in FY2014/15. Development expenditure amounted to **Kshs.103.5 billion,** translating to an absorption rate of **65.2 per cent**, a marginal improvement from **62.4 per cent** attained in FY2014/15 when total development expenditure was Kshs.90.4 billion.

The Office released Kshs.476.3 billion equivalent to 96.3 per cent of the revised net estimates to the Consolidated Fund Services. This included Kshs.421.8 billion

released to service public debt, Kshs.50.9 billion for pensions and gratuities, Kshs.3.54 billion for salaries and allowances of constitutional office holders, Kshs.1.8 billion for subscription to international organizations and Kshs.700.0 million for guaranteed loans.

The Office of the Controller of Budget reviewed the Budget Estimates for FY 2016/17 for county governments to ensure compliance with legislations in place. The Office made several recommendations that resulted in setting of more realistic targets in the budget estimates and improvement in the absorption of funds. The Office also ensured that the set ceilings between the legislature and the executive reduced conflicts among the two arms of government at the county level.

The Office held two public participation forums covering 12 county governments during the 2015/16 financial year. The main objective of the fora was to sensitize the public on their role in public financial management at national and county level and to improve interaction between the Public and the Office in order to enhance oversight on the usage of public resources.

These achievements would not have been realized without support and collaboration with other stakeholders. The Office received invaluable support from the National Assembly, the Senate, the National Treasury, all the Ministries, Departments, and Agencies of the National Government, Counties, Council of Governors and Development Partners. In particular, the Office collaborated with UNWomen, the National Treasury and the Council of Governors to strengthen the capacity of the MDAs and County governments on Gender Responsive Budgeting.

These achievements have not been without challenges. For instance, MDAs and the County Governments have been delaying to submit their financial reports thus affecting the timely reporting by the Office as required by law. In order to meet the constitutional and legal requirements, all MDAs should ensure that expenditure reports are submitted to the Controller of Budget in a timely manner in order to

allow for the publication and submission of the Budget Implementation Review Reports to Parliament and other stakeholders including the Public.

The Office developed a Monitoring and Evaluation (M&E) framework to monitor implementation of budgets of the national and county government. Through monitoring of projects, the Office effectively advises both the Executive and the Legislature on budget implementation matters. To this end, the Office conducted a monitoring exercise in all the 47 counties to establish the status of implementation of programmes/projects based on the approved FY2014/15 Budgets in selected sectors. The results indicated that there is commendable progress in provision of services by the devolved governments although there still exist variations across the counties. The Office noted that there is still poor linkage between planning and budgeting and there are widespread time-lags in implementation of projects. The Office therefore recommends the linking of planning to budgeting, implementation of programme based budgeting and engagement of stakeholders in project implementation. In addition, devolved units should establish functional internal M&E systems as part of their internal operations.

The Office remains committed to promoting good practices in public financial management and appeals to all stakeholders to play active roles in monitoring the use of public resources to ensure approved programmes are implemented according to plans to benefit the citizenry. Consequently, we must maintain focus on improving the well-being of Kenyans by promoting good practices in public finance management. Finally, I commend the OCOB fraternity on the achievements and gains we have made so far. This would not have been realized without the hard work, devotion and professionalism of the Team.

Mrs Agnes Odhiambo, CBS
CONTROLLER OF BUDGET

EXECUTIVE SUMMARY

The Constitution of Kenya, 2010 mandates the Controller of Budget to oversee and report to the Legislature, the Executive and the Public the utilization of public resources. Further, Article 254(1) requires every Constitutional Commission and Independent Office to submit a report to the President and Parliament, as soon as practicable, after the end of each financial year. This report has therefore, been prepared pursuant to this requirement and provides a summary of the activities that the Office carried out during the FY 2015/16 in line with its key constitutional mandate as provided for in Article 228 of the Constitution.

The total exchequer issues released to MDAs and the County Governments in FY 2015/16 amounted to **Kshs.1,833.2 billion** representing a **12.6 per cent** increase compared to **Kshs.1,627.4 billion** exchequer issues released in FY 2014/15. This comprised of **Kshs.1,053.5 billion** released to MDAs, **Kshs.476.2 billion** for Consolidated Fund Services and **Kshs.303.5 billion** to County Governments, compared to **Kshs.910.6 billion, Kshs.454.5 billion** and **Kshs.262.3 billion** respectively released in FY 2014/15. There was a slight increase in exchequer issues to net estimates from **90.7 per cent** in FY2014/15 to **93.4 per cent** in FY 2015/16.

A total of **Kshs.333.2 billion** was released towards development expenditure, **Kshs.720.3 billion** for recurrent expenditure, and Kshs.303.5 billion to the County Governments. The exchequer issues released to fund development activities represented **90.1 per cent** of the revised net estimates while the exchequer issues released to fund recurrent activities translated to **98.1 per cent** of the revised net recurrent estimates. In addition, the exchequer issues released to fund the 47 county governments translated to **82.6 per cent** of the revised net estimates.

During the 2015/16 Financial Year, the Office observed some issues and challenges that should be addressed in order to improve budget implementation

by both national and county governments.

The timing of supplementary budgets in both levels of government did not provide sufficient time for the implementation of activities. Supplementary Budgets in some county governments were approved towards the end of the financial year. This hindered the implementation of activities by both MDAs and county government entities and in turn affected the timey submission of reports to OCOB at both levels. In addition, the delay in the approval of key budget and planning documents as provided under Section 117 and 126 of the Public Finance Management Act, 2012 by County Assemblies negatively affected the budget process and the overall budget implementation during the FY 2015/16. The Office therefore urges the County Governments to ensure adherence to the budget timelines with regard to the submission and approval of budget and planning documents as stipulated in law.

During the period under review, the County Governments spent an aggregate of **Kshs.118.65 billion** on personnel emoluments (PE), accounting for **40.2 per cent** of the total expenditure. This was an increase of 15.1 per cent compared to **Kshs.103.10 billion** incurred in FY 2014/15. The Office had pointed out the escalating wage bill in its previous reports and observed that it may not be sustained in the long run and may result to reduction in spending on productive sectors. The County Governments should therefore come up with mechanisms to contain the increasing wage bill with a view of capping expenditure on PE to **35 per cent** of the County's total revenue as provided for under Section 25 of the Public Finance Management Regulations (County Government).

During the 2015/16 Financial Year, the Office conducted a number of investigations on matters affecting budget implementation brought to its attention by the Senate, members of the public or on its own volition in line with Articles 252(1)(a) of the Constitution of Kenya , 2010. Similarly, in line with its conciliation/mediation role as provided for under Article 252(b), the Office undertook conciliation and mediations between warring parties among the County Governments essentially

on budget implementation matters. These included Counties such as Isiolo and Garissa, among others.

The Office has developed an elaborate ICT infrastructure system to assist in delivery of information to stakeholders which includes an interactive website. Further, the Office developed a library management system, an asset management system, an elaborate intranet and mail system for staff, and has put in place a system to enable the public access budget implementation information online using their mobile phones.

The Office relied on its Strategic Plan 2013-2017 to guide its activities, policy formulation and work plans. The strategic policy document is due for revision to take stock of changes in the internal and external environment and refocus some strategic objectives to reflect the current circumstances. The review will be guided by the Constitution of Kenya, 2010 and other enabling legislations such as Public Finance Management (PFM) Act, 2012, the Controller of Budget Act, 2016 and other Devolution laws.

CHAPTER ONE

INTRODUCTION

1.0 Background

The Office of the Controller of Budget has prepared the fifth Annual Report pursuant Article 254 (1) of the Constitution of Kenya, 2010 which requires each commission, and each holder of an independent office, to submit a report to the President and Parliament at the end of each financial year. The report contains both financial and non-financial information. Section one of the report covers the non-financial information which entails activities implemented by the Office during the period under review. The second part of the report is mainly the financial information contained in the annex. The annex constitutes the report of the Auditor General on the Office of the Controller of Budget for the Financial Year ended 30 June 2016 and the Financial Statement for the same period.

In line with the FY2015/16 Budget theme of ***enhancing economic transformation for a shared prosperity,*** the Office has regularly publicized quarterly budget implementation reports to assist Parliament and the public to monitor how both national and county governments are utilizing public resources to meet the aspirations of the Public. These in-year reports have provided the basis for assessing the level of accountability in public finance and compliance with fiscal responsibility principles set out in Chapter 12 of the Constitution on Kenya, 2010.

The Office of Controller of Budget relies upon the COK, 2010, Public Finance Management Act, 2012 and other enabling legislations and regulations to discharge its mandate. Specifically, Article 228 of the Constitution outlines the mandate of the Office and includes; Overseeing the implementation of the budgets of the national and county governments by authorizing withdrawal from public funds (Article 228 (4)) and Reporting to each House of Parliament, every four months (report) on the implementation of budgets of national and county

governments (Article 228 (6)). Further, Section 39 (8) of the PFMA requires the Controller of Budget to ensure that the Public has access to information on budget implementation both at the national and county government levels.

The role to oversee the implementation of budgets of both the national and county governments also entails preparing quarterly budget implementation review reports for both levels of government and publicizing these reports widely to ensure the public can easily access information on budget implementation.

Other functions/roles of the office include:

- Controlling Role: To authorize withdrawals from public funds i.e. Equalization Fund (Article 204 (9)), Consolidated Fund (Article 206(4)), and Revenue Fund (Article 207 (3)), if satisfied that the same is in accordance with the law (Article 228 (5));
- Advisory Role: To advise Parliament where it may not approve or renew the decision to stop further transfer of funds to a State organ or any other public entity (Article 225 (7)(a)
- Mediation/Arbitration Role: The OCOB may conduct alternative dispute resolution mechanisms to resolve disputes on financial matters between county government(s) and the national government or between Counties. (Article 252(b))
- Investigation Role: The OCOB may conduct investigations on its own motion or on a complaint made by a member of the public with regard to budget implementation (Article 252(a)).

1.1 Budget Implementation

The Office has remained steadfast in ensuring information on budget implementation by both national and county governments is published and publicized as required by law. A key part of this process is ensuring effective public participation in monitoring utilization of public funds. The Office therefore held two public sensitization forums in Mombasa and Kisumu with participants

drawn from the neighbouring counties. The forum provided an opportunity for the public to engage in more fruitful discussions with the county government policy makers to improve delivery of public services.

The rationale for citizen engagement in the budgeting process arises from the fact that budget decisions have a significant impact on the lives of the public, and therefore should be informed by the views and values of citizens. The scrutiny of citizens can help to ensure that decision makers are diligent in the decisions they make, improving the efficiency, responsiveness and accountability of government, and guarding against corruption. Engaging citizens in fundamental decisions, such as budget decisions, can help to overcome public mistrust.

Monitoring and evaluation is an important phase in the budgeting cycle and entails the collection and analysis of data about budget activities. The data should allow budget implementers to keep track of budget activities to determine whether budget objectives are being achieved and make whatever changes that is necessary to improve budget performance. This information is important to planners, policy makers and implementers for informed decision making about programme operations. This ensures efficient and effective program/project implementation by ensuring that inputs in form of resources are transformed into outputs and outcomes.

Accordingly, the Office undertook a monitoring exercise in all the 47 counties to ascertain the status of implementation of programmes/projects approved in the FY2014/15 budgets. Monitoring reports were prepared and submitted to respective counties. These reports contain valuable information to guide counties in strategic planning and in the allocation of resources among competing needs and ensure improved implementation of approved programmes and projects for the benefit of the public.

Newly installed 5000 litres milk cooling tank and pasteurization unit at Muguga Farmers' cooperative society, Kiambu County.

1.2 Scope and Organization of the Report

The current report presents the status of implementation of the activities and programs of the Office for the FY20151/6. It provides information on key milestones achieved during the reporting period, and challenges that affected the implementation of planned activities. This report is organized into seven chapters, including this introductory chapter. Chapter two provides a summary of the mandate of the Office of the Controller of Budget, including the strategic framework and its implementation structure. Chapter three provides a summation of budget implementation by both national and county governments during the reporting period. The chapter also provides the key activities implemented by the Office during the FY2015/16. Challenges encountered by both the national and county governments in the process of implementing their FY2015/16 budgets are captured in chapter four while the respective recommendations to address the challenges identified in the preceding section are outlined in chapter five. Chapter six provides a graphical summary of the organizational structure of the office including a brief description of the functions of each directorate. Chapter

seven is the conclusion of the report.

Finally, the report includes an annex of the Report of the Auditor General on the Office of the Controller of Budget for the Financial Year ended 30 June 2016 and the Financial Statement for the same period. It is important to mention that, the Office has received unqualified opinion from the Audit General on its accounts for the last three years. The Office has been in the forefront in promoting prudent financial management in the public sector. Consequently, the Office was recognised by the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (Kenya) and the Nairobi Securities Exchange (NSE) and awarded the Financial Reporting (FiRe) Award in promoting excellence in financial reporting, fostering sound corporate governance practices, and enhancing both corporate social responsibility and environmental reporting. In FY 2015/16, the Office received the Award for the 1st Runners-up in the Category of Ministries, Departments & Agencies and the 2nd Runners up for the Cash category.

CHAPTER TWO

MANDATE AND STRATEGIC FRAMEWORK

2.0 Background

Article 228 of the Constitution of Kenya, 2010 requires the Office to submit periodic reports to the Legislature and the Executive on the progress of implementation of budgets by both national and county governments. In this regard, the Office has on regular basis submitted quarterly budget implementation review reports of both national and county governments to Parliament and the Executive as required by Article 228 of the COK, 2010. These reports enable the Office to document information on the usage of public funds at both levels of government. Further, they form the basis upon which Parliament, County Assemblies and the Public scrutinize usage of public funds by spending units at both national and county level during the year. These reports have also been publicized in both print and online media to achieve wide coverage.

The Office may be required by the President, the National Assembly or the Senate to prepare and submit a special report on a particular issue of interest on budget implementation in accordance with Article 254(2) of the Constitution. In this regard, the Office prepared the County Revenue Baseline Study, 2015 and shared with stakeholders. This study arose from the concern by the Office on the underperformance (49 per cent of the target) of local revenue among the counties during the first and second years of operation. In the same way, Article 252 (a) of the Constitution provides that the Office of the Controller of Budget may conduct investigations on its own motion or on a complaint made by a member of the public with regard to budget implementation.

2.1 Mandate of the OCOB

Article 228 of the COK, 2010 mandates the Office of the Controller of Budget

to oversee budget implementation by authorizing withdrawal from public funds and report on the implementation of budgets of both the national and county governments. This role also entails preparing quarterly budget implementation review reports for both levels of government and ensuring that they are published and publicized widely so that the public can easily access information on budget implementation.

Other functions/roles of the office include:

- Authorizing withdrawals from public funds including the Equalization Fund, the Consolidated Fund and County Revenue Funds, when satisfied that the withdrawal is authorized by law.
- Advising Parliament on the need to renew or not to approve the decision of the Cabinet Secretary in charge of finance to stop the transfer of funds to a State organ or any other public entity.
- Reporting, after the end of each financial year, to the President and Parliament
- Reporting, on a particular issue, as may be required by the President, the National Assembly or the Senate
- Conducting investigations based on own initiative or on a complaint made by a member of the public
- Conducting alternative dispute resolution mechanisms including conciliation, mediation and negotiation to resolve budget implementation disputes.
- Ensuring that the public has access to information on budget implementation both at the national and county government level in accordance with Article 232 of the Constitution, 2010 and Section 39(8) of the PFM Act, 2012.

The Office of the Controller of Budget provides shared services to both the national and county governments and is required to discharge its mandate independently and not subject to direction or control by any person or authority as stipulated in Article 249(2) of the COK, 2010. This is to ensure that the office

provides objective reports and advice to Parliament and the Executive on matters relating to budget implementation.

In discharging her mandate, the Office is guided by the principles of public finance that have been integrated in the policy documents of the Office of the Controller of Budget. Some of the values incorporated in the Strategic Plan and other policy documents such as the Human Resource policy are:

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

2.2 Strategic Plan (2013-2017)

A strategic plan is an important tool to an organization because it provides a sense of direction and outlines measurable goals. The Office has a strategic plan in place that guides policy formulation and day-to-day decision making process as well as evaluating progress towards meeting its constitutional mandate.

2.2.1 Vision

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

2.2.2 Mission

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

2.2.3 Core Values

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

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

2.2.4 Strategic Objectives

The operations of the Office are guided by six key strategic objectives. Each objective is cascaded to various strategies and activities that aim to achieve results in key result areas. The following are the six strategic objectives.

1. To ensure timely approval of withdrawals from the Consolidated Fund, County Revenue Fund and Equalization Fund;
2. To oversee and regularly monitor the utilization of public funds released to spending units;
3. To enhance openness, accountability and public participation in prudent financial management;
4. To participate and provide advice on financial, planning and budgeting issues;
5. To build capacity of the Office to deliver on its mandate; and
6. To ensure the public has access to comprehensive, understandable, credible and timely information.

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

CHAPTER THREE

PERFORMANCE AND ACHIEVEMENTS

3.0 Performance

The Constitution of Kenya, 2010 and other enabling legislations empower the Controller of Budget to oversee the implementation of budgets of both the national and county governments. Consequently, the Office has a constitutional mandate to approve requests from both MDAs and County Governments for the release of funds from the public funds namely the Consolidated Fund, County Revenue Funds and the Equalization Fund to finance approved programmes. In line with this mandate, the Controller of Budget is committed to ensuring that exchequer requests are approved in time to ensure seamless flow of funds to the targeted programmes for the benefit of the Public. The Office also publishes budget implementation reports on quarterly basis highlighting the status of implementation of approved programmes at both levels of government.

To realise its strategic objectives, the Office relied on its Strategic Plan 2013-2017 to guide activities, policy formulation and work plans and made the following progress and achievements towards its targeted objectives. The operations of the Office are run under one programme namely; ***Controlling and Management of Public Finances under the Medium Term Expenditure Framework (MTEF).*** Under this programmes, the Office seeks to promote prudent public financial management by timely authorization of withdrawals from Public Funds and reporting on budget implementation for both levels of governments.

The programme comprises of four sub-programmes as listed below:

i. ***Authorization of withdrawals from public Funds;***
ii. ***Budget Implementation and Monitoring;***
iii. ***Administration and Support Services; and,***
iv. ***Research and Planning.***

3.1 Authorization of Withdrawals from Public Funds Sub-Programme

The sub-programme entails approval of exchequer requisitions from the public funds subject to compliance with relevant laws and regulations. The Office has streamlined some of the processes under this sub-programme to ensure timely approval of exchequer requisition from Ministries, Departments and Agencies as well as the County Governments. This includes reviewing the Procedures Manual that provides guidance on the process of approval of withdrawals from public funds by spending entities at both national and county government coupled with training of the staff to enhance their capacity on the same. The Procedures Manuals were also reviewed to reflect existing regulatory framework and practicability in terms of implementation. As a result, the Office spends approximately half a day to review exchequer requisition documents from the National government and approximately four hours (4) to review exchequer requisition documents from the County Government - if the documents submitted are in order - down from two to three days previously. However, there are some incidents where the documents submitted from the counties have errors and therefore may take longer than this time. The reduction in the turn-around time is attributed to improvement in operational processes at the Office that aim to ensure that exchequer requests are approved within the shortest time possible.

3.1.1 Exchequer Issues and Resource Absorption

The total exchequer issues released to MDAs and the County Governments in FY 2015/16 amounted to **Kshs.1,833.2 billion** and represented a **12.6 per cent** growth compared to the exchequer issues of **Kshs.1,627.4 billion** released in FY 2014/15. This comprised of **Kshs.1,053.5 billion** released to MDAs, **Kshs.476.2 billion** released for Consolidated Fund Services and **Kshs.303.5 billion** for the County governments, compared to **Kshs.910.6 billion, Kshs.454.5 billion** and **Kshs. 262.3 billion** issued to MDAs, CFS and County governments respectively, in the FY 2014/15. The exchequer issues to net estimates increased marginally from 90.7 per cent in FY 2014/15 to 93.4 per cent in FY 2015/16.

Further analysis of the exchequer issues indicated that Kshs.333.2 billion was released towards development expenditure, Kshs.720.3 billion for recurrent expenditure, and Kshs.303.5 billion to the County Governments. The exchequer issues released to fund development activities represented 90.1 per cent of the revised net estimates while the exchequer issues released to fund recurrent activities translated to 98.1 per cent of the revised net recurrent estimates. In addition, the exchequer issues released to fund the 47 county governments translated to 82.6 per cent of the revised net estimates (Table 1).

Table 1: Exchequer Issues Processed in the FY2015/16 (Kshs. billion)

Nature of Expenditure	Revised Gross Estimates	Revised Net Estimates	Exchequer Issues Released	Actual Expenditure	Exch. Issues to Net Estimates (%)	Absorption Rate (%)
Recurrent	811.6	734.51	720.28	706.50	98.1	87.1
Development	681.9	369.66	333.17	451.8*	90.1	66.3
CFS	494.7	494.68	476.25	475.5	96.3	96.1
County Governments	367.4	367.4**	303.5	295.3	82.6	80.4
Total	**2,355.6**	**1,966.3**	**1,833.2**	**1,929.1**	**93.2**	**81.9**

Source: *OCOB*

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

3.1.2 Recurrent Exchequer Issues and absorption

During the FY2015/16, the total exchequer issues released to fund recurrent budget for national government amounted to Kshs.720.3 billion which was 98.1per cent of the revised recurrent net estimates. The total recurrent

expenditure during the period under review was Kshs.706.5 billion translating to an absorption rate of 87.1per cent of the revised gross recurrent estimates, an increase in absorption rate from 84.6 per cent reported in the FY 2014/15.

3.1.3 Development Exchequer Issues and absorption

The total exchequer issues released to fund the development programmes by MDAs in FY2015/16 amounted to Kshs.333.2 billion translating to 90.1 per cent of the revised net development estimates. During the reporting period, the total expenditure by MDAs was Kshs.451.8 billion representing an absorption rate of 66.3 per cent of the revised gross development budget. This was an improvement from an absorption rate of 45.8 per cent achieved in the FY2014/15.

3.1.4 Exchequer Issues to County Governments

As of June 30th, 2016, the Controller of Budget had approved transfers amounting to Kshs.264.2 billion as the shareable revenue from the Consolidated Fund to the various County Revenue Funds (CRFs). During the reporting period, the Office approved transfer of Kshs. 303.5 billion which comprised of both the sharable revenue and county own local revenues from the CRFs to the County Operational Accounts to meet operational costs of various approved programmes. The approved transfers comprised of Kshs.195.7 billion (64.5per cent) for recurrent expenditure and Kshs.107.8 billion (35.5 per cent) for development expenditure.

The total expenditure by the County governments in FY 2015/16 amounted to Kshs.295.3 billion, translating to an absorption rate of 80.4 per cent of the aggregated annual County budgets, a slight increase from the 79.1 per cent attained in FY 2014/15 with a total expenditure of Kshs. 258.0 billion. Recurrent expenditure amounted to Kshs.191.85 billion, representing 91.9 per cent of the annual recurrent budget, and a decline from 92.4 per cent reported in FY2014/15. Development expenditure amounted to Kshs.Kshs.103.5 billion, translating to a performance rate of 65.2 per cent, a marginal improvement from 62.4 per cent

attained in FY2014/15 when total development expenditure was Kshs.90.4 billion.

3.1.5 Exchequer Releases for Consolidated Fund Services

In FY 2015/16, the total exchequer released to CFS amounted to Kshs.476.2 billion, equivalent to 96.3 per cent of the revised net estimates. The exchequer issues for this category comprised of Kshs.421.8 billion released for servicing public debt, Kshs.50.9 billion for pensions and gratuities, Kshs.3.25 billion for salaries and allowances of constitutional office holders, Kshs.1.8 billion for subscription to international organizations, and Kshs.700.0 million for guaranteed loans. The cumulative expenditure for these categories was Kshs.475.5 billion translating to absorption rate of 96.1 per cent of the annual revised gross estimates for CFS.

3.2 Budget implementation and Monitoring Sub-Programme

The main activity under budget implementation and monitoring sub-programme is reviewing and analyzing the status of implementation of approved programmes at both national and county government. Since inception, the Office has been reviewing on quarterly basis how public funds are being utilized by spending units at both levels of government and reporting on the same to both the Parliament and the Executive. The in-year budget implementation review reports prepared by the office are key documents that provide comprehensive, understandable, credible and timely budget implementation information that the Public can use to monitor the compliance of public institutions with the principles of public finance.

3.2.1 Publishing of Budget Implementation Review Reports

The OCOB monitors and prepares statutory reports to Parliament on the implementation of the budgets of the national and county governments in compliance with Article 228(6) of the Constitution of Kenya 2010. These quarterly budget implementation review reports are used to monitor the implementation

of the budgets of the MDAs and counties. A total of eight reports per annum were published, submitted to Parliament and widely publicized. They consisted of four quarterly reports for each level of government.

These reports have also been uploaded on Budget Yetu Mobile Application available on Google Play, Apple Store and Microsoft Store and can be downloaded at no cost. The reports are also available on the OCOB website.

Some of the critical issues raised in these reports include; Low out-turn of donor funding, unclear accounting for expenditure on capital transfers by MDAs and the non-disclosure of A-in-A in the IFMIS generated reports at the National government level. The Office also observed that counties were facing critical issues including low absorption of development funds, accumulating huge pending bills, high expenditure on Personnel Emoluments, Inadequate Internal Audit Function and Audit Committees, Un-procedural borrowing by the Counties, Capacity challenges in the use of the IFMIS E-procurement module.

3.2.2 Advice to the Legislature and Executive on Budget Implementation Issues

The Office of the Controller of Budget has held various meetings with the committees of Parliament to discuss issues raised in Budget Implementation Review Reports (BIRR) and provided advice on the way forward. The Office has also continually provided advice to the Executive on budget implementation.

3.2.3 Review of FY2015/16 and FY2016/17 County Draft Budgets

The Office reviewed all the 47 County Budget Estimates for FY 2016/17 to ascertain compliance with the law. During the review, some key issues in the draft budgets were noted and corrective measures were communicated to the respective counties. For example, some County Budgets did not fully comply with the Programme Based Framework and lacked clear outputs, key performance

indicators and outcome. Such counties were advised to adopt the Program Based Budgeting framework in line with Section 12 of the Public Finance Management Act, 2012, which requires counties to implement the Program Based Budgeting which links the available resources to the achievement of set objectives and outcomes. In other Counties, there were deviations between the County Fiscal Strategy Paper (CFSP) ceilings and the budget ceilings as stipulated under Section 129(2) (b) of the Public Finance Management Act, 2012. The revision reduced the high and unrealistic local revenue provisions in the budget estimates.

In general, most of the recommendations of the Office were implemented resulting to:-

- Improvement in local revenue collection in a number of county governments.
- Improvement in the reporting of expenditure by the county governments.
- Establishment of public funds and enabling regulations in accordance with the law.
- Improved service delivery in some entities due to capacity building of their staff.
- Reduced conflicts between County executives and the County Assemblies.

The Office also reviewed the County Fiscal Strategy Papers (CFSPs) and the County Budget Review Outlook Papers (CBROP). The Office made appropriate recommendations to address the issues identified in the planning documents such as the formats of the CFSP, failure to specify both recurrent and development ceilings, inaccurate local revenue data and over-expenditure on certain items especially on personnel emoluments.

3.3 Administration and Support Services Sub-Programme

The sub-programme entails administrative support services whose main

objective is to ensure effective service delivery through building institutional capacity of the office to deliver on its mandate.

3.3.1 Human Resource Development and Capacity Building for OCOB Staff

Staff training is essential for both personal career growth and achievement of organization bottom line. Training promotes job satisfaction and nurtures employees to develop more rounded skill sets to help the Office achieve its mandate. The Office acknowledges the importance of staff training and development as a retention tool, instilling loyalty and commitment from staff. It is against this background that the Office initiated various programmes and partnerships with other stakeholders to build capacity of its staff. During the reporting period, the Office partnered with the Kenya School of Government to train senior staff on Strategic Leadership with a view of equipping them with management skills. During the FY 2015/16, technical staff were trained on public finance management. The training sought to equip staff with emerging trends in management of finances in the Public Sector. Table 3 provides a list of trainings and the number of officers trained during the Financial Year 2015/16.

Training of County Budget Coordinators and Headquarter Staff on Leadership and Integrity at the Kenya School of Government

Table 2: Trainings Held and the number of officers Trained

Main Trainings	Senior and middle management,(COB, DCOB, Directors, Chief managers, managers))	Lower management and Support Staff(Research Officers, Fiscal Analysts, Records Officers, HR Officers, Procurement Officer)
Leadership & Integrity	5	27
Customer Care Training	0	10
Financial Modeling	2	35
Risk Management Training	6	13
IFMIS Training	1	3
Senior Leadership Development Programme Course	0	2
Records Management	0	5
Leadership & Strategic in Procurement & Supply Chain	0	1

3.3.2 Public Sensitization Forums on Budget Implementation

The Office has remained steadfast in ensuring information on budget implementation by both the National and County Governments is published and publicized as required by Section 39(8) of the PFM Act, 2012. A key part of this process is ensuring effective public participation in monitoring utilization of public funds. The rationale for citizen engagement in the budgeting process arises from the fact that budget decisions have a significant impact on the lives of the citizenry, and therefore should be informed by the views and inputs from the Public. The scrutiny of citizens can ensure that decision makers are precise in the decisions they make, improving the efficiency, responsiveness and accountability

of government, and guarding against misuse of resources while engaging public in fundamental decisions such as budget decisions, promoting transparency and accountability by the government.

Consequently, the Office held two public fora covering 12 county governments. The counties were clustered into two regions. The fora were held in Kisumu and Mombasa where each of the venues hosted six counties. The Mombasa venue hosted participants from Mombasa, Taita Taveta, Kilifi, Kwale, Tana River, and Lamu counties while Kisumu was a host to Vihiga, Siaya, Homabay and Kisii counties. The fora sensitized over 1000 members of the public. The objectives of the fora were to ensure that the public is sensitised of their role in public financial management at national and county level during the budget making process as well as in monitoring the budget implementation. The fora provided an opportunity for the public to engage in fruitful discussions with the county government policy makers to improve delivery of services to the public.

In addition, the Office has developed a communication policy to guide on how to engage with our various stakeholders.

Controller of Budget addressing participants during the public sensitization forum in Mombasa

Participants taking part during the presentations of the public sensitization forum in Mombasa County

Section of the participants during the public sensitization forum in Mombasa

Participants follow keenly the proceedings of the public sensitization forum in Mombasa

Deputy Governor, Kisumu County addressing participants during the Public Participation Forum in Kisumu

Participants appreciating a presenter during the Public Participation Forum in Kisumu

The Public Finance Management Reform (PFMR) Programme Coordinator addressing Participants during the Public Participation Forum in Kisumu

Participants during the public sensitization forum in Kisumu

3.3.3 Conferences and Retreats

The Office considers participation in both local and international conferences and workshops as important in sharing knowledge and benchmarking best practices in public financial matters. Some of the conferences and benchmarking tours the office participated in include;

- Effective Organizational Communications Governance Training for Principal Secretaries, Mombasa, Kenya.
- Sixtieth (60th) Session of the Commission on the Status of Women (CSW), United Nations Headquarters, New York.
- Benchmarking visit to the Kingdom of Morocco on Best Practice on Gender Responsive Budgeting, sponsored by UN Women.
- Benchmarking visit to South Africa Financial and Fiscal Commission on fiscal aspect of devolved governance.

Mrs. Agnes Odhiambo in New York during the 60th CSW Session

3.3.4 Interactive Website and Mobile Application

The OCOB has developed an elaborate ICT infrastructure system to assist in delivery of information to stakeholders which includes an interactive website. The Office developed a library management system, an asset management system, an email system for staff, and also put in place a system to enable the public access budget implementation information online using their mobile phones. A Content and Enhancement Committee has been set up to oversee the website operations. The Office has been implementing the Voice Over Internet Protocol (VOIP) to reduce telephones expenses. More telephone handsets were procured in 2015/16 Financial Year.

Further, the Office has launched the Budget Yetu Application, a mobile application available on Google Play, Apple Store and Microsoft Store to publicize budget implementation reports and enable users interrogate performance of both national and county governments.

3.3.5 Staff Welfare Kitty

The Office has a staff welfare scheme that caters for welfare needs of staff to enhance service delivery in the OCOB. The aim of establishing the scheme is to empathize with members and show solidarity during hard times of sickness and bereavement. This motivates the staff and makes them more productive as well as to improve the image of the Office. Currently members are contributing Kshs.500 per month towards the kitty. However, plans are underway to review the minimum contribution by staff to ensure the welfare kitty has sufficient funds due to increased demand for such support.

3.3.6 FiRe Awards

The Financial Reporting (FiRe) Award is an initiative of the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (Kenya)

and the Nairobi Securities Exchange (NSE). The initiative is aimed at promoting excellence in financial reporting, fostering sound corporate governance practices, and enhancing both corporate social responsibility and environmental reporting. The Public Sector Accounting Standards Board issued a directive that all public sector entities shall submit their annual reports and financial statements for the FiRe Award so as to benefit from feedback provided as a way of monitoring compliance as provided under section 194 (4) of the PFMA, 2012. To this end, the OCOB submitted its accounts for the financial year 2013-2014 for the FiRe Award during the financial year 2015/16. The Office was nominated in two categories namely the Ministries, Departments & Agencies and International Public Sector Accounting Standards (IPSAS) Cash Category. The Office received the Award for the 1st Runners-up in the Category of Ministries, Departments & Agencies and the 2nd Runners up for the Cash category.

3.3.7 Recruitment of staff

The Office carried out recruitment to replace staff that had left and fill some of the existing critical vacancies during the 2015/16 Financial Year. The Office recruited and deployed four new members of staff, comprising of a Senior Internal Auditor and three Internal Auditors to the Pensions Unit to expedite processing of pension files in a bid to clear the backlog of pension files. Two officers were also recruited and deployed to the Research and Planning Directorate.

3.3.8 OCOB Staff Insurance Covers

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

3.3.9 Legal Framework

In the Financial Year 2015-16, the Office participated, with other key stakeholders,

in drafting and development of regulations for the Public Finance Management Act (PFMA), 2012 which were gazetted in 2015. The Office also engaged various stakeholders including Parliament and the National Treasury on the need to enact the COB Bill, 2015 which would operationalize the Office and give effect to Article 228 of the Constitution of Kenya, 2010. The Bill was passed by Parliament and assented to by the President. The Office will be embarking on the development of regulations to the Act to facilitate delivery of its mandate. In addition, the Office has developed policies to guide access to information, investigations and handling of complaints by the members of the Public.

3.4 Research and Planning Sub-Programme

The Office endeavours to provide evidence-based policy recommendations on budget implementation by participating and providing advice in the planning and budgeting process.

3.4.1 Partnership and Collaborative Ventures

The Office acknowledges the important role of collaborative ventures with other stakeholders as key to formulation of sound policy framework to guide operations and improve the quality of service to the public. To this end, the Office partnered with key stakeholders such as UN Women to ensure budgets are responsive to issues affecting women and the youth. In this respect, the Office together with other Public Finance Management institutions with support from UN Women undertook a benchmarking study visit to the Kingdom of Morocco to learn more on Gender Responsive Budgeting.

During the period under review, the Office also participated in several stakeholder forums with Parliamentary Committees; Ministries, Departments and Agencies (MDAs) and private sector with a view to foster a dynamic dialogue with all stakeholders on public finance matters. Such collaborative ventures are essential in enabling the Office deliver on its mandate effectively. (Look for Photos)

3.4.2 Special Reports

The Office prepares special reports on request from the Legislature or on its own volition on issues of national interest in compliance with Article 252(1)(a). During the FY2015/16, the office prepared special reports for the Parliamentary oversight committees on various issues and on matters of policy to address budget implementation challenges and achievements to facilitate informed debates and discussions in Parliament. Some of the special reports prepared by the Office include; The Report on County Governments Budget and Expenditure Analysis by Sector, FY 2014/15 and The Statement on Pending Bills in County Governments, FY 2014/15 both submitted to the Senate committee on Finance, Commerce and Budget.

3.4.3 County Revenue Baseline Study, 2015

During FY 2015/16, the Office finalized and published the County Revenue Baseline Study 2015 Report. The study was undertaken to evaluate the County Governments' revenue management systems and performance with a view to address the factors affecting budget implementation in the Counties.

The study revealed that County Governments have multiple revenue streams (approx. 160 revenue streams), but about 10 core streams contribute nearly 90 per cent of total local revenues. There are no clear mechanisms for setting local revenue targets and the identification of the viable local revenue streams. This is compounded by weak revenue management systems and inadequate technical capacity among revenue staff leaving room for revenue leakages. The report was shared with various stakeholders including the Counties for informed decision making particularly on the local revenue collection targets in their budget estimates.

3.4.4 Collaborations with Kenya National Bureau of Statistics (KNBS)

The Office is a member of the Sector Statistical Committee (SSC) established by the KNBS. The SSC comprises of representatives from Ministries, Departments and Agencies as well as the Counties. The Committee was established to pioneer the development of a National Statistical System (NSS) that would provide a reliable statistical system to produce the necessary data for the design, implementation and monitoring of national development policies and programmes. The Office is an active stakeholder in an effort to improve the quality of financial information as well as macro-economic and social data.

In addition, the collaboration between the Office and KNBS aims at developing a National Strategy for the Development of Statistics (NSDS) that will provide a comprehensive and unified framework for enhancing statistical capacity across the entire national statistical system (NSS) in the country. Under the same collaboration, the Office together with other stakeholders, are spearheading the development of Governance, Peace and Security (GPS) data in the Country through the African Union Commission (AUC) project through the Strategy for the Harmonization of Statistics in Africa (SHaSA). During the FY 2015/16 the Office participated in the review of the administrative data indicators and data collection instrument.

3.4.5 Monitoring Budget Implementation

Monitoring and evaluation is a an important phase in the budgeting cycle as it is essential in assisting planners, policy makers and implementers acquire the information and understanding necessary for making informed decisions about programme operations. It identifies the most valuable and efficient use of resources. It is critical for developing objective conclusions regarding the extent to which programmes can be said to be successful or not.

The Office has a Monitoring framework in place to monitor implementation

of budget of the national and county government programmes and projects. The framework enables the Office to effectively advise both Executive and the Legislature on budget implementation matters.

In the FY 2015/16, the Office undertook a monitoring exercise in all the 47 counties to ascertain the status of implementation of programmes/projects based on the approved FY2014/15 Budgets. The main objective of the monitoring exercise was to provide information on the implementation status of planned projects/programmes and an assessment of the achievement of outputs and outcomes as a result of the implementation of the programmes as provided for in the respective county budgets.

A sample of projects/programmes was selected from a list of projects undertaken by the county governments. Projects were selected on the basis of their importance, budgetary allocation and implementation timelines. Projects with considerable budget allocations (e.g. above Kshs.2 million) were selected for the monitoring exercise. Other criteria considered included absorption rates, implementation time lags and others were selected based on the challenges highlighted in the quarterly budget implementation review reports prepared by the Office. Monitoring reports were prepared and shared with the respective counties. These reports highlight valuable information to guide counties in strategic planning, allocation of resources among competing needs and ensure improved implementation of approved programmes and projects for improved service delivery to the benefit of the public.

From the monitoring exercise, it was established that all the counties were making good progress in provision of services to the Public. There are improvements in a number of sectors namely: the Health, Water and Sanitation, Infrastructure and Roads, Education particularly the Early Childhood Development centres and Youth Polytechnics, Trade, Investment and Industrialization, and the Agriculture among others. Below are some of the projects monitored:

Nakiria dispensary in Turkana County

Water tower at Kerarapon- Kajiado County

Theatre at Navakholo Sub-County Hospital, Kakamega County

Construction of hostel at Sero Youth Polytechnic-Homa Bay County

Fisheries and Aquaculture Laboratory at ATC Mtwapa - Kilifi County

Milk processing plant at Wakulima Dairy Ltd-Nyeri County

Tarmacking of Wajir Town Roads - Wajir County

CT scan MTRH, Imenti North Sub-County-Meru County

Upgrading of Matiliku hospital-Makueni County

From the monitoring exercise, it was established that all the counties were making good progress in provision of services to the public. There is improvement in a number of sectors namely: Health, Water and Sanitation, Infrastructure and Roads, Education particularly the Early Childhood Development Centers and Youth Polytechnics, Trade, Investment and Industrialization, and the Agriculture among others.

The Office observed that there is still no linkage between planning and budgeting and many projects are not completed within the anticipated time frame. This was attributed mainly to delay in release of funds, non-payment of contractors and inadequate capacity of some contractors.

The OCOB made specific recommendations to the respective counties. Some of the cross-cutting recommendations include the need for counties to link planning to budget, implementation of Programme Based Budgeting (PBB) as provided

for by the PFMA, 2012 and the need to establish project implementation teams to continuously monitor and address emerging issues as the projects are being implemented.

3.4.6 Collaboration with the UN Women on Gender Responsive Budgeting

The Office of the Controller of Budget in collaboration with the UN Women Kenya Office undertook a scoping analysis of the public finance processes, programmes and funding for Gender Responsive Budgeting (GRB) in Kenya. The objective of the study was to identify the entry points for deepening Gender Responsive Budgeting within the Public Finance Management Reforms (PFMR) in Kenya.

The study established that investment in gender equality priorities and women specific interventions is low in Kenya. A lot can be achieved if the available resources are equitably shared or distributed to ensure equity. The study recommended the need to build capacity of key players and oversight institutions including the Office of the Controller of Budget for GRB accountability.

Consequently, the Office together with other stakeholders in the public finance management including the National Treasury (Budget Department & Public Finance Management Reforms Secretariat), Ministry of Public Service, Youth and Gender Affairs (Department of Gender Affairs), Kenya School of Government, National Gender and Equality Commission, Council of Governors and; a Non-State Actor, the Institute of Economic Affairs participated in a benchmarking visit to Morocco for capacity building in GRB given the success the country has made in institutionalizing GRB. The team learnt that successful institutionalization of GRB requires key drivers of the process, mainstreaming gender in PFM policies, budget and programmes as well as building capacity of key players and oversight institutions.

As a result of the above initiative among others, the National Treasury included in the 2016/17 Budget Policy Statement a requirement that all budgets be

prepared using Gender Responsive Budget framework and presentation of the targets, indicators and beneficiaries should reflect gender dis-aggregated data that will be achieved during the implementation of the budget. Consequently, the Office together with Council of Governors and with support from UN Women carried out training of County officials from all the 47 Counties and OCOB's County Budget Coordinators on Gender Responsive Budgeting.

CHAPTER FOUR

EMERGING ISSUES IN BUDGET IMPLEMENTATION

4.0 Challenges and Emerging Issues

This section highlights the key challenges that affected the implementation of budgets by both the national and county governments in the implementation and reporting on the approved programmes by MDAs during the reporting period.

4.1 Challenges in Execution of OCOB Mandate

4.1.1 Quality of Reports submitted by Counties

The Office has noted with concern the quality of financial reports submitted by some counties. Many counties are yet to build the necessary capacities in budgeting, accounting, procurement and internal audit functions. This delays the compilation and production of a consolidated report by the Office. A strong internal audit function would provide quality assurance on the reports submitted from Counties and would take a short time to compile at the OCOB.

4.1.2 Implementation of OCOB recommendations

Article 16 of the COB Act, 2016 requires state organs to submit periodic reports on the status of management of the budget and public funds. While the Office has on regular basis been making recommendations based on the information contained in these reports to improve budget implementation, many of the recommendations are not enforceable. The COB Act, 2016 does not provide mechanisms to enforce implementation of such recommendations by the affected entities.

4.1.3 IFMIS procurement module

There are no regulations to operationalize the new Public Procurement and Asset Disposal Act, 2015. Consequently, the Office relies on the old regulations which were to expire in December 2016. Many suppliers are not conversant with IFMIS procurement procedure hence experience difficulties in submitting bids on-line. This has affected timely procurement of goods and services by the Office.

4.1.4 Inadequate Office Space

The Office does not have adequate office space to accommodate its staff. Its current location in Bima house is strategic in its operations due to its proximity to the National Treasury with whom the office works hand in hand to execute its mandate. However, most of the office space in Bima house had been occupied by other government departments before the OCOB was established.

4.2 Emerging Issues

4.2.1 National Government

During the FY2015/16, the Office observed that there were improvements in the implementation of approved programmes compared to the previous FY2014/15. Recurrent and development expenditure in the FY2015/16 increased compared to the FY 2014/15. Absorption of development expenditure improved from **45.8 per cent** to 66.3 per cent while recurrent expenditure improved from **84.6 per cent** to **87.1 per cent**.

However, budget implementation faced a number of challenges during the year. Some of the key challenges encountered by MDAs include;

4.2.1.1 Timing of Supplementary Budgets

During the FY 2015/16, the National Treasury prepared two Supplementary Budgets, which were both approved in the fourth quarter of the financial year. The first Supplementary Budget was approved on 6th May, 2016 while the second was on 30th of June, 2016. While budget revision is permitted under Article 223 of the Constitution and Section 44 of the PFM Act, 2012, the timing of Supplementary Budgets should allow sufficient time for implementation of activities. When supplementary budgets are approved towards the end of the financial year, MDAs may not also have sufficient time for implementation of activities before the end of the financial year.

The Office recommends that Parliament should in future consider approving budget revisions in good time to allow for timely implementation of planned activities.

4.2.1.2 Non-disclosure of A-I-A in the IFMIS generated reports

The National Treasury has prescribed the Integrated Financial Management Information System (IFMIS) for use by all national government and county government entities in line with Article 12(1) (e) of the Constitution. This system adequately captures transfers to the MDAs and expenditure by the MDAs.

However, IFMIS is not always updated to capture A-I-A generated by the MDAs. Therefore, financial reports generated from the system may be incomplete and could lead to MDAs over-reporting expenditure than the released exchequer issues. This affects the accuracy of the reports generated by the OCOB for the MDAs.

It is recommended that the National Treasury should ensure that A-I-A generated by MDAs is captured and disclosed in the IFMIS reports. This will ensure completeness of the financial reports.

4.2.1.3 Delay in Submission of Expenditure Reports to the OCOB

According to Article 228 (6) of the Constitution of Kenya, 2010, the Controller of Budget is required to submit to each House of Parliament a report on the implementation of the budgets of the national and county governments every four months. Further, Section 38 (9) of the PFM Act, 2012, requires the Controller of Budget to ensure that the public has access to information on budget implementation. The Office relies on reports submitted by MDAs in order to prepare its statutory reports. However, delays by some MDAs in submitting their financial reports affects the timely preparation and submission of budget implementation review reports to the President, Parliament and other stakeholders as required by law.

In order to meet the above constitutional and legal requirements, all MDAs should ensure that expenditure reports are submitted to the Controller of Budget in a timely manner in order to allow for timely preparation and publication of the Budget Implementation Review Reports.

4.2.1.4 Accounting for Expenditure on Capital Transfers

Semi-Autonomous Government Agencies (SAGAs) are financed through capital transfers from parent ministries. The transfers are treated as expenditure by the ministries when transferred. This accounting treatment is likely to lead to overstatement of expenditure by the ministries since transferred amounts are programmed and spent by the SAGAs over the year.

It is recommended that the Public Sector Accounting Standards Board (PSASB) should review this matter and develop guidelines in line with international best practice. This will ensure that capital transfers to SAGAs are appropriately accounted for to avoid overstatement of expenditure by the ministries and enhance the accuracy of the quarterly Budget Implementation Review Reports by the Controller of Budget.

4.2.2 County Governments

This section summarizes the achievements and challenges that were faced in the implementation of the Office's mandate to the county governments' budget implementation during FY2015/16.

The Office observed progress by the Counties in addressing the challenges previously identified in their budget implementation. These included; full adoption of the Integrated Financial Management Information System (IFMIS); establishment of County Budget and Economic Forums (CBEF); improvement in staff capacity, and, improvement in the absorption of development funds. However, the Office identified other challenges that continued to impede effective budget implementation by counties;

4.2.2.1 Underperformance of Own Revenue Collection

During the FY2015/16, the Counties collected Kshs.35.02 billion, representing 69.3 per cent of the annual local revenue target of Kshs. 50.54 billion, an increase by 3.5 per cent from Kshs. 33.85 billion realized in FY 2014/15. The underperformance in local revenue collection affected implementation of some planned activities. Counties should formulate strategies to increase local revenue collection and set more realistic targets to ensure that budgets are implemented as planned.

4.2.2.2 High expenditure on Personnel Emoluments

In FY 2015/16, the County Governments' spent an aggregate of Kshs.118.65 billion on personnel emoluments (PE), which accounted for 40.2 per cent of the total expenditure for the period and an increase by 15.1 per cent from Kshs.103.10 billion incurred in FY 2014/15. The Office has noted the increase in the wage bill, despite the provision of the PFM Act, 2012 regulations, which caps wage bill at 35 per cent of the total revenue. The Controller observes that if wage bill is not

well managed, it will reduce spending on development activities in the long run.

There is need for County Governments to ensure that expenditure on personnel emoluments is contained at sustainable levels and in compliance with Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which sets a limit on the County Government's expenditure on wages and benefits at 35 per cent of a county's total revenue.

4.2.2.3 Late submission of financial reports

Section 166 (4) of the PFM Act, 2012 requires the County Treasury to prepare and submit financial reports to the County Assembly, Office of the Controller of Budget, Commission on Revenue Allocation (CRA) and the National Treasury, not later than one month after the end of each quarter. Further, Section 168 of the PFMA, 2012 requires designated Fund Administrators of established County Public Funds to submit financial reports to the County Treasury and the Controller of Budget, not later than fifteen days after the end of each quarter.

The Office noted that during the reporting period, some county treasuries delayed in submitting their financial reports leading to interruption in the preparation of County Budget Implementation Review Reports (CBIRR). County Governments should ensure timely preparation and submission of financial reports in line with Sections 166 and 168 of the PFM Act, 2012 to facilitate timely preparation of County Budget Implementation Review Reports by the Office of the Controller of Budget.

4.2.2.4 Delays in approval of key budget documents

The Office observed that there were delays in the preparation and approval of key planning documents such as the Annual Development Plan and the County Fiscal and Strategy Papers in most Counties. Delays in the approval of these key budget and planning documents by the County Assemblies negatively affects the

budget timelines provided under Section 117 and 126 of the PFM Act, 2012 and subsequently leads to delays in approval of exchequer releases which impact negatively on the overall budget implementation.

The Office urges the County Governments to ensure adherence to the budget timelines as stipulated in the PFM Act, 2012 on the submission and approval of budget and planning documents.

4.2.2.5 Delay by the National Treasury to disburse funds based on the County Allocation of Revenue Act (CARA), 2015 Schedule

The National Treasury did not fully adhere to the Disbursement Schedule approved by the Senate in releasing funds to the Counties in FY 2015/16. The release of funds was irregular making the implementation of some planned activities extremely hard. It is therefore recommended that the National Treasury should release funds based on the CARA Disbursement Schedule in order to ensure that budget implementation is not affected.

4.2.2.6 Huge pending bills

As at June, 2016 the County Governments reported pending bills amounting to Kshs.37.36 billion. Accumulation of these bills was attributed to failure by the Counties to effectively align their procurement plans to the cash flow plans coupled with the delay by the National Treasury to disburse funds to the County governments. The accumulation of pending bills negatively affects the business community.

The County Governments should ensure effective management of pending bills by aligning procurement plans to cash flow projections and revote them in the subsequent financial year's budget for them to be settled.

4.2.2.7 Inadequate Internal Audit Function and Audit Committees

During the reporting period, the Office noted that some Counties were yet to establish internal audit departments and audit committees. In other counties, the Audit Committees have been established but are not fully operational. The Office recommends that Counties should establish effective internal audit departments and Internal Audit Committees in line with Section 155 of the PFM Act, 2012 and Regulation 167 of the PFM (County Governments) Regulations, 2015, in order to enhance transparency and accountability in the management of public resources.

4.2.2.8 Establishment and operationalization of the County Budget and Economic Forums (CBEF)

Section 137 of the PFM Act, 2012 requires each county government to establish the County Budget and Economic Forum (CBEF) to provide means for consultation on matters relating to budgeting and financial management at the County level. The OCOB observed that while most of the Counties have constituted the CBEF in line with the provisions of Section 137 of the PFM Act, 2012, some counties are yet to establish the CBEF.

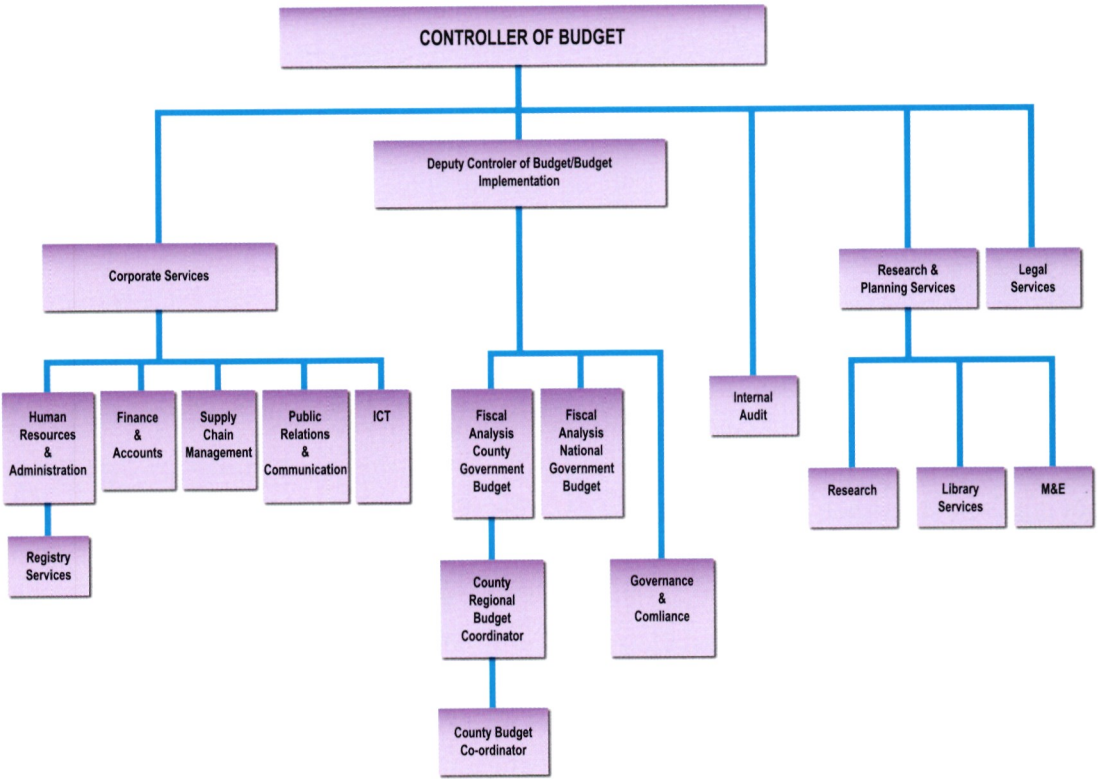
The Office recommends that all county governments should establish CBEFs and ensure that they are actively involved in the budget, economic and financial matters as envisioned in the Constitution.

CHAPTER FIVE

ORGANIZATION STRUCTURE

The organizational structure of OCOB comprises of the Controller of Budget, who is supported by the Deputy Controller of Budget and the head of the Directorate of Budget Implementation. Other directorates include the directorate of Corporate Services; Directorate of Research and Planning; Directorate of Legal Services and Internal Audit Department. The Office has put in place sound measures to ensure that each directorate has optimal staff level to ensure smooth implementation of OCOB strategic goals. Further, the Office continues to build capacity of staff through training to enhance their efficiency levels and ensure proper delivery of service to the public.

Figure 1: OCOB Organizational Chart



5.1 Budget Implementation Directorate

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

5.2 Corporate Services Directorate

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

5.3 Research and Planning Directorate

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

5.4 Legal Services Directorate

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

5.5 Internal Audit Division

The Internal Audit Division is headed by the Chief Internal Auditor who reports

to the Controller of Budget administratively but functionally reports to the Audit Committee. The Chief Internal Auditor has the responsibility of implementing and reviewing control systems, the internal audit policies, systems and procedures in line with the audit plan.

Mrs. Agnes Odhiambo
Controller of Budget

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

Mr. Macklin Ogolla
Director Corporate Services

Mr. Joshua Musyimi
Director Research and Planning

Ms. SelinaIseme
Director Legal Affairs

Mr. Joseph Tulula
Chief Internal Auditor

Mr. Patrick Kamore
Chief Fiscal Analyst,
National Government

Mr. Mark Kipkoech
Chief Fiscal Analyst,
County Government

Mr. Stephen Wangaji
Chief Manager Public Relations
Communications

Mrs. Irene Kathambi
Chief Manager Human Resources
and Administration

Ms. Judith Muli
Chief Manager Information
and Communication
and Technology

Pamela Okatch
Manager Finance and Accounts

Anthony Lusuli
Manager, Supply Chain Management

WaweruTuti
Manager, Legal Affairs

Grace Kimitei
Principal Research
& Planning Officer

Mary Owii
Personal Assistant
to the Controller of Budget

CHAPTER SIX

CONCLUSION

This report gives the status of implementation of the mandate of the Office of the Controller of Budget during the period July 2015 to June 2016. The report has been prepared in line with Article 254(1) which requires every Constitutional Commission and Independent Office to submit a report to the President and Parliament, as soon as practicable, after the end of each financial year. Specifically, the report highlights key achievements of the Office in the course of executing its mandate as well as the challenges and emerging issues that may have affected smooth implementation of budgets by national and county governments during the FY2015/16. The report also provides recommendations to address the issues noted during the FY2015/16.

The Office ensured that the process of approving exchequer requests submitted by MDAs and Counties was expedited to ensure smooth implementation of approved programmes at both level of governments.

The Office remains committed to promoting good practices in public finance management as envisaged in the Constitution of Kenya, 2010 and other enabling legislations. The Office has been in the forefront in promoting prudent financial management in the public sector and was recognised by the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (Kenya) and the Nairobi Securities Exchange (NSE) and awarded the Financial Reporting (FiRe) Award in promoting excellence in financial reporting and fostering sound

corporate governance practices. There is need to build leverage on the lessons learnt in the implementation of budgets at both levels of government in order to achieve more benefits for the citizenry. It is against this backdrop that the Office calls upon all stakeholders to work together and play an active role in monitoring usage of public resources to ensure approved programmes are implemented fully and to the benefit of the public.

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF THE OFFICE OF CONTROLLER OF BUDGET

FOR THE YEAR ENDED 30 JUNE 2016

OFFICE OF THE CONTROLLER OF BUDGET

REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Office of the Controller of Budget (OCOB) was established by the Constitution of Kenya, 2010. Pursuant to Article 228 of the Constitution of Kenya 2010, the Office has mandate to authorize withdrawals from public funds, oversee the budget implementation of national and county governments, create openness and transparency in the budget implementation process, and to advise the Executive and Legislature on budget implementation.

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

- To oversee implementation of the budgets of the National and County Governments. (Article 228 (4)) of the Constitution of Kenya, 2010.
- Authorize withdrawals from Public Funds including the Equalization Fund, the Consolidated Fund, and the County Revenue Fund under (Article 204 (9)), (Article 206 (4)), and (Article 207 (3) respectively of the Constitution of Kenya,2010 and when satisfied that the withdrawal is authorised by law (Article 228 (5)), of the Constitution of Kenya, 2010.
- Report, every four months to each house of Parliament on the implementation of the budgets on the national and county governments (Article 228(6)) of the Constitution of Kenya, 2010.
- Report after the end of each financial year, to the President, the National Assembly or Senate (Article 254(2) of the Constitution of Kenya, 2010.
- Report on a particular issue, as may be required by President, the National Assembly or the Senate (Article 254(2) of the Constitution of Kenya, 2010.
- Advise Parliament on the need to renew or not to approve the decision of the Cabinet Secretary in charge of finance to stop the transfer of funds to a State Organ or any other Public Entity (Article 225 (2) of the Constitution of Kenya, 2010.
- Conduct investigations based on its own motion or on a complaint made by a member of the public (Article 252 (1) (a) of the Constitution of Kenya, 2010.
- Conduct alternative dispute resolution mechanisms including conciliation, mediation and negotiation to resolve budget implementation disputes (Article 252 (1)(b) of the Constitution of Kenya, 2010.;and

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- Ensure the public has access to information on budget implementation both at the national and county levels(Article 35) section 39(8) of the Public Finance Management Act,2012

Vision

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

Mission

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

Core Values

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

Strategic Objectives

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

- To ensure timely approval of withdrawals from the Consolidated Fund, County Revenue Fund and Equalization Fund.
- To oversee and regularly monitor the utilization of public funds released to government entities.
- To enhance openness, accountability and public participation in prudent public financial management.
- To provide advice on financial, planning and budgeting issues.
- To build capacity of the office to deliver on its mandate.
- To ensure the public has access to comprehensive, understandable, credible and timely information

Principal Activities.

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

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The roles and functions

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

Key Strategic Priorities

During the period under review, the Office of the Controller of Budget undertook the implementation of the key strategic priorities;

- Monitoring of budget implementation for both national and county governments projects and programs.
- Timely approval of withdrawal of public funds (Exchequer) to both National Governments entities (MDAs) and the 47 Counties.
- Capacity building of both OCOB staff and county staff on skills to improve budget execution.
- Preparing quarterly budget implementation reports and special reports to both houses of Parliament for the national and county governments.
- Reviewing budgets of the counties to ensure compliance with the law.
- Providing budget information to the public through media and public participation forums.
- Capacity building of the public through sensitization to effectively participate in the budget processing and hold public officials to account through social accountability audit frameworks.
- Performing research on budget implementation key issues raised in the Quarterly Budget Implementation Report to advise both Parliament and Executive accordingly.
- Providing advisory services to the Ministries Departments and Agencies(MDAs) and County Governments on budget implementation

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) Key Management.

ntity's day-to-day management is composed of;

O.	NAME	DESIGNATION
	Mrs. Agnes Odhiambo	• Controller of Budget
	Mr. Stephen Masha	• Deputy Controller of Budget
	Mr. Macklin Ogolla	• Director Corporate Services
	Mr. Joshua Musyimi	• Director Research and Planning
	Ms.Selina Iseme	• Director Legal Affairs
	Mr. Joseph Tulula	• Chief Internal Auditor
	Mr. Patrick Kamore	• Chief Fiscal Analyst-National Government
	Mr. Mark Kipkoech	• Chief Fiscal Analyst-County Government
	Mr. Stephen Wangaji	• Chief Manager Public Relations & Communication
	Ms. Irene Arimi	• Chief Manager Human Resource & Administration
	Ms. Judith Muli	• Chief Manager Information Communication and Technology
	Ms. Pamela Okatch	• Manager Finance & Accounts
	Mr. Anthony Lusuli	• Manager Supply Chain Management
	Mr. George Tuti	• Manager Legal Affairs
	Mr.Shadrack Chando	• Manager Human Resource & Administration
	Grace Kimitei	• Principal Research and Planning Officer
	Mary Owii	• Personal Assistant to COB
	Enock Ngo'o	• Senior Internal Auditor
	David Ayimba	• Senior Internal Auditor
	Joseph Marigi	• Senior Internal Auditor

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(c) Fiduciary Management.

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

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

(d) Fiduciary Oversight Arrangements

(i)Audit Committee Activities

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. The PFM Act 2012, regulations for national government, section 174(10) provides that the Public Sector Accounting Standards Board shall prescribe guidelines for appointment of audit committees to be approved and gazette by the Cabinet Secretary.

The OCOB established an Audit Committee whose main functions are as stated in PFM Act, 2012 regulations, section 175 to;

a. Support the Accounting Officer with regard to their responsibilities for issues of risk, control and governance and associated assurance but the responsibility over the management of risk, control and governance processes remains with the management; and
b. Follow up on the implementation of the recommendations of internal and external auditors.

The Audit Committee has direct access to the External Auditors, and OCOB internal auditors The Committee's membership comprises the following membership;

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

The key achievements during the year include the following:-

- The audit committee met and reviewed the Internal and external Audit's reports on various OCOB's functions
- The members of the committee attended training on how to effectively conduct the Audit Committees businesses.

(ii)Parliamentary Committee Activities

Article 228 (6) of the Constitution requires the Controller of Budget to submit to each house of parliament a report on budget implementation of the national and county governments every four months. In line with this requirement, OCOB has continually engaged Parliamentary Committees to increase awareness on budget implementation and debate on issues under consideration by Parliament. This has benefited the overall budget implementation process by informing the review of proposed laws, facilitating more informed policy-making and ensuring greater government accountability. The OCOB engagement with Parliament ranged from making written submissions, giving evidence and presentations during committee hearings, consultation on budget implementation, and provision of expert advice on findings and recommendations for action by Government and Parliament. Specifically, key engagements were with the following committees:

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

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

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(iii) Development Partner Oversight Activities

The Office of the Controller of Budget collaborates with development partners, in particular, DANIDA, USAID and World Bank to build capacity for staff, county government staff including staff of county assemblies to facilitate efficient delivery of its services and improve

budget implementation. Some of the activities undertaken under DANIDA funds through Public Finance Management Reforms(PFMR) programme includes: procurement computers to enhance reporting by the county budget coordinators, equip the county budget coordinators officers with fire proofs cabinets to safe guard data and records, revamping of the website for information dissemination on use of public funds, development of mobile application software, Adobe- in –design training of staff ,baseline survey on underperformance of revenue in collaboration with KIPPRA and holding of public participation forums on budget ,enhance social accountability and project ownership by the public.

(iv) Other Oversight Activities.

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

1. Executive Management Committee

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

- Planning – establishing and reviewing strategic and operational plans for office of the Controller of Budget (OCOB).
- Policy and decision making – establishing policies/procedures that guide the operations of OCOB and record decisions and actions on matters concerning OCOB.
- Management – ensuring that all staff properly performs their tasks according to their job descriptions and further ensuring that the OCOB mandate is properly executed.

- Legal – ensuring that at all times, OCOB complies with the laws of Kenya in discharge of its mandate.
- Financial – ensuring that all finances are properly managed; that financial records are audited annually and that the principles of public finance management articulated under Article 201 of the Constitution are adhered to.
- Evaluation – monitoring all activities of OCOB and ensuring that the feedback contributes to the continuous improvement in governance and service delivery.

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

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

- The organisations policies and procedures
- The organisation strategic plan and other legislations.

2. Tender committee

This committee is constituted in accordance with the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006. The Committee approved the procurement plan for FY 2015/16 including various methods of procurement used for the purchase of goods and services during the year under review.

The main function is to adjudicate on tender and procurement transactions to facilitate the office and advise COB on procurement related issues. The committee's also ensures goods and services supplied are as per specifications and there is value for money.

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

The Human Resource Management Advisory Committee (HRMAC) is a standing committee that advises the Controller of Budget on HR issues and staff development. The Committee holds meetings quarterly. However, the Committee may call special meetings when necessary. The functions of the committee include the following;

- Discuss and make recommendations to Controller of Budget on general staff welfare and motivation issues among others;
- To discus, consider and recommend officers training requests to the Controller of Budget for approval purposes;

- Investigate and make recommendations to the Controller of Budget on disciplinary matters;
- Discuss and make recommendations on existing HR regulations and policies to the Controller of Budget;

4. Budget Implementation Committee

This is a sub-committee of the Executive Management committee set up to ensure the resources are utilised as per the OCOB budgetary allocation and work plan. The main responsibility of the budget implementation committee is to assist the COB to discharge her responsibility in the following areas:

- Review the actual departmental expenditures to determine the absorption rate for the budgeted activities and identify the reasons behind non utilization of funds.
- Advice the Accounting Officer on any problems related to budget implementation.
- Review and recommend re-allocations.
- Review the utilization of donor funds.
- Review the commitments including pending bills and recommend solutions

5. ICT Steering Committee

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

During the FY 2015/2016

The ICT steering Committee strengthened ICT deliverables in the following areas:

- Operationalization of the OCOB ICT Plans, Policies and Service Charter.
- Connectivity and Technology infrastructure
- ICT risk management register development.
- Assessment of user requirements and the adequacy of the available OCOB ICT systems
- Operationalization of a new OCOB website and Intranet with improved navigation and capacity for information to the publics.
- Development of a road map for advanced and widely accessible ICT system so as to broaden accessibility of OCOB content, reports and updates.

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6. Mediation Committee

The committee assist in mediations in case of disputes in the Counties on budget implementation related matters. The office has developed procedures on mechanisms for conducting dispute resolution So far several counties have been advised on the budget process.

7. Legal Activities

In the financial year 2015/16 the Controller of Budget was joined as a party to six (6) numbers of suits. In most of the cases the petitioners sought orders to bar the Controller of Budget from releasing funds pending final determination of the suits.

One outstanding suit is the High Court Petition Number 540 of 2015, filed by Honorable Benson Mutura, the Member of Parliament for Makadara Constituency, against the County Government of Nairobi, the Controller of Budget and five others. The petition is based on findings in the Controller of Budget, budget implementation review reports to the effect that the Nairobi County has been spending some revenue at source as opposed to depositing it in the County Revenue Fund as required by the Constitution.

The petitioner therefore seeks inter alia, a declaration that an injunction be granted to compel the Controller of Budget to ensure that she approves all withdrawals from the County Revenue Fund. The petition raises a number of complex constitutional and legal issues, therefore, the Controller of Budget procured the services of Messers Rachier and Amollo advocates as defense counsel and paid a deposit of Kshs.600, 000 towards fees.

The application seeking conservatory orders was dismissed on 10th June 2016, but in the ruling the judge made a finding that the petitioner had demonstrated violation of the Constitution. The full hearing for the petition is however yet to be conducted.

8. Public Participation Activities

The Office has held two public forums in Mombasa and Kisumu during the period under review. This was to ensure that the public is informed on their roles in;

- public financial management at national and county level;
- monitoring and evaluation during budget making process and implementation;
- Social accountability audit and interaction between the public and the OCOB in order to address emerging issues concerning the OCOB and budget implementation.

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The Office further participated in two other public sensitization forums with the National Tax Payers Association and the National Aids Control Council during the period under review. The Office has also developed a communication policy to guide on how to engage our various stakeholders.

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II. FORWARD BY THE CONTROLLER OF BUDGET

This report covers the FY 2015/16. During this period, the Office of the Controller of Budget (OCOB) was allocated Ksh.580.8 million which was revised to Ksh.529.1 million in the Supplementary Estimates to cater for the main programme of *control and management of public finances* in four sub-programmes, namely; Administrative Support Services, Research and Planning, Budget Review and Analysis; and County Services. The actual expenditure of Ksh.485.9 million was based on economic classification and included: Compensation of employees (Kshs.214.2m), use of goods and services (Kshs.175.2m), social security benefits (Kshs.85.3m) and acquisition of non -financial assets (Kshs.11.1m). To realise its strategic objectives, the Office relied on its strategic plan to guide activities, policy formulation and work plans and made the following progress and achievements towards its targeted objectives.

The following are key activities implemented by the Office under each sub programme:-

1.0 Administrative Support Services

1.1 Operationalization of the Office

The Office acquired additional office space and facilities to set up its headquarters to cater for additional staff due to increased workload. Initial staff were sourced from various ministries to operationalize the OCOB. The Office carried out trainings to staff in collaboration with key stakeholders to understand the functions of a devolved system of government in order to execute the mandate effectively. The OCOB is continuously building capacity of the staff to facilitate proper and efficient delivery on its mandate. The Office has equipped its staff in the counties to enable them deliver the requisite services to the stakeholders.

1.2 Staffing of the Office

The Office of the Controller of Budget reviewed its Job Evaluation to inform on optimum staffing levels and job descriptions that would enable the Office deliver on its mandate. This was as a result of full operationalization of county governments. The recruitment of the staff has been designed by the management to be in a phased order as the workload increase. The job evaluation report is continually used to guide the recruitments. The Office carried out recruitment to replace staff that had left and fill some of the existing critical vacancies during the year.

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1.3 Systems

The OCOB has developed an elaborate ICT system infrastructure to assist in delivery of information to stakeholders which includes an interactive website. The Office has developed a library management system, an asset management system, a mail system for staff, and also put in place a system to enable the public access budget implementation information online using their mobile phones. The other systems in place are for analyzing budget information to facilitate reporting. The Office has also implemented the Voice Over Internet Protocol (VOIP) to reduce telephones expenses.

1.4 Legal Framework

The Office participated, with other key stakeholders, in drafting and development of regulations for the Public Finance Management Act (PFMA), 2012 which were gazzeted in 2015. The Office of the Controller of Budget is still awaiting the enactment of the Controller of Budget Bill, 2011 to facilitate full operationalization of the office. The Bill has been passed by Parliament and currently awaiting assent. The Office is planning to embark on development of regulations to the Act as soon as it is enacted to further facilitate delivery of its mandate. The Office has also developed policies to guide access of information, investigations and how to handle complaints by the members of the public.

1.5 Capacity Building

The Office carried out capacity building of staff and county governments' staff on budget implementation.

2.0 Monitoring and Reporting on Budget Implementation

2.1 Quarterly Budget Implementation Review Reports

The OCOB monitors and prepares statutory reports to Parliament on the implementation of the budgets of the national and county governments in compliance with Article 228(6) of the Constitution of Kenya 2010. These quarterly budget implementation review reports are used to monitor the implementation of the budgets of the MDAs and counties. A total of eight reports per annum were published, submitted to Parliament and widely publicized. They

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consisted of four quarterly reports for each level of government - National Government and County Governments. The Office of Controller of Budget has through these reports identified the following challenges affecting budget implementation: -

National Government:-

- Low absorption of developments funds.
- Procurement related challenges.
- Large uncleared and outstanding imprests in some of the MDAs.
- Unfunded exchequer requests for MDAs resulting in pending bills.
- Non provision of counterpart funding on time by some MDAs.
- Under-reporting of Appropriations in Aid by some MDAs.
- Inadequate authority on expenditure of capital transfers.

County Governments:-

- Low absorption of developments funds.
- Underperformance in local revenue collection.
- High expenditure on non-core activities by most of the county entities in particular on domestic and foreign travel.
- Delay by some of the entities in submission of financial reports affecting timely production of quarterly budget implementation review reports.
- Inaccurate financial statements from entities requiring frequent validation hence delaying production of statutory reports by the office.
- Increasing wage bill.
- Recruitment and remuneration of ward employees.
- Lack of internal audit functions and committees in most of the county governments
- Frequent budget revisions by some counties eroding budget credibility.
- Inadequate staffing and skills capacity in some county governments.
- Inadequate administration and reporting on public funds established by county governments.

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2.2 Special Reports

The Office produced special reports on the request of the legislature or on own volition on issues of national interest in compliance of Article 252(1) (a). During the period under review the office prepared special reports for the Parliamentary oversight committees on various issues and on matters of policy to address budget implementation challenges and achievements and chart the way forward. Other reports include:-

- County Revenue baseline study which has been published and shared with key stakeholders and the public. 500 copies of the report were printed for stakeholders.
- Monitoring reports for all the 47 counties on selected projects using the monitoring framework.
- The Office also prepared its annual reports as required by law.

2.3 Investigations

The office carried out investigations on financial management issues raised by the Senate on some county governments, the Law courts and members of the public in compliance with the law.

2.4 Advice to the Legislature and Executive on Budget Implementation Issues.

The office of the Controller of Budget has held various meetings with the committees of parliament to discuss the issues raised in BIRR reports and provided advice on the way forward. The Office has also continually provided advice to the Executive on budget implementation including providing advice on prudent management of the public debt.

2.5 Monitoring and Evaluation Framework

The Office has developed a Monitoring and Evaluation (M&E) framework to enable the Office monitor implementation of budget of the national and county government effectively and efficiently. The framework will enable the Office to effectively advice both Executive and the Legislature on budget implementation matters.

The Office has also undertaken a scoping analysis of the public finance process, programmes and funding for Gender Responsive Budgeting (GRB) in Kenya to determine the entry points for the deepening of gender related budgets within the Public Financial Management Reform in collaboration with UN Women and other key stakeholders.

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The Office has further developed a framework to partner with key stakeholders including UNICEF to ensure budgets are responsive to issues affecting women and children.

In the FY 2015/16, the Office undertook two rounds of monitoring and evaluation of programmes/projects undertaken by all the 47 County Governments. The main objective of the monitoring and evaluation exercise was to provide information on the implementation status of planned projects/programmes and an assessment of the achievement of outputs and outcomes as a result of the implementation of the programmes as provided for in the respective county budgets.

The Monitoring involved the collection and analysis of data about budget activities. The data collected is meant to inform budget implementers to determine whether budget objectives are being achieved and make an assessment of of outputs and outcomes as a result of the implementation of the programmes and hence the budget performance. The exercise provides information to all stakeholders.

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

The Office observed that, there is still no linkage between planning and budgeting and many projects are not completed within the anticipated time frame. This is attributed mainly to delay in release of funds, non-payment of contractors and inadequate capacity of some contractors.

The OCOB recommends the need for counties to link planning to budget to ensure enhanced implementation of projects and programmes. The National and County Governments should embrace Programme Based Budgeting (PBB) which lay more emphasis on outputs and outcomes for increased benefits to the public. Further, the governments should enhance their internal M&E functions to continuously monitor their project implementation and address issues arising as the projects are being implemented with corrective actions being taken in

real time. Monitoring and evaluation should be an integral part of the operations of both national and county governments and must be used as a management tool if governments are to achieve their aspirations.

2.6 County Revenue Baseline Study, 2015

During FY 2015/16, the Office finalized and published the County Baseline Study 2015 on underperformance of county revenue. In their budgets, Counties estimated to collect substantial amount of local revenue that would be used to supplement the shareable revenue from the National Government to implement the planned activities. In cases where budgeted local revenue was not realized, the counties were compelled to scale down implementation of some planned activities. This affected the implementation of County Budgets.

It is against this background that the Office undertook the baseline study to evaluate the County Governments' revenue management systems and performance with a view to address the factors affecting budget implementation in the Counties. The results of this study shall assist the county leadership in setting realistic local revenue targets in order to improve budget execution.

3.0 Control of Withdrawals from Public Funds

3.1 Exchequer Releases and Resource Absorption

The Office of the Controller of Budget continues to approve withdrawals from public funds in a timely manner to facilitate the implementation of budget at both levels of government. In the year under review OCOB approved the release of a total of Ksh.1529.7 billion to fund national government's activities. The total expenditure was Kshs.1658.72 billion against a gross estimate of Kshs.1988.18 billion resulting in an overall absorption of 83.43 per cent.

Table 1 below shows the total exchequer release for consolidated fund services, recurrent and development expenditures for the national government for the Fiscal year 2015/16 up to 30th June.

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Table 1: Exchequer Issues Processed During the FY 2015/16

Type of Expenditure	Revised Gross Estimates *(Kshs. Billion)*	Net Estimates *(Kshs. Billion)*	Exchequer Issues Released *(Kshs. Billion)*	Actual Expenditure *(Kshs. Billion)*	% Exchequer Issues Released To Net Estimates	Absorption (% of Actual Expnd. To Revised Gross Estimates)
Recurrent	811.55	734.51	720.28	735.43	98.1 %	90.62 %
Development	681.95	369.66	333.17	448.8	90.1 %	65.81 %
Consolidated Fund Services	494.68	494.68	476.25	474.54	96.3 %	95.93 %
Total	**1,988.18**	**1598.85**	**1529.7**	**1658.72**	**95.7 %**	**83.43 %**

Source: OCOB

3.1.1 Recurrent Exchequer Releases and Absorption

The total Recurrent Budget Estimates for the Financial Year 2015/2016 for the national government was Kshs. 811.55 billion, which was 40.82 per cent of the total budget. The OCOB released a total of Kshs. 720.28 billion to MDAs to fund recurrent expenditure, all of which was utilized. In addition to Ksh. 15 billion was collected and spent as Appropriations-In-Aid (AIA) by the MDAs, resulting into an absorption rate of 90.42 per cent.

3.1.2 Development Exchequer Releases and Absorption

The total development budget estimates for the period under review was Kshs. 681.95 billion for which OCOB released exchequer amounting to Kshs.333.17 billion representing 90.13 per cent of the total development net estimates. The MDAs were able to spend Kshs.448.8 billion inclusive of AIA collected resulting in 65.81 per cent absorption rate.

3.1.3 Exchequer Releases for Consolidated Fund Services

The OCOB also facilitated the release of funds to cater for expenditure for consolidated fund services. The Office released Kshs. 476.25 billion to cater for consolidated fund services out of which Kshs.474.54 billion was absorbed. The Office of the Controller of Budget continues

to enforce the compliance with regulations for all debt payments by ensuring they are supported by the loan agreements and other supporting documents.

3.2 Exchequer Releases to County Governments

The total budget for county governments was Kshs.287 billion. The office released Kshs.266.04 billion to county governments from the consolidated funds as shareable revenue and another Ksh.37.5 billion for conditional grants. The absorption rate by the county governments was 82.05 %.

4.0 County Services and Enabling Activities

4.1 The Budgets for F/Y 2015/16 for County Governments

Through the advice of the Office of the Controller of Budget some of the Budget Estimates for F/Y 2015/16 for county governments were revised to comply with the law. The revision also reduced the high and unrealistic local revenue projections. In general the recommendations of the Office resulting in:-

- Improvement in absorption by most of the county governments.
- Improvement in revenue collection in some of the county governments.
- Improvement in the reporting of expenditure by the county governments.
- All public funds being established now by the county governments comply with the legislation.
- Improved service delivery in some entities due to capacity building of their staff.
- To avoid conflict of interest and ensure County Assemblies carry out their oversight roles most county governments have given financial autonomy to their County Assemblies to deliver on their mandates.

The Office continues to participate in the budget process as required by the law.

4.2 Advisories to County Governments

The office also facilitated the analysis of county budgets and provided the necessary advice to various county governments on the need to reduce unrealistic revenue projections and provisions on non-core items. Further, the Office has ensured that the county government

budgets comply with the legislation.

4.3 County Visits

The Office has continuously carried out county visits to sensitise the county governments on the mandate of the Office and to capacity build on effective budget implementation. During the visits, the Office identified the various challenges being faced by the county governments, such as inadequate systems for budget implementation, especially with regard to revenue collection; skills gaps for budget preparation and execution among the county staff; inadequate staffing; and lack of internal audit function and audit committees. The visits also revealed that the exchequer records were not properly maintained due to capacity challenges.

4.4 Mediation

OCOB has developed procedures on mechanisms for conducting dispute resolution and has a committee in place that assist in mediations in case of disputes in the Counties on budget implementation related matters. So far several counties have been advised on the budget process.

4.5 Public Sensitization

The Office has held two public forums covering 12 county governments, 6 in Mombasa and 6 in in Kisumu to ensure they participate effectively in the budgeting process and enable them to hold to account those involved in budget implementation. The fora sensitized over 1000 members of the public. The objectives of forums are to ensure: - the public is informed of their role in public financial management at national and county level; they are informed of their role in monitoring and evaluation during budget making process and implementation; the public is informed of their role in social audit; and that there is interaction between the public and the OCOB in order to address emerging issues concerning the OCOB and budget implementation.

The Office also participated in two other public sensitization forums with the National Tax Payers Association and the National Aids Control Council during the period under review. The Office has also developed a communication policy to guide on how to engage our various stakeholders.

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5.0 Emerging Issues/Challenges

5.1 Emerging Issues

With regard to budget implementation, the Office has identified a number of emerging issues and challenges which may impact on its operations. The emerging issues include:

- There is lack of clear understanding on the mandate of the Controller of Budget by the stakeholders.
- There is a lot of passage of legislation which breaches the Constitutional and the law by the county government particularly the principle of separation of powers
- The office of the Controller of Budget has held various meetings with the committees of parliament to discuss the issues raised in Quarterly Budget Implementation Review reports and provided advice. The Office has also continually provided advice to the Executive on budget implementation.
- Due to lack of inadequate staff capacity at county level, the Office collaborated with key stakeholders to train county staff.

5.2 Challenges

The challenges encountered by the office include:

- Delay in submission of expenditure returns and incomplete financial statements by MDAs;
- Lack of clear understanding on the mandate of the Controller of Budget by stakeholders and members of the public;
- Lack of awareness by the public on their role in the budget making process.

These Constraints and Challenges are being addressed by sending reminder letters to MDAs every quarter and follow up with individual CFOs to submit their expenditure returns; Recruitment and training of staff to effectively deliver on Office mandate; Sensitization of stakeholders and the public on the mandate of the OCOB; Advisories issued to both levels of government pointing out the anomalies and Sensitization of the public through public forums.

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For the year ended June 30, 2016 (Kshs)

Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET

17/1/17
DATE

OFFICE OF THE CONTROLLER OF BUDGET
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III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

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

Controller of Budget is responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

Controller of Budget accepts responsibility for the *entity's* financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2016, and of the *entity's* financial position as at that date. Controller of Budget further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

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

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confirms that the *entity's* financial statements have been prepared in a format that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The *entity's* financial statements were approved and signed by Controller of Budget on 17TH JANUARY 2017.

Mrs.Agnes Odhiambo
CONTROLLER OF BUDGET

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE OFFICE OF CONTROLLER OF BUDGET FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Office of the Controller of Budget set out on pages 29 to 45, which comprise the statement of assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation- recurrent, summary statement of provisions for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Report of the Auditor-General on the Financial Statements of the Office of Controller of Budget for the year ended 30 June 2016

Promoting Accountability in the Public Sector

accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Controller of Budget as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

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

Nairobi

09 March 2017

Report of the Auditor-General on the Financial Statements of the Office of Controller of Budget for the year ended 30 June 2016

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V. STATEMENT OF RECEIPTS AND PAYMENTS			
	Note	2015-2016	2014-2015
		Kshs	Kshs
RECEIPTS			
Exchequer releases	1	496,000,000.00	341,500,000.00
TOTAL RECEIPTS		**496,000,000.00**	**341,500,000.00**
PAYMENTS			
Compensation of Employees	2	214,177,677.15	189,982,181.00
Use of goods and Services	3	175,234,388.70	144,334,340.30
Transfer to other Government Units	4	35,668,574.65	-
Social Security Benefits	5	85,334,303.40	4,047,923.70
Acquisition of Assets	6	11,117,072.05	30,451,469.70
TOTAL PAYMENTS		**521,532,015.95**	**368,815,914.70**
SURPLUS/DEFICIT		**-25,532,015.95**	**-27,315,914.70**

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

Prepared By: Ms.Pamela Okatch _____ Date: 17/1/17

Reviewed By: Mr.Macklin Ogolla _____ Date: 17/1/17

Approved By: Mrs. Agnes Odhiambo _____ Date: 17/1/17

OFFICE OF THE CONTROLLER OF BUDGET
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VI.STATEMENT OF ASSETS			
	Note	2015-2016	2014-2015
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7A	12,990,537.05	39,271,391.10
Cash Balances	7B	377,255.00	370,145.00
Total Cash And Cash Equivalents		**13,367,792.05**	**39,641,536.10**
Accounts Receivables - Outstanding Imprest	8	301,881.00	469,825.00
TOTAL FINANCIAL ASSETS		**13,669,673.05**	**40,111,361.10**
Financial Liabilities			
Accounts Payables-Deposit and Retentions	9	3,088,549.35	3,998,221.45
NET FINANCIAL ASSETS		**10,581,123.70**	**36,113,139.65**
REPRESENTED BY			
Fund Balance b/fwd	10	36,113,139.65	63,429,054.35
Surplus/Deficit for the Year		-25,532,015.95	-27,315,914.70
NET FINANCIAL POSITION		**10,581,123.70**	**36,113,139.65**

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

Prepared By: Ms.Pamela Okatch _____ Date: 17/1/17

Reviewed By: Mr.Macklin Ogolla _____ Date: 17/01/17

Approved By: Mrs. Agnes Odhiambo _____ Date: 17/1/17

OFFICE OF THE CONTROLLER OF BUDGET
Reports and Financial Statements
For the year ended June 30, 2016 (Kshs)

VII. STATEMENT OF CASH FLOW

	Note	2015-2016	2014-2015
		Kshs	Kshs
Receipts and operating income			
Exchequer releases	1	496,000,000.00	341,500,000.00
Payments for Operating Expenses			
Compensation of Employees	2	-214,177,677.15	-189,982,181.00
Use of goods and Services	3	-175,234,388.70	-144,334,340.30
Transfer to other Government Units	4	-35,668,574.65	-
Social Security Benefits	5	-85,334,303.40	-4,047,923.70
Adjusted for :			
Changes in Receivables	11A	167,944.00	187,944.00
Changes in Payables	11B	-909,672.10	1,505,129.75
Net Cash From Operating Activities(A)		**-15,156,672.00**	**4,828,628.75**
Cash Flow From Investing Activities			
Acquisition of Assets	6	-11,117,072.05	-30,451,469.70
Net Cash Flow From Investing Activities(B)		**-11,117,072.05**	**-30,451,469.70**
Cash Flow From Borrowing Activities		-	-
Net Cash Flow From Financing Activities(C)		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT(A+B+C)		**-26,273,744.05**	**-25,622,840.95**
Cash and Cash Equivalent at BEGINNING of The Year		**39,641,536.10**	**65,264,377.05**
Cash and Cash Equivalent at END of The Year	7A+7B	**13,367,792.05**	**39,641,536.10**

OF FICE OF THE CONTROLLER OF BUDGET
Reports and Financial Statements
For the year ended June 30, 2016 (Kshs)

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

Prepared By: Ms.Pamela Okatch _____ Date: 17/1/17

Reviewed By: Mr.Macklin Ogolla _____ Date: 17/1/17

Approved By: Mrs. Agnes Odhiambo _____ Date: 17/1/17

OFFICE OF THE CONTROLLER OF BUDGET
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VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT						
Receipt/Expense Item	**Original Budget**	**Adjustments**	**Final Budget**	**Actual on Comparable Basis**	**Budget Utilization Difference**	**% of Utilization**
	Kshs	**Kshs**	**Kshs**	**Kshs**	**Kshs**	**%**
RECEIPTS	a	b	c=a+b	d	e=c-d	f=d/c
Exchequer releases	**580,830,272**	**-51,736,096**	**529,094,176**	**496,000,000**	**33,094,176**	**94**
PAYMENTS						
Compensation of Employees	268,524,127	-39,936,096	228,588,031	214,177,677.15	14,410,353.85	94
Use of goods and services	194,606,354	5,008,979	199,615,333	175,234,388.70	24,380,944.30	88
Social Security Benefits	101,200,000	-14,908,979	86,291,021	85,334,303.40	956,717.60	99
Acquisition of Assets	16,499,791	-1,900,000	14,599,791	11,117,072.05	3,482,718.95	76
TOTALS	**580,830,272**	**- 51,736,096**	**529,094,176**	**485,863,441.30**	**43,230,734.70**	**92**
Transfers to Other Government Entities-*Refer to Note 4*	-	-	-	35,668,574.65	-	
TOTALS	**580,830,272**	**-51,736,096**	**529,094,176**	**521,532,015.95**	**43,230,734.70**	**92**

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

Prepared By: Ms.Pamela Okatch _____ Date: 17/1/17

Reviewed By: Mr.Macklin Ogolla _____ Date: 17/1/17

Approved By: Mrs. Agnes Odhiambo _____ Date: 17/1/17

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12. Subsequent events.

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016

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XI. NOTES TO THE FINANCIAL STATEMENTS

1. Exchequer releases

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Exchequer Releases/ Provisioning Account	9910201	496,000,000.00	341,500,000.00
TOTAL		**496,000,000.00**	**341,500,000.00**

2. Compensation of Employees

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Basic Salaries - Permanent Employees	2110100	148,691,616.55	135,192,003.05
Personal Allowances paid as part of Salary	2110300	65,266,060.60	54,590,177.95
Employer Contributions to Compulsory National Social Security Schemes	2120100	220,000.00	200,000.00
TOTAL		**214,177,677.15**	**189,982,181.00**

3. Use of Goods and Services

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Utilities, Supplies and Services	2210100	454,828.80	245,517.00
Communication, Supplies and Services	2210200	9,174,535.20	8,303,120.45
Domestic Travel and Subsistence, and Other Transportation Costs	2210300	19,397,714.40	20,385,967.70
Foreign Travel and Subsistence, and other transportation costs	2210400	2,478,888.00	4,283,208.75
Printing , Advertising and Information Supplies and Services	2210500	56,452,800.00	34,337,441.00

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Rentals of Produced Assets	2210600	1,833,600.00	1,279,800.00
Training Expenses	2210700	15,401,888.00	12,073,465.70
Hospitality Supplies and Services	2210800	9,833,460.25	10,190,480.00
Insurance Costs	2210900	32,058,760.80	28,704,199.80
Specialized Materials and Supplies	2211000	1,050,894.00	1,434,158.00
Office and General Supplies and Services	2211100	8,432,644.40	6,899,499.30
Fuel Oil and Lubricants	2211200	3,683,741.00	3,152,249.00
Other Operating Expenses	2211300	9,081,543.80	8,656,083.00
Routine Maintenance - Vehicles	2220100	4,253,800.05	2,671,254.10
Routine Maintenance - Other Assets	2220200	1,645,290.00	1,717,896.50
TOTAL		**175,234,388.70**	**144,334,340.30**

4 Transfer to Other Government Units

Item Description	**Item Code**	**2015-2016**	**2014-2015**
		Kshs	**Kshs**
Exchequer Provisions-*FY 2015/16 Recurrent Bank and Cash opening Balance Transferred to The National Treasury*	9910200	35,659,643.65	-
Exchequer Provisions - *FY 2015/16 Recurrent Additional Cash opening Balance Transferred to The National Treasury*	9910200	8,931.00	-
TOTAL		**35,668,574.65**	-

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For the year ended June 30, 2016 (Kshs)

5 Social Security Benefits

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Government Pension and Retirement Benefits	2710100	85,334,303.40	4,047,923.70
TOTAL		**85,334,303.40**	**4,047,923.70**

6 Acquisition of Assets

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Refurbishment of Buildings	3110300	1,999,800.00	15,403,182.40
Purchase of Office Furniture and General Equipment	3111000	7,032,499.00	11,800,941.00
Purchase of Specialized Plant, Equipment and Machinery	3111100	2,084,773.05	3,247,346.30
TOTAL		**11,117,072.05**	**30,451,469.70**

7A Bank Balances

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Recurrent Bank Accounts- Central Bank of Kenya Bank A/C 1000181338	6530000	9,901,987.70	35,298,429.65
Deposit Bank Account- Central Bank of Kenya Bank A/C 1000182369	6550000	3,088,549.35	3,972,961.45
TOTAL		**12,990,537.05**	**39,271,391.10**

7B Cash Balances

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Cash in Hand	6580000	377,255.00	370,145.00
TOTAL		**377,255.00**	**370,145.00**

OFFICE OF THE CONTROLLER OF BUDGET
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For the year ended June 30, 2016 (Kshs)

8 Accounts Receivables - Outstanding Imprest

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Other Debtors & Pre-payments	6740000	281,881.00	469,825.00
Government Imprests-Temporary	6760000	20,000.00	-
TOTAL		**301,881.00**	**469,825.00**

9. Accounts Payable

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Other Liabilities	7320000	2,560,061.55	3,547,172.35
Deposits	7310000	528,487.80	451,049.10
TOTAL		**3,088,549.35**	**3,998,221.45**

10. Fund Balances Brought Forward

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Opening Balance Bank-Recurrent	9990100	39,271,391.10	64,872,141.05
Opening Balance Cash	9990200	370,145.00	392,236.00
Opening Balance Receivables - Imprest and Clearance Accounts	9990300	469,825.00	657,769.00
Opening Balance Bank – Deposit	9990100	-3,998,221.45	-2,493,091.70
TOTAL		**36,113,139.65**	**63,429,054.35**

OFFICE OF THE CONTROLLER OF BUDGET
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11A. Changes in Receivables

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Receivables at the beginning of the Year-Dennis Okungu	6740000	469,825.00	657,769.00
Changes during the Year -Dennis Okungu	6740000	-187,944.00	-187,944.00
Receivables at the end of the Year-Temporary Imprests	6760000	20,000.00	-
TOTAL		**301,881.00**	**469,825.00**

11B. Changes in Payables

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Payables at the beginning of the Year	7320000	3,998,221.45	2,493,091.70
Changes during the Year	7320000	-909,672.10	1,505,129.75
TOTAL		**3,088,549.35**	**3,998,221.45**

12.A Prepayment

Name of Officer	Balance B/F	Amount Recovered	Balance C/F
	Kshs	Kshs	Kshs
Dennis Okungu (Training Levy)	469,825.00	187,944.00	281,881.00

12.B Outstanding Imprest

Name of Officer	Date Imprest Taken	Amount Taken	Amount Surrendered	Balance
		Kshs	Kshs	Kshs
Mrs.Agnes Odhiambo	23/06/2016	209,914	189,914	20,000 (Surrendered on 4th July 2016)

OFFICE OF THE CONTROLLER OF BUDGET
Reports and Financial Statements
For the year ended June 30, 2016 (Kshs)

13. Analysis of the Deposit Account

Item Description	Item Code	2015-2016	2014-2015
		Kshs	Kshs
Retention –Fine Tops Enterprises	7320200	229,511.80	1,216,822.60
Retention –Specicom Technologies Ltd	7320200	497,000.00	497,000.00
Retention –Africa Management Solutions Ltd	7320200	132,600.00	132,600.00
Retention –Pong Agencies	7320200	1,256.50	1,256.50
Tender Bond-Real Insurance	7320200	200,000.00	200,000.00
Commissions(payroll)	7310100	52,017.50	75,649.10
Insurance Refund	7310100	310,940.00	310,940.00
AIA-Sale of tender	7310100	-	39,000.00
Retention-Pekals Ltd	7320200	1,499,693.25	1,499,693.25
Tender Bond-Losagi Insurance	7310100	145,500.00	-
AIA-Joel Muema	7310100	11,099.30	-
The National Treasury-Exchequer refund	7310100	8,931.00	-
TOTAL		**3,088,549.35**	**3,972,961.45**

OFFICE OF THE CONTROLLER OF BUDGET
Reports and Financial Statements
For the year ended June 30, 2016 (Kshs)

ANNEX I- SUMMARY STATEMENT OF DEPOSITS

Description	2015-2016	2014-2015
	Kshs	Kshs
Opening Balance	3,972,961.45	2,493,091.70
Transfers of retentions & deposits during the Year	217,547.70	1,591,582.25
Payments made out of deposit account during the year	-1,101,959.80	-111,712.50
CLOSING BALANCE	**3,088,549.35**	**3,972,961.45**

ANNEX II-SUMMARY OF FIXED ASSET REGISTER

Asset class	Item Code	Current Cost (Kshs) 2015/16	Historical Cost (Kshs) 2014/15
Refurbishment of buildings	3110300	1,999,800.00	0
Vehicles and Other Transport Equipment	3110700	-	26,799,000.00
Office Furniture and General Equipment	3111000	7,032,499.00	57,256,645.00
Specialised Plant, Equipment and Machinery	3111100	2,084,773.05	10,755,846.30
Total		**11,117,072.05**	**94,811,491.30**

Prepared By: Ms.Pamela Okatch _____ Date: 17/1/17

Reviewed By: Mr.Macklin Ogolla _____ Date: 17/1/17

Approved By: Mrs. Agnes Odhiambo _____ Date: 17/1/17

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