KENYA

Public Expenditure and Financial Accountability (PEFA) Assessment Report 2017

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat
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Public Financial Management and Accountability Assessment, 2017

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Final Report

Client: **European Commission Kenya**

ECORYS PFM Consortium

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Rotterdam, **26 March 2019**

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Acronyms and Abbreviations

AiA	Appropriations in Aid
ADR	Alternative Dispute Resolutions
AIE	Authority to Incur Expenditure
AFS	Annual Financial Statement
ASD	Accounting Services Department
BCC	Budget Call Circular
BIRR	Budget Implementation Review Report
BPS	Budget Policy Statement
BROP	Budget Review and Output Paper
CARA	County Allocation of Revenue Act
CBC	Customs Border Control
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CIT	Corporate Income Tax
CMM	Cash Management Module
COB	Controller of Budget
CPS	Centralised Payments System
CPI	Consumer Price Index
CRA	County Revenue Allocation
CS-DRMS	Commonwealth Secretariat Debt Reporting and Management System
DORA	Division of Revenue Act
DSA	Debt Sustainability Analysis
DTD	Domestic Tax Department
EBO	Extra Budgetary Operation
EFT	Electronic Funds Transfer
EU	European Union
FCCL	Fiscal Commitment and Contingent Liability
FR	Financial Regulations
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GL	General Ledger (of IFMIS)
GoK	Government of Kenya
GPAY	Government Payments System
GHRMIS	Government Human Resource Information Management System
GPIPE	Government Public Investment and Public Enterprise
IA	Internal Audit
IAD	Internal Audit Department
IAG	Internal Auditor General
ICMS	International Customs Management System
ICT	Information and Communication Technology
IEC	Investigation and Enforcement Control
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organisation of Supreme Audit Institutions
IPPD	Integrated Payroll and Personnel Database
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards

IT	Information Technology
iTax	Integrated Tax Management System
JIT	Just-in-Time
KCCI	Kenya Chamber of Commerce and Industry
KENAO	Kenya National Audit Office
KRA	Kenya Revenue Agency
Ksh	Kenya Shilling
KNBS	Kenya National Bureau of Statistics
LPO	Local Purchase Order
LTO	Large Taxpayers' Office
MDA	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
MoA	Ministry of Agriculture
MoE	Ministry of Education
MoH	Ministry of Health
MSPS	Ministry of State for Public Service
MTDMS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NA	National Assembly
NGO	Non-Government Organisation
NT	National Treasury
NTC	National Target Centre
OAG	Office of Auditor General
OCOB	Office of Controller of the Budget
PAA	Public Audit Act
PAC	Public Accounts Committee
PAYE	Pay-As-You-Earn
PBO	Parliamentary Budgetary Office
PCA	Post Clearance Audit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMA	Public Finance Management Act
PFMRS	PFM Reform Secretariat
PI	Performance Indicator
PIC	Public Investment Committee
PIM	Public Investment Management
PIN	Personal Identification Number
PIT	Personal Income Tax
PPADA	Public Procurement and Asset Disposal Act
PPOA	Public Procurement Oversight Agency
PPP	Public Private Partnership
PPPU	PPP Unit
PPRA	Public Procurement Regulatory Agency
PSASB	Public Sector Accounting Standards Board
PV	Payments Voucher
QEBR	Quarterly Economic Budget Review
SAGA	Semi Autonomous Government Agency

SBA	Standby Agreement
SC	State Corporation
SCF	Standby Credit Facility
SCOA	Standard Chart of Accounts
SDU	Service Delivery Unit (e.g. school, health centre)
SWG	Sector Working Group
SME	Small and Medium Scale Enterprise
SNG	Sub-National Government
TA	Technical Assistance
TADAT	Tax Administration Diagnostics Tool
TC	Treasury Circular
TIMS	Tax Information Management System
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
TSC	Teachers Service Commission
UNDP	United Nations Development Programme.
USAID	United States Agency for International Development
USD	US dollar
VAT	Value Added Tax
WB	World Bank

Kenyan Fiscal Year: July 1-June 30

CURRENCY EQUIVALENTS

Currency unit = Euro 1 = Ksh 110 (as of February 1, 2017)

The team expresses deep gratitude to the staff of the PFM Reform Secretariat for the very helpful support it provided to it during this assignment.

Executive Summary

Purpose and Management of the PEFA Assessment

The Public Expenditure and Financial Accountability (PEFA) Assessment Framework is an important tool for monitoring improvements and diagnosing challenges in the country's PFM system. The 2012 PEFA assessment helped to inform the preparation of the Government of Kenya (GoK)'s PFM Reform Strategy 2013-2018. In the same way, this 2017 PEFA assessment will help to inform the preparation of the next PFM reform strategy.

The purpose of the assessment is twofold: (i) utilize the new 2016 PEFA Framework to assess GoK's PFM systems and establish a baseline for future PEFA assessments to track PFM performance again; and (ii) where applicable, to assess change in PFM performance since the 2012 PEFA assessment.

The results of the assessment will help GoK to determine whether any revisions to its current PFM Reform Strategy, 2013-18, are necessary in order to meet PFM reform objectives, and, if so, how these should be managed and what sort of donor partner assistance might be required.

The PFM Reform Secretariat, based in the National Treasury, is in charge of managing the PEFA assessment, preparing PFM reform strategies, managing and monitoring their implementation, and liaising with those donor partners who are assisting with the planning and implementation of PFM reforms. Its key personnel are listed below:

Julius Mutua –Coordinator
Warui Maina
Stephen Maluku
Joel Bett
Waithaka Ng'anga
Wakesho Mwambingu
Phoebe Gor

Coverage and Timing

The assessment is at national government level only, focusing on central budget institutions only. It does not cover State Corporations, which comprise autonomous government entities, both commercial and non-commercial. The expenditures of Central Government budget institutions comprise about 85% of the total National Government (central plus counties) expenditure. A separate PEFA assessment of the PFM systems of a sample of County Governments is being planned, which will be conducted later on in 2017.

The fieldwork for the assessment was conducted during February/March 2017. Assessment is backwards looking up to the situation at the time of the assessment. Depending on the type of indicator, the assessment may cover the last 3 completed financial years (the last completed financial year was FY 2015/16 at the time of the fieldwork), or the last completed financial year, or the situation at the time of the assessment. The time coverage is indicated under each indicator assessment in Section 3.

PFM strengths and weaknesses: Impact of PFM system performance on the three main budgetary outcomes.

1. Aggregate Fiscal discipline

As was the case at the time of the 2012 PEFA assessment, and as is apparent from budget documentation, GoK considers that preservation of aggregate fiscal discipline is a pre-requisite to maintaining overall macroeconomic stability, itself a pre-requisite for budget predictability. Weaknesses in fiscal discipline could quickly translate into rising budget deficits, rising debt, and eventually external debt crises. In such an environment, budgets are likely lack predictability and predictable public service delivery would suffer as a result.

As was the case at the time of the 2012 PEFA assessment, GoK has been quite successful in preserving aggregate fiscal discipline, although this has not always been easy in the face of revenue shortfalls and pressures from MDAs and politicians for budget adjustments and extra spending. The main means of doing this have mainly consisted of ensuring a credible medium term macro-fiscal framework *(PIs-13-14)* and ensuring that budgets can only be executed during the year according to the cash available (i.e. cash rationing) on a monthly basis. This has helped to keep end-year payment arrears down *(PI-22),* though these are still an issue due to approval of expenditure commitments being based on approved budgets rather than cash availability.

Cash rationing is a crude and inefficient form of budget execution, however, and can be improved through strengthened accuracy in budgeting (*PIs 11, 16-17)*, and active cash and debt management *(PIs 13 and 21)*. This would allow MDAs to plan their monthly/quarterly expenditures for a whole year according to well-prepared cash flow forecasts with the confidence that the cash will be available when needed to pay bills *(PI-21)*. This is not the case at present, although it was planned to be the case at the time of the 2012 PEFA assessment.

2. Strategic resource allocation

Adopting a medium term strategic perspective to budgeting has tended to be challenging in the face of both the challenges of maintaining aggregate fiscal discipline over the short term and the challenges in budgeting on an annual basis, let alone a medium term basis.

Nevertheless, the Medium Term Plans (MTP) of GoK and the references to these highlighted in annual budget statements indicate that GoK knows what it wants to achieve over the medium term and how it will do this. The MTEF processes that have been put in place in recent years, combined with the relationship between these and the MTPs indicate that the mechanisms are in place for achieving a strategic allocation of resources consistent with medium and long terms development plans. More emphasis could be placed on the preparation of forward spending estimates (also known as baseline estimates) that project costs of delivering services on the basis of services currently being delivered. These costs would include the projections of recurrent cost that would be generated by the completion of already committed capital investment projects (e.g. construction of schools, health facilities, roads). Such estimates would help to improve the accuracy of annual budgeting *(PIs 11, 15-17)*.

3. Service delivery

The main purpose of any democratically elected government is to provide the public services that a are necessary for socio-economic development. Budget constraints that face any country imply that such services should be provided as efficiently and effectively as possible, as evidenced by reports and audited financial accounts, the latter pointing out areas of possible wastage and inefficiency. PFM reforms help to mitigate against these.

GoK's progress in implementing its PFM reform agenda over the last few years has been slower than planned, partly because of capacity constraints, and insufficient prioritizing and sequencing of reforms taking into account these constraints. This is the case in most countries attempting to strengthen their PFM systems.

Nevertheless, though slower than planned for, some progress has been made in implementing the IFMIS reengineering strategy and strengthening of controls, that has led to some strengthening of revenue administration, budget execution, accounting and reporting (PIs 19-21, 22, 27-29). Such strengthening has been facilitated through strengthening of internal controls (PIs-23-26), covering payroll, procurement, non-salary controls and internal audit. All these efforts help to strengthen service delivery, in terms of both quantity and quality.

Strong external oversight can result in pressures being placed on the executive branch of Government to strengthen PFM systems in support of strengthened service delivery. The Office of Auditor General and the Public Accounts Committee (PAC) generally perform well in this regard, but their effectiveness tends to be limited by the slow progress made by MDAs in implementing their recommendations (PIs 30-31).

On-Going and Planned PFM Reform Agenda

As described in Section 5, a PFM Reform Strategy (2013-18) is currently being implemented. It covers all the PFM reform areas. Issues are analysed and discussed in Section 3. The pace of implementation has not been as fast as planned, partly because of capacity constraints. These were already well-known, implying that the Strategy should have prioritized more in relation to addressing the most critical PFM weaknesses. Section 5 elaborates.

PFM System performance since the 2012 PEFA assessment

Change in performance since the 2012 PEFA assessment is summarised in Annex 1.b (using the 2016 PEFA Framework) and Annex 4 (using the 2011 PEFA Framework) on an indicator by indicator basis. In terms of the impacts on budgetary outcomes of change in performance, these are summarized as follows.

- *Aggregate fiscal discipline*: This was already positive at the time of the 2012 Assessment and has generally stayed that way. The need to preserve aggregate fiscal discipline in support of macro-fiscal stability has tended to take priority over the other two budget outcomes, with the risk of detriment to these;
- *Strategic Resource allocation.* The planning and budgeting mechanisms for achieving an allocation in the best interests of society have in principal been in place for some time. They have changed little since the 2012 PEFA Assessment. The actual allocations may be different from budgeted allocations due to issues with the other two outcomes;
- *Efficiency of Service Delivery.* In principal, efficiency has improved mainly due to the positive impacts (in terms of the resultant strengthening of internal controls), and of the implementation of the IFMIS Re-engineering Strategy and the strengthening of the procurement system.

Further improvement is expected in line with the continuation of the implementation of the Strategy. Nevertheless, the primary focus on preservation of aggregate fiscal discipline may in some circumstances be at the expense of efficient service delivery (e.g. delays in releases of resources during the year in response to revenue shortfalls and/or unexpected extra expenditure demands will have a negative impact on the cost efficiency of service delivery).

Table 0.1.1 2017 PEFA Assessment Summary of Scores

		Over-all	1.	2.	3.	4.
PI	PILLAR 1- BUDGET RELIABILITY					
PI-1	Aggregate expenditure outturn	*B*	B			
PI-2	Expenditure composition outturn *(M1-WL)*	*D+*	B	D*	A	
PI-3	Revenue outturn *(M2-AV)*	*B*	B	B		
	PILLAR II- TRANSPARENCY OF PUBLIC FINANCE					
PI-4	Budget classification	*C*	C			
PI-5	Budget documentation	*D*	D			
PI-6	Central government operations outside financial reports *(M2-AV)*	*D*	D*	D*	D*	
PI-7	Transfers to sub-national governments *(M2-AV)*	*C+*	A	D		
PI-8	Performance information for service delivery *(M2-AV)*	*B*	B	B	B	B
PI-9	Public access to fiscal information	*B*	B			
	PILLAR III -MANAGEMENT OF ASSETS & LIABILITIES					
PI-10	Fiscal risk reporting *(M2-AV)*	*D*	D*	D	D*	
PI-11	Public investment management *(M2-AV)*	C+	D*	A	C	C
PI-12	Public asset management *(M2-AV)*	*D+*	C	D	D	
PI-13	Debt management *(M2-AV)*	*B+*	C	A	A	
	PILLAR IV - POLICY-BASED FISCAL STRATEGY AND BUDGET					
PI-14	Macro-economic and fiscal forecasts *(M2-AV)*	*A*	A	A	B	
PI-15	Fiscal strategy *(M2-AV)*	*B*	C	A	B	
PI-16	Medium-term perspective in expenditure budgeting *(M2-AV)*	*B+*	A	A	B	C
PI-17	Budget preparation process *(M2-AV)*	*A*	A	A	A	
PI-18	Legislative scrutiny of the budget *(M1-WL)*	*B+*	A	A	A	B
	PILLAR V – PREDICTABILITY AND CONTROL IN BUDGET EXECUTION					
PI-19	Revenue administration *(M2-AV)*	*D+*	C	C	C	D
PI-20	Accounting for revenue *(M1-WL)*	*D+*	A	B	D*	
PI-21	Predictability of in-year resource allocation *(M2-AV)*	*C*	D*	C	C	B
PI-22	Expenditure arrears *(M1-WL)*	*C+*	B	C		
PI-23	Payroll controls *(M1-WL)*	*B*	B	B	B	B
PI-24	Procurement *(M2-AV)*	*A*	A	A	B	A
PI-25	Internal controls on non-salary expenditure *(M2-AV)*	*B+*	A	C	A	
PI-26	Internal audit *(M1-WL)*	*D+*	A	A	A	D*
	PILLAR VI – ACCOUNTING, RECORDING AND REPORTING					
PI-27	Financial data integrity *(M2-AV)*	*C*	B	D	D	B
PI-28	In-year budget reporting *(M1-WL)*	*C+*	C	C	B	
PI-29	Annual financial reports *(M1-WL)*	*C*	C	C	C	
	PILLAR VII – EXTERNAL SCRUTINY AND AUDIT					
PI-30	External audit *(M1-WL)*	*D+*	B	D	D*	A
PI-31	Legislative scrutiny of audit reports *(M2-AV)*	*D*	D	D	D	D

Note: (i) M1-WL = weakest link scoring methodology; overall score based on lowest dimension score with a plus sign added. M2-AV = average score scoring methodology, based on the scoring table in the 2017 Framework document.
(ii) Detailed scoring tables by dimension are shown under each indicator in Section 3.

Table 1.2 Frequency distribution of scores

Scores	Number 2017 PEFA	% total
A	3	9.7
B+	4	12.9
B	6	19.4
C+	4	12.9
C	4	12.9
D+	6	19.4
D	4	12.9
TOTAL	31	100

Thirteen of the 2017 PEFA indicators score B and above eight score C and C+, ten score D+ and below.

Annex 1.1 shows explanations of scores by indicator. Annex 1.2 shows assessment of performance change since the 2012 PEFA assessment, using the 2016 PEFA Framework. Annex 4 assesses performance change using the 2011 PEFA Framework.

1 Introduction

Chapter 1 outlines the context and purpose of the public financial management (PFM) assessment, the process by which the assessment report was prepared, and the methodology used in undertaking the assessment.

1.1 Rationale for and purpose of the assessment

The Public Expenditure and Financial Accountability (PEFA) Assessment Framework is an important tool for monitoring improvements and diagnosing challenges in the country's PFM system. The 2012 PEFA assessment helped to inform the preparation of the Government of Kenya (GoK)'s PFM Reform Strategy 2013-2018. The GoK with the assistance of the Delegation of the European Union to Kenya have agreed to co-fund a fourth PEFA assessment, to take place in Financial Year (FY) 2016/2017. The last one was conducted in 2012, itself a repeat of the assessment conducted in 2008.

The purpose of the assessment is twofold: (i) utilize the new 2016 PEFA Framework to assess GoK's PFM systems and establish a baseline for future PEFA assessments to track PFM performance again; and (ii) where applicable, to assess change in PFM performance since the 2012 PEFA assessment. The 2016 Framework has changed substantially from the previous 2011 Framework through the introduction of a number of new performance indicators (PIs) and the modifying of existing PIs. Nevertheless, change can be tracked directly where PIs have not changed, or indirectly, where PI specification has changed to an extent.

The results of the assessment will help GoK to determine whether any revisions to its current PFM Reform Strategy, 2013-18, are necessary in order to meet PFM reform objectives, and, if so, how these should be managed and what sort of donor partner assistance might be required.

The assessment is at national government level only, focusing on central budget institutions only (i.e. not covering autonomous agencies and public enterprises, collectively known as State Corporations). A PEFA assessment of the PFM systems of a sample of County Governments were being planned to be conducted later on in 2017.

1.2 Assessment management and quality assurance

The assessment has been managed by the PFM Reform Secretariat (PFMRS) located in the National Treasury. It was funded by EU through its Delegation in Nairobi. The EU, through its project manager in Nairobi, approved the Terms of Reference (ToR) drawn up by PFMRS and organized the contracting of the consulting team. The PEFA Secretariat approved the Concept Note, which formed the basis of the ToR. A team from the PEFA Secretariat visited Nairobi in October 2016 to provide training in the use of the 2016 PEFA Framework. Quality Assurance would be provided by PFMRS, EU Delegation in Nairobi, and PEFA Secretariat, the last mentioned providing the 'PEFA Check'. There was no donor organization/partner group that was part of the assessment process. This is because no donor is providing any budget support at present, all donors instead providing assistance in the form of project/programme support, mainly using their own PFM mechanisms.

Table 1.1 Assessment management and quality assurance arrangements

PEFA assessment management organization

- Oversight Team (OT) — See below.
- Assessment Manager: Mr. Julius Mukua, Programme Coordinator, PFMRS (see below).Assessment Team Leader: Peter Fairman, PFM consultant contracted by Ecorys.

Additional PFM consultants:

- Jean-Marc Philip (February-April 2017)

Composition of the OT
• Mr. Julius Mukua • Heads of Department, National Treasury (NT).

Mr. Mukua was supported by Mr. Warui Maina, Mr. Stephen Maluku, and Mr. Joel Bett, staff members of PFMRS.

Review of concept note and/or terms of reference.

- Date of reviewed Concept Note/Terms of reference: July 2016.
- Invited reviewers: PFMRS, Heads of NT Departments, DANIDA, IMF, EU, World Bank...
- Date(s) of final concept note and/or terms of reference: November, 2016.
-

Review of the assessment report. *To be completed after review has been conducted*

- Date(s) of reviewed draft report(s):
- Consolidated (by PFMRS) comments (60 pages) on first draft report (submitted to EUD 25th May 2017) received on 26th July, 2017.
- Comments on second draft report (submitted to EUD 18th February 2018) received at workshop on 27th June 2018 and on 28th June from PEFA Secretariat.
- Comments on third draft report (submitted to EUD 28 September 2018) received by assessment team on 22 November 2018.
- Queries on these comments submitted by the Team to EUD on 27 November 2018.
- The focus of these queries, as previously stated, was on the requirement stipulated by PEFA Secretariat in the consolidated comments received on 26th July, 2017, and later re-iterated (28th June, 2018 and 22nd November 2018) to assess PFM performance change on the basis of the 2011 PEFA Framework. The team had assessed performance change on the basis of the 2016 PEFA Framework (Annex 1b of the first draft report submitted in May 2018). The team stated that the ToR made no mention of the need to assess performance change on the basis of the 2011 PEFA Framework. The PEFA Secretariat claimed that it had been explicitly required, stating this was shown in both the ToR and Volume 3 of the PEFA Handbook. The ToR, however, makes no mention on the methodology that should be used to assess performance change and makes no mention of Volume 3 of the Handbook.
- The comments on the 3rd draft report received from PFM Reform Secretariat on 22nd December also indicated the requirement to prepare a separate Annex on observations on the Internal Control Framework. This was not included in the ToR, so the team did not prepare this. In any case, the huge under-resourcing of the PEFA assessment precluded doing this. Observations on the internal control framework are made in a sub-section of Section 4.
- The reviewers of the first draft were:
  - *The key departments in NT* (Budget, Accountant General, IFMIS Office, Public Debt Management Office, Government Investment and Public Enterprise Department, Macro and Fiscal Affairs Department, National Assets and Liabilities Department, Internal Auditor General;
  - *Other government entities:* Central Bank of Kenya, Public Procurement Regulatory Agency, Kenya Revenue Agency, Office of Auditor General, State Departments of Agriculture, Roads, Education and Health;
  - *External agencies*: donor partners (names not specified), East Afritac, and PEFA Secretariat.
- The reviewers of second draft were (i) KRA, PPRA,, some NT Departments, and some donors (World Bank and EU) participating in PEFA workshop held on 27th June, 2018; comments were both oral and

written (the latter submitted on 28th June); and (ii) PEFA Secretariat. The PFMRS Programme Co-ordinator also provided comments;
- Reviewer of third draft, submitted to EUD on 22 November, 2018, was PFMRS.

The team provided comments to EU on the above on 27 November, 2018. At the time of submission of this fourth draft report to EUD, no response to these comments had been received by the team.

1.3 Assessment methodology, coverage, and scheduling

Methodology:
- Review of available documentation from home base (GoK documents on websites, particularly that of National Treasury (NT); relevant IMF and World Bank documents), followed by the preparation of a work plan, and a list of meeting and information requirements. The PEFA 2016 Framework document, accompanying Field Guide and the 2012 PEFA assessment comprised essential documentation;
- Holding of meetings in the field in order to obtain the information needed. The meetings culminated in a workshop (3 March, 2017) at which the PEFA team presented its initial findings;
- Preparation of first draft report, mainly at home base, and submission to PFM Reform Secretariat;
- Circulation of the draft report to the GoK institutions whose PFM systems were assessed, and to the EUD and East AFRITAC. These stakeholders provided comments that were submitted to the PEFA assessment team;
- Preparation of the second draft report by the PEFA team, taking into account the comments received on the first draft.

Coverage
The assessment covered budgetary central government only. Expenditure of this comprises about 85% of combined national and county government expenditure, with some variation from year to year. Further elaboration is provided under Section 2.

Scheduling
The team visited Nairobi from 2 February to 7 March 2017. An inception meeting was held with the EU project manager on 3 February. Meetings were held with several departments in NT[1], Public Procurement Regulatory Agency, Ministry of State for Public Service, Teachers' Service Commission, Office of Controller of Budget, Parliamentary Budget Office, Kenya Revenue Authority, Office of Auditor General, State Department of Planning and Statistics, Ministries of Education, Health, Agriculture and Infrastructure, Central Bank of Kenya, and the Kenya Chamber of Commerce and Industry. There were some follow-up meetings, including after the workshop on 1st March.

The team requested a meeting with Department of External Affairs in NT in order to obtain information on donor-funded projects and programmes. The information would potentially prove useful for scoring PI 6 (extra-budgetary operations) and PI 11 (public investment management). The PFM Reform Secretariat made a number of attempts to arrange a meeting, but was not successful. As indicated in the ToR, the main donors are World Bank, African Development Bank,

[1] Accounting Services Department, Budget Department, Macro and Fiscal Affairs Department, Intergovernmental Fiscal Relations Department, Government Public Investment and Public Enterprise Department, Public Debt Management Office, IFMIS Office, Assets and Liabilities Department. Internal Auditor General, PPP Unit, Public Procurement Department, Pension Department. The team had also planned to visit the Fiscal Commitment and Contingency Unit located in the Public Debt Management Office, but this has not been functioning for a while.

EU and DANIDA. These all provide support for programmes and projects; none provide budget support.[2]

The team leader had a wrap up meeting on 6th March with the EU Office Project and left Kenya on 7th March. The team continued to prepare the draft report during March, April and May (apart from a gap of 2 weeks in April due to other commitments). The first draft was submitted by the team leader to the consulting company on May 25th, 2017. A long list (60 pages) of comments was sent to the Team Leader by the PFM Report Secretariat on July 26th 2017. Due to other commitments, he was not able to start looking at them until late September and addressed all the comments himself, due to the other consultant leaving the team in April. Various personal commitments during the last quarter of 2017 and new professional commitments in early 2018 greatly limited the time he had available to address the comments. A second draft was eventually submitted to PFMR Secretariat FR Secretariat on February 18th, 2018.

A PEFA workshop was held on 27th June, 2018 in Nairobi, mainly attended by GoK, but also some donors (World Bank and EU in particular). The Team Leader made a presentation on the findings of the assessment. This was followed by discussions, during which some issues were resolved. The following day, the Team Leader received some written comments from some of the workshop participants who had raised issues. He also received a second round of comments from the PEFA Secretariat. He then had a close out meeting with the EUD. Following his departure from Kenya after the workshop, he worked on and off on preparing the third draft, progress being hindered again by various personal commitments. The third draft was submitted to EUD on 28th September 2018.Subsequent comments provided by EUD and PFM Reform Secretariat included the re-iteration of the need to assess performance change since the 2012 PEFA assessment on the basis of the 2011 PEFA Framework. Although this was not provided in the ToR, as already stated by the team, the team agreed to do this (on 8th December 2018). [3]Annex 4 has been added, containing this assessment.

Limitations

This PEFA assessment was very under-resourced, which is why it took a long time to prepare the first draft and another lengthy period of time to prepare the second and then the third and fourth drafts. A team of 2 consultants (Peter Fairman, team leader, and Jean-Marc Philip) was hired to prepare a PEFA assessment with far fewer man-days than for the 2012 PEFA assessment and a much wider scope of work. The 2012 PEFA assessment was prepared by a four person team (including the team leader for this 2017 PEFA assessment), assessing 77 PI dimensions (sub-indicators) under the 2011 PEFA methodology. Each team member was provided 35-39 consultant days to prepare 19 PI-dimensions each (on average).

The 2017 PEFA assessment has been prepared by two consultants assessing 94 PI dimensions, or 47 dimensions each, the team leader being provided 39 consulting days and the other consultant being provided 35 days, both very similar to the 2012 PEFA assessment.. The workload is therefore about 2.5 times higher per person with no additional time provided. Moreover, the scope of the work under the sections of the PEFA Framework other than Section 3 (which covers the individual PIs) is significantly larger than under the 2011 PEFA Framework.

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[22] IMF provides balance of payments support from time to time under its programmes; currently GoK/CBK has a support programme with IMF (noted in Section 2), but has so far not drawn down any of the funds available. East AFRITAC, funded by DPs, but managed by IMF, provides TA support to GoK and CBK.

[3] The comments submitted by PFM Reform Secretariat on 22nd November 2018 on the 3rd draft report submitted by the Team on 28th September indicated: "The ToR mentions that when preparing the draft PEFA Report. the data analysis is prepared using the prescribed PEFA format outlined in the 2016 PEFA Framework document and the PEFA Handbook. The consultant was therefore expected to use the prescribed formats in the 2016 PEFA Framework document and the PEFA Handbook." The ToR, however, do not say this. There is no reference anywhere to the PEFA Handbook. Perhaps the Team had access to the wrong version of the ToR or else the comments were quoting something from a ToR for a PEFA assessment for another country.

At the inception meeting with the EU Office on 3rd March, the Project Manager explained that EU considered that it was necessary to hire only 2 consultants for the same amount of time per person, as this was a repeat assessment, and both the 2 consultants selected had been part of the 2012 PEFA assessment team. The team leader acknowledged that prior PEFA experience in Kenya was indeed useful, but pointed out that: (i) 5 years had elapsed since the previous assessment and much had happened since then; (ii) the 2016 PEFA Framework had far more scoring dimensions to assess (94 versus 77); (iii) the 2016 PEFA Framework had a number of new indicators/modified indicators, which would take longer to assess than for the indicators for which the specifications had not changed.

This situation was made worse by one of the two consultants originally selected, partly because of his previous PEFA experience in Kenya, had to drop out at the last minute for personal reasons. He was replaced by Jean-Marc Philip who, though experienced in PEFA assessments, including those using the new 2016 Framework, had no prior experience of Kenya and very little time to get up to speed on Kenya. To make matters worse, he had to take a week off during the field visit due to a prior commitment. Jean-Marc left the project in April 2017, leaving only one person to do the work. The number of days for the Team Leader was increased by 18 days to 57 days after a request from Ecorys to EU for 10 additional days and reallocation of 8 days from Jean-Marc Philip's unused days. Nevertheless, he has used far more than double the 57 days including an extra 15 days to prepare Annex 4 (assessment of PFM performance change on the basis of the 2011 Framework).

In marked contrast, two other PEFA assessments in Africa – Sierra Leone and Ghana – have been resourced much better. The Sierra Leone PEFA, which started in November 2017, had a four person team and significantly more days than the Kenya PEFA assessment. The Team Leader of this Kenya PEFA assessment was invited to lead the Sierra Leone assessment, funded by DFID and EU, but was unable to, due to the still ongoing work on Kenya. Then, he was contracted to lead the Ghana PEFA assessment, the lead donor being World Bank. The number of days provided for him was significantly higher than for the Kenya PEFA. Five other consultants were contracted, which helped to alleviate the workload. Both PEFA assessments are repeat assessments and are using the 2016 PEFA Framework, as is also the case for Kenya. The Ghana PEFA received the PEFA 'Check' in September, 8 months after the start of the exercise.

According to the PFM Reform Secretariat in NT, the PEFA Secretariat in Washington DC apparently reviewed the Concept Note for the PEFA assessment. The assessment team is surprised that it did not seem to have any comment on the clear under-resourcing of the assessment.

2 Chapter 2: Country Background Information

2.1 Country Economic Situation

Table 2.1 summarizes economic performance. Real GDP growth averaged 5.4% during the last 5 years, implying real per capita growth of about half that amount. This continues the pattern of above 5% growth that started in the previous 2 years (see 2012 PEFA assessment). The agriculture, forestry and fisheries remains the largest sector in terms of goods. It is vulnerable to weather conditions, but nevertheless its performance remains robust, as has been the performance of the manufacturing sector. A severe drought at the time of the assessment team's visit was likely to lead to lower growth in FY 2016/17. The share of the service sector (including finance), fell slightly relative to GDP. This may be due to terrorist incidents, as indicated by a fall in tourism earnings over the period. Partial data for 2016 indicate that tourism earnings have started to increase.

Annual CPI inflation averaged 6.4% during the last four years, substantially lower than the average of 9.5% during the previous four years. Spikes and troughs in food and fuel prices impact temporarily on inflation rates, but rapid monetary expansion may push inflation up. Broad money (M3) increased by 15% a year on average over the last 5 years, well above the rate of real GDP growth, driven almost entirely by the growth in the net domestic assets of the banking system. About half of this growth represents lending by CBK to GoK, such lending being potentially more inflationary than lending by commercial banks. Inflation rates have tended to be higher than in trading partner countries, the differentials leading the real effective exchange rate (REER) to appreciate over time to the possible detriment of Kenya's external trade competitiveness. The nominal effective exchange rate (NEER) depreciated over the last 5 years, but not by enough to offset the inflation differential effect.

As a tool of targeting inflation, the CBK raises or lowers its Central Bank Rate (CBR) from time to time as a signal to commercial banks to adjust their deposit and lending rates accordingly. An increase in CRB leading to increases in commercial bank interest rates reduces demand for bank credit, causing the rate of money supply growth to fall. GoK's liquidity situation has a significant influence on monetary supply. If GoK is injecting a lot of cash into the system through its spending, then CBK may try to offset the monetary impact of this by raising the CBR.

The annual current account deficit on the balance of payments averaged 8.3% during 2012-2016, not significantly different from the previous five years. The strongly positive balance on the capital and finance accounts has more than covered the current account deficit, thereby enabling official foreign exchange reserves to remain above the target of 4.5 months of import coverage; actual coverage averaged 4.9 months of imports.

Less positively, the stock of total public debt increased significantly during this period to 55.5% of GDP in 2016 from 42% of GDP during FY 2008/09-2012/13, the increase divided equally between domestic and external debt. The debt ratio is on the boundary of GoK's debt sustainability threshold.

Of particular potential concern is the sharp increase in domestic debt issued by Central Bank of Kenya (CBK) in terms of its inflationary implications, and also the sharp increase in externally issued external debt on commercial terms, with potential implications for external debt sustainability. About 50% of domestic debt to GoK each year is from CBK. The proportion of external debt contracted on commercial terms increased sharply from 8% in FY 2011/12 to 25% in

FY 2015/16, reflecting a Eurobond issue in 2015 and a syndicated loan from China in 2014, the latter being used to pay the former. The bulk of external borrowing is still on concessional terms (donor-funded projects). Debt service ratios are still well within sustainability bounds, but increased sharply in FY 2014/15.[4]

The IMF's first review (December 2016) of the 24 month Stand-By Arrangement (SBA) and the arrangement under the Stand-By Credit Facility (SCF) noted that external debt vulnerabilities had increased, although debt sustainability targets were still being met.

Also important for macro-economic stability is a healthy banking sector. The banking system appears to be healthy in terms of risk-weighted capital adequacy ratios (CAR), which are above internationally specified benchmarks. The core risk-weighted capital adequacy ratio exceeded CBK's minimum 15% requirement during 2012-2016, the ratio ranging from 15% to 20.7% and averaging 17%. Transactions through the banking system increased sharply, indicating a degree of confidence in the banking system. Over 90% of transactions are now conducted through the National Payments System (NPS) established by CBK a few years ago, taking advantage of IT developments (internet and mobile telephony). The volume of transactions conducted through NPS has mushroomed and over 90% is now conducted directly on-line, much to the benefit of business and commerce within Kenya and the East African Community as a whole.

Of concern, however, as highlighted in the IMF's report mentioned above, are controls imposed in September 2016 by CBK on banking system interest rates. The IMF is concerned that such controls could weaken monetary transmission mechanisms and increase the extent of 'dollarization' (as foreign currency de-nominated loans are exempt from the controls), thus potentially increasing foreign exchange risk (paras. 15-17 and Box 1 in the report).

Table 2.1 Kenya: Selected Economic Indicators

Selected Economic Indicators	*2012*	*2013*	*2014*	*2015*	*2016*
Population					
Total population, millions	40.7	41.8	43	44.2	
Annual population growth %	3.0	2.7	2.9	2.8	
National income and prices					
Real GDP growth (%)	4.6	5.7	5.3	5.6	5.8
GDP current prices (billion Ksh), FY basis	4261	4,500	5,072	5,811	6,508
- % agriculture, forestry & fisheries	26.1	26.4	27.3	30.0	
- % manufacturing	11.0	10.5	10.0	10.4	
- % finance & insurance	5.9	6.6	6.8	6.9	
- % other (services, utilities, construction, communications)	57	56.5	55.9	52.7	
GDP per capita (Ksh), current prices	104,821	113,210	124,710	140,961	
GDP per capita (Ksh), constant prices	84,721	87,105	89,241	91,738	
CPI annual average inflation (%)	9.3	5.7	6.9	6.6	6.5
Tourism earnings (Ksh billion)	96.0	94.0	87.1	84.6	
External sector (US$ millions), FY (e.g. 2012=2011/12)					
Current account balance	-3881	-4621	-4888	-5905	-3792

4 As agreed with IMF, the debt sustainability ratios are specified in present value (PV) terms, which take into account the concessional interest rates on donor-financed project loans. The debt stock/GDP ratio in FY 2015/16 was 48% in PV terms, about 7 percentage points below the ratio specified in nominal terms (54.9% in FY 2015/16). The sustainability thresholds in PV terms are, as indicated in Table 3 of the 2016 BPS: 74%, debt/GDP ratio; 300%, debt/revenue ratio; and 30%, debt service/revenue ratio.

Selected Economic Indicators	2012	2013	2014	2015	2016
% GDP	*8.4*	*9.0*	*8.9*	*8.2*	*7.5*
- Exports	5958	6150	6085	5822	6215
- Imports	-15959	-16728	-17597	-17158	-15060
- Services (net)	3225	3398	3550	2389	2204
- Income (net), includes remittances.	2894	2559	3074	3042	2850
Capital & financial account balance *1/*	4722	4024	7285	4792	4016
Overall balance of payments	*841*	*597*	*2397*	*1176*	*255*
Financing	*-841*	*-597*	*-2378*	*-1176*	*-255*
Through CBK forex sales/purchases, & net loans from IMF, and commercial financial institutions					
Gross official foreign exchange reserves (FY-end)	5,3	6,089	8,555	7,212	8,267
- Gross official reserves (in months of imports) *2/*	4.3	4.4	5.7	4.5	5.5
Debt (end-FY, Ksh millions)					
Total stock of public debt, incl. guaranteed	1,623	1,894	2,423	2,894	3,611
% GDP	*38.1*	*42.1*	*47.7*	*50*	*55.5*
Stock of domestic debt	859	1051	1284	1420	1815
- of which Central Bank of Kenya (CBK)	412	525	617	730	927
% GDP	*21.5*	*23.3*	*25.5*	*24.9*	*27.5*
Stock of external debt	764	844	1139	1423	1796
of which commercial	65	74	251	293	449
Stock of external debt, % GDP	*19.2*	*18.8*	*22.5*	*25.0*	*27.4*
Debt service as % of GoK domestic revenues	16.5	18.7	17.5	24.6	21.7
External debt service as % of exports of goods & services	6.3	6.6	7.9	21.6	12.8
Monetary & banking sector, Ksh billions					
Money supply, M3, end-FY	1595	1821	2152	2554	2753
Annual % growth	18.7	14.2	18.2	18.7	7.8
Net foreign assets	322	361	529	436	558
Net domestic assets	1273	1460	1623	2118	2195
Banks: Core risk-weighted capital adequacy ratio *3/*	17.7%	20.2%	15%	15.7%	16.3%
Banks: National Payments System transactions *4/*	20,886	20,686	24,300	27,002	29,301
Nominal Effective Exchange Rate (increase = depreciation)	114.93	114.81	116.72	118.29	124.63
Real Effective Exchange Rate *5/*	65.02	63.32	62.74	60.3	59.73
Central Bank Rate (CBR) %	18	8.5	8.5	10.0	10.5
Interbank rate (%)	17.09	7.14	6.6	11.77	4.56

Sources: Annual Economic Surveys (Kenya National Bureau of Statistics (KNBS), last report dated May 2016; Central Bank of Kenya (CBK) Annual Reports; Annual Budget Review and Outlook Reports (BROP), National Treasury; IMF report on Stand-By agreement, 2 February, 2017**.**

1/ Includes Errors and Omissions (as noted in Economic Surveys)**.**

2/ Based on 36 month average of imports of goods and non-factor services (source, CBK annual reports & BROPs).

3/ Minimum required is 14.5%

4/ Owned and operated by CBK. Comprises Real Time Gross Settlement System (RTGS), Kenya Electronic Payments & Settlements System (KEPSS) and East Africa Payments System (EAPS).

5/ NEER adjusted for differential inflation rates.

2.2 Fiscal and Budgetary Trends

As elaborated on in Section 2.1 above, Table 2.2 indicates an increasing fiscal deficit and public debt stock ratio in terms of GDP and an increasing ratio of debt service in terms of domestic revenues, but both within fiscal sustainability thresholds (just within the debt/GDP ratio threshold). The reasons for the increasing deficit are slow growth in domestic revenues and much faster growth in expenditures in terms of GDP. Domestic revenue increased to 19.2% of GDP in FY 2015/16 from 17.9% of GDP from FY 2011/12. Expenditure increased to 27.1% of GDP from 22.1% of GDP over the same period. The deficits were financed by borrowing, interest payments on this increasing to Ksh 216 million in 2015/16 from Ksh 91 million in FY 2011/12. As a result the primary fiscal balance (revenues less non-interest expenditure) increased to -4.5% of GDP from -2.2% of GDP.

Table 2.2 Fiscal and Budgetary trends in Kenya

Budget Outturns, Ksh billion	2011/12	2012/13	2013/14	2014/15	2015/16
Total Revenues & Grants	*763*	*868*	*1001*	*1136*	*1268*
Revenues	748	847	974	1108	1238
External grants	15	21	27	28	30
Total Expenditure	*948*	*1107*	*1301*	*1640*	*1782*
Recurrent	*647*	*808*	*981*	*1130*	*1297*
o/w domestic interest payments	82	110	119	140	173
external interest payments	9	11	16	32	43
county allocations			193	229	264
Development & net lending	*301*	*299*	*319*	*511*	*485*
Balance	*-184*	*-239*	*-299*	*-504*	*-514*
Primary balance (excl. interest)	*-93*	*-118*	*-164*	*-332*	*-299*
Financing	*184*	*239*	*299*	*504*	*514*
Borrowing (net)	*170*	*232*	*307*	*466*	*510*
Domestic borrowing (net)	73	170	200	248	205
External borrowing (net)	97	62	107	218	305
Loans	122	86	132	297	305
Amortization	*-25*	*-24*	*-26*	*-79*	*-35*
Change in cash balance/stat. discrepancy	14	7	-8	38	4
GDP	*4261*	*4496*	*5072*	*5811*	*6586*
Domestic revenues % GDP	17.9%	19.3%	19.7%	19.5%	19.2%
Total expenditure, % GDP	22.2%	24.6%	25.6%	28.2%	27.1%
Fiscal balance, % GDP	-4.3%	-5.3%	-5.9%	-8.7%	-7.8%
Primary fiscal balance, % GDP	-2.2%	-2.6%	-3.2%	-5.7%	-4.5%
Stock of public debt	*1623*	*2059*	*2423*	*2844*	*3618*
% GDP	*38.1%*	*45.8%*	*47.8%*	*48.9%*	*54.9%*
Domestic (gross)	859	1097	1284	1420	1815
o/w Central Bank of Kenya	412	525	617	730	927
External	764	962	1139	1423	1803
o/w commercial	65	74	251	293	449
Debt service % domestic revenues	*16.5*	*18.7*	*17.5*	*24.6*	*21.7*

Sources: Annual BROPs & BPS, National Treasury

The GoK justifies increased spending in support of the growth and development objectives of the Medium Term Plan (MTP), to be met partly through strengthened public infrastructure. The 2016 Budget Policy Statement (BPS) indicated that the increasing fiscal deficit was consistent with fiscal sustainability over the longer term. Table 3 in the BPS (based on IMF's Article IV Consultation Report, dated March 2016) showed the public debt/GDP and public debt service/revenue ratios declining to well-below FY 2015/16 ratios by 2025.

The GoK entered into a 24 month programme arrangement with IMF in March 2016 through a Stand-By Arrangement (SBA) and Stand-By Credit Facility (SCF). The programme established monetary, balance of payments and fiscal medium term targets consistent with macro-economic stability and fiscal sustainability. The fiscal deficit target for FY 2016/17 would be held to no more than 6.9% of GDP. The programme lists structural reforms that should be implemented in support of these targets, including PFM reforms. The first review under these arrangements was completed in January 2017 (on IMF's website). GoK has access to financing of SDR 1.06 billion (about US$ 1.5 billion). GoK will only access this funding if exogenous shocks lead to an actual balance of payments need.

The first review indicated generally satisfactory performance under the programme in terms of the targets being met; revenue targets were not met in FY 2015/16, but the shortfall was offset by investment spending being held below target. Implementation of PFM-related structural reforms is only just starting:

- Establishment of a system in IFMIS for tracking pending bills, including the age of such (PI-22 in Section 3); established in November, 2016;
- Strengthened revenue administration through further roll-out of iTax and customs/excise management systems, leading to higher than projected VAT and excise collections in early FY 2016/17. Additional areas may be identified for strengthening in the wake of the recently completed report using the Tax Administration Diagnostics Tool (TADAT) and an on-going review of tax expenditures (one of the SBA/SCF programme structural benchmarks);
- Establishment of a Treasury Single Account (TSA) in the form of a Centralised Payments System in CBK planned for July 2017 (see PI-21 in Section 3);
- Preparation of plans to strengthen investment project selection and monitoring. The project approval process should be separate from the annual budgeting process through adopting public investment management guidelines prepared and approved by Cabinet (another structural benchmark). PI-11 in Section 3 assesses the public investment management process.

GoK expenditure by sector

As was the case at the time of the 2012 PEFA assessment, annual budgets are prepared on a sector basis through Sector Working Groups. The sectors correspond closely to COFOG functions.

Table 2.3 GoK expenditure according to sectoral (functional) allocation (Ksh billion)

	2011/12	2012/13	2013/14	2014/15	2015/16*
1. General Economics and Commercial Affairs	14.8	14.7	11.4	15.1	16.1
2. Social Protection, Culture & Recreation	26.0	27.4	16.0	20.5	26.7
3. Health	55.1	75.1	27.8	38.3	27.0
4. Environment, Water & Natural Resources	33.8	34.5	29.8	46.2	42.3
5. Agriculture, Rural & Urban Development	29.5	29.1	49.0	58.4	48.8
6. National Security	78.7	91.2	93.8	97.8	113.7
7. Governance, Justice, Law & Order	97.1	142.0	116.2	116.8	144.6

	2011/12	2012/13	2013/14	2014/15	2015/16*
8. Public Administration & International Relations (PAIR)	76.2	78.5	135.8	177.1	202.2
9. Energy, Infrastructure & ICT	106.3	95.0	100.9	269.2	243.1
10. Education	179.0	227.2	247.5	208.2	293.8
TOTAL	*696.4*	*814.7*	*828.2*	*1047.6*	*1158.3*

Sources: Annual Budget Implementation Review Reports (BIRR), Office of the Controller of the Budget (OCOB). The figures exclude public debt service payments and transfers to county governments.

Table 2.4 GoK expenditure according to sectoral (functional) allocation (% of total)

	2011/12	2012/13	2013/14	2014/15	2015/16
1. General Economics & Commercial Affairs	2.1	1.8	1.4	1.4	1.4
2. Social Protection, Culture & Recreation	3.7	3.4	1.9	2.0	2.3
3. Health	7.9	9.2	3.4	3.7	2.3
4. Environment, Water & Natural Resources	4.9	4.2	3.6	4.4	3.7
5. Agriculture, Rural & Urban Development	4.2	3.6	5.9	5.6	4.2
6. National Security	11.3	11.2	11.3	9.3	9.8
7. Governance, Justice, Law & Order	13.9	17.4	14.0	11.2	12.5
8. Public Administration & International Relations (PAIR)	10.9	9.6	16.4	16.9	17.5
9. Energy, Infrastructure & ICT	15.3	11.7	12.2	25.7	21.3
10. Education	25.7	27.9	29.9	19.9	25.4
TOTAL	100	100	100	100	100

Major changes in sectoral expenditure proportions have been: (i) reduction in health, due to devolution of health sector responsibilities to counties; and (ii) increases in PAIR and Energy, Infrastructure & ICT.

The Annual Economic Surveys prepared by Kenya National Bureau of Statistics (KNBS) include a table (Table 6.8) showing GoK expenditures according to COFOG dating back five years. The latest report (May 2016) does not cover actual GoK expenditures in FY 2015/16.

Economic classification

Budget documentation does not include a GFS-consistent economic classification of the budget: in broad terms, this covers personnel emoluments, purchases of goods and services, transfers, and acquisition of capital assets. Such classification is constrained in Kenya by the division of the budget into recurrent expenditure and development expenditure (as specified in Article 220 of the Constitution), and within these two divisions, between non-AiA and AiA expenditure. Development expenditure contains elements of recurrent expenditure, while AiA expenditure is not broken down by GFS-consistent economic classification. Development expenditure is mainly in the form of stand-alone projects. Development budgets are approved and appropriated separately from recurrent budgets. As indicated by NT to the assessment team, this makes it easier for projects to be protected from overall resource envelope cutbacks and/or reallocation of budgeted funds to the recurrent budget.

The main budget documents are the BROP, BPS and the full draft budget itself, as presented to Parliament for its review. The BROP and BPS show economic classification of the recurrent budget explicitly for personnel emoluments (wages, salaries and pension payments) and interest payments, but not explicitly for purchases of goods and services and transfers. The development budget is not shown on an economic classification basis at all and is classified only according to domestic/external financing and AiA/non-AiA funding. The annual programme budgets that have been in place with effect from FY 2013/14 show the broad economic classification for each programme but do not provide a summary GFS-consistent economic classification. The summary shows current and capital expenditure separately.

Actual expenditure, however, is reported on a broad economic classification basis, as shown in the annual financial statements (AFS) prepared by NT, the 2016 Economic Survey (Table 6.9, Chapter 6) and, to some extent in the annual BIRRs. The information in AFS and Economic Survey do not completely match. The BIRRs include a detailed economic classification for actual recurrent and development expenditure separately, but do not show a consolidated economic classification, even in broad terms. They do not include the budget estimates by economic classification, so assessment of performance against budget is not possible.

Table 2.5 shows the economic classification table from the annual financial statements prepared by NT for FYs 2013/14-2015/16.

Table 2.5 Expenditure by Economic Classification

Ksh billions/FY 1/	2013/14	2014/15	2015/16
Compensation of employees	297.5	305.1	327.0
Use of goods and services	167.0	190.2	230.1
Subsidies & transfers	388.9	435.1	477.5
Interest cost/financing costs	132.4	152.6	168
Acquisition of non-financial assets	131.1	306.3	228.1
Other expenditures *2/*	52.4	25.7	9.9
Total expenditure	*1169*	*1415*	*1441*

Sources: Annual Financial Statements for FYs 2014/15 & 2015/16, section 1.2.4
1/ Debt amortization excluded, as this is defined as a financing item in GFS.
2/ Includes contingency expenditure of Ksh 5 million in FYs, 2014/15-2015/16. The other items are not defined.

% composition of expenditure /FY	2013/14	2014/15	2015/16
Compensation of employees	25.4	21.6	22.7
Use of goods and services	14.3	13.4	16.0
Subsidies & transfers	33.3	30.8	33.2
Interest cost/financing costs	11.3	10.8	11.7
Acquisition of non-financial assets	11.2	21.7	15.8
Other expenditures	4.5	1.8	0.7
Total expenditure	*100*	*100*	*1440*

The percentage composition of the economic classification of expenditure changed little during the three years. Relative to the period covered by the 2012 PEFA assessment, the compensation of employees has fallen as a proportion of expenditure to 23% (average of 2013/14-2015/16) from 28% (average of FYs 2007/8-2011/12, see Table 4 in the 2012 PEFA assessment). The proportion of interest payments rose over these same periods to 11.3% from 8.7%.

2.3 Legal and regulatory arrangements for PFM

Constitution

A new Constitution was established in 2010. A fundamental change was the major devolution of central government responsibilities to 47 newly created county governments (Chapter11, Articles 174-200). This replaced the de-concentrated arrangements, under which district offices of central government ministries were responsible for organising service delivery in the district. Local authorities only had a minor role (e.g. street cleaning) in terms of service delivery. Health care was the largest service delivery area to be devolved. Nevertheless, the expenditures of central government (now called the National Government) still comprise the bulk (90%) of all general government expenditures.

Devolved governments have their own county assemblies and elected governors. They are represented in the National Senate, which is the upper house of Parliament.

The Constitution provided for Counties to receive sufficient financial resources for them to provide the services that have been devolved to them. Articles 215 -219 provided for a Commission on Revenue Allocation (CRA), which makes recommendations on the equitable sharing of revenues between: (i) the national and the sum of the county governments, the share (i.e. the vertical share) being no less than 15 percent of national revenue (Article 203); and (ii) the county governments (horizontal share). On the basis of such recommendations, a Division of Revenue Bill and County Allocation of Revenue Bill are required to be introduced to Parliament at least two months before the end of the financial year (Article 218). Articles 209 and 212 provide revenue raising and borrowing powers for Counties.

Another change was the increased separation of powers between the Executive and Legislative branches of Government, the powers of the Legislative increasing relatively as a result. The Constitution provided for a new post of ‘Controller of the Budget (Article 228)’. The Controller of Budget (CoB), a position almost unique to Kenya, is responsible for the oversight of implementation of the budgets of the national and county governments by authorising withdrawals from public funds and reporting to Parliament, the principle being that the authority for the spending of public funds ultimately derives from Parliament. The Controller of the Budget Act provided the legal basis for the new position. The CoB is appointed by the National Assembly and reports to it. The Office of the Controller of the Budget as an institution does not come under the National Assembly; its physical location is in one of the NT buildings. As noted frequently in Section 3 of this report, it prepares in-year budget performance reports (‘Budget Implementation and Review Reports’ (BIRRs)) for submission to Parliament. The role was previously performed by the Controller and Auditor-General, a position that implied conflicting responsibilities.

Article 229 provides for the establishment of the position of Auditor-General in its own right (i.e. splitting off the Controller designation). The position came into effect in 2015 through the Public Audit Act. The Auditor General remains accountable to Parliament, presenting audit reports directly to Parliament in respect of the financial statements of all the organisations for whose audit he/she is responsible, within six months of the end of the financial year), but in addition is accountable to the county assemblies.

Chapter IX, Articles 129-158, cover the Executive. This comprises an elected President, deputy president and the rest of the Cabinet (Article 130), which itself comprises the Attorney General and between 14-22 cabinet secretaries (CS), who are appointed by the President with the approval of the National Assembly. Ministers are now known as Cabinet Secretaries. Each CS is the executive head of the Ministry while the Principal Secretary (formerly Permanent Secretary) is the accounting officer (Article 155). Cabinet members are no longer members of parliament and can only speak in Parliament at the request of parliamentary committees (Articles 152-153). The Ministry of Finance was renamed as ‘National Treasury’ (Article 225). Many Ministries were renamed as State Departments).

Chapter XII, Articles 201-231, specifically covers public finance. Apart from the provisions relating to counties, Controller of Budget, and Auditor General, changes from the previous Constitution include:

- *Article 208:* Establishment of a Contingency Fund to provide for urgent and unforeseen expenditure needs;
- *Article 221*: The Cabinet Secretary responsible for finance shall present the draft budget for the National Government to the National Assembly at least 2 months before the end of the current financial year (FY). Previous to this, draft budgets had to be submitted prior to the end of the FY. In practice this led to budgets not being approved until after (sometimes well after) the start of the new FY and thus to delays in implementation (see PIs-17 & 18 in Section 3);
- *Article 223:* provides for supplementary budgets for the National Assembly to approve through a supplementary appropriations bill after the money has been spent, subject to: (i) a 10% limit for each vote; and (ii) that the extra funding was required due to expenditure needs being higher than originally budgeted for or in the case of new needs arising. Approval is required no later than 2 months of the withdrawal of funds for spending. Previously, *ex ante approval* was necessary, but there was no limit, although in practice it tended to be *ex post;*
- *Articles 226-227:* These provide for new Acts of Parliament covering public finance management and public procurement. These would replace existing legislation in these areas, partly because the former would include county governments and recognize the changed nature of the Auditor General, and the latter would include public asset disposal within its scope.

Public Finance Management Act (PFMA), 2012

The PFMA, based on the 2010 Constitution, received presidential assent on 24th July, 2012. This replaced and updated the previous Government Financial Management Act, 2004 (GFMA, revised in 2009), taking into account the Fiscal Management Act (FMA) of 2009, under which fiscal responsibility principles (concerning the need for policies to provide for macro-fiscal sustainability, guard against fiscal risk, and in general the transparency of PFM), the Budget Policy Statement (BPS) and the Parliamentary Budget Officer (PBO) were established.[5] The PFMA also replaces the External Loans and Credit Act, 2009 and the Internal Loans Act 2009 to provide for borrowing by the Government.

The PFMA (2012) covers all aspects of PFM, including budget preparation which was not covered in the GFMA. It explicitly covers the County Governments distinctly. The provisions for County Governments largely mirror, however, the same provisions relating to national government. These would come into effect in FY 2013/14. The main parts are (excluding those areas that are broadly unchanged from GFMA):

- *Part II: Parliamentary Oversight of Public Finances (Sections 7-10):* Responsibilities of the National Assembly Budget Committee, Senate Budget Committee, Parliamentary Budget Office (PBO), serving the Committees. The last mentioned represents the Parliamentary Budget Officer established under the 2009 FMA and the addition of technical staff (now numbering 34, up from 4 at its creation). The Committees provide oversight over all matters of public finance.

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[5] The fiscal responsibility principles, as first elaborated in the 2009 FMA and then subsumed under the 2012 PFMA, are: (i) minimum 30% of the national and county budgets to be allocated to development expenditure over the medium term; (ii) the National Government's expenditure on the wages, salaries and benefits of its employees should not exceed a percentage of its revenue, as prescribed by regulations; (iii) over the medium term the National Government's borrowing should only be used for financing development expenditure; (iv) public debt and obligations should be maintained at a sustainable level, as approved by the Parliament for the National Government and by the respective County Assembly for county governments; (v) fiscal risks should be managed prudently; and (vi) a reasonable degree of predictability with respect to the level of tax rates and tax bases should be maintained, taking into account any *tax* reforms that may be made in the future.

- *Part III: National Government Responsibilities with respect to the control and management of public finances (Sections 11-101)*. Under the direction of the Cabinet Secretary for finance, the National Treasury (NT) is responsible for PFM, including macro-fiscal/budgetary policy and management. The responsibilities are to a large extent based on those stipulated under GFMA and FMA and, as per the 2010 Constitution, reflect the revised political framework in terms of Parliament, the Cabinet (specifically the Cabinet Secretary for finance) and the new Counties. Specifically, the NT should:
    - *Section 15: Enforce fiscal responsibility principles,* as indicated in the footnote. Short-term borrowing should be restricted to management of cash flows, and, in the context of the use of a bank overdraft facility, should not exceed 5% of the most recent audited National Government revenue. The level of national debt should not exceed the amount specified in the Government's Medium Term Debt Strategy submitted to Parliament;
    - *Section 16:* The National Government may deviate from the financial objectives laid out in the BPS with the approval of Parliament on a temporary basis;
    - *Sections 25-34 cover the responsibilities of the NT*. Sections 25-26 provide for the NT to prepare the annual Budget Review and Outlook Paper (BROP) and Budget Policy Statement (BPS) for submission by Cabinet to Parliament for its review. Article 27 provides for NT to prepare pre- and post-election economic and fiscal updates (PEFA PIs 14-17, Section 3 of this PEFA report);
    - *Section 28 (2), Banking arrangements (PEFA PI-21):* The NT will authorize the establishment of a Treasury Single Account, into which all revenues received by national government entities shall be paid and from which all payments to or on behalf of government entities shall be made;
    - *Section 29, Cash management (PEFA PI-21):* The NT will establish a cash forecasting and cash planning framework for MDAs to follow. As noted in the 2012 PEFA report and in Section 3 of this report, the NT has made attempts to establish such a framework in the past, but with limited success. The GFMA and FMA did not require such a framework. Establishment of the TSA would greatly increase the chances of success;
    - *Sections 31-33, debt management and reporting (PEFA PI 13):* Based on information provided by NT. the Cabinet Secretary for finance is required to report to Parliament every 4 months on new loans to the national government and new loans guaranteed by it. It should report annually to Parliament on the updated new medium-term debt strategy of the national government, and judge its consistency with the strategic priorities and policy goals set out in the BPS;
    - *Sections 35-45 on national government budget preparation process:* The Cabinet Secretary for finance is in overall charge of managing the budget preparation process (PEFA PIs 14-17), except for the Judiciary and the Parliamentary Services Commission. The accounting officers of these constitutional bodies submit their budget estimates directly to Parliament. Budget documentation comprises not just the BPS and detailed budget estimates, but also a Budget Summary, an Appropriation Bill (which is the legal document for the annual budget), Finance Bill (revenue raising measures for financing the budget), Division of Revenue Bill (vertical allocation of resources to County Governments as a whole from the national government), and the County Allocation of Revenue Bill ('horizontal' allocation of the vertical allocation between the County Governments;
    - *Sections 46-61 on the responsibilities of the Cabinet Secretary for finance and the functions of the national government with respect to grants and loans.* Amongst his other duties, under Article 46, the Cabinet Secretary oversees the formulation of macroeconomic and financial policies, assists national and county government

entities in strengthening PFM, and supports efforts of these entities to avert/resolve possible financial problems (PEFA PI-10). Sections 47-50 cover the conditions for receiving grants from donors and for borrowing. Only the Cabinet Secretary (or someone authorised by him) is authorised to borrow on behalf of the Government. A national government entity (e.g. state corporation) requires the approval of the Cabinet Secretary to borrow (Section 51). Section 58 provides the Cabinet Secretary with the authority to guarantee loans provided the loan has been approved by Parliament and the borrower has demonstrated ability to service the loan. Section 55 establishes an Office of Registrar of national government securities under the Public Debt Management Office (itself established under Section 62);

- *Sections 62-64 establishes a Public Debt Management Office (PDMO) in NT (PEFA PI-13).*The Cabinet Secretary is in overall charge of the debt management policy framework, but delegates operational management of PDMO to the Head of PDMO. The PDMO is required to submit the following documents to the Cabinet Secretary and Commission on Revenue Allocation: MTDS, borrowing plan for the approved annual budget, statistical and annual reports on debt and borrowing, and the annual performance reports of PDMO;
- *Sections 67-72 indicate the responsibilities of the national government and national government entities*. Section specifies that the Cabinet Secretary is responsible for appointing accounting officers for each national government entity;
- *Section73 specifies that every national government entity should have an internal audit function* (already much the case at the time of the 2012 PEFA assessment), the Internal Auditor General's (IAG) Department in NT playing a supervisory and quality assurance role. Each entity should establish an audit committee;
- *Part XIII on Internal Audit and Audit Committees*. The Financial Regulations (FR) that came into effect in December 2015, elaborate on this. Though not clear in Section 73 of PFMA (2012). FRs 160-182underscore a fundamentally different relationship between the IAG and internal audit departments (IADs) in MDAs. The IADs would no longer be accountable to both IAG and MDAs, reporting only to the Accounting Officer of an MDA. The IAG's function would only be policy formulation and strategic direction, capacity building and reporting annually to the NT on performance of the internal audit function. Audit Committees (to be appointed) would review and approve the work plans of internal audit units in their respective MDAs, and annually review their performance of internal audit units in MDAs. FRs174-182 elaborate specifically on Audit Committees;
- *Section 75 of PFMA (2012) specifies that the Cabinet Secretary should designate receivers and collectors of national revenue.* The GFMA provided for such receivers and collectors, designated by the Treasury (i.e. Ministry of Finance);
- *Sections 80-85 (PFMA 2012) cover financial reporting by NT and national government entities.* Section 80 requires that annual financial statements compiled by such entities and consolidated by NT should be prepared according to the standards prepared by the Public Sector Accounting Standards Board (PPASB), which is provided for in Part VI of PFMA (Sections192-195) and established in NT in 2015;
- *The PSASB has since prepared a number of templates (on NT website) that came into effect for FY 2014/15, their approval the previous year.* These are: (i) National Government entity Reports and Financial Statements, using International Public Sector Accounting Standards (IPSAS) cash; IPSAS Cash was used for the first time in relation to the annual financial statements for FY 2014/15; (ii) Receiver of Revenue templates, using IPSAS cash; (iii) Financial Reporting for State Corporations, using International Financial Reporting Standards (IFRS); (iv) Annual Reports and

Financial Statements for Regulatory and Non-Commercial Entities according to accrual-based IPSAS cash; (v)Annual Reports and Financial Statements for projects, using IPSAS cash;

- *Sections 86-101 of PFMA (2012) cover the monitoring of state corporations, government-linked corporations (less than 50% government ownership) and county governments in terms of the possible fiscal risk that they may pose to the National Government and the remedial measures to be taken to mitigate such risk.* The Cabinet Secretary responsible for matters relating to state corporations and the Cabinet Secretary responsible for matters relating to public investments have the ultimate monitoring responsibility rather than the Cabinet Secretary for finance. As noted under PI-10 in Section 3, the main change brought about under PFMA (2012) is the shift in monitoring responsibility to the Cabinet from NT/MoF.

The Financial Regulations that elaborate on PFMA (2012) did not come into effect until 20 March 20 2015. The PFMA has therefore only been fully in effect since that date. Some of the reforms implied by PFMA (2012), for example the requirement of annual reports on State Corporations to be prepared and submitted to the Public Investment Committee in Parliament did not come fully into effect until the FR came into effect. The Financial Regulations under the GFMA (2004) remained in effect until March 2015, but the scope of these was much smaller than under PFMA (2012).

Part IV of PFMA provides for PFM at County government level. Part V provides for relations between national and county governments, including through the establishment of an Intergovernmental Budget and Economic Council (IBEC) and the preparation of annual Division of Revenue and County Allocation of Revenue Bills.

Public Procurement and Asset Disposal Act (PPADA), 24 December, 2015

Public procurement in Kenya is governed by the Public Procurement and Asset Disposal Act (PPADA) dated December 2015, which replaced the Public Procurement and Disposal Act of 2005. All public entities are required to comply with this law, except where the provisions of the Public Private Partnership Act, 2013 (see PI-10) already apply, or in the case of donor-funded projects. Regulations to accompany the Act have been prepared but have not yet been approved; PPRA expects approval by Cabinet in 2017. In the meantime, the regulations under the previous Act remain in effect.

The Public Procurement and Regulatory Authority (PPRA) came into effect in 2016. This replaced the Public Procurement Oversight Authority (PPOA). Major improvements are the requirement for all procuring entities to routinely submit procurement data to PPRA, including on contract awards and procurement plans. The oversight/policy role is now performed by the Procurement Department in NT, which was established under PPADA. The Public Procurement Administrative Review Board (PPARB) remains in place as an independent body.

More details are provided under PI-24 in Section 3.

Public Audit Act, December, 2015

This replaced the 2003 Public Audit Act. The major changes reflected the provisions of the 2010 Constitution, noted above. Under Section 4, the Office of the Auditor General (OAG) was established, replacing the Kenya National Audit Office (KENAO). Section 10 provides explicitly for the independence of the Auditor General. PI-30 in Section 3 elaborates.

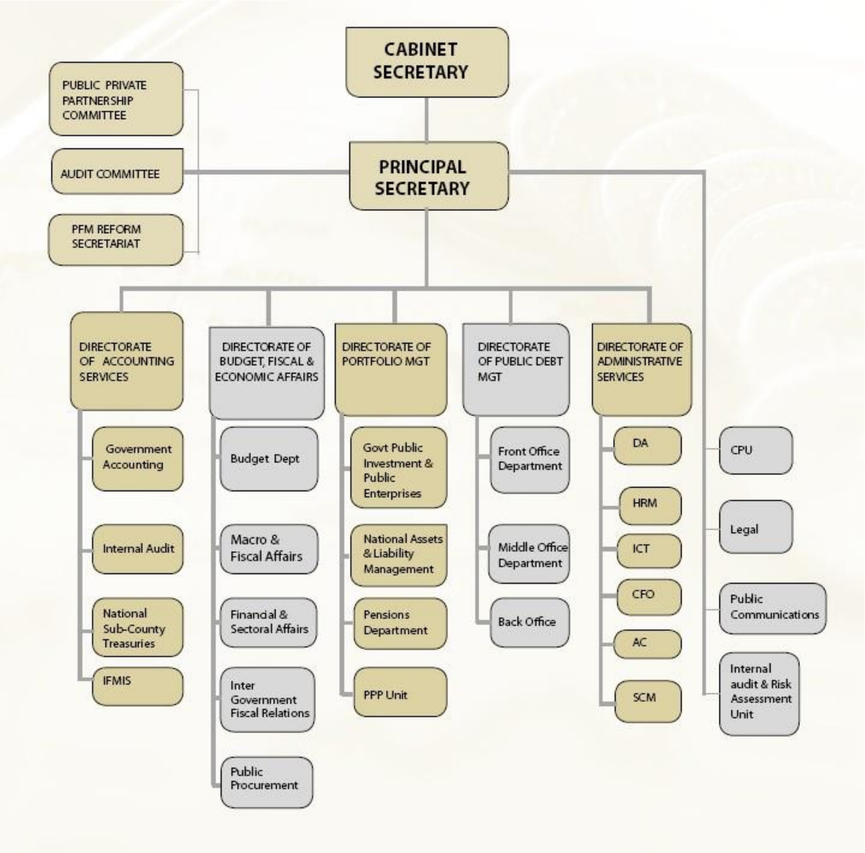
Revenue administration legislation
Since the 2012 PEFA assessment, the following revenue-related laws have been up-dated or introduced: Personal Income Tax Act (September 2014); VAT Act, 2013, the purpose of which was to streamline VAT administration partly through consolidation of rates and reductions in the number of zero-related/exempt items, thereby reducing compliance costs; Excise Tax Act. 2013, the purpose of which was to bring all excise taxes under one law, rather than being part of other tax laws; Tax Procedures Act (December 2015), the purpose of which is to consolidate all key information on taxes into one document; and the Tax Appeals Tribunal Act (2013), the purpose of which is to bring all tax appeals processes under one tribunal. PI-19 in Section 3 provides further information.

Public Private Partnerships (PPP) Act, January 2013. This is elaborated in Section 2.4 below and under PI-10 in Section 3 of this PEFA report.

2.4 Institutional arrangements for PFM

The institutional arrangements within national government entities have changed a little, notwithstanding the establishment of the Office of Controller of the Budget and the Parliamentary Budget Office. The NT remains in charge of the main PFM functions -budgeting, budget execution, most internal controls, accounting and reporting. The sector ministries submit their draft budgets to NT, which compiles the national government budget and Medium Term Expenditure Framework for next year. The sector ministries execute their approved budgets and compile their budget performance reports and annual accounts under the guidance of NT.

National Treasury
The NT is organized as per the organogram below:



Some points:

- The Accounting Services Directorate (ASD) was known as the Accountant General's Department at the time of the 2012 PEFA assessment. The head of the Directorate is still known as the Director General of Accounting Services and Quality Assurance;
- Internal Audit Department falls under ASD. At the time of the 2012 PEFA assessment it reported directly to the Permanent Secretary of the Ministry of Finance in interests of impartiality. The head of IA is still known as the Internal Auditor General (IAG). According to the meeting of the assessment team with IAG, the IAG Department will lose its monitoring and quality assurance role with regard to the internal audit function for the national government as a whole. Internal audit departments (IADs) in sector ministries will continue to report to the heads of their ministries, and audit committees will be established for each ministry and will play an oversight role in relation to the IADs. PI-26 in Section 3 elaborates. Whether the IAD function will continue to be effective under the forthcoming new arrangement remains to be seen;
- The National Sub-County Treasuries under ASD handle the budget execution, reporting and accounting operations of district national government offices located in counties, not to be confused with 'County Treasuries', which perform the same functions for County governments. Most of the work of the Treasuries is now conducted through IFMIS;
- The IFMIS Department under ASD is responsible for maintaining the IFMIS, operationalizing the IFMIS modules and expanding its use throughout the country (elaborated on in the next sub-section);
- The Procurement Department under the Directorate of Budget, Fiscal and Economic Affairs is relatively new, established in line with the new (December 2015) PPADA, as noted above and under PI-24 in Section 3);
- The National Assets and Liabilities Department under the Directorate of Portfolio Management was only very recently (end-2016) established and is only semi-operational at present. Its main function to develop an accurate fixed assets register as a pre-requisite for the strengthening of fixed asset disposal procedures (weak procedures may cause revenues from asset sales being less than what they could be) and the introduction of full accrual accounting (which requires accurate estimation of annual depreciation of fixed assets). PI-12 and PI-24 in Section 3 elaborate; fixed asset disposal falls under the mandate of PPRA;
- The PPP unit also falls under this Directorate, although its functions overlap with those of the Directorate of Public Debt Management due to the explicit contingent liabilities that may be generated by PPPs. The PPP Act of FY 2013/14 provides the legal basis for PPPs. A PPP Committee was established in NT to oversee PPP policy and management (as shown in the organogram above). A Fiscal Commitment and Contingency Liability (FCCL) management framework was prepared and an FCCL Unit established in the Directorate, though it is not yet operational. PIs 10 and 13 in Section 3 elaborate;
- The Government Public Investment and Public Enterprise (GPIPE) Department in NT has been in place for several years, its mandate being to oversee public enterprises (State Corporations) and the possible fiscal risk posed by them. The 2012 PEFA assessment noted the ineffectiveness of GPIPE Department in executing its mandate (C rating for PI-9). In its meeting with the team, the Department indicated that the Cabinet had largely taken over the oversight responsibility, as stipulated in PFMA (2012); GPIPE was no longer playing a substantive monitoring role;
- Directorate of Public Debt Management: Since the 2012 PEFA assessment, this has been established as the Public Debt Management Office (PDMO). In line with international practice, this comprises a Front Office, Middle Office and Back Office. Most of GoK's external debt is in the form of concessional loans from donors for projects. Only one loan -the Eurobond issued in FY 2014/15 to pay off the previous year's syndicated loan – is on commercial terms.

Domestic debt is managed by CBK. The Middle Office function, through which debt trading operations take place, is therefore not playing a significant part in debt operations.

Office of Controller of Budget (OCOB) & Parliamentary Budget Office (PBO)

The OCOB came into full operation in FY 2012/13 in line with PFMA (2012). Its main functions are to authorize NT requests for withdrawals of funds from the Consolidated Fund of the Exchequer Account for the purposes of executing the approved budget through MDA bank accounts in CBK; and (ii) preparing quarterly and annual budget performance reports, which are posted on OCOB's website. The terminology is a 'grant of credit' by OCOB to NT for the release/issue of funds into MDA bank accounts. The grant is specified in line-item in detail.

Starting in FY 2014/15, OCOB has been able to directly access IFMIS. Donor-funded Appropriations in Aid (AiA) are not yet on IFMIS and the bank accounts for these are in commercial banks. So OCOB has some extra work to do in obtain information on expenditure on donor-funded expenditure under AiA arrangements.

The PBO was established in FY 2011/12 under PFMA (which was still in Bill form at the time, and was in place at the time of the 2012 PEFA assessment preparation. It started off with a staff of 4 and now has 27 staff. Some of these came from NT. One reason for such a large increase is the near doubling of the number of MPs, to 418 now, from 221. The PBO serves the Parliamentary Budget Committee through its analysis of BPS, BROP, the draft budget, OAG reports and the fiscal impact of draft bills submitted to Parliament, the Veterans Bill being an example (see PI-15 in Section 3).

Payroll Control

This continues to be managed by Ministry of State for Public Service (MSPS, under Office of the President) and the Teachers' Service Commission (TSC). PI-23 elaborates. Both continue to use the Integrated Personnel and Payroll Database (IPPD) software programme. This is not yet linked to IFMIS. Since the 2012 PEFA assessment, MSPS has acquired the Government Human Resource Information System (GHRIS), which supplements IPPD. It is not linked to IFMIS.

Sector Ministries

These continue to be responsible for all areas of PFM relevant to them (i.e. all of them, except external audit and legislative oversight). They have planning and budgeting departments, human resource management departments and financial administration departments, and internal audit departments. They conduct their own procurement operations.

Altogether there are 62 Sector Ministries, as stated in the Program Budget for 2017/18. The numbers change from time to time due to restructuring. The last restructuring was in 2013, leading to a large reduction. Under some Ministries fall some semi-autonomous agencies. As noted under PI-6, the budgets and actual expenditures of these agencies are included in the parent Ministry's budgets and expenditure reports, though there are transparency issues, as assessed in PI-6. The budgets do not separately collate the expenditures of each agency.

The programme budgets of 18 sector ministries also include GoK transfers to some non-commercial autonomous State Corporations in the cases where they are supporting a particular programme (.e.g. Kenyatta University in support of University Education). Each agency is governed under its own legislation. The transfers are identified under each programme/sub-programme, but are not collated into one table showing transfers to these SCs.

The Annex to the Budget Summary, submitted to the National Assembly at the same time as the draft budget, contains tables showing the revenue and expenditure estimates (but not the actuals) of each SC affiliated to each parent ministry.[6] These tables are not shown on NT's website, only the name of the parent ministry is shown.

The programme budgets do not include the budgeted and actual expenditures of commercial autonomous agencies, as discussed under PI-9.The 2015 Financial Regulations define the different types of these entities. As indicated under paragraphs 86-89 of the PFMA (2012) and 210-221 of the Financial Regulations (2015), the sum of non-commercial and commercial autonomous agencies (denoted as government/public entities) are defined as State Corporations (SCs). PI-9.1 in Section 3 elaborates.

As yet, there is no consolidated picture of the expenditures of all SCs. It does not include the expenditures of autonomous agencies that are not implementing components of a sector budget. It does not include expenditures of autonomous funds, such as the National Social Security Fund (NSSF).[7]

Table 2.6 summarises the structure of GoK.

Table 2.6 Structure of GoK in FY 2015/16

# entities	Budgetary	Extra-budgetary	Non-Financial SCs 2/	Financial SCs	Social Security Fund
Central	59 1/	0	50	9	1
County	47	0	0	0	0
Total	106	0	50	0	1

1/ Includes SAGAs under each Ministry, as shown in Programme Budget documents.
2/ Source; Table 5a of Budget Summary for FY 2016/17, "Statement of Government Loans to State Corporations, Government Agencies and Other Organisations Outstanding o 30th June 2016."

Total National Government actual expenditure was Ksh 1782 billion in FY 2015/16 (Table 2.2), including the expenditures of SAGAs and some autonomous agencies (where these are helping to implement programmes). Total county expenditure amounted to Ksh 295.7 billion (Table 4.1. of the 2017 Budget Policy Statement). Total expenditure was therefore Ksh 2077.8 billion, of which 85.8% was GoK expenditure. The data are not available on the total expenditures of SCs, including the NSSF.

2.5 Key Features of the PFM system

The specific aspects of the PFM system have changed little since the 2012 PEFA assessment. The main emphasis since then has been to improve its efficiency, the re-engineering of IFMIS being a major vehicle for achieving this. The main achievements in the re-engineering process since the 2012 PEFA assessment have been:

[6] Annex on Breakdown of Revenues and Estimates for State Corporations of the Government of Kenya for the Financial Year ending 30th June 2017.

[7] This was established in 1965 through legislation. It operated as a Department in the Ministry of Labour until 1987, when it was changed through amendment to the legislation into a State Corporation under the management of a Board of Trustees. The Fund was a provident fund rather than a pension fund. In Since 2013 it has established a contributory pension fund and modernized the provident fund. The supporting legislation was amended accordingly, becoming the NSSF Act, 2013. The contribution rate for the pension fund is 12% of salaries, funded equally by employers and employees. Since 2013, it has also installed a modern IT-based pension management scheme. The annual reports and audited financial statements of NSSF are not currently being posted on NSSF's website, which at present appears to be non-operational.

- *Integration of the budget preparation process into IFMIS ('Plan to Budget')*. This has been achieved through the adoption of 'Hyperion', which is a module of IFMIS. This was in place in time of the FY 2013/14 budget preparation cycle. This achievement was aided by the adoption of the Standard Chart of Accounts (SCOA) during FY 2011/12. As noted in the 2012 PEFA assessment, the budget preparation codes used by Budget Department were not identical to those used for reporting and accounting;
- *Establishment of the General Ledger*, which provided for budgets to be executed in IFMIS, and for execution to be reported on and accounted for. Moreover, access to IFMIS is now more or less complete, with all MDAs (except National Security & Intelligence Agency) having access to it, including those with district offices. Data quality issues prior to FY 2014/15 mean that annual financial statements prepared prior to FY 2014/15 are perhaps of lower quality than those prepared since then.
  - The IFMIS Office is still configuring aspects of IFMIS to meet specific MDA needs;
  - The IFMIS is currently being rolled out to County governments.

The re-engineering process is, however, not yet complete. The Cash Management module is not yet operational. Part of this is the bank account reconciliation module, whereby the transactions in the bank accounts held by GoK in CBK would be reconciled with the transactions held in GoK's books (included in IFMIS). Prompt reconciliation facilitates more timely preparation of reports and accounts ('Record to Report'). Technical issues concerning the compatibility of IFMIS with CBK systems are still being resolved, but the ASD expects that the reconciliation module will be operational by the beginning of FY 2017/18. In the meantime, bank account reconciliation is still largely a manual process. Operationalisation of the module would also facilitate development of rigorous cash flow forecasting, itself enabling preparation of robust cash management plans (both required under Article 28 of PFMA (2012)), which would themselves support more efficient budget execution. PI-21 in Section 3 elaborates.

Another impediment to strengthening cash management is the delay in establishing a Treasury Single Account (TSA) in CBK in line with the requirements of Article 29 of PFMA (2012). NT informed the assessment team that the TSA would be in place by the beginning of FY 2017/18 in the form of a Central Payments System (all revenue being deposited into it, all payments being made out of it).

The fixed assets module is not yet installed. A pre-requisite is that all existing fixed assets be identified and valued (see PI-12 in section 3).

Another issue with the effectiveness of IFMIS is that it is not comprehensively being used, even where it is available. This was an issue mentioned in the 2012 PEFA assessment, when implementation of the Re-engineering Strategy was in its early days. Manual processes were being used for preparing and approving local purchase orders (LPOs)/contracts and then loading these into the Purchasing and Accounts Payables module of IFMIS after the fact. Similarly, payments vouchers (PVs) were being prepared manually and then uploaded into IFMIS after the fact, instead of being prepared within IFMIS on the basis of invoices and receipts of goods and services.

According to OAG, these manual processes are still being used five years later, despite the progress made in rolling out IFMIS. They are the main reasons why preparation by MDAs of their annual financial statements takes far longer than the three months after the end of the FY specified in PFMA (2012). MDAs comply nominally, but then submit revised statements to correct for errors arising from using manual processes. The revisions may continue for several months, sometimes up to March. As a result, OAG's audit of the AFS is not complete until the end of the FY. In recent years, they have not been complete until after the end of the year (mid-July 2016 in the context of the audit report for FY 2014/15) and the audit report for FY 2015/16 is projected for completion in July 2017.

MDAs met by the team, as well as OAG, claim that more training is needed, even though the IFMIS Office has provided a lot of training. Staff turnover is one reason. Staff leave, and new recruits have to be trained. IT skills picked by staff through training in IFMIS (also other PFM-related IT packages) tend to be sought after by the private sector (particularly, staff in PDMO).

- Procurement to pay (P to P): This module has been completed and e-procurement is, to a degree, successfully being implemented, with attendant efficiency gains. The Kenya Chamber of Commerce and Industry, met by the team, was complementary about this. However, some technical problems with regard to the first stage of the process (i.e. procurement) have not yet been resolved (see PI-24 in Section 3).

Other areas where integration of systems within IFMIS have not yet been completed are:

- Revenue: the KRA has its own modern integrated IT-based tax administration system known as iTax, establishment of which started in FY 2013/14. This is not integrated with IFMIS (resulting in the 'Revenue to Cash' module not yet being in place). Integration would enable more timely availability and accuracy of data on revenue collections;
- Payroll: the IPPD system used by MSPS and TSC is not yet integrated with IFMIS. Ideally, the payroll prepared in IPPD would through IFMIS automatically result in civil servants being paid through their bank accounts. Instead the payroll is manually extracted from IPPD, deposits being made into employee bank accounts through GPay/ETF. Such manual methods bring scope for errors;
- Debt Management: At the time of the 2012 PEFA assessment, integration was being planned between IFMIS and the Commonwealth Debt Recording Management System (CDRMS) being used by the Debt Management Department in Ministry of Finance. This would have enabled direct input of debt data into IFMIS. This has not yet happened, for technical reasons.

3 Chapter 3: Assessment of PFM Performance

Chapter 3 provides an assessment of the key elements of the PFM system as captured by the 31 performance indicators (PIs) and, where applicable, reports on progress made in improving these. The PFM performance for each of the performance indicators was assessed and assigned ratings of “A” to “D” as per the scoring criteria for each indicator. Two scoring methods are used: (i) M1: WL = weakest link; the overall score is the lowest dimension score with a ‘plus’ added to it; (ii) M2: AV = average of dimension scores, using the form of the 2016 Framework.

3.1 Pillar I – Budget Reliability

PI-1 Aggregate expenditure outturn

Implementing the budget as approved is an important aspect of the government’s ability to deliver public services as expressed in budgetary policy documents. This indicator assesses the difference between the actual expenditure in terms of major aggregate against the originally budgeted expenditure. This measure reflects the government’s ability to maintain fiscal discipline while adhering to the parameters set in the approved budget.

PI-1: Aggregate Expenditure Outturn (M1)	Score/Criterion B	Explanation
1..1Aggregate expenditure outturn (last 3 completed FYs)	B*: Aggregate expenditure outturn was between 90% and 110% of the approved aggregate budgeted expenditure in at least two of the last three years.*	Actual expenditures fell short of the original approved budgets in all 3 years, due to shortfalls in revenue collection (PI-3) and over-estimation of capacity to spend the budgeted amounts. The shortfalls were 13.8%, 7.1% and 4.4% for FYs 2013/14-2015/16 respectively.

Table 3.1 Aggregate expenditures (millions Ksh)

Fiscal Year	Budget	Actual	Dev.	% deviation
2013/2014	1,265.6	1,091.5	- 174.1	-13.8%
2014/2015	1,483.1	1,377.9	- 105.2	- 7.1%
2015/2016	1,613.6	1,542.5	- 71.1	- 4.4%

Source: Annual Financial Statements, prepared by National Treasury.

Aggregate expenditure is defined to include donor-funded expenditure and interest on debt, as reported in GoK documentation.

Actual expenditure fell short of the original approved budgets in all 3 years, mainly due to shortfalls in revenue collection (PI-3) and over-estimation of capacity to spend the budgeted amounts. The shortfalls fell over the 3 years.

PI-2 Expenditure composition outturn

Where the sub–aggregate composition of expenditure varies considerably from the original budget, it is unlikely that the budget will be a useful statement of policy intent. This indicator hence measures the extent to which reallocations between the main budget categories during execution have contributed toward the variance in expenditure composition.

PI-2: Expenditure Composition Outturn (M1 WL)	**Score/Criterion D+**	**Explanation**
2.1. Expenditure composition outturn by administrative heads ***(last 3 completed FYs)***	B. *Variance in expenditure composition by program, administrative or functional classification was less than 10% in at least two of the last three years.*	• The variances were 7%, 8.5% and 3.6% for FYs 2013/14-2015/16 respectively. An 'A' grade requires variance to be less than 5% in 2 of the last 3 years; • Total 'Adjusted' expenditure was below the original budget for all 3 years for reasons explained under P1. The actual expenditures of 4 MDAs were higher than their downward 'adjusted' budgets in all 3 years, while those of 4 MDAs were lower in all 3 years. Development expenditure tends to deviate from approved budgets by much more than for recurrent expenditure due to delays in implementing development projects.
***2.2.* Expenditure composition outturn by economic types**	D*. *Not scored due to lack of information.*	• The budget is not classified according to GFS-consistent economic classification. This is because the development budget is not a capital budget and contains recurrent-type expenditures, but is represented as a one line item.
***2.3.* Expenditure from contingency reserves**	A: *Actual expenditure charged to a contingency vote was on average less than 3% of the original budget*.	• The PFMA (2012) and its Financial Regulations (2015) specify that funds from the Contingency Fund may be advanced to an MDA to finance unforeseen emergency-type expenditure; • The budget for the contingency reserve fund averaged 0.2% of total budgeted expenditure during FYs 2013/14-2015/16.

PI 2.1 Expenditure composition outturn by function

This dimension measures the variance between the original approved budget and end-of- year outturn in expenditure composition by program, administrative, or functional classification during the last three years. Contingency items and interest on debt are excluded. It reflects the government's ability to pursue its policy objectives as intended and stated in the budget.

Table 3.2 Calculation of variances by Administrative Units for the last 3 FY (in billions Ksh)

Administrative or functional head	Budget	Actual	Absolute deviation	Composition variance[1]
2013/2014	923	857.3	65.4	7.0%
2014/2015	1,064	943.9	120.5	8.5%
2015/2016	1,156	1,102.9	53.5	3.6%

[1] : Defined as the sum of the absolute deviations for each MDA from the 'adjusted' budget, defined as the original budget for the MDA plus/minus the aggregate deviation.
Source: Annual Financial Statements prepared by National Treasury.

Details are shown in Annex 4. Some MDAs received more than their downward 'adjusted' budgets in all 3 years: Teacher Services Commission, Defence, Pensions and Gratuities, and National

Intelligence Service. Some received less in all 3 years: Agriculture, Health, Energy & Petroleum, & Land & Housing.

PI 2.2 Expenditure composition outturn by economic type

This indicator measures the difference between the original, approved budget and end-of- year outturn in expenditure composition by economic classification during the last three years, including interest on debt but excluding contingency items. The composition of the budget by economic classification is important for showing the balance between different categories of inputs.

It is not possible to rate this dimension because the budget documents do not show economic classification on a conventional GFS-consistent basis: personnel emoluments, purchases of goods and services, transfers, and acquisition of capital assets. The reason is that the budget consists of the Recurrent Budget and Development Budget separately. The latter includes expenditures of a recurrent nature, which are not specifically identified. The Annual Financial Statements (AFS) include actual expenditure on an economic classification basis. The Budget Implementation Review Reports (BIRR) also show quarterly actual expenditure on an economic classification basis for recurrent and development expenditure separately. These figures are not reported, however, against the original approved budget for these items.

PI 2.3 Expenditure from contingency reserves

This indicator recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency, this amount should not be so large however as to undermine the credibility of the budget.

Section 206 of the 2010 Constitution provided for the establishment of a Contingency Fund. It is enabling legislation and regulations are specified in Sections 19-24 of the PFMA (2012). In Kenya, the budgeting and accounting treatment of contingency items relate to exceptional events that cannot be foreseen, such as earthquake, famine, civil war, etc. Section 20 of the Financial Regulations (2015) specifies that the Accountant General's Department in NT has the responsibility to administer the Contingency Fund. Section 50 of FR provides for advances from the Contingency Fund to Accounting Officers of MDAs (Votes) that want to access it. The advance, once spent and accounted for, is then regularised as expenditure under the respective Vote (i.e. not the contingency vote itself), and appropriated through a supplementary appropriation Act.

The following table summarises the calculations for FY 2013/14-2015/16 (also shown in Annex 4).

Table 3.3 Calculation of contingency share of total GoK expenditure (in Ksh billions)

Fiscal Year	Total budget appropriation	Total contingency obligations incurred	Contingency share (%)
2013/2014	1,266	0	0%
2014/2015	1,483	4.95	0.3%
2015/2016	1,614	5	0.3%
Average contingency share			0.2%

Source: Annual Financial Statements (NT).

The contingency allocation in FY 2013/14 was all allocated to MDAs in during each of the 3 years and not to the contingency vote itself. The allocations in FYs 2014/15-2015/16 were spent within the contingency vote itself, but the amount was well-below 3% of total expenditure.

PI-3 Revenue outturn

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations that will eventually require either an in-year and potentially disruptive reduction in spending or an unplanned increase in borrowing to sustain the spending level.

PI-3: Revenue Outturn (M2-AV)	Score/Criterion B	Explanation
3.1. Aggregate revenue outturn	B: *Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.*	Actual revenue fell short of budgeted revenue by 5.5%, 8.3% and 5.3% in FYs FY 2013/14-2015/16 respectively. Revenue targets have tended to be overly optimistic in recent years.
3.2 Revenue composition outturn	B: *Variance in revenue composition was more than 5% but less than 10% in all of the last three years.*	The variance was 5.1%, 12.2% and 9.5% in FYs 2013/14-2015/16 respectively.

Revenues are defined here to include grants from donors, both direct and in the form of Appropriations in Aid (AiA). As shown in Tables 9 and 10 below, actual revenue fell short of target over the last 3 FYs due mainly to shortfalls in income tax, VAT, excise tax, import duty collection, grants and AiA, the shortfalls being largest in FY 2014/15 and FY 2015/16.

PI 3.1 Aggregate revenue outturn

Table 3.4 Actual revenue compared to originally approved budget (Ksh billion)

	Total budget appropriation	Total actual revenue	Absolute deviation	Total revenue deviation
2013/2014	1,060.1	1001.4	58.7	-5.5%
2014/2015	1,236.9	1,135.9	101.03	-8.2%
2015/2016	1,365.9	1,267.5	98.4	-7.2%

Source: Budget Review and Outlook Papers (BROP) 2014, 2015 & 2016.

Table 3.5 Disaggregated revenue and external grant performance (Ksh billion)

Economic Head	2013/2014			2014/2015			2015/2016		
Economic Head	*Budget*	*Actual*	*% Diff.*	*Budget*	*Actual*	*% Diff.*	*Budget*	*Actual*	*% Diff.*
(a) Tax & non tax Revenue	*918*	*919.0*	*0*	*1070.6*	*1031.8*	*-3.6*	*1184.4*	*1158.2*	*-2.2*
Import Duty	67.4	67.6	*0.3*	76 .7	74.0	*-3.5*	83 6	79.2	-5.3
Excise Taxes	101.2	102.0	*0.8*	119.6	115.9	*-3.1*	137.2	139.5	1.7
PAYE	254.7	249.9	*-1.9*	284.4	279.8	*-1.6*	309.2	286.2	-7.4
Other Income Tax	196.2	199.7	*1.8*	248.0	228.8	*-7.7*	268.8	279.8	4.1
VAT Local	109.2	107.7	*-1.4*	126.8	127.9	*1.8*	165.8	160.4	-3.3
VAT Imports	121.8	124.9	*2.6*	143.3	131.8	*-8*	134.3	128.8	-4.1
Investment Revenue	13 .7	10.2	*-25.6*	16 4	14.0	*-14.6*	21.6	19.25	-10.9
Traffic Revenue	3.5	3.3	*-5.7*	3	27	*799*	26.1	25.2	-3.5
Other	50.4	53.7	*6.6*	52.3	32.6	*-37.6*	37.8	39.8	5.3
(b) Appropriation in Aid 1/	*88.4*	*55.4*	*-37.3*	*100.0*	*75.9*	*-24.1*	*115.5*	*79.7*	*-31.0*
(c) External Grants	*53.7*	*27*	*-49.7*	*66.4*	*28.1*	*-57.7*	*66.0*	*29.6*	*-55.2*
Total revenue	1060.1	1001.4	*-5.5*	1237	1135.8	*-8.2*	1365.9	1267.5	*-7.2*

Source: BROP 2014, 2015 & 2016

1/ AiA is defined as domestic revenues and external grants that are retained by the MDAs that receive them rather than being deposited into the Exchequer Account (Consolidated Fund Account) kept by NT in Central Bank of Kenya (CBK). The amounts retained are then appropriated as expenditures in support (aid) of public service delivery.

PI 3.2 Revenue composition outturn

Table 3.6 Revenue composition outturn compared to originally approved budget (Ksh billion)

	Total budget	Total Actual	Sum of Absolute deviation	Composition Variance
2013/2014	1060.1	1001.4	80.9	7.6%
2014/2015	1236.9	1135.8	151.3	12.2%
2015/2016	1365.9	1267.5	129.1	9.5%

Variance in revenue composition was more than 5% but less than 10% for two of the last three years. The variance is calculated by summing up the deviations in absolute terms between actual and budget for each revenue item, and then expressing as % of the total budget (see Annex).

3.2 Pillar II. Transparency of Public Finances

PI-4 Budget classification

A robust classification system facilitates effective linkage of budget allocations to underlying policies, expenditure recording and monitoring of transactions, especially the management of key line items for efficient and economical management of resources. This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards.

PI-4: Budget Classification	Score/Criterion C	Explanation
4.1 Budget classification	C *Budget formulation, execution, and reporting are based on administrative and economic classifications using GFS standards (at least level 2 of the GFSstandard—2 digits) or a classificationthat canproduce consistent documentation comparable with those standards.*	• A unified CoA came into effect in FY 2013/14 covering in detail all budgeting, budget execution, reporting and accounting codes. Programme budgets were established in 2013/14, and are prepared on a programme/sub-programme and broad (2 digit GFS) economic classification basis under each Vote; • The SCOA in principle meets GFS requirement but is only partly used in practice. As required by the 2010 Constitution, the annual budgets should comprise recurrent and development budgets. About 30% of the latter represents recurrent expenditure, thus complicating the reparation of budgets and budget execution reports on a GFS-consistent economic classification basis. Only the Annual Financial Statements show actual recurrent and capital budget expenditures at 3 digit GFS economic classification basis level. They do not show programme and sub-programme

PI-4: Budget Classification	Score/Criterion C	Explanation
		actual expenditure by MDA. Budget documents tend not to fully comply with GFS even at 2 digit level.

The Standard Chart of Accounts (SCOA) was in the process of being finalized at the time of the 2012 PEFA assessment. It was subsequently finalized with effect from FY 2013/14. The codes are the same for budget preparation, budget execution, accounting and reporting, shown at highly disaggregated levels, which can be aggregated into higher levels. The inclusion of the accounting codes linked to the budget codes enables a double entry system with each budgetary transaction reflected in an accounting transaction. All codes are embedded in IFMIS.

The SCOA is a significant improvement over the previous COA in which budgeting codes differed to some extent to IFMIS codes.

Enabled by the new SCOA, the budget has been prepared on a programme budget basis since FY 2013/14. As shown in the annual budget documents, the budget presented to Parliament for approval is by Vote, and then by programme and sub-programme within each Vote. The broad economic classification is shown at two digit GFS level for each sub-programme (compensation to employees, use of goods and services, transfers, capital expenditure). Economic classification codes drill down to narrower ones, as shown in the Budget Implementation Review Reports (BIRR) and Annual Financial Statements.

The budget is also classified on a sector basis, the ten sectors corresponding approximately to COFOG, each sector comprising a number of MDAs, which work together as Sector Working Groups to prepare the annual Budget Policy Statement (BPS).[8]

Budgets, budget execution reports and accounting statements use the SCOA in different ways, though using the same codes. Despite the establishment of the new SCOA, budgets and budget execution reports do not closely follow GFS 2001, as was also the case at the time of the 2012 PEFA assessment. Complicating the preparation of completely GFS-compliant standardized documentation is the division of the annual budget into recurrent and development expenditure, as required by Article 220 of the 2010 Constitution. About 30% of the development budget contains some recurrent-type expenditure elements, but this is not fully indicated in budget documentation, although in principle it is possible to do so. [9] The GFS is also not complied in some other instances. The following paragraphs elaborate:

i. ***Annual Budget Review and Outlook Paper (BROP)*** dated September 2016 and Annual Budget Policy Statement (BPS) for 2017/18-2019/20 dated November 2016 shows recurrent expenditures disaggregated according to wages and salaries, contribution to civil service pension funds, and interest payments. Purchases of goods and services and transfers are not explicitly identified (shown as ‘Other, which also includes transfers’). Development expenditure is shown as an aggregated amount, with no explicit identification of recurrent and capital expenditure.

[8] The sectors are: Agriculture, Rural & Urban Development; Energy, Infrastructure & ICT ;General, Economic & Commercial Affairs; Health; Education; Governance, Justice, Law & Order ;Public Administration & International Relations National Security ;Social Protection, Culture & Recreation ; and Environment Protection, Water & Natural Resources.

[9] The Programme Budget for FY 2016/17 does not include estimated outturns for the current and previous years on an economic classification basis. It shows budgeted expenditure on a broad economic classification basis (two level GFS) under each MDA sub-programme.

Annex 1 of BPS shows medium term projections of sector expenditure for each MDA within the sector and programme expenditure for each MDA. Economic classification is according to recurrent and capital expenditure for each MDA with no dis-aggregation by type. Expenditures of Defense and National Security Intelligence Organisation are shown as a one line item with no dis-aggregation by economic classification;

ii. ***Annual Programme Budget:*** The latest one covers FY 2017/18 released in January 2017 (ahead of the usual date because of the impending Presidential elections). At dis-aggregated level, it shows a GFS-consistent two level budget classification by sub-programme at MDA level. The first level is for recurrent expenditure and capital expenditure. The second level is: (i) compensation for employees (both recurrent and capital); (ii) use of goods and services (both recurrent and capital); (iii) subsidies, social benefits an current and capital transfers to government agencies; and (iv) ; acquisition of non-financial assets. This classification has improved from the FY 2016/17 budget, which contained substantial undefined 'other' recurrent and capital expenditures;

iii. ***Budget Implementation Review Report (BIRR):*** The last annual report (August 2016) at the time of the field mission covers FY 2015/16. The expenditure classifications shown are only partially consistent with GFS. Table 3.4 in the report shows recurrent expenditure of each MDA by type of expenditure that is only partially consistent with GFS 2001. Personnel emoluments (same meaning as 'compensation of employees') is not broken down into lower level components. Purchases of goods and services are broken down however into several components. Current transfers are not broken down into lower level components. 'Other' expenditures and Appropriations in Aid (AiA) .represent about 20% of total recurrent expenditure but are not defined at all in terms of economic classification. Table 3.5 shows a breakdown of development expenditure by economic category for each MDA. Explicitly stated capital expenditure represents about 60% of total expenditure and explicitly stated recurrent expenditure less than 1%. The remaining 40% represents un-defined 'Other' and AiA expenditure;

iv. ***Annual Financial Statements (AFS):*** The draft AFS for FY 2015/16 include a GFS-consistent economic classification of actual expenditure on both an aggregate (GFS-level 2) and detailed basis (sections 10-17 & Appendix Note 8 on annual financial statements).

A Business Intelligence tool has been established at the State House of Kenya, and enables follow up on budget formulation, execution, and reporting based on administrative, economic and functional/programming classification at the most detailed level. However, this tool has not yet been established at the National Treasury.

Ongoing and planned activities

GFS 2014 is planned to be implemented in the coming years. GFSM 2014 harmonises the system used to report fiscal statistics with other macroeconomic statistical systems most notably with the national accounts (the 2008 SNA) and, therefore, also the European System of Accounts 2010 (2010 ESA). While it is possible to apply the GFSM 2014 framework to cash data, ideally, transactions and other economic flows should be recorded on an accrual basis. A key feature of GFSM 2014 is its distinction between transactions and other economic flows. Transactions cover all exchanges or transfers, while other economic flows are the result of events that affect the value of nonfinancial assets, financial assets, and liabilities but that are not exchanges or transfers.

PI-5 Budget documentation

The indicator assesses the comprehensiveness of the information included in the annual budget documentation as submitted to the legislature for scrutiny and approval.

PI-5: Budget Documentation	Score/Criterion D	Explanation
PI-5. Budget documentation *(last budget submitted to legislature)*	D. *The budget documentation fulfils 6 elements but only 2 basic elements (1–4).*	• The 1st and 3rd basic elements are met. The 5th, 6th 10th and 11th non-basic elements are met. • 'C' requires that at least 3 basic elements should be met. If these were met, the score would be 'B' as 4 additional elements are met.

The PFMA (2012) and its regulations prescribe the information that should be included in budget documentation.

The main budget documents submitted annually to Parliament consist of:

1. The Programme Based Budget, the latest of which at the time of the mission was for FY 2017/18 submitted in January 2017 (June 2016 for FY 2016/17). These are the official budget estimates to be approved by Parliament. The first such budget covered FY 2013/14. It includes tables showing recurrent and capital expenditure estimates for each MDA on a programme and sub-programme basis for next year's budget and the following two years. Detailed estimates of recurrent and development expenditure on an administrative and economic classification basis are still prepared as they were at the time of the 2012 PEFA assessment, but are for the information of MPs only and are not part of the official estimates for approval by Parliament. In both cases, the tables contain only estimates for the next budget year and the following 2 years, and do not show historical outturns and expected outturns for the current FY;

2. The estimates for revenues, grants and loans are submitted together as separate documents with the estimates for expenditure by 30th April, every year and are scrutinised and deliberated on by relevant Departmental Committees, which then submit a report to the Budget and Appropriation Committee (BAC). The reports are scrutinised before BAC presents a report on the budget to National Assembly;

3. The Budget Review and Outlook Paper (BROP), the latest for which was dated September 2016, contains a table showing summary actual revenue and expenditures for FYs 2013/14 and 2014/15, and estimated summary outturns for FY 2014/15 as well as projections for FY 2016/7-FY 2019/20. BROP does not contain detailed expenditure tables showing actual and estimated outturns for these years on an MDA and economic classification basis;

4. The BPS for FY 2017/18-2019/20 shows similar information to BROP, but updated as it comes out later. Annex Table 4 in BPS contains a summary of programme spending covering FY 2016/17- 20/19/20 by MDA, including recurrent/capital expenditure, but does not contain actual historical outturns and revised estimates (same as for the annual programme budgets);

5. A Budget Summary (April 2016) presented by the Cabinet Secretary for Finance to accompany BPS. Apart from highlighting the main provisions of the draft budget for FY 2016/17, this summarizes BPS, provides a Memorandum to National Treasury on the extent that the resolutions adopted by the National Assembly on the 2016 Budget Policy Statement (BPS) have been taken into account, discusses the extent of adherence to the fiscal responsibility principles

outlined in PFMA (2012), highlights allocations from the Equalisation Fund and extent of compliance with the policies developed by the Commission on Revenue Allocation (CRA), and summarises revenue and grant allocations to County Governments from National Government; and

6. The Budget Statement (budget speech), submitted to Parliament in June each year. This highlights the revenue and expenditure measures to be taken in the next FY.

Table 3.7 summarises the main elements of the budget and their availability in the budget documentation.

Table 3.7 Information provided in Budget documentation

Basic Elements

No.	Budget documentation benchmarks	Avail.	
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	The projected fiscal deficit, defined according to GFS, is included in the BPS which is issued in March. The projected fiscal deficit shown in BPS is defined both including and excluding grants on both commitment and cash basis.
2.	Previous year's budget outturn, presented in the same format as the budget proposal.	No	The annual Programme Budget presented to Parliament does not include the previous year's Programme Budget outturn or the expected outturn of the current year's budget. Neither does the corresponding summary table in the BPS (Annex Table 4 of BPS FY 2017/18). The Fiscal Operations table shown in Annex Table 2 of the BPS 2017/18 shows the actual outturn in FY 2014/15 and the estimated outturns in FY 2015/16 and FY 2016/17 alongside the budgeted amount for FY 2017/18, but in summary terms only.
3.	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Revised estimates of the previous budget are presented along with the estimates for the next year's budget. For the vote of the revised budget, the previous estimates are presented along with the estimates for the revised budget.
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. (Budget classification is covered in PI-4.)	No	Consolidated summarised data are included in the BPS. The Annex of the BPS presents the Government Fiscal Operations with a breakdown of revenue and expenditure, including data for the current and previous year, but only according to economic classification.

Additional elements

No.	Budget documentation benchmarks	Avail.	Notes
5.	Deficit financing, describing its anticipated composition.	Yes	The anticipated composition of deficit financing (broken down by foreign and domestic financing, and privatisation proceeds) is included in the BPS.
6.	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	The BPS indicates the assumptions for the Budget Framework i.e. real GDP growth and inflation. The exchange rate is projected to be stable on the grounds of prudent macroeconomic management.
7.	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	Details on domestic and external debt outstanding and debt service (including debt guaranteed by GoK) by creditors and instruments are included in the Statistical Annex to the Budget Statement for FY (t+1).
8.	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No	The budget documentation does not include information on financial assets.
9.	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No	The Annex of the BPS presents a table summarising fiscal risks of PPP, including the Project Name, the Project Description, the Project Value, the Status, the Type/Value/State Guarantee, the Amount for Termination Payment, the obligation for fixed Capacity Payments, and the Call on Guarantee (Y/N). Non-PPP related explicit contingent liabilities are also referred to but are not quantified. These are mainly GoK guaranteed loans of State Corporations (SCs), including loans on-lent by GoK to SCs. The details are shown in the annual debt reports, but not in budget documentation.
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	Yes	The BPS, Budget Statement and Budget Summary, includes a summary of the government revenue and expenditure policy initiatives and programmes. Section 4 of the Budget Statement for FY 2016/17 on Sectoral Policies and Expenditure indicates proposed expenditures in specified areas, budget allocations in specified areas by sector (e.g. Ksh 124 billion for specified national security projects and programmes for FY 2016/17). Section 6 of the Statement describes revenue administration and proposed changes in tax/non-tax rates. Section IV of the Budget Summary (basically a summary of the BPS) summarizes specific expenditure initiatives by sector and the costs of these.

No.	Budget documentation benchmarks	Avail.	Notes
11.	Documentation on the medium-term fiscal forecasts.	Yes	The budget is projected for three years and the medium-term fiscal forecasts are presented in the budget documentation.
12.	Quantification of tax expenditures.	No	There is no quantification of tax expenditures.in the budget documentation.

PI-6 Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports

PI-6: Central government operations outside financial reports (M2-AV) (last completed FY)	Score/Criterion D	Explanation
6.1. Expenditure outside financial reports	*D*: Expenditure outside government financial reports is unknown, but it could be more than 10% of total BCG expenditure.*	• In principle there are no domestic extra-budgetary operations. The budgets and actual expenditure of national government entities are included in GoK's annual budget, in the budget execution reports prepared by BIRR and in the annual financial statements (AFS) prepared by NT. An exception is the spending of fees and grants received by schools (mainly primary) from third parties, which is not captured in Ministry of Education expenditure reports and its AFS. The amounts are not known. This situation is different from that of other national government entities that are designated as 'Revenue Receivers. Education is free, so MoE is not a Revenue Receiver; • Spending of donor aid is in principal supposed to be on-budget and captured in BIRR reports and the AFS. PIs 28-29 indicate whether this in fact the case. Aid-from donors outside budgetary channels (both in cash and in-kind) is not reported to GoK by donors, even though the amounts are apparently substantial.
6.2. Revenue outside financial reports	*D*: Revenue outside government financial reports is unknown and could be more than 10% of total BCG revenue.*	• As noted under 6.1, 3rd party funding of primary schools is not reported on. The magnitude is not known; • Aid-provided by donors outside budgetary channels for projects is not reported on to GoK, though the amounts are believed to

PI-6: Central government operations outside financial reports (M2-AV) (last completed FY)	Score/Criterion D	Explanation
		be substantial (e.g. large USAID-funded projects).
6.3. Financial reports of extra-budgetary units	*D*: Insufficient information is available for scoring this dimension.*	• Annual financial reports of primary schools are not complete as they do not include third party funding and the spending thereof. The amount of this is not known; • Off-budget donor-funded projects use their own financial management systems and do not submit financial reports to GoK, though the amounts are believed to be substantial.

PI 6.1 Expenditure outside financial reports

Revenue and expenditure not reported in the AFS are revenue/expenditure from: (i) schools that receive third party funding; and (ii) some projects funded by donors.

- Financial reports are incomplete regarding school expenditure. The State Ministry of Basic Education oversees 43,000 primary and secondary schools in Kenya; unlike in the case of health, education responsibilities have not been not been devolved to Counties. Services are delivered through primary schools, secondary schools, teachers' training colleges, donor-funded projects and some institutes (e.g. National Schools Examination Council, Kenya Institute of Curriculum Development, as indicated in the Programme Budget for 2017/18). Much of the funding is provided through capitation grants (personnel emoluments are paid directly by the Ministry) for purchase of textbooks, other teaching materials and other operating expenses. The schools keep bank accounts into which capitation grants are deposited. They report expenditures out these accounts to Boards of Management and monitored by School Audit Units. In a sense they operate like institutionally separate government entities (as defined in PFMA), previously known as Semi-Autonomous Government Agencies (SAGAs), but they are not as they are institutionally part of the Ministry.

Primary schools, however, receive third party grants from outside the budget, mainly in the form of fees, even though primary education is supposed to be free. The planned spending of these is supposed to be budgeted for and included in draft budgets, but it is difficult to know these in advance. The actual spending of these is supposed to be fully reported and accounted for, but in practice it may not be and thus constitute un-reported extra-budgetary operations. The Accounting Services Department in NT wants schools to prepare financial statements regularly.

PI 6.2. Revenue outside financial reports

The annual budgets and budget execution reports include grants and loans received from development partners. Some of this funding is deposited in MDA commercial bank accounts and spent as Appropriations in Aid (AiA). The amounts are known to be small, donors preferring to channel their funding through CBK or directly to overseas suppliers contracted to implement projects. The spending is not captured in IFMIS, but the OCOB obtains information on receipts of such funds and the spending thereof as input to the preparation of its in-year Budget Implementation Review Reports (BIRRs).

An unknown amount of development partner assistance is provided completely outside the budget, in both cash and aid-in-kind form. As was the case at the time of the 2012 PEFA assessment, as confirmed by Ministry of Health (MoH), large USAID-funded project expenditures are completely outside the budget, the amounts not being reported on, even though spending is in areas that MoH has responsibilities for. One reason is concerns about perceived weaknesses in Ministry of Health's internal control systems.[10] This may not be such an issue now for the National Government, as much of these expenditures are in the health sector, the functions of which have since been devolved to Counties (thus being an issue for County Governments).

PI 6.2 Revenue outside financial reports

Domestic revenues outside financial reports mainly comprise grants received by primary schools from third party sources. The State Ministry of Education (MoE) is not a designated Receiver of Revenue, as primary and secondary education are free, schools receiving capitation grants from MoE for non-wage/salary expenditures. The schools, however, receive other funding from various third party sources (e.g. parents). This funding is not reported on to MoE. In addition, as noted under PI 6.1, donor aid provided outside the budget altogether (whether in cash or aid-in-kind) is not reported on, even though it is suspected to be substantial.

PI 6.3 Financial reports of extra-budgetary units

Schools prepare a budget and send their Annual Financial Reports to MoE six months after the end of the FY. However, these only include details of actual revenue and expenditure, which are not necessarily consistent with budgetary central government reporting requirements presented in PI-28. They do not present assets and liabilities, In addition, the Ministry does not consolidate this information into its annual financial report. Hence, MoE's consolidated annual financial report is not complete.

Donor funding is included in annual budgets and budget execution reports (though, as noted under PI 6.1, the spending of some funding provided as A-i-A through commercial bank accounts may not be completely captured). The reporting and accounting on/for donor-funding projects is generally not consistent with budgetary central government reporting and accounting requirements (such as, for example, assets and liabilities) because donors tend to use their own financial management systems. The annual financial statements prepared by NT therefore do not capture donor-funded projects.

According to the IMF fiscal transparency evaluation of July 2016[11], a large amount of fiscal operations remains outside of international standards.

PI-7 Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning.

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10 An article dated 17th May 2017 in CIPFA's 'Public Finance International' news journal reported that the US had suspended $21m in aid to Kenya's Ministry of Health due to concerns over "weak accounting procedures". In October 2016, a leaked internal audit report had revealed that $50m had gone missing from the ministry in the previous financial year, including funds meant for maternity wards, with a number of senior officials implicated in the scandal."

11 IMF Country Report No. 16/221, July 2016.

While the assessment is focused on the national government, it is recognized that subnational governments also have wide-ranging expenditure responsibilities. This indicator assesses the transparency and timeliness of transfers to local government units.

PI-7: Transfers to Sub-National Governments (M2-AV) ***(last completed FY)***	**Score/Criterion C+**	**Explanation**
7.1 System for allocating transfers.	*A: The horizontal allocation of all transfers to subnational governments from central government is determined by transparent,rule-based systems.*	County governments receive their transfers based on a transparent formula. For the last 3 FYs, the budgets of county government were determined on the basis of the allocations stipulated in two Acts: • The Division of Revenue Act (DoRA), which specifies the vertical allocation; and • The County Allocation of Revenue Act (CARA), which specifies the horizontal allocation between Counties.
7.2 Timeliness of information on transfers	*D*: *Performance is less than required for a C score*	Reliable information on the annual horizontal allocations to County Governments is not provided until several weeks after the start of the new fiscal year, due to delays in approval of the CARA Bill by the Parliament.

Background

Kenya’s decentralization is among the most rapid and ambitious devolution processes going on in the world. It started with the promulgation of the Constitution of Kenya 2010, a major feature of which was the devolution of resources to county government which were to be created and would replace a multitude of local authorities with relatively minor service delivery responsibilities.

New legislation on county government and multiple new laws have been put in place, as well as multiple national bodies and commissions with responsibility for devolution.

Elections in March 2013 marked the official launch of decentralization, as 47 new county governors and county assemblies were elected, which began to set up new institutions. A new national senate was established to represent each county.

PI 7.1 System for allocating transfers

The system for allocating transfers to Counties is determined under clear and transparent rules. Article 203 of the 2010 Constitution provides guidelines for the sharing of revenues.

On the basis of two formulae, the Commission of Revenue Allocation (CRA) makes recommendations for sharing the revenues between the two different levels of government: (i) the breakdown between the central government and the counties (vertical formula), and (ii) the breakdown between the different counties (horizontal formula).

The second formula, which is the relevant one for this dimension, is based on the population, a poverty level, and development level, which is determined by a composite index prepared by the National Bureau of Statistics. The formula is as follows:

$$Cai = Pi+PVi+Ai+BSi + FRi$$

Where: i =1,,2………47.

- Cai=Revenue allocated to county i;
- Pi =Revenue allocated to a county on the basis of population parameter;
- PVi = Revenue allocated to a county on the basis of poverty gap parameter;
- Ai= Revenue allocated to a county on the basis of land area;
- BSi= Revenue allocated to a county on the basis of basic equal share parameter. This is shared equally among the 47 counties;
- FRi= Revenue allocated to a given county on the basis of fiscal responsibility. This is shared equally among the 47 counties.

The current formula uses Population, Poverty, and Land Area to estimate the cost of delivering services in a given county. Likewise, Basic Equal Share aims to ensure that all counties have a basic level of expenditure (for common costs such as public administration) regardless of other variables.

In line with the 2010 Constitution and PFMA (2012), an Equalisation Fund was established in FY 2015/16 under the 'Policy on Marginalised Areas; developed by CRA. At least 0.5% of the National Government's last audited revenue is required to be deposited into this. The purpose of the Fund is to provide assistance to the 14 most marginalised Counties in Kenya, additional to the vertical allocation. According to the Budget Statement for FY 2016/17, 0.6% of the last audited revenue would be allocated to finance identified projects. The funds would be appropriated through the relevant MDAs.

The first formula lasts for 3 years and the 2nd formula lasts for 3 years. The second generation of formulae was approved by Parliament in June 2016.

The Division of Revenue Bill 2016, Arrangement of Clauses, includes allocations to national and the sum of county governments taking into account variations in revenue, resolution of disputes and wasteful expenditure. It presents the equitable share of revenue to be raised nationally between the national and county governments for FY 2016/17. The Parliament can change the allocation to County Governments at the time of discussion of the Bill on the basis of the public debt situation and other factors. Once approved, the Bill comes an Act (DoRA).

The allocation for revenues for each County Government is presented to Parliament in the budget statement in the form of the County Allocation of Revenue Bill. If Parliament changes the vertical allocation, the horizontal allocations would necessarily change. Once approved, the Bill becomes an Act (CARA). The approval by Parliament of the revenue allocations for FY 2016/17 was posted on the web site of the Kenyan Gazette[12.]

Chapter IV of the annual BPS on 'County Financial Management and Division of Revenue' discusses fiscal issues at County levels and presents the proposed vertical and horizontal allocations. Table 4.6 of the BPS for FY 2017/18 shows the horizontal allocation in detail for each county.

PI 7.2 Timeliness of information on transfers

According to the budget calendar, CRA must have approved the vertical allocation to counties for the next FY by the end of April. The annual BPS approved by Parliament in February shows the proposed vertical and horizontal allocations, so County Governments have an idea of how much they will receive. The Division of Revenue Acts indicate the approved vertical allocation. As indicated in the table below, the timeliness has improved in recent years in line with the requirement

12 http://kenyalaw.org/kl/fileadmin/pdfdownloads/bills/2016/sign_2016.pdf.

under PFMA (2012) for the National Government Budget to be approved by the end of the FY. The DoRA for FY 2016/17 was approved on 9th May, 2016. But the CARA Bill has to be approved as well, and problems have arisen with this, approval not being provided by Parliament until after the end of the FY, several weeks after in the cases of FY 2013/14 and 2014/15. This is because the Parliament may go against the proposals in the BPS and adjust the horizontal allocations. The BPS for FY 2016/17 notes with disapproval the increasing tendency for Parliament to delay approval for various political reasons.

Counties use the same FY as for the National Government, so they have been approving their budgets well after the start of the new FY due to the delays in the approval of CARA.

The publication dates of the Division of Revenue Acts (DoRAs) and County Allocation of Revenue Acts (CARAs) for the past fiscal year are reported in the table below:

Table 3.8 Publication dates DoRAs and CARAs for the past fiscal years *1/*

Fiscal Year	DoRA	CARA
2013/2014		12-Aug-13
2014/2015	4-Aug-14	5-Sep-14
2015/2016	5-Jun-15	29-Jul-15
2016/2017	9-May-16	27-Jul-16

Source: Commission of Revenue Allocation and Government Gazettes.
1/ As indicated in GoK's comments on the 1st draft report dated 26th July, the publication dates for 2017/18 are now available.

This table shows that the timeliness of approval of DoRA has improved each year, but that the timeliness of the approval of CARA has been weak after the end of FY, although delays have reduced each FY.

PI-8 Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

PI-8: Performance Information for Service Delivery (M2-AV)	Score/Criterion B	Explanation
8.1: Performance plans for service delivery (next FY)	B: *Information is published annually on policy or program objectives, key performance indicators, and the outputs to be produced, for most ministries.*	• The information is published annually as part of sector reports prepared by Sector Working Groups (SWG) during the 1st phase of budget/MTEF preparation. The information is based on the annual performance-based contracts between each MDA and the Executive Office of the President; • The information is provided in tabular form by programme and sub-programme. The planned outcome is shown, but in non-quantitative general terms;
8.2: Performance achieved for service delivery (previous FY)	B: *Information is published annually on the quantity of outputs produced by most ministries.*	This is indicated in the SWG reports referred to under 8.1. The first year shown in the tables is for the previous year.

PI-8: Performance Information for Service Delivery (M2-AV)	Score/Criterion B	Explanation
8.3: Resources received by service delivery units (last 3 FYs)	B. *Information on resources received by frontline service delivery units is collected and recorded for at least one large ministry. A report compiling the information is prepared at least annually*	The State Department for Basic Education (SDBE) routinely collects information on resources received by primary schools via their Boards of Management that primary schools report to. The sector MTEF reports prepared every year as part of the first phase of budget preparation contains a Performance Review (Section 2) in physical terms, comparing planned versus actual outputs over the last 3 years for each sub-sector. Primary health care services have been delivered at county level since FY 2013/14. This indicator will therefore be assessed in the forthcoming PEFA assessments planned at that level.
8.4: Performance evaluation of service delivery. (last 3 FYs)	*B: Evaluations of the efficiency and effectiveness of service delivery have been carried out and published for the majority of ministries at least once within the last three years.* .	The results of the annual Performance Contracts signed between all MDAs and the Executive Office of the President) are evaluated by independent consultants at the end of each year. The emphasis is more on efficiency than effectiveness.

Sources: Annual BPS, Annual Budget Statement, SWG MTEF sector submission reports (all NT); Annual Public Expenditure Reviews, Second Medium Term Plan (MTP), Vision 2030, Guidelines for Preparing Performance Contracts Service Delivery Charter, Annual Progress Report on Implementation of Second MTP, Monitoring and Evaluation Framework for Kenya (2015), all Ministry of Devolution and Planning; and Guidelines for Preparing Performance Contracts (Minister of State for Public Service).

PI 8.1 Performance plans for service delivery

Performance plans are prepared/updated by Sector Working Groups (SWGs) during September-October each year at the start of the budget preparation/MTEF season. The results are incorporated into the annual Budget Policy Statement (BPS). Each SWG, comprising a group of MDAs working in the same sector, prepares a sector report. Each report forms part of the process for updating the MTEF and extending it by another year.

The reports are available on the NT website. The framework for showing performance plans is the same for all sectors. The plans are based on the Second Medium Term Plan (2015/16-2017/18), itself a subset of Vision 2030, both prepared by the State Ministry for Planning. The main sectors providing services directly to the people are Education, Health, Agriculture and Infrastructure.13 Each sector includes the SAGAs[14] that operate in the same area. All prepare Sector Reports. Below is an example of the Health SWG from its MTEF submission for FY 2017/18-FY 2019/20. It is shown by Programme in tabular format, for example:

[13] There are 10 sectors, corresponding closely to COFOG. The other 6 are: General Economic & Commerce; Governance, Justice, Law & Order; Public Administration & International Relations; National Security; Social Protection, Culture & Recreation; and Environmental Protection, Water and Natural Resources.

[14] The sector reports still use the acronym 'SAGA', though this is not a term that appears in PFMA (2012), the term 'intergovernmental agency' being used.

- *Programme 1:* Preventive, Promotive and RMNCAH;
    - *Programme Objective*: To contribute to the reduction of morbidity and mortality due to preventable conditions;
        - *Programme Outcome:* Reduced morbidity and mortality due to preventable causes;
            - *Subprogramme 1: 1*: Communicable Disease Control.
                - *Delivery Unit*: NASCOP;
                    - *Key Outputs*: Access to ARVs increased;
                        - *Key Performance Indicators:* Number of PLHIVs on ARVs;
                            - *Actual/Target, 2015/16; Baseline target, 2016/17; Targets 2017-18-2019/20.*

The table is preceded by narrative explaining performance in the previous year and projections for the MTEF period. A version of the table eventually appears for each MDA in the annual Programme budget approved by Parliament (Vote 1063 for SDBE: shows a summary of programmed key outputs and performance indicators for each sub-programme for the next 3 years).

The performance plans prepared by SWGs are mainly based on the system of annual Performance Contracts started in 2004 under the auspices of Executive Office of the President.15 Each MDA and Commission (e.g. Teachers' Service Commission) is required to prepare a plan of outputs (services) that it intends to deliver during the year in pursuit of desired outcomes as specified in MTP 2. The plan is required to follow Guidelines in the form of templates prepared by the Ministry of State for Public Service (MSPS); the templates are reviewed each year and perhaps modified. If satisfactorily prepared, the Contract is signed by the Office of the President, Cabinet and the respective MDA. Some examples were shown to the Team (e.g. Kenya Urban Lands Authority, Ministry of Housing). In addition to the Guidelines, a Service Delivery Charter helps guide MDAs on the completion of the templates.

PI 8.2 Performance achieved for service delivery

The sector reports referred to the above show in the same table actual performance in the previous year under each planned output under each programme. Such reports are derived from the reports prepared on the implementation of the Performance Contracts referred in PI 8.1. The team was able to view some of these.

Other documents also describe and assess sector performance, including on an outcome basis for some sectors, though not in tabular form: annual BPS, annual Budget Statement (speech delivered by the Cabinet Secretary to Parliament on the draft budget for next year), and the Annual Progress Report on the implementation of the 2nd MTP (2013-2017), prepared by State Ministry of Planning; the last available covers FY 2013/14 (the second report is under preparation).

PI 8.3 Resources received by service delivery units

This dimension is similar to that of PI-23 under the 2011 PEFA Framework, which was focused on primary education and health service delivery units. The score was D, partly due to the lack of an effective system for monitoring resources received by health service delivery systems with the exception of drugs. The Ministry of Education provided resources in cash directly to primary schools through disbursement into school bank accounts under the donor-funded Free Primary Education Programme. In principle, therefore, monitoring of the use of resources was possible. Unfortunately, a large fraud was perpetrated through diversion of the funds into non-school accounts, through IFMIS controls being bypassed and/or IFMIS not being available at school level.

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[15] The division of responsibilities for preparing and monitoring Annual Performance Contracts vary over time due to changes instigated by the Office of the President. Currently, the Office of the Chief of Staff and Head of Public Service under the Executive Office of the President delegates the responsibilities.

The situation has changed somewhat since then. Primary schools fall under the State Department for Basic Education (SDBE); the Ministry of Education was split up into three State Departments after the 2012 PEFA assessment.[16] Each primary school is monitored by a Board of Management, itself accountable to a Board of Governors. Funds are still transferred from SDBE into primary school bank accounts in the form of capitation grants, which are spent on items such as text books (personnel emoluments are paid directly by MoE). Such expenditure is reported to the Board of Management, which reports to SDBE. The MSBE has a School Audit programme, which also checks for financial propriety. The chances of another major fraud have been sharply reduced.

The Annual Sector MTEF reports that are prepared during the first stage of budget preparation include Performance Reviews for each sector and sub-sectors within a sector. The review includes a table showing planned versus actual outputs delivered (e.g. planned and actual textbooks delivered). [17] The latest such reports cover FY 2017/18-19/20, dated September 2016, available on NT's website.

Schools also receive monies informally from, for example, parent groups. This is not classified officially as a revenue and the spending of the monies received is not budgeted for and not reported on (see PI-6).

In the case of primary health clinics, the Ministry of Public Health had at the time of the 2012 PEFA assessment no system for identifying expenditure incurred by its 3000 dispensaries, 600 Health Centres and 487 hospitals as these did not have any cost centre codes that would identify individual establishments. This issue is now academic, as the responsibilities for delivering primary health care were devolved in 2013 to the new County Governments. It is now therefore up to these Governments to check that primary and secondary health care units are receiving the resources they should be receiving.

PI 8.4 Performance evaluation of service delivery

The implementation of the performance contracts referred to under PI-8.1 is evaluated following the end of the year by independent institutions contracted by MPS. These consist of universities, consumer organisations, and professional bodies, notably KEPSA (Kenya Public Sector Organisation). The evaluators check whether planned outputs were delivered and analyse the reasons for over or under-delivery. Under-delivery is the usual situation, mainly due to shortfalls in budgetary funding, as emphasized in the Annual Public Expenditure Reviews prepared by Ministry of Devolution and Planning (the latest covers FY 2014/15).

On-going and planned activities

The National Integrated Monitoring and Evaluation System (NIMES) has been in place since 2004 and forms the basis for the monitoring and evaluating that currently takes place, as referred to above. The Ministry of Devolution and Planning published a document called 'Monitoring and Evaluation Framework for Kenya' in October 2015. It emphasized the need to strengthen the M&E Framework through the full computerization of NIMES. This has not yet happened, due to lack of funding.

Change since 2012 PEFA assessment

This is a new indicator. PI-8.3 is the same as PI-23 under the 2011 PEFA Framework. Performance has improved due to: (i) The information on services provided by primary schools has become more reliable since the Free Primary School Programme fraud due to the establishment of Boards of

16 The other two are State Department for Vocational and Technical Training and State Department for University Education.

17 The Basic Education sub-sector comprises Free Primary School, Early Childhood Development & Education, Non-Formal Education, Special Needs Education, School Feeding Programme, and Adult and Continuing Programme.

Management and a School Audit Unit in SDBE; (ii) Primary health care services have been the responsibility of county governments since FY 2013/14.

The scores for the three new dimensions would have been much the same at the time of the 2012 PEFA assessment as the systems for measuring service delivery performance were already in place.

PI-9 Public access to fiscal information

Transparency in government depends on comprehensiveness of fiscal information available to the public. The quality of information and the means by which it was made available to the public is as important as the extent of information coverage.

PI-9: Public Access to Fiscal Information	Score/Criterion B	Explanation
9.1. Public access to fiscal information (last FY)	B: *The government makes available to the public six elements, including at least four basic elements, in accordance with the specified time frames*	• 8 out of 9 elements available, including 4 out of 5 basic elements. The annual audit report (one of the basic elements) is not available until more than 12 months after end of year.

Table 3.9 discusses the elements determining public access to key fiscal information.

Table 3.9 Public access to key fiscal information

Elements of information	Criterion	Availability and means
BASIC ELEMENTS		
1. Annual Executive Budget proposal documentation: A complete set of executive budget proposal documents (as per PI-5) is available to the public within one week of the executive's submission to the legislature.	Yes	• Complete set is available in hard copy at Government Printers upon submission to Parliament; • Summary Budget Statement & Budget Policy Statement available in soft copy, but not detailed budget documents, as too bulky.
2. Enacted Budget: The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	As indicated by the dates of the Appropriations Acts.
3. In-year budget execution reports: The reports are routinely made available to the public within one month of issuance as assessed in PI-28	Yes	Through Controller of Budget (CoB)'s quarterly budget implementation reports (BIRRs). Reports are published on NT's website soon after issuance (which may be up to 45 days after the end-of-period, for reasons explained under PI-28).
4.Annual budget execution report: The report is made available to the public within six months of the year-end.	Yes	2015/16 Budget Implementation Review Report (BIRR) prepared by Controller of Budget available in mid-August 2016.

Elements of information	Criterion	Availability and means
5. Audited Annual Financial Report, incorporating or accompanied by the external auditor's report: The reports are made available to the public within twelve months of the year-end.	No	Report for FY 2014/15 available 16th July 2016, 12.5 months after the end of the FY. Report for FY 2015/16 not yet available, expected July 2017
ADDITIONAL ELEMENTS		
6. Pre-Budget Statement: The broad parameters for the executive budget proposal regarding expenditure, planned revenue and debt is made available to the public at least four months before the start of the fiscal year.	Yes	Budget Policy Statement (BPS) for FY 2017/18 available on-line to public in November 2016, 8 months before start of new FY.
7. Other external audit reports: All non-confidential reports on National Government	Yes	
8. Summary of the Budget Proposal: A clear, simple summary of the Executive's Budget Proposal or the Enacted Budget accessible to the non-budget experts, and where appropriate translated into the most commonly spoken language, is publicly available within two weeks of the Executive Budget Proposal being submitted to the legislature and within one month of the budget's approval.	Yes	The team was provided a copy of the Citizens' Guide on the 2016/17 budget, released at the time of the presentation of the budget in June 2016. It is colorfully produced (pictures, charts), but contains no information on planned revenues, expenditures and financing.
9. Macroeconomic forecasts: as assessed in PI-14.1 are available within one week of endorsement.	Yes	Contained in annual BPS

3.3 Pillar III. Management of Assets and Liabilities

PI-10 Fiscal risk reporting

The indicator measures the extent to which fiscal risks to the national government are reported. Fiscal risks could arise from adverse macroeconomic situations, financial positions or subnational governments or public corporations and contingent liabilities from government programs and activities.

PI-10 Fiscal Risk Reporting (M2-WL):	Score/Criterion D	Explanation
10.1 Monitoring of public corporations (last completed FY)	*D*: information available is not sufficient to score this dimension.* *A score of C requires that : Government receives financial reports from most (at least 75% in value)*	Office of Auditor General (OAG) annual audit reports include State Corporations (SCs) in its coverage, as defined in Section 211 of FR. The PFMA (2012) requires that all such SCs submit their annual financial reports (AFR) to the Cabinet Secretary with responsibility for SCs within 3 months of the end of the FY (Section 88 of PFMA). Some SCs comply, but many do not submit until 6-7 months after the end of the FY and some submit even later.

PI-10 Fiscal Risk Reporting (M2-WL):	Score/Criterion D	Explanation
	public corporations within nine months of the end of the fiscal year	Consolidated data are not publicly available that show the dates of receipt by GoK of annual financial reports prepared by those SCs that fall under Schedule 2 of Section 211 of the Financial Regulations (2015). Neither is there any table that consolidates the value (e.g. in terms of annual expenditure) of each SC under Schedule 2. The implementation of the FRs that provide for more rigorous and timely reporting of financial performance is still in its early stages.
10.2. Monitoring of sub-national (County) governments (last completed FY)	*D:Performance is less than required for a C score*	The OAG Report on Counties for FY 2014/15 indicated that only 2 of the 47 Counties prepared annual financial statements (AFS). All the other reports represented audits of financial operations. The reports were posted on OAG's website during August-November, 2016, more than 12 months after the end of the FY.
10.3. Contingent liabilities and other fiscal risks (last completed FY)	*D*: Insufficient information is available for scoring this dimension.*	• Explicit contingent liabilities in the form of GoK-guarantees of loans to SCs are covered under PI 10.1; • *PPP agreements:* Annex 1 of BPS 2017/18 refers to the potential contingent liabilities posed by PPP agreements. Most of these are not yet operational, but the project amounts and potential costs to GoK (e.g. cancellation costs) are known (FY 2015/16 Public Debt Management Report). he Fiscal Commitments and Contingent Liabilities Unit (FCCL) was established in NT to assess the fiscal risks posed by ge PPPs. It is not yet operational as the required risk management model has not been prepared; • Implicit contingent liabilities. Annex 1 of BPS 2017/18 also refers to risks posed by SCs experiencing financial difficulties and not covered by GoK guarantees on loans they have incurred. However, there is no analysis on the extent of risk, which could be substantial. Para. 24 of Annex 1 of BPS refers to the implicit contingent liabilities posed by public pensions under Defined Benefit schemes. The extent and possibility of such liabilities is not analysed. Paras. 35-46 of Annex 1 outlines other sources of implicit risk which are difficult to quantify.

PI 10.1 Monitoring of public corporations

Monitoring of the financial situation of public corporations (known as State Corporations (SCs) in Kenya) is necessary as they may pose significant fiscal risk to central governments. Such risk may be in the form of explicit guarantees of loans by other parties to SCs, or in the form of implicit risk due to SCs running into financial difficulties.

Annex 1 of the Budget Policy Statement for FY 2017/18 is entitled “Statement of Specific Fiscal Risks”. Subsections on explicit and implicit contingent liabilities cover SCs. As indicated under PI-13, GoK has been cautious in guaranteeing loans to SCs (explicit contingent liabilities). A study conducted a few years ago under the auspices of GPIPE Department noted that poor financial performance of SCs risked government guarantees on loans to SCs being called.

The annual Public Debt Management Report, prepared by the Public Debt Management Directorate of National Treasury, includes (Section 5) coverage of GoK-guaranteed debt (explicit guarantee). and loans to SCs via GoK ('on-lending'), which, though implicitly GoK-guaranteed, are tantamount to explicit guarantees. Table 3.10 summarises.

Table 3.10 GoK-external guaranteed debt & GoK on-lending to SCs

Ksh billions	2011/12	2012/13	2013/14	2014/15	2015/16
1. GoK-external guaranteed debt stock	47.3	43.5	45.2	43.9	60.5
2. GoK debt service on called guarantees ***1/***		1.29	1.1	1.0	1.05
3. GoK on-lent external loans		166.9	181.3	196.8	572.2
4. Including debt service arrears			181.3	233.5	609.7
5. Arrears				36.7	37.5
6. Total GoK external debt, incl. guaranteed & on-lent	764	843.6	1138.5	1423.3	1786.2
7. 5. % guar. & on-lent loans/total debt ***2/***			19.9	19.5	35.4

Source: 2015/16 & 2014/15 Public Debt Management Reports, NT.
1/ CCN, Tana and Athi River Development Authority (TARDA), Kenya Broadcasting Corporation (KBC).
2/ Excluding arrears on on-lent loans.

Line 2 of Table 3.10 indicates that GoK is absorbing the debt service obligations of three SCs to which it has guaranteed. It also faces the risk of having to pay debt service obligations of some SCs it has on-lent funds to (line 3). Line 5 indicates a large increase in 2015/16 in the ratio of explicitly guaranteed (by GoK) debt to total GoK external debt including guaranteed and on-lent debt.

Annex 1 of the Budget Policy Statement for FY 2017/18 is entitled "Statement of Specific Fiscal Risks". Subsections on explicit and implicit contingent liabilities cover SCs. As indicated under PI-13, GoK has been cautious in guaranteeing loans to SCs (explicit contingent liabilities). A study conducted a few years ago under the auspices of GPIPE Department noted, however, that poor financial performance of SCs risked government guarantees being called.

Legal and regulatory framework for the monitoring of the financial situation of SCs

Due in part to the 2012 PFMA, monitoring by GoK of State Corporations (SCs) is improving relative to the situation at the time of the 2012 PEFA assessment. Under the State Corporations Act of 2015 (updated from the previous version dated 2003) an SC is defined as a corporate body established by legislation which is 100% owned by GoK and does not come under the Companies Act (the latest version came into law in 2015). The list of such bodies covers both those with commercial operations (e.g. Nzoia Sugar Company), also known as 'parastatals,' and non-commercial SCs (e.g. National Council Children's Services).

Provisions of PFMA (2012) with regard to SCs: Sections 86-100 of PFMA (2012) cove the monitoring of SCs. Section 87 restricts GoK from investing in SCs without prior approval of Cabinet, such approval conditional upon it taking into account the recommendations of NT regarding the financial implications of such investment. The Public Investment and Public Enterprise (GPIPE) Department in NT is responsible for making such recommendations to the Cabinet Secretary for Treasury (CS/T) who, after approval, passes these on to the Cabinet Secretary with the ultimate responsibility for monitoring SCs (Section 88).

Sections 90-100 of PFMA cover the actions to be followed if SCs and County Governments start to get into financial difficulties. In this event, an SC must notify the Cabinet Secretary and Controller of the Budget. If an SC receives any funding from GoK (possible up to no more than 20% of an SC's annual receipts), then the Secretary determines whether to stop such funding, as permissible under Article 225 of the Constitution.

Provisions of the Financial Regulations (2015, under PFMA (2012) with regard to SCs: Section 27 requires that the fiscal risk statement required by the annual Budget Policy Statement should include the risks posed by State Corporations (Section 25 of PFMA (2012). Part XVI, Sections 210-221 cover monitoring requirements. . State Corporations are also denoted as national government entities, also known as 'public entities'. Section 211 divides such entities into five Schedules:

- *Schedule 1*: All State Organs, including constitutional institutions and independent bodies;
- *Schedule 2*: National Government owned enterprises operating on the basis of commercial principles and thus not requiring GoK funding;
- *Schedule 3*: National Government regulatory agencies;
- *Schedule 4:* Executive agencies, public universities and tertiary education institutions, national referral health institutions, boards and commissions, all fully or partially funded through the National Government budget;
- *Schedule 5*: National Public Funds established by the Constitution, national legislation or subsidiary national legislation (e.g. National Social Security Fund.

The Schedules themselves are supposed to be annexes to the FR, but are not. A full list of SCs appears not to be contained on any GoK website. A non-GoK website indicated about 120 SCs at the time of the 2015 State Corporations Act. This does not contain a breakdown of SCs by Schedule.

Consistency of the definition of SCs with GFS 2014: The definition of SC used by GoK is different from that stated in para. 31 of the GFS *('Corporations are defined as entities that are capable of generating a profit').* Nevertheless, the SCs that come under Schedule 2 of Section 211 of the FR (as noted above) seem to come closest to the GFS 2014 definition.

FRs 216-221 cover monitoring of SC budgets and financial performance. For example, FR 217 makes the Cabinet Secretary (Treasury) responsible for developing procedures for preparing quarterly performance monitoring reports, the procedures to be designed by NT. These were prepared in template form during FY 2015/16 by the Public Sector Accounting Standards Board (PSASB, established the year before). [18]

The Cabinet Secretary with responsibility for SCs (different from the Cabinet Secretary with responsibility for finance) is required to report to the Cabinet on the performance of SCs on the basis of his/her analysis of reports that SCs are required to prepare under the SC Act. Each report prepared by an SC should include recommendations on how it could improve its financial performance. Section 89 of the SC Act requires the Cabinet Secretary with responsibility for public investments in SCs to submit a consolidated annual report to the National Assembly via its Public Investment Committee (PIC), no later than 4 months after the end of the year on GoK's investments and financial involvement in SCs and other government-linked corporations (GoK ownership < 100%). The report should include the extent of contingent liabilities and payments on these. The report has to be submitted to the Cabinet, Controller of the Budget, CRA and OAG. According to GPIPE Department, the consolidated reports were prepared for 2015 and 2016 and submitted to

[18] (i) FR 218: Procedures for Cabinet Secretary and SCs to follow for preparing and approving SC budgets; these are unchanged from pre-PFMA (2012) procedures.
(ii) FR 219: Guidelines for SC dividends to be prepared; these have been prepared, though the team was unable to obtain a copy;
(iii) FR 220: Accounting officers of SCs prepare quarterly and annual financial and non-financial reports for the Cabinet Secretary responsible for SCs, with copies to NT and OAG. The reports should be prepared in the formats gazetted by the Cabinet Secretary (i.e. the template noted above). The annual statements should be prepared according to International Financial Reporting Standards (IFRS)/or as prescribed by PSASB. The annual financial statements prepared by SCs must be approved by their governing bodies.

Parliament by the end of October as scheduled. The team was unable to obtain copies of these.[19] However, as indicated below, it found a copy of what appears to be the latest PIC report on OAG's audit reports on the AFS of 64 SCs.

The Auditor General's reports do not cover the companies in which GoK has a shareholding of less than 100%.

The PFMA and its regulations require that the AFS of SCs be submitted to OAG for audit (as also required pre-2012 PFMA) within 3 months after the end of the FY. This is the case with about half of them, but about half submit several months late, some almost a year late. But almost all of them are submitted within 9 months. The audit reports are individually posted on OAG's website. The team examined the audit reports of SCs posted on OAG's website for FY 2013/14.20. In most cases, OAG takes only a few weeks to audit the AFS, but in some cases, this has taken several months to finalise, mainly reflecting OAG's request for resubmission of AFS due to errors in the original submitted ones.

The completed audits are tabled by NT before the Public Investment Committee (PIC) in Parliament. The PIC website shows PIC's review of the audits. The latest review shown on Parliament's website dated December 2015 is PIC's 20th review to date. It reviews the AFS of 64 SCs, the AFS covering years prior to 2015 going back several years, some as far back as 2000. The report notes many weaknesses in the financial management of these SCs and makes several recommendations. Some of the weaknesses may arise from the financial difficulties that may be caused by under-estimation of borrowing requirements caused by deficiencies in planning the implementation of capital projects (PI-11).

Notwithstanding the availability to NT and PIC of the audit reports on SCs prepared by OAG, there appears to be no consolidated report that shows the dates of submission of each SC's annual financial statements to OAG and the size of each SC in terms of value (e.g. expenditure). This situation seems to be unchanged since the 2012 PEFA assessment.[21] The FRs noted above along with the supporting templates prepared by the Public Sector Accounting Standards Board (located in NT) indicate substantial improvement in this situation. The FRs were not, however, approved until 2015 and implementation of their reporting requirements is still in their early stages.

PI 10.2 Monitoring of subnational governments

As noted under PI-7, the system of sub-national governments (SNGs) has completely changed since the 2012 PEFA assessment due to the establishment of County Governments in line with the Devolution policy. These Governments are not comparable with the much smaller and more numerous local authorities that previously defined SNGs.

County Governments became operational during FY 2012/13. The fiscal risks that they pose to GoK have been pointed out in Budget Policy Statements, and Controller of Budget Reports. Section IV of the 2017/18 BPS (County Financial Management and Division of Revenue) notes these risks. As noted in Section 4.2.3 ('Prudent Management of Fiscal Risk') the legal framework under the 2012 PFMA and its Regulations also apply to County Governments. They are required to 'disclose

[19] The team requested a copy of a monitoring report while still in the field, but did not receive it. This led the team to indicate in the first draft of the report that reports had not yet been prepared as the FR were still relatively new. In its comments on the report, GIPE Department indicated that the reports for FYs 2015 and 2016 had been prepared and submitted to Parliament. The team has been unable to unearth these, but assumes that the reports were prepared.

[20] The most recent posted; the audit reports have been prepared for FY 2014/15, but OAG does not have enough funds to post them on its website.

[21] As noted under PI-9 in the 2012 PEFA assessment, " The DGIPE in MoF is the body charged with overseeing State Corporations, but in practice its oversight seems limited. While most of the corporations submit quarterly and annual reports, DGIPE does not monitor, consolidate or analyse this information, and does not even maintain a logbook on the submission of these reports'.

specific fiscal risks with potentially significant impact on the county economic environment, and to prudently manage such risks.' The BPS emphasizes the need to make more effort to generate own-source revenues and forecast these more accurately, and to thus be able to adhere more strictly to the expenditure ceilings set out in County Fiscal Strategy Papers (equivalent to BPS at national government level).

The Statement of Specific Fiscal Risks contained in Annex 1 of the 2017/18 BPS (as required by the 2012 PFMA) includes references to the County Government fiscal situation and the risks this poses to GoK:

- Overreliance on national government transfers and thus the need to increase own source revenues;
- Over-dependence by some counties on one major own-source revenue hence exposing them to fiscal shocks;
- Overly-optimistic own-source revenue projections resulting in *'unrealistic expenditure estimates inevitably generating pending bills and causing general cash flow problems and thus increasing demand for borrowing;'*
- Expenditures that duplicate central government functions, leading to wasteful spending and thus larger financing gaps than necessary;
- Illegal borrowing by some County Governments. The 2010 Constitution allows County Governments to borrow money, subject to guarantee by the National Government. A borrowing framework to operationalize this was prepared and embedded in the Public Finance (County Governments') Regulations, 2015 (on NT website). However, some counties have borrowed from commercial banks without the requisite guarantee, thus posing potential risk to GoK;
- Absorptive capacity problems, particularly in poorer counties, leading to large unspent balances at the end of the fiscal year. Counties have significantly more discretion on selecting capital investments, relative to their counterparts in Uganda and Tanzania, but tend to be lacking the capacity to exercise such discretion.

As noted to the team by the Controller of the Budget, the fiscal risks posed by County Governments are partly a legacy issue: (i) some Counties lost revenue-generating assets during the process and most Counties did not inherit good revenue generating systems; (ii) attempts by the new County legislatures to acquire more resources for themselves at the expense of service delivery units.

Only two of the 47 County Governments prepared Annual Financial Statements for FY 2014/15. This is due to capacity constraints and the still on-going process of transferring assets and liabilities from the defunct Local Authorities to the new Counties. This process is still continuing, according to the 2017 BPS, with completion expected around mid-2017.

KENAO instead audited the financial operations of County Governments for FY 2014/15, completing its work more than a year later during August-November 2016. The reports, posted on the KENAO/OAG website, identify several internal control weaknesses in PFM systems.

PI 10.3 Contingent liabilities and other fiscal risks

This dimension excludes for consideration explicit contingent liabilities in the form of GoK guarantees of loans to SCs and County Governments, as these are covered under PIs 10.1 and 10.2.

Annex 1 of the BPS for FY 2017/18 (para. 23) refers to the fiscal risk posed by SCs with poor financial performance. Some of this may be due to debt they have incurred, but which are covered explicitly by GoK guarantees (covered under PI 10.1). But some may be performing poorly for other reasons, such as low demand and high costs. Annex 1 mentions the risk, but does not analyze the extent of this and how much could end up in financial support from GoK (i.e. implicit contingent liabilities).

Annex 1 also identified implicit contingent liabilities in the form of defined benefits (DB) pension plans, under-insurance of fixed assets, court cases, and penalties for non-compliance with statutory deductions.

Public-Private Partnerships (PPPs)

GoK is in the process of entering into several PPPs, as indicated in Annex 1 of BPS 2017/18. These potentially pose contingent liabilities for GoK, both explicit and implicit. The PPP Policy was adopted in 2011, the PPP Act of 2013 providing legislative meat to it. This was followed by the establishment of a PPP Committee, the PPP unit in GIPE Department (met by the assessment team), which reports to the Committee, and the Petition Committee (for adjudicating complaints). The latter is located in the Judiciary; so far it has reviewed one complaint.

As of August 2016, there were 64 projects in the Priority List of PPP projects, mainly in the transport infrastructure and energy areas, but also in the tourism, education, health and environmental areas (para. 27 of Annex 1 of BPS and Table 5.1 in the FY 2015/16 Public Debt Management Report). Only 2 were operational – Rift Valley Railway and student hostels. The former is more of a concessioning nature than a genuine PPP. 21 projects were at an advanced stage of planning. The values of these projects and the required termination payments by GoK (in the event of default by GoK) are shown. Termination payments are shown also for PPP projects that are not operational. Proposers of PPPs are required to follow a template (effective in 2014) that it must complete and submit to the PPP Unit; the team located this on the PPP Unit website.

The GoK fully realizes that PPPs can pose significant fiscal risk to it in the form of contingent liabilities. PPPs can be very beneficial in terms of higher cost-effectiveness than under direct loans to SCs. But, if not carefully designed and implemented, they can result in higher cost and lower quality of service and larger actual fiscal liabilities relative to using traditional operating and financing project modalities.[22] The private sector partner has incentives to minimize financial risk to itself and thereby maximize the amount of fiscal risk to the Government partner.

Accordingly, in line with Section 7 of the PPP Act, a Fiscal Commitment and Contingency Liability (FCCL) management framework was adopted by the PPP Committee in FY 2015/16. The World Bank provided some technical advice. A FCCL unit was established in the Public Debt Management Directorate. The role of the unit was to establish a risk management framework that would assess the extent of fiscal risk posed by each proposed PPP and to design ways of managing such risk.

Unfortunately, the FCCL unit is not yet operational. The consultant on the GoK side who was instrumental in establishing the FCCL unit has since become the Director of the Public Debt Management Directorate. This has no staff with the necessary technical capabilities of designing and operating a risk management model (which would be able to generate multi-annual income and

[22] PPPs were pioneered in the UK in the 1980s. Results tended to be negative at first, due to insufficient planning and experience. Eventually, the Office of Government Commerce (OGC) was established in the Treasury in order to improve the ability of the Government to negotiate more favourable agreements with private sector partners. The OGC costs money to run, which offsets to an extent the benefits generated by the PPP projects.

expenditure scenarios for each proposed PPP and to conduct sensitivity analysis). [23] The PPP unit is in the process of hiring a transactions advisor to help develop such a model[24].

Pension liabilities of SCs have escalated under the Direct Benefit method of accumulating pension benefits. The size of annual pensions is mainly based on the number of years in service and the size of earnings. The investment earnings of civil servant pension funds are supposed to be sufficient to finance the payments due to pensioners. Early retirement ages, combined with people living longer and the current era of low interest rates, may result, however, in pension funds paying out more than they are earning. This has also become a problem in some western countries, particularly in municipal governments in USA as frequently noted in the western media.

Starting in 2010, DB schemes are being phased out in favour of Defined Contribution schemes. Under these, both employers (GoK) and employees (civil servants) pay premiums into pension funds, the eventual size of pension benefits depending on the earnings of these funds. The Retirement Benefits Authority is in charge of managing the phase-out. The phase-out of pension payments under the DB scheme will not be complete until all employees under this scheme have reached retirement age.

As noted in the BPS, voluntary retirement of GoK employees, including those of SCs, is possible at age 50, ten years below the mandatory retirement age of 60. GoK has not yet quantified the potential contingent liabilities of everyone retiring voluntarily at age 50.

Other unquantified fiscal risks are those related to: environment, climate change, terrorist attack technological disaster, and the health of the banking system (the latter is analysed to some extent, for example, the strength of the GoK's deposit protection system (paras. 35-46 in Annex 1, BPS).

The IMF's Fiscal Transparency Report for Kenya (July 2016, but based on information available up to September 2014), provides good analysis of fiscal risk issues.

PIs 9 (i) and 9 (ii) in the 2011 PEFA Framework cover fiscal risk posed by public enterprises and local governments. The scores in the 2012 PEFA assessment were both C. The scoring criteria in the 2016 PEFA Framework are stated differently with a greater degree of specification, nevertheless the scores are still C. This situation should change, however, as the strengthened monitoring framework specified in PFMA and its Regulations comes into effect.

PI-11 Public investment management

Public investments are viewed as a key prerequisite to achieve and sustain economic growth, achieve strategic policy objectives, and address national service delivery needs. This indicator assesses economic appraisal, selection, costing, and monitoring of public investment projects by the government with an emphasis on the most significant projects.
This PI is new to the PEFA Framework.

[23] The team leader of this PEFA assessment, while leading a PEFA assessment in Kosovo during 2015, came across the situation of a well-designed PPP management framework, whereby private sector partners absorbed most of the risk. A USAID-financed project was instrumental in designing this favourable (to the Government) situation. A PPP unit manages PPPs under the auspices of the Kosovan Ministry of Finance.

[24] This situation was still the case at the time of the PEFA workshop held on 27th June, 2018.

PI-11 Public Investment Management (M2-AV):	Score/Criterion C+	Explanation
11.1. Economic analysis of investment projects (last completed FY)	*D*: information available is not sufficient to score this dimension.*	• The PFMA (2012) gives more weight to the procedures for assessing investment projects than the previous PFM legislation. Nevertheless, the requirements for rigorous economic analysis of proposed investment projects are not clearly stated in the relevant Treasury Circulars and GoK says it is still in the process of introducing formal project appraisal methodology; • Donor Partners are more likely to apply such analysis to the projects they finance (e.g. World Bank and AfDB). They finance about one-third of the development budget; • Data are not sufficient to score this dimension; • Development projects do not explicitly identify recurrent and capital expenditure components. The team was unable to meet the Department of External Assistance in NT, which might have been able to identify the recurrent and capital expenditure components of development projects financed by GoK and donor agencies.
11.2. Investment project selection (last completed FY)	A: Prior to their inclusion in the budget, all major investment projects are prioritized by a central entity on the basis of published standard criteria for project selection.	All MDAs are required under TC 17/2015 ('Guidelines on Capital Projects') to follow stipulated project Selection Criteria. In line with Section 36 PFMA (2012), the Cabinet is now the key central entity co-ordinating the preparation of the annual development budget, including this into the annual BPS, and submitting to Parliament as part of the overall budget.
11.3. Investment project costing (last completed FY)	C: Projections of the total capital cost of major investment projects, together with the capital costs for the forthcoming budget year, are included in the budget documents	As indicated in the narrative, the development budget shows the planned budget for next year and the following 2 years. This budget includes costs of a recurrent nature associated with the project itself, but does not necessarily include all recurrent costs that will be generated by a project. Some MDAs include such costs to a greater extent than others.
11.4. Investment project monitoring (last completed FY)	C: The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of	Monitoring takes place through: (i) the Annual Performance Reviews conducted by SWGs at the start of the budget preparation process; and (ii) the Performance Contract monitoring reports prepared quarterly by MDAs that have signed performance contracts with the Executive Office of the President. Monitoring mainly represents a tabular presentation of actual activities/outputs achieved against targets. As yet there is not a standard set of rules and procedures to be

PI-11 Public Investment Management (M2-AV):	Score/Criterion C+	Explanation
	major investment projects is prepared annually	followed when monitoring progress in investment project implementation.

PI 11.1 Economic analysis of investment proposals

There are no national guidelines for appraising project proposals. The annual Treasury Circulars issued at the beginning of the annual budget/MTEF preparation cycle include a circular specific to capital expenditure. Treasury Circular (TC) No. 17/2015 (September, 2015), is entitled 'Guidelines for Capital Projects in FY 2016/17 and subsequent Medium Term Budgets'. The 'Guidelines' are issued under Section 36 of the PFMA (2012) and apply to all MDAs. Section 36 covers the procedures to be followed in preparing budgets, including the issue of budget/MTEF preparation TCs at the beginning of each new budgetary cycle. Such procedures were not included in the previous public finance legislation.

Part 1 of Section 15 of the 'Guidelines' covers the Project Appraisal and Approval Process. Any MDA considering a new project must establish a Project Committee for the purpose (Section 4 of the Circular), the composition of which should include technical staff from the relevant departments of the MDA, as well as management representatives. New projects are to be appraised by such Project Committees. The definition of 'appraised' is not stated. The FY 2017 BPS acknowledges that rigorous project appraisal is still not carried out in Kenya and that guidelines for such appraisal are being prepared.

If the Project Committee approves a new Project, a Project Concept Note (PCN) is prepared and submitted to the relevant Sector Working Group. The template for the PCN does not include whether a feasibility analysis (cost-benefit analysis) has been carried out. Mention is made of the estimated annual project costs and economic and social benefits of each proposed project, but only over the 3 years of the MTEF. The costs and benefits of a project are likely to accrue over a much longer period.

The Guidelines (TC 2015) were incorporated into the annual budget preparation guidelines, issued through TCs. TC 14/2016 (July 2016) for preparation of the FY 2017/18-FY 2019/20 MTEF, includes a section on project expenditure along the lines of TC/2015. Section 25 stipulates that any proposed new project should be accompanied by a cost/benefit analysis, but does not prescribe any specific methodology for this. The same PCN shown in TC/2015 is attached, but does not mention the findings of cost/benefit analysis or cost-effectiveness analysis

About one-third of the development budget is financed by development partners (DPs) as indicated in the BPS for FY 2017/18 with regard to the estimated outturn for FY 2016/17. Such financing is through project/programme aid modalities, DPs use their own systems for appraising capital projects that GoK has requested them to finance (the methodology used by World Bank (WB) and African Development Bank (AfDB) are particularly well-known). The recurrent and capital expenditure proportions of such aid are not explicitly stated in GoK documentation. The Department of External Affairs in NT might have been able to provide the team with information on such proportions and on the extent that formal project appraisal methodology is used. As mentioned in Section 1, the team requested a meeting with DEA, but it was not available for a meeting prior to the team's departure from Kenya.

The Budget Summary, one of the key annual budget documents, contains a list of the key 'flagship' projects' to be financed in the coming year's budget. It does not mention the source of funding and the total cost for each project. Transport infrastructure development project allocations are by far the largest, followed by water supply development projects. The list is according to 'development' expenditure and does not differentiate between recurrent and capital expenditure, although in many cases the differences are obvious (e.g. in the case of the FY 2016/17 budget, the Standard Gauge Railway project (SGR) for which Ksh 154 billion was allocated, out of a total budget of Ksh 2275.6 billion, and 'Free Secondary Education', allocated Ksh 32 billion). The total FY 2016/17 budget was Ksh 2047 billion, the largest development project (SGR) therefore comprising 7.5% of this.

Nearly all of the projects listed in the Budget Summary for FY 2016/17 had budgets of less than Ksh 20 billion, which is about 1% of the total budget for that year. Only 5 out of 105 projects had budgets of more than 1% of the total budget and some of these projects seem to have significant recurrent expenditure components (e.g. recruitment of teachers).

PI 11.2 Investment project selection

Section 19 of TC/2015 stipulates the selection criteria to be evaluated by Project Committees established by MDAs for proposed capital/development projects, as outlined in the template in its appendix. These are:

- 19.1: Desirability in terms of consistency with MTP 2 (a detailed sub-set of Vision 2030, in which specific projects are identified) and the Jubilee Government's transformation agenda;
- 19.2: Achievability in terms of land availability, environmental impact assessment, risk assessment, financial requirements, source of financing, and absorptive capacity;
- 19.3: Sustainability in terms of medium and long-term financial viability and affordability;
- Section 18 of TC 19/2015 classifies projects into the following categories: Mega (more than Ksh 1000 billion over the 3 years of the MTEF; Large, Ksh 500 billion-Ksh 1000 billion; Medium (Ksh 100 billion-Ksh 500 billion); and Small (< Ksh 100 billion). All projects are listed under the annual Development Budget Estimates by MDA (since FY 2013/14, this is a background document for MPs, as the Programme Budget has become the official budget document to be approved by Parliament).

Sections 18 and 19 of TC 14/2016 (Budget Preparation Guidelines) circulated by the Cabinet Secretariat elaborate on the above.

Following selection of projects by Project Committees at MDA level, each MDA prepares Project Concept Notes (PCNs) for each project that it wishes to be considered for review at SWG level. The review includes review by an independent Resource Allocation Panel. The next stage of the process is review by the Budget Procedure Group of the NT. The proposed projects are further reviewed by Cabinet during a retreat. During this time (September-October) SWGs are preparing sector reports, which include the projects that have been selected. These reports are used by NT to help its preparation of the next BPS. The draft BPS is submitted to Cabinet for its review, after which revisions are made if required and the final draft BPS then submitted to Parliament for its approval.

As indicated in Section 36 of the PFMA (2012), the Cabinet plays a critical and final role in project selection. This central role has become stronger in recent years, the role of NT having become less strong (as also indicated under PI 9). The BPS for 2017/18 clearly indicates this role. Section 1.3 highlights 'Continued spending in Infrastructure to Unlock Constraints to Growth'. It is prepared by the NT, led by the Cabinet Secretary/National Treasury. Paragraphs 69-80 of the 2016/17 Budget Statement delivered to Parliament by the Cabinet Secretary/National Treasury focus on government spending on infrastructure. The Programme Budget for the State Department of

Infrastructure (Vote 1091), which comprises a section of the overall Programme Budget for FY 2017/18 indicates progress in implementing various infrastructure development projects.

PI 11.3 Investment project costing

Section 20 of TC 14/2016 stipulates that projected recurrent costs should be sufficient for service delivery and implementation of capital projects. It does not specifically require that the future recurrent costs generated following the completion of capital projects should be included in the 3 year projections of the FY 2017/18-FY 2019/MTEF. The templates in the Annex do not specifically identify such costs. Only the recurrent-type costs that are part of project costs are identified (this is why the terminology 'Development Budget' is used rather than 'Capital Budget'). It is not possible to determine whether such costs have been included in baseline projections. Only capital costs during the MTEF period are specifically identified.

The meetings with three 'large' MDAs (Education, Health, Agriculture and Infrastructure) were mainly ambivalent in their answers to questions on this issue. The Ministry of Education said that estimating the recurrent costs generated by capital costs remained problematic. Ministry of Infrastructure said, however, that future roads maintenance costs implied by committed roads construction/rehabilitation projects were explicitly calculated.

PI 11.4 Investment project monitoring

The annual Sector Reports prepared by SWGs early in the annual budget/MTEF preparation process include "Programme Performance Reviews (PPRs)". These cover progress made in implementing programmes, a sub-section covering capital projects. The reviews are mainly in physical terms (actual against targeted activities), but also include an expenditure analysis in terms of how much was actually spent versus planned spending. The PPRs are mainly based on the quarterly reports prepared by MDAs on the extent of implementation of performance contracts signed with the Executive Office of the President, as described under PI-8. This is indicated by a comparison between the PPR prepared by the Energy, Infrastructure and ICT Sector for FY2017/18-FY 2019/20), and the Performance Contract Progress Report prepared by the Ministry of Transport and Infrastructure for Q3 of FY 2015/16).

The reports do not into depth on whether the projects are being implemented efficiently and whether value-for-money is being obtained (i.e. the extent to which the actual benefits and costs match those originally estimated).

On-going and planned activities

- The 2017 BPS indicates GoK's intention to introduce standard project appraisal methodology. Guidelines are currently being prepared. Preparation is one of the structural benchmarks contained in the current programme with IMF, as also noted in the next bullet point;
- The World Bank and IMF are assisting GoK in improving Public Investment Management (PIM). The World Bank is introducing a standard integrated methodology it designed some years ago for tracking projects through the project cycle. Strengthened PIM is a structural benchmark under the IMF SBA/SCF programme. A team from the IMF-managed East AFRITAC (based in Dar-es-Salaam) was due to visit Nairobi in October 2016 in order to help NT to prepare Cabinet Guidelines for the selection, appraisal and funding of major investment projects, but this was postponed to 2017.

PI-12 Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It is new to the PEFA Framework.

PI-12 Public Asset Management ***(M2-AV)***	**Score/Criterion D+**	**Explanation**
12.1 Financial asset management (last completed FY)	C: *The government maintains a record of its holdings in major categories of financial assets.*	• GoK's financial assets are recorded in the AFS prepared by NT. These may not be completely accurate, as noted in the text of the AFS for FY 2015/16, and in OAG's report on the 2014/15 AFS; • Loans to entities by GoK are not mentioned in the AFS. In the context of loans to GoK, which in turn on-lends these, the assets should be stated as well as the liability.
12.2. Non-financial asset monitoring (last completed FY)	D: *Performance is less than required for a C score*	Appendix II of the AFS for 2015/16 contains a summary of the fixed asset registers maintained by MDAs. As also mentioned in KENAO's audit report on the 2014/15 AFS, not all MDAs maintain fixed asset registers and the accuracy of the registers that do exist is open to question. Information on location, existence, age, value and use of assets is deficient in a number of cases.
12.3. Transparency of asset disposal (last completed FY)	D: *Performance is less than required for a C score*	The PPADA (2015) provides for transparency, but in practice, minimal information is available to the public on actual asset disposal, including in the annual reports prepared by PPRA.

PI 12.1 Financial asset monitoring

Information on the financial assets of GoK is contained in AFS 2015/16 in tables 3.11, reproduced below.

Table 3.11 Year-end Stock of Financial Assets held by GoK (Ksh millions)

Financial assets	End-June FY 2015/16	End-June FY 2014/15
Bank balances	18,731	14,192
Cash balances	278	75,142
Accounts receivables 1/	13,342	71,452
TOTAL	32,351	160,786

1/ Accounts receivable, imprests & clearance accounts

The large decline in cash balances is not an actual decline, as the balance at end-June 2014/15 represents mis-recording. The explanatory narrative in the AFS indicates that a reconciliation process is underway that will lead to a prior year adjustment. The large decline in receivables is also due to erroneous recording in FY 2014/15. Item (d) under Note 8 (page 11) of 'Significant Accounting Policies' define cash and cash equivalents and accounts receivables, including imprests and advances.

The Auditor General's Report on the FY2014/15 AFS indicates that not all relevant records were available for review and that the statement of financial assets may not be accurate (e.g. land loans, development loans, rescue loans and various other un-explained items), resulting in Disclaimers of Opinion in some instances (e.g. Agricultural Settlement Fund Trustees). This could also be the case for the not yet released audited AFS for FY 2015/16.

Loans from GoK to domestic entities through on-lending arrangements appear not to be counted as financial assets. The liability (the external loan) is mentioned in the Public Debt Statements (PI 13), but the asset (the loan from GoK to a domestic entity) is not recorded.

PI 12.2 Non-financial asset monitoring

The Department of National Assets and Liabilities was established in NT in January 2017 under the Directorate of Public Investment and Portfolio Management. It is far from being fully operational. It has a staff complement of 27, but only 4 are in post, including the Director and Deputy Director. In practice, its purpose is to strengthen public fixed assets management through developing policies and regulations for strengthening fixed asset registers in MDAs. The Director provided a briefing note to the Team on 17th February, indicating what its main responsibilities would be.

The AFS for FY 2015/16 include a summary of fixed assets (Appendix 2), as measured by the values provided in the registers maintain by MDAs. The value increased to Ksh 251.8 billion in FY 2015/16 from Ksh 123.4 billion in FY 2014/15. Part of this maybe, however, due to an increase in the number of MDAs disclosing their fixed assets. As noted in the text and in KENAO's audit report on the FY 2014/15 statements, not all MDAs maintain fixed asset registers (e.g. Ministry of Mining, Ministry of Judiciary, Ministry of Environment.

Moreover, as noted in KENAO's audit report, even where fixed assets registers were maintained, it was impossible in some cases to verify the location, existence, ownership, use of and value of the assets.

The AFS continue to be prepared on a cash basis. Purchase of capital assets are therefore expensed right away. As noted in Section 4.6 of the audit report '—this implies that the Statements of Assets as at the end of each financial year do not show a complete and true and fair view of the ministry's or department's assets'.

PI 12.3 Transparency of asset disposal

Sections 163-166 of the Public Procurement and Asset Disposal Act (PPADA) of 2015 outline the procedures for disposal of fixed assets. Section 163 indicates that the Accounting Officer of an MDA shall form an Asset Disposal Committee to oversee the disposal of surplus/obsolete fixed assets. Section 164 (6) provides for the accounting officer based on the recommendations of the disposal committee to revise the reserve price to ensure expeditious disposal of assets in the event that there was no responsive bidder to the reserve price initially provided in the disposal documents. Section 165 provides for several methods of disposals over and above sale by tender.

Part XIV of the PPADA Regulations, Sections 213-239 go into more detail on the procedures for disposal. These are still in draft form. The 2005 Public Procurement and Disposal Act (PPDA) and its Regulations provided for a Disposal Committee (Section 128 of the Act, Section 92 of the Regulations), but did not establish disposal through tendering as an option.

Public information on actual asset disposal appears to be minimal. Table 3 of the 2014 Annual Report of PPOA refers to transfers to employees of five MDAs (105 items disposed with a value of Ksh 825,000. The Auditor General's report on the FY2014/15 AFS does not raise any issues (although the issues with the quality of fixed asset registers that are raised in the report, as noted above imply non-transparency in asset disposals).

PI-13 Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

PI-13: Debt Management *(M2-AV)*	**Score/Criterion B+**	**Explanation**
13.1 Recording and reporting of public debt and guarantees (current situation)	*C: Domestic and foreign debt and guaranteed debt records are updated annually. Reconciliations are performed annually. Areas where reconciliation requires additional information to be complete are acknowledged as part of documentation of records*. .	The KENAO report for FY 2015/16 had not been published at the time of this PEFA assessment. The B score provided in the first draft was conditional on the KENAO report or FY 2015/16, due in June, indicating that the reconciliation errors noted in the FY 2014/15 report had been fixed. PDMO had informed the team that this would be the case. As of October 2017, the FY 2015/16 report had not been published. The provisional B score shown in the first draft is therefore changed to C.
13.2. Approval of debt and guarantees (last completed FY)	A:*Primary legislation grants authorization to borrow, issue new debt, and issue loan guarantees on behalf of the central government to a single responsible debt management entity.* *Documented policies and procedures provide guidance to borrow, issue new debt and undertake debt-related transactions, issue loan guarantees, and monitor debt management transactions by a single debt management entity.* *Annual borrowing must be approved by the government or legislature*	• The primary legislation is the PFMA (2012), the National Government Financial Regulations (2015), and the Fiscal Management Act (2009), which contain the Fiscal Responsibility Principles. The Financial Regulations outline the procedures to be followed; • The Cabinet Secretary for Treasury has the sole overall responsibility for approving new debt and loan guarantees. The Public Debt Management Directorate in NT is the only authorised entity for managing debt; • Annual borrowing is budgeted for in the annual budgets, which must be approved by Parliament. The proposed borrowing has to be consistent with the Medium Term Debt Management Strategy (MTDS).
13.3. Debt Management Strategy (current situation with reference to next 3 FYs)	A: *A current medium-term debt management strategy covering existing and projected government debt, with a horizon of at least three years, is publicly reported.* *The strategy includes target ranges for indicators such as interest rates, refinancing, and foreign currency risks.* *Annual reporting against debt management objectives is provided to the legislature.*	• The latest MTDS, dated November 2016, covers FY 2017/18-FY 2019/20, consistent with the MTEF. The MTEF covers the same period, and is contained in the Budget Policy Statement, issued at about the same time; • Target ranges for debt sustainability indicators are included in MTDS and strategy options assessed taking into account an assessment of interest rate, refinancing and foreign currency risks; • The PDMO prepares historical annual debt reports in relation to targets. These are published by NT. The

PI-13: Debt Management *(M2-AV)*	Score/Criterion B+	Explanation
	The government's annual plan for borrowing is consistent with the approved strategy.	annual BROP, Budget Statement, and PBS documents indicate actual debt performance and explain any deviations from plans.

PI 13.1 Recording and reporting of debt and guarantees

The NT and CBK continue to manage external and domestic debt respectively. As per Sections 62-64 of the PFMA (2012) a Public Debt Management Office (PDMO) was established in 2015 under the Public Debt Management Directorate (PDMD) under the overall direction of the Cabinet Secretary. As per international practice, it has a Front Office (interface with creditors), Middle Office (preparing reports) and Back Office. The Back Office (recording and reconciliation functions) is fully operational and was effectively operating at the time of the 2012 PEFA assessment. Nearly all external debt is official public debt. GoK borrowed externally on commercial terms in 2015 through the issue of a Eurobond. Day-to-day debt trading operations and liability management is minimal at present.

As with other MDAs, PDMO's performance is affected by capacity constraints. Reputedly these constraints are more severe than in most other GoK departments due to the debt management expertise that has developed there and which is sought after by private sector financial institutions.

The 2012 PEFA assessment noted that an electronic interface between the Commonwealth Secretariat Debt Recording Management System (CSDRMS) and IFMIS was planned as part of the IFMIS Re-Engineering Strategy. Five years later, the IFMIS Office is still working on the development of an interface. Transmission of debt data to CBK is still manual. The number of players involved - DPMO, IFMIS Office, Budget Department and CBK - complicates the process of interface development. DPMO is hopeful that remaining issues will soon be resolved.

Reconciliation with creditors is monthly, quarterly, annually. PDMO still has access to the World Bank debt database. The African Development Bank (ADB) does not provide such access, but PDMO is in frequent conversation with it. Reconciliation issues with regard to other donors are addressed when and if they arise. This applies to China. The main difference between China and other donors is that the former deals directly with non-related parties to debt agreements.

PDMO prepares high quality annual debt reports, the latest of which covers FY 2015/16, and prepares monthly debt reports. The reports cover loan guarantees as well as loans.

Contrary to the practice in many countries, the stock of public debt as a disclosure in the consolidated AFS (required by IPSAS-Cash) prepared by the Accounting Services Department (ASD) is not provided, as PDMO is a separate department in NT. PDMO prepares its own statements; Loan guarantees are shown, however. The ASD expects that a full consolidated AFS will be prepared at some point.

The Auditor General's report on the FY 2014/15 AFS point to a number of data and reconciliation problems with regard to domestic public debt accounting. With regard to Vote 107 (National Treasury), the report points out the following:

1. Adverse Opinion on the Statement of Public Debt:
    a. Accounting policies not disclosed, contrary to IPSAS Cash;

b. Unexplained differences between Financial Statement balances and ledger balances with respect to debt service interest and amortization payments. These differences had not been reconciled;
c. Differences between the balance shown in statement of outstanding debt at the end of FY 2014/15 and the balance shown in the Loans Register, the latter being Ksh 60 billion lower.

2. Adverse Opinion: Statement of outstanding obligations guaranteed by GoK.
   a. The statement was not prepared according to IPSAS Cash. The statement did not include accounting policies used in its preparation and other explanatory notes;
   b. Long outstanding balances: These represent outstanding contingent liabilities (Ksh 164.1 million) related to Kenya Railways Corporation, and Cereals and Sugar Finance Corporation. Although these balances have been outstanding for a long period of time, the National Treasury has indicated that their clearance is dependent on redemption of bonds issued by Kenya Railways Corporation and completion of winding up process of the Cereals and Sugar Finance Corporation (CSFC). The balances thus remained outstanding in the books of account as at 30 June 2015. According to PDMO, a Committee is preparing a policy proposal for submission to Cabinet on how to move forward;
   c. The statement of public debt includes pre-1997 domestic debt, representing 1.4% of the total domestic debt stock at the end of FY 2015/16 (Table 2.1 in PDMO's Annual Debt Report for FY 2015/16). This represents debt that was not posted in CS-DRMIS when it came on stream in 1997. It is unlikely that records on this are reconcilable.

The score provided by the Team at the workshop held on 1st March was C, due to the issues raised above. The PDMO indicated at a subsequent meeting on 2nd March that the reconciliation issues mentioned above had mainly been fixed and that KENAO's forthcoming (July) audit report on FY 2015/16 would reflect this. he team had therefore amended the score to B, provisional on KENAO's report on FY 2016/17 demonstrating that the issues had been fixed. As of October 2017, the report had not yet been published. The earlier workshop score of C is therefore re-instated.

In its comments on the draft report, PDMO re-iterated that the reconciliation issues had been fixed and that the KENAO report on the FY 2015/16 AFS would reflect this. One reason, according to PDMO, is that the Public Accounts Committee was still reviewing the KENAO FY 2014/15 report.

PI 13.2 Approval of debt and guarantees

Sections 46-62 of the PFMA (2012) places the Cabinet Secretary for Treasury in overall charge of debt management, in place of the NT. He has the sole authority to approve loans to GoK and guarantees of loans raised by other entities. The amounts have to be within the limits set by Parliament, as reflected in the MTEF, BROP, BPS and the Fiscal Responsibility Principles (FRP) contained in the Fiscal Management Act (2009), later subsumed under the PFMA (2012) and the National Government Financial Regulations (2015), Page (vii) of the 2016 BROP (September 2016) explicitly states the FRP, compliance with which are elaborated on in Section D of the report. Sections 26 and 83-205, of FR which elaborate on the procedures to be followed for incurring debt and guaranteeing loans. Sections 194-205 are specific to the functions of PDMO, including the preparation of Medium Term Debt Management Strategies (MTDS) and annual borrowing programmes consistent with such strategies, themselves based on FRP. Included are the requirements to assess risks of issuing loan guarantees, the preparing and managing of securities issues programmes, and preparing debt management reports (the main one is the annual report).

The annual BPS includes a section on compliance with fiscal risk principles outlined in the FR, including ensuring that borrowing is conducted prudently (paras. 116-119 of the 2017 BPS). Table 2.5 under para. 119 (reproduced from the March 2016 IMF staff report) shows that recent actual debt sustainability ratios were below the thresholds stated in the FRP, and were projected to stay below these over the medium term. Section 2.8 on Deficit Financing Policy indicates that GoK would continue to restrict non-concessional borrowing to the MTDMS limits and to viable projects. It would strive to minimize foreign exchange risk exposure through diversifying currency structures.

The previous PFM Act (2004) said little about debt management, this being covered under the National Loans & Guarantee Act (2011) and the Export Loans & Credit Act (1979). All public debt related matters are now covered under the PFM Act (2012).

PI 13.3 Debt management strategy

The most recent edition of the Medium Term Debt Management Strategy (MTDS) was published by NT in November 2016 and covers FY 2017/18-FY 2019/20. This appears to be a very high quality documents. Previous MTDS were prepared in 2014, 2015, 2016 and for each of the previous 5 years.

Preparation of the MTDMS is grounded on Debt Sustainability Analyses (DSA), as described in the document. The DSA used to be conducted annually by IMF/World Bank, but is now conducted by PDMD itself in co-operation with the Macroeconomics Department. The IMF still conducts its own DSA, as shown in its Article IV Consultation Reports, but in discussion with the Macroeconomics Department and PDMD.

The main components of the most recent MTDMS are:

- Four alternative MTDMS were considered and one chosen, with reference to 3 key ratio indicators: Interest payments/GDP, revenue/GDP, and PV Debt/GDP;
- The MTDMS evaluated different types of risk in the process of selecting which of the four strategies to choose: foreign exchange, interest rate, re-financing (major, with much debt soon maturing and the terms of new debt hardening) and instrument risk (replacement of the syndicated loan of US$ 750 million by an international debt capital market issuance during 2017, which would accelerate payment in whole of the syndicated loan). Table 7 in the report shows cost and risk indicators of existing debt at the end of FY 2015/16. Table 14 shows the same indicators over the medium term for each of the four possible strategies;
- An evaluation of changes in costs and risk between the 2016 MTDMS and the 2017 MTDMS for each of the three debt sustainability indicators (tables 13-15), including sensitivity analysis (Table 21).

On-going and planned activities

The PDMO contacted a self-assessment in October 2016, using the DEMPA (Debt Management Practices Assessment) developed late in the last decade by the World Bank. This goes into more detail than the PEFA Framework. The assessment has yet to be finalized and made public, so the team was not provided access to it. This was still the case at the time of receipt of comments on the first draft of this PEFA assessment. Finalisation requires various approvals, the Cabinet Secretary giving final approval.

However, large general election related spending indicated in the draft FY 2017/18 budget has drawn some criticism from IMF. This is beyond the time scope of this assessment, as the budget had not been approved and actual spending is not yet known. The issue however raises a degree of risk of non-compliance with MDMS during FY 2017/18.

3.4 Pillar IV. Policy-Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and fiscal forecasting

A credible fiscal strategy should support the achievement of the Government's fiscal policy objectives. This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the Government's capacity to estimate the fiscal impact of potential changes in economic circumstances.

PI-14: Macroeconomic and Fiscal Forecasting *(M2* -AV)	**Score/Criterion** **A**	**Explanation**
14.1. Macroeconomic forecasts (current budget year & following 2 FYs)	A*:* The government prepares forecasts of key macroeconomic indicators, which, together with the underlying assumptions, are included in budget documentation submitted to the legislature. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have been reviewed by an entity other than the preparing entity.	• The BPS is the main budget document that contains forecasts of key macro-economic indicators and underlying assumptions, as indicated in the BPS (Table 2.7) for FY 2017/18-FY 2019/20. A forecast prepared earlier in the year is contained in the annual Budget Review and Outlook Paper (BROP); • An independent institution - Kenya Institute of Public Policy and Revenue Administration (KIPPRA)- is a member of the Macro Working Group. The Parliamentary Budge Office (PBO) is also independent of the executive branch of GoK and reviews the annual draft BPS submitted to it.
14.2. Fiscal forecasts (Current budget year and following 2 FYs)	A: *The government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and an explanation of the main differences from the forecasts made in the previous year's budget, are included in budget documentation submitted to the legislature*.	The fiscal forecasts and underlying assumptions are shown in the 2017 BPS for FY 2017/18: 1. Table 2.3 – 'Revenues & Expenditures, FYs 2013/14-2019/20'; 2. Section III of 2017 BPS: FY 2017/18 Budget and the Medium Term, explaining the revenue and expenditure projections; and 3. Table 2 in Annex 1 of the 2017/18 BPS showing forecast errors for FYs 2013/14-2016/17, accompanied by reasons for the differences.

PI-14: Macroeconomic and Fiscal Forecasting *(M2* -AV)	Score/Criterion A	Explanation
14.3. Macro-fiscal sensitivity analysis (current budget year and following 2 FYs)	B: *The government prepares, for internal use, a range of fiscal forecast scenarios based on alternative macroeconomic assumptions. The budget documents include discussion of forecast sensitivities*.	• This analysis is conducted in the first section of Annex 1 of the 2017 BPS ('Statement of Specific Fiscal Risks'), as in previous BPS'; • Table 1 shows the fiscal sensitivity to different projections of three key macro-economic variables . The analysis is in summary form and thus not in the same format as Table 2.3. referred under dim. (ii) above. Moreover, Table 1 only shows results for the first year of the projections (FY 2017/18).

PI 14.1 Macroeconomic forecasts

The Macro-Economic Department in NT has its own macro-economic forecasting model, based in part on the financial programming model pioneered by IMF during the 1950s, and still used by IMF staff to prepare financial programs for countries in need of its financial support. In broad terms it links real sector growth forecasts with balance of payments forecasts, monetary forecasts and fiscal forecasts, which are all inter-linked. For example, targets for increased foreign exchange reserve coverage of imports may require tightening of monetary policy and tightening of fiscal policy (to reduce demand for credit including lending by the banking sector to government). Any government borrowing has to take public debt sustainability factors into account.

The model itself does not project real GDP growth. The Department uses spreadsheet analysis on a sector basis to examine the realism of sector growth forecasts taking into account both supply and demand-side factors. The IMF also does this during its Article IV consultation reports, partly through discussions with Macroeconomic Department. A Computer General Equilibrium model, used in a number of countries, may be analytically more robust than the method described above, but has large data and time requirements that perhaps cannot be met.

Fiscal forecasts obviously include revenue forecasts. Macro-Economic Department indicated to the team that it leaves these up to KRA. This was confirmed through the meeting held in KRA on 20th February. KRA has an intrinsic interest in realistic accurate revenue forecasting, as underperformance can damage its image, and the image of GoK as a whole. Most revenues are based on economic base variables such as real GDP, consumption expenditure and imports. KRA therefore examines trends and correlations (e.g. projected GDP growth of 3% a year is unlikely to generate significantly higher revenue growth). Revenue forecasts may still be unduly optimistic, however, leading to expenditure cuts during the year, thus damaging the credibility of the budget (assessed under PIs 1-3).

The Macro-Department is the main member of the Macro Working Group, which includes CRA, CBK, and KIPPRA, the last mentioned being independent of GoK, but is in a position to provide timely objective advice on each draft. Final draft forecasts are submitted to the Parliamentary Budget Office (PBO), which is independent of the executive branch of Government for its review.

Table 2.7 of the annual BPS (at the time of the field visit this was the 2017/18-2019/20 BPS) contains three year forecasts of: real GDP growth, and investment and savings as a % of GDP; inflation; terms of trade; government revenues, expenditures, fiscal balance and overall public debt; and the current account on the balance of payments and international reserves coverage.

PI 14.2 Fiscal forecasts

Chapter 2 of the 2017 PBS (issued November 2016) – 'Recent Economic Developments and Medium-Term Outlook' – includes medium term fiscal forecasts for FYs 2017/18-2019/20. These are explained and tabulated in Table 2.3 – 'Revenues and Expenditures, FYs 2017/18-2019/20- and, in more aggregated terms, Table 2.7 – 'Macro-Economic Indicators Underlying the Macroeconomic Framework'. Section 2.7 ('Fiscal Policy and Outlook'), and, in more detail, the first part of Section 3 ('FY 2017/18 Budget and the Medium Term'). The projections form the basis for setting sector spending ceilings for each year of the medium term (Table 3.2 of 2017 BPS). Annex Tables 1-3 go into more detail on Section 3 (e.g. revenue, expenditure and financing composition, in Table 2).

Annex 1 of the BPS on Fiscal Risk includes a section on the accuracy of previous macro-economic and fiscal/budgetary forecasts. Table 2 in Annex 1 of the 2017/18 BPS shows historical differences between planned and actual fiscal aggregates for each of FYs 2013/14-2015/16. Reasons for the differences are provided, although they are not quite consistent with the numbers shown (e.g. domestic development expenditure continually falling short of budgeted amounts, although the table shows that it sharply exceeded budgeted amounts in FY 2015/16). Furthermore, the inclusion of the FY 2016/17 budget in the analysis confuses the picture as FY 2016/17 is not yet complete.

The PFMA (2012) requires explanation in the annual Budget Policy Statements (BPS) of the differences between forecasts for the next 3 years (particularly the 1st year) and actual outturns. In terms of macro forecasts, Annex 1 of the FY 2017/18-2019/20 BPS does this to an extent, but only for the first year of the projections.

PI 14.3 Macro-fiscal sensitivity analysis

Starting with the 2014 BPS (covering FY 2014-15/2016/17, the first section of Annex 1, 'Statement of Specific Fiscal Risks' (immediately following Section 4, different from Annex Tables at the end of the document) shows the impact on revenue, expenditure and the budget balance of macro-economic parameters turning out to be different from forecast (Table 1: 'Fiscal Sensitivity to key Macro-Economic Variables):'

- 1 percentage point reduction in real GDP growth;
- 1 percentage point increase in inflation;
- 10% depreciation in Ksh/US$ exchange rate;
- 10% increase in the value of imported goods.

If all these 'shocks' happened all at once, the impacts would be:

- An increase in revenues of Ksh 12.1 billion in FY 2017/18 relative to the original projection;
- 10% depreciation in exchange rate;
- An increase in the budget balance of Ksh 12.2 billion in FY 2017/18.

The accuracy and realism of this macro-sensitivity methodology might be open to question, but at least GoK understands the value of such analysis in terms of recognizing and evaluating such fiscal risks and taking appropriate mitigating measures.

The sensitivity analysis is in summary form only and doesn't show the detailed fiscal projection tables (dimension ii) adjusted for changes in these parameters, and only shows the impact of such changes for the first year (FY 2017/18 in this case). Nevertheless, the projections are based on the macro-economic model referred to under dimension (i). In principle, therefore, it is possible to publish the full results of the sensitivity analysis.

PI-15 Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the Government's fiscal goals. The revenue budgeting process is not free of political interferences; thus having transparent and formalized processes in place is essential to ensure accountability for the revenue collection function.

PI-15: Fiscal Strategy ***(M2*** **-AV)**	**Score/Criterion B**	**Explanation**
15.1. Fiscal Impact & Policy Proposals (current budget year & following 2 FYs)	C: *The government prepares estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.*	• The impact of changes in revenue policy is calculated for the budget year, as shown in Section 6 of the annual Budget Statement presented to Parliament; the latest at the time of the fieldwork was for FY 2016/17. These changes are automatically reflected in the MTEF for future years; • Section 4 of the Budget Statement on Sector Policies and Expenditure and Section IV of the accompanying Budget Summary show proposed expenditure allocations for each sector. The Budget Summary indicates that the proposed allocations are in addition to the allocations proposed in the FY 2013/14 budget. Expenditure allocations over the 2nd and 3rd year of the MTEF tend not to include the full recurrent costs generated by the completion of capital projects, Ministry of Infrastructure being the main exception.
15.2. Fiscal Strategy Adoption (Current budget year and following 2 FYs)	A. *The government has adopted, submitted to the legislature, and published a current fiscal strategy that includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for at least the budget year and the following two fiscal years.*	• The current fiscal strategy is represented in the 2016 Budget Policy Statement (BPS). The strategy covers FYs 2017/18- 2019/20. It includes an aggregate fiscal framework and the underlying macro-fiscal framework; • Sector strategic priorities and the service outputs required to meet these are stated in the Sector Reports prepared by SWGs. Annual sector spending ceilings are then established for each spending programme. The expected outcome of each programme is shown.
15.3. Reporting on Budget Outcomes (Last completed FY)	B: *The government has submitted to the legislature along with the annual budget a report that describes progress made*	There is no one specific comprehensive document that reports on budget outcomes relative to the objectives referred under 15.2. Nevertheless, non-consolidated information is contained in the Sector Reports (inputs to annual BPS), BPS, BROPs, Budget Statements, the Programme Performance reviews

PI-15: Fiscal Strategy *(M2 -AV)*	Score/Criterion B	Explanation
	against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set.	contained in the Programme Budgets, and the annual Public Expenditure Review prepared by Ministry of Devolution and Planning. Deviations are explained, mainly in terms of insufficient budget resources available, relative to budgeted amounts. Insufficient resources cause actual outputs to be lower than targeted, thus potentially impacting negatively on the achievement of targeted outcomes.

There is no explicit fiscal strategy document. The fiscal strategy is embedded in the budget documentation submitted to Parliament each year: BROP, BPS, Budget Statement, Budget Summary, and the Annual Programme Budget. Preparation of these documents go through an iterative process, proposals for new revenue and expenditure measures first being agreed upon in principle, followed by the estimation of the monetary amounts implied by such measures.

PI 15.1 Fiscal impact of policy proposals.

Revenue policy measures

As noted under PI-14, the KRA (which collects 90% of all GoK revenues) is mainly responsible for forecasting revenues, taking into account the direct and indirect impacts of changes in tax policy that GoK has decided upon. Annual Budget Statements (known as Budget Speeches in some countries) presented to Parliament by the Cabinet Secretary for Finance include (Section 6) a list of proposed tax measures and the amounts of revenue estimated to be collected as a result; the last Statement presented to Parliament at the time of the field visit was for FY 2016/17. The impact of a revenue policy change in the first year of the 3 year MTEF (i.e. the budget year) is automatically carried over to the next two years. As noted under PI-3, revenue outturns were lower than budgeted revenues during FYs 2013/14-15/16 by less than 10%, thus indicating a reasonable degree of accuracy in estimating the impact on revenues of revenue policy proposals.

Expenditure policy measures

PFMA requires full costing of expenditure proposals, including the future recurrent costs generated by the completion of capital investment that have been committed to. This is only partly done for the outer years of the MTEF. Budget preparation Circulars require the projections of recurrent costs that are part of capital project implementation costs, but do not specifically require the projections of recurrent costs that will be incurred in future years after the project is completed (e.g. operations and maintenance costs generated by the construction of a school). Out of the four major MDAs met by the assessment team (Education, Health, Agriculture and Infrastructure), only the last mentioned unambiguously stated that it specifically projected the roads maintenance costs that would be generated by the construction of a new road (but nevertheless received insufficient budget to cover these). Ministry of Education stated that projecting costs remained a challenge. Ministry of Agriculture and Ministry of Health were ambivalent in their answers.

Other policy measures with potential fiscal impact

The Parliamentary Budget Office (PBO) was established in FY 2011/12 under the 2010 Constitution. Now with 27 staff compared to 4 in 2012, it claims that it conducts fiscal impact analysis of new laws/rules and presents this analysis to NT. It often finds that the fiscal implications of draft laws have not been fully taken into account. The main reason is the elevated role of Parliament since the new Constitution was adopted (2010).

The PBO recommended that the team read PBO's 'The Unpacking of the Budget' and Memorandum on the Budget'. Performance under each vote is analyzed by MPs. The team looked at the first mentioned document, but this is more a compliance check-list (in terms of what was not included in the FY 2017/18 BPS, but should have been). It does not include a fiscal impact analysis, which requires the use of a specific methodology, which assesses the direct and indirect revenue and expenditure impacts over the medium term. For example, the proposed strengthening of building codes may push up construction costs and therefore house prices, but may have benefits in terms of strengthened safety and reduced medical costs caused by injuries incurred through unsafe buildings.

Nevertheless, according to Budget Department, fiscal impact analysis is conducted when adverse fiscal impact of a proposed measure is suspected. The Cabinet may appoint a Committee to look such impacts. For example, at the request of the President, it appointed a Committee to examine the fiscal impact of enforcing building regulations in the construction industry (November 2016). Another Committee was appointed to examine the costs of relocating a community due to a proposed new mineral development project.

PI 15.2 Fiscal strategy adoption

The current fiscal strategy is represented in the 2016 BPS for FYs 2017/18-2019/20. It contains the fiscal framework, based on the macro-fiscal framework (Table 2.7 of BPS), the priority being macro-economic stability. The table shows annual targets over the three year medium term for revenues, expenditures and the overall fiscal balance in terms of GDP. Table 3.2 shows sector expenditure ceilings separately for recurrent and development expenditure for each year of the medium term. Annex Table 2 on Government Fiscal Operations shows revenue (by type), expenditure (broad economic classification basis) and financing (by type) projections over the medium term.

Sector strategic priorities are outlined in the BPS, based on the MTP2. As shown in the Sector Reports prepared by Sector Working Groups (SWGs) during September-October (which form the basis for the BPS), the stated priorities are followed by numerical indications of key objectives & priorities for the FY 2017/18 budget, Medium Term Sector Ceilings for each sector, and the amounts to be allocated for each sector and sub-sector, consistent with the ceilings. Preparation follows a template that is attached to the Budget Call Circular.

Detailed information on planned programme/sub-programme outputs, key performance indicators, and the targets for the 2017/18 – 2019/20 MTEF period is contained in Annex Table 6 of the BPS (based on the Sector Reports). The expected outcome is shown for each programme resulting from the planned outputs under each sub-programme.

PI 15.3 Reporting on fiscal outcomes

There is no specific document that reports on budget outcomes relative to the objectives referred under 15.2. Information is contained in the Sector Reports prepared by SWGs that are inputs to the annual BPS, BROP, Budget Statement (Budget Speech), the Programme reviews contained under each Vote in the programme budgets submitted to Parliament, and the Annual Public Expenditure Reviews prepared by Ministry of State for Devolution and Planning.

SWG reports (inputs to BPS): Target and actual outputs and KPIs are shown by sector under each programme in tabular format for the current financial year to-date, accompanied by some narrative explanation. The reports are available on NT's website. They seem to be the most comprehensive source of information. Deviations between actual and planned performance are explained mainly in terms of financial resources received being lower than budgeted amounts. Insufficient financial resources received relative to budgeted amounts negatively impacts directly on the volume of

outputs produced relative to target. In turn, actual outcomes may be negatively impacted on relative to target.
BROPs: These review fiscal performance during the previous fiscal year. They do not review sector performance against budgets and physical targets.

BPS:2017: Sector achievements in recent years are described in Section 1 (e.g. klms of new roads constructed (output), reduction in Mombasa port clearance time due to increased number of cargo handling facilities (outcome)), though not necessarily in direct relation to the annual targets set in the previous year's BPS, as covered by 15.2 above. Section 2 assesses fiscal performance against targets on a broad economic classification basis during FY 2015/16.

Budget Statement (Budget Speech) for FY 2016/17: Most of this is forward looking, but there are some references to recent achievements (outcomes) due to government spending programmes (e.g. decline in maternal and children under 5 mortality rates due to improved maternity services):

- Programme Budget for FY 2016/17: Part C for each MDA represents a performance overview of the current year to date. The overview shows both outcomes (e.g. reduced crime prevalence) and outputs (e.g. increased police patrols). The overview covers the SAGAs that are part of the relevant sector (e.g. those that fall under the health sector). The overview would be easier to read if the outputs and outcomes were presented in tabular format as well as in text format.

Annual Public Expenditure Review, FY 2014/15: Monitoring and Evaluation Department, Ministry of Devolution and Planning: This mainly shows financial performance against budgets for the previous financial year. It therefore says little about actual against planned service delivery and outcomes achieved. The notable exception is for the health sector, which includes outcomes achieved over the last few years.

The above indicate that it should be possible to prepare an annual comprehensive and consolidated report that could report on actual versus planned outputs in physical terms as well as financial terms, and on outcomes. The information is provided for some sectors/MDA in the report noted above, but not on a comprehensive and easily readable basis.

PI-16 Medium-term perspective in expenditure budgeting

PI-16: Medium term Perspective in Expenditure Budgeting *(M2* -AV)	**Score/Criterion B+**	**Explanation**
16.1. Medium Term Expenditure Estimates (Last budget submitted to legislature)	A: *The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and program (or functional) classification*	• The PFMA (2012) formally adopted the principle of a medium term perspective to budgeting. Section 25 requires the annual preparation of a Budget Policy Statement (BPS), which includes the requirement of a medium-term Fiscal Framework; • Starting in FY 2014/15, budgets have been prepared in programme budget format. For each MDA, the proposed budgets are shown by programme and sub-programme classification, the latter according to economic classification. The budgets include projections for the two following FYs.

PI-16: Medium term Perspective in Expenditure Budgeting *(M2* -AV)	**Score/Criterion B+**	**Explanation**
16.2. Medium Term Expenditure Ceilings (Last budget submitted to legislature)	A: *Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued*	• The aggregate and MDA expenditure ceilings for the first two FYs are required by the budget circular to be initially the same as for the second and third years of the previous fiscal framework period, as shown in the previous year's approved budget.; • The first phase of budget preparation as per the budget circular covers update of the previous year's BROP and preparation of sector reports by SWGs. This culminates in the Parliament-approved BPS, which contains ceilings per programme for each MDA for the forthcoming budget year and projections for the next 2 years.
16.3. Alignment of Strategic Plans & Medium Term Budgets (Last budget submitted to legislature)	B. *Medium-term planned programmes are prepared and costed for the majority of ministries and include cost information. . . The majority of expenditure policy proposals in the approved medium-term budget estimates align with the planned sector programs.*	In the context of the programme-performance budgeting framework that has been in place on a sector basis since FY2013/14, strategic plans lack meaning. The Medium Term Plan (MTP 2) itself based on Vision 2030,) is the framework used by sectors to plan and budget for program spending. Planned outputs for each MDA within a sector are shown for each year of the 3 year planning horizon in support of achieving desired outcomes consistent with MTP 2. Each sub-programme within a programme is costed according to economic classification for each year and shows planned objectives/targets. Costing tends not to be complete as the recurrent costs generated by completed capital projects tend not to be taken into account. Full costing would have resulted in an A score, as all ministries are members of sectors and thus programme budgeting applies to all of them.
16.4. Consistency of budgets with previous year's estimates (Last medium term budget approved by legislature for completed FY & current medium term budget approved by legislature for current FY).	C: *The budget documents provide an explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.*	The PFMA (2012) and its Regulations (2015) require explanation of changes. The BPSs' provide some explanations but in general terms only, mainly based on changing macro-economic conditions rather than sector-specific conditions. Strengthening of the accuracy of revenue forecasts and expenditure estimates would strengthen the predictability of medium budgets.

PI 16.1 Medium-term expenditure estimates

Starting in FY 2014/15, budgets have been prepared in programme budget format. For each Vote (i.e. MDA), they are shown by programme and sub-programme classification, and economic classification for each sub-programme. The Estimates cover the forthcoming budget year and the following 2 FYs. The most recent (February 2017) budget presented to Parliament covers FY 2017/18, but Parliament has not yet completed its review of this. The analysis below is based on the FY 2015/16 budget.

The PFMA (2012) considerably strengthened the role of MTEFs ('Fiscal Frameworks' is the actual terminology used) in the budget preparation process in support of the 'Fiscal Responsibility Principles'. These had been introduced in the Fiscal Management Act of 2009 and then re-iterated in Section 15 of PFMA (2012). These Principles firmly enshrine the concept of a medium perspective to budgeting into PFM practices,

Section 25 of PFMA (2012) requires the preparation of a BPS, which contains the Fiscal Framework. Part III of the Financial Regulations (2015) elaborates (Sections 26-30 on the preparation of a Fiscal Strategy and Macroeconomic Framework). The 2012 PEFA assessment, which was prepared prior to the enactment of PFMA (2012), noted that an MTEF process was in place, but that in practice, a medium term perspective to budgeting was not yet in place ('C' rating for PI-12 (i), unchanged from the 2008 PEFA assessment).

PI 16.2 Medium-term expenditure ceilings

Guidelines (Budget Circular) for the preparation of the next Medium Term Budget (MTB) are issued early in the new FY (no later than 30th August, as stipulated in Section 36 of PFMA (2012)). The Guidelines for preparing the FY 2017/18-2019/20 MTB were issued in mid-July 2016 (earlier than usual due to the General Election scheduled for August 2017). Paragraph 19 stipulated that MDAs should remain within the ceilings stated for the two outer years indicated in the BPS for the previous year (covering FYs 2016/17-2018/19), after excluding any 'one-offs'. The ceilings would be firmed up later, first in the BROP (August 2016) and then in the BPS (November 2016). Annexes contained the templates for preparing the MTB and the outline for preparing Sector Reports (MDAs working together in 'Sector Working Groups' (SWGs)). Such reports would start off with Programme Performance Reviews.

In the meantime, a 'Macro Working Group' would prepare the Budget Review and Outlook Paper (BROP), which would contain an updated overall Medium Term Budget Framework (also known as Fiscal Framework), which would extend the previous Framework by a year. The Framework would contain updated projections of the overall spending ceiling, also extending these by one year, and also updated baseline sector expenditure projections. Comparison of the overall ceiling with the reports prepared by the SWGs and the updated baseline sector projections would indicate the availability of any 'fiscal space' for 'new' spending. Decisions made at subsequent inter-ministerial meetings on the allocation of such space would result in revised expenditure ceilings, as reflected in the preparation of the BPS and its submission to Parliament for review.

PI 16.3 Alignment of strategic plans and medium-term budgets

Medium term budgets are required, as stated in Budget Circulars, to be aligned with MTP 2 (2013-2017), which contains aggregated cost information per programme. The MTP 2 is a subset of Vision 2030 (the successor MTP 3 is currently being drafted).

The Ministry of Devolution and Planning (MDP) periodically issues Guidelines for Preparing Strategic Plans, which should indicate how MDAs will implement the sections of MTP 2 relevant to them. The team obtained a copy. Strategic plans are supposed to form the basis for identifying deliverables under the Performance Contracting mechanism (see PI-8). The MTEF process is supposed to be linked to them. The budgeting and monitoring of sector outputs, as contained in the

SWG reports and programme budgets (PI 15) are based on the templates shown in the Guidelines. The MDP checks if draft SPs prepared by MDAs comply with the Guidelines.

The Guidelines do not require costing of Strategic Plans. The MDAs met by the team indicated that this is difficult to do, and that, in any case, the costing comes when the plans are incorporated into the MTEF process (e.g. the first 3 years of a five year plan are already covered in the 3 year MTEF, the last 2 years being incorporated as the MTEF is rolled forward by one year each year). Moreover, provisional costing at aggregated level was already included in MTP 2.

Despite requests, the team was unable to obtain copies of sector strategic plans. They are not posted on MDA websites and they are not referred to in the Sector Reports and programme budget documentation. Under a programme budgeting framework, the concept of sector plans/strategies lacks relevance. The Sector Reports prepared by SWGs at the start of the budget preparation process are available on the NT website, and provide considerable information on what MDAs are doing in support of meeting MTP objectives and the costs of meeting these objectives, as reflected in budget documentation (National Programme Budget and BPS, both showing planned spending per programme for the next 3 years and planned outputs/targets in support of meeting program objectives). The costing process tends to understate the recurrent costs generated by completed capital projects.

PI 16.4 Consistency of budgets with previous year's estimates

Paragraphs 4 and 5 of Section 27 of the Financial Regulations (2015) specify that:

- The BPS, once approved by Parliament, serves as the basis of expenditure ceilings specified in the fiscal framework. As part of the Budget Statement presented to Parliament in June, the NT shall prepare an explanation of any deviations between the ceilings contained in the BPS and the ceilings indicated in the Budget Statement;
- The ceilings for development expenditure and personnel emoluments specified in the approved BPS will be binding for the next two FYs.

Section 29 (1) (d) of the FR indicates that the fiscal framework of the BPS should contain an analysis of the consistency of the updated fiscal strategies with previous fiscal strategies, explaining any changes

In practice, explanations of differences between forecasts of sector/MDA expenditures a year ago for year n-1 (previous BPS), and current forecasts for year n (current BPS) are not transparently explained. Explanations that are provided tend to be based on changes in macro-economic conditions rather than on sector-specific conditions. Some of the line ministries met by the team indicated that conditions tend to change a lot from year to year, making it difficult to link year n of this year's BPS with the second year of last year's MTEF.

Some NT staff met by the team indicated that the Fiscal Framework/MTEF has become more predictable than prior to the PFMA (2012) as the ceilings for the outer 2 years were now binding for development and personnel expenditure. The Appropriations Acts are still annual, however, so it is difficult to see how the specified ceilings can be legally binding.

PI-17 Budget preparation process

A well-planned, well-executed budgeting process is vital for ensuring that the budget – as a policy statement that applies relative spending levels for a variety of programs and activities – reflects the intended fiscal and sector policies of the government.

PI-17: Budget Preparation Process *(M2-AV)*	Score/Criterion A	Explanation
17.1. Budget Calendar (Last budget submitted to legislature)	A: *A clear annual budget calendar exists, is generally adhered to, and allows budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.*	The dimension is the same as in the 2012 PEFA assessment. The budget calendar is shown in the MTEF/budget preparation guidelines issued early in the year. The budget preparation process takes about 8 months. The 1st phase ends with the submission of BPS to Parliament. The 2nd phase ends with the submission of the draft Appropriations Bill and the detailed budget to Parliament. The four major MDAs visited by team had no substantial problems with the calendar The score in the 2012 PEFA assessment should have been A, indicating no change in performance since then.
17.2. Guidance on budget preparation (Last budget submitted to legislature: Feb. 13 2017)	A: *A comprehensive and clear budget circular or circulars are issued to budgetary units, covering total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the cabinet (or equivalent) prior to the circular's distribution to budgetary units.*	The dimension is the same as in the 2012 PEFA assessment, which scored A. This is still the case. The four MDAs visited by the team had no substantial problems with the budget circulars. The initial ceilings are the two outer years of the MTEF from the previous year, as approved by Cabinet/Parliament.
17.3. Budget submission to legislature (Last 3 FYs)	A: *The executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year in each of the last three years*	The draft FY 2013/14, 2014/15 and 2015/16 budgets were received by Parliament from National Treasury on 30th April for each year, exactly 2 months before the end of each FY.

PI 17.1 Budget calendar

The calendar for preparation of the FY 2017/18-2019/20 is based on Section 36 of PFMA (2012). It is contained in the 'Guidelines for Preparation of the 2017/18-2019/20 Medium Term Budget' issued under Treasury Circular No. 14/2016, dated 13 July 2016 (earlier than usual, as noted under PI 16, due to the general election scheduled for August 2017). It is little changed from the calendar at the time of the 2012 PEFA assessment, the main differences being the replacement of the Budget Outlook Paper by BROP and the Budget Strategy Paper by BPS; the new terms are based on the PFMA (2012), but the contents are broadly the same.

The calendar contains the following broadly-defined phases;

1. 1st phase (strategic) ending with the submission of the BPS to Parliament by 10 November 2016 (would be mid-February for a non-election year). The sub-phases are:

a. Programme Performance and Strategic Reviews by Sector Working Groups (SWGs);
b. Development of Medium Term Budget Framework by Macro Working Group, resulting in submission of BROP to Parliament by 9th September;
c. Preparation of MTEF proposals by SWGs, resulting in submission of Sector Reports to NT by 14th October and approval by Permanent/Cabinet Secretaries by 18th October;
d. Preparation of BPS and submission to Parliament, along with Division of Revenue Bill, County Allocation of Revenue Bill by 10th November.

2. 2nd phase (detailed budget estimation), ending with submission of FY 2017/18 Appropriations Bill to Parliament by 15th March, Budget Statement (Budget Speech by Cabinet Secretary for Treasury) by 17th March and approval of the Appropriations Bill by 31st March (earlier than usual because of the General Election in August).
   a. The whole process takes 8-9 months. The four major MDAs met by the team indicated that the time was sufficient;
   b. The 2012 PEFA assessment scored this dimension as B. The calendar was similar to the calendar for FY 2017/18, but it seems that the score only took the detailed estimation phase into account

The score of A is unchanged from PI-11 (i) in the 2012 PEFA assessment.

PI 17.2 Guidance on budget preparation

The Guidelines referred to above are clear. They contain templates for projecting outputs in physical terms for the next 3 years on a sub-programme basis and on an economic classification basis under each programme. As noted under PI 16, the starting point is the second two years of the previous MTEF (para. 19), as approved by Parliament, and are therefore baseline estimates (projections of spending under current policies).

Inclusion of new spending including through new Capital Projects (as discussed under PI-11), is permitted, if justified, under para. 11 of the Guidelines, as long as this is submitted and approved by NT by 15th August, 2016. Given the ceilings, inclusion is only possible if fiscal space is available (determined through the BROP process) or through removal of another programme/sub-programme.

The score of A is unchanged from PI-11 (ii) in the 2012 PEFA assessment.

PI 17.3 Budget submission to the legislature

This indicator is the same as PI-27 (iii) under the 2011 PEFA Framework.

Article 221 of the 2010 Constitution stipulates that the Cabinet Secretary responsible for finance should submit the draft budget estimates for the next FY at least 2 months before the end of the current FY. This provision is reflected in Section xx of the PFMA (2012).

According to the Parliamentary Budget Office, the draft programme budgets for FYs 2013/14-2015/16 were received by Parliament from the National Treasury on 30th April for each of the 3 years. This represents 2 months before the end of the FY, thus meeting the requirements of the PFMA (2012).

The score of A is unchanged from PI-27 (iii) in the 2012 assessment.

Note on meaningfulness of scores

An ‘A’ rating does not necessarily imply that approved budgets are completely consistent with policy objectives and cost efficiency. All the budget preparation procedures may be closely followed, but in a way that builds in inefficiency and ineffectiveness. Periodic spending reviews outside the budget cycle are conducted in some countries (e.g. UK) in order to identify and weed out inefficient and ineffective spending.

PI-18 Legislative scrutiny of budgets

The power to give the government authority to spend rests with the legislature and is exercised through the passing of the General Appropriations Act. If the legislature does not rigorously examine and debate the law, the power is not being effectively exercised and will undermine the accountability of the government to the electorate. This indicator considers the extent to which the legislature scrutinizes, debates, and approves the annual budget.

PI-18: Legislative Scrutiny of Budgets *(M1* – WL)	**Score/Criterion B+**	**Explanation**
18.1. Scope of Budget Scrutiny (Last completed FY)	A:. *The legislature's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue*.	• The dimension is the same as in the 2012 PEFA assessment, which scored A. The BROP and BPS reviewed by Parliament are broadly the same as at the time of the 2012 PEFA assessment, the main differences being in the names; • Programme budgets rather than line item budgets started to be reviewed in FY 2013/14.
18.2. Legislative Procedures for Budget Scrutiny (Last completed FY)	A: *The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation. They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.*	The 2010 Constitution (section 124) and Standing Orders (January 2013: 190, 198. 207, 247, 248, 252-255) provide for the procedures for review of the BPS and the draft budget, including public access to documents, records and meetings of the Budget and Appropriations Committee (BAC) on the BPS and draft budget. The procedures are little changed from the 2008 SO. The Parliamentary Budget Office provides an impartial review of the annual BPS.
18.3. Timing of Budget Approval (Last 3 completed FYs)	A: *The legislature has approved the annual budget before the start of* the *year in each of the last three fiscal years*	The dimension is the same as for PI-11 (iii) under the 2011 PEFA Framework. This scored D in the 2012 PEFA assessment. *Performance improved:* The Appropriations Bills for FYs 2013/14-2015/16 were approved by Parliament on 26th June 2014, 23rd of June 2015 and 23rd June 2016 respectively, all before the end of the FY (30th June). The improvement is

PI-18: Legislative Scrutiny of Budgets *(M1* – WL)	Score/Criterion B+	Explanation
		due to the requirements of the PFMA (2012).
18.4. Rules for Budget Adjustment by the Executive (*last completed FY: 2015/16)*	*B: Clear rules exist for in-year budget adjustments by the executive, and are adhered to in **most** instances. Extensive administrative reallocations may be permitted*	The PFMA (2012) clearly indicate the rules for budget adjustments by the executive. 1-2 annual Supplementary Appropriations Acts approve adjustments of spending programmes per MDA. The rules are followed, but the number of adjustments is large.

PI 18.1 Scope of budget scrutiny

As noted under PI-17 i), Parliament reviews the BROP, BPS and the draft programme budget at different parts of the budget cycle, starting off with BROP. The BROP and BPS are broadly the same in terms of content and structure as for the Budget Outlook Paper and the Budget Strategy Paper that they replaced in FY 2013/14. The draft programme budget replaced the line item budgets in FY 2013/14 as the basis of the annual Appropriations Act. The line item budget documents (for each MDA and according to recurrent and development expenditure separately) continue, however, to be submitted to Parliament to assist MPs in their review of the draft programme budget. Parliament also reviews the Division of Revenue (DoR) Bill concerning the vertical division of revenue between the National Government and the counties, and the County Allocation of Revenue (CAR), concerning the allocation of transfers from the National Government (the vertical division) between the Counties, as described under PI-7.

Supporting Parliament's review of the BPS and the draft budget are the 'Budget Summary and Supporting Information' and the 'Budget Statement'. The former is submitted to Parliament in April (April 28, 2016 for the FY 2016/17 budget) following the submission of the BPS. The principal contents are: (i) 'Policy Framework for FY 2016/17 and the Medium Term', basically a summary of the BPS; (ii) 'Measures taken by the National Government to implement recommendations made by the National Assembly with respect to the budget for the previous year or years'; (iii) 'Highlights of the FY 2016/17 Budget'; (iv) 'Adherence to Fiscal Responsibility Principles'; (v) 'Memorandum by the Cabinet Secretary to the National Treasury on the resolutions adopted by the National Assembly on the 2016 Budget Policy Statement. The latter is the speech to the National Assembly made by the Cabinet Secretary on the main components of the draft budget for FY 2016/17, dated June 7, 2016'.

PI 18.2 Legislative procedures for budget scrutiny

Procedures are based on Section 124 of Chapter 8 (on the Legislature) of the 2010 Constitution. Section 124 stipulates that each House of Parliament may establish committees and make Standing Orders (SOs) for " the orderly conduct of its procedures, including for the proceedings of its committees. " These govern legislative procedures, including those for budget scrutiny, the Committee for which is the Budget and Appropriations Committee (BAC), covered by Section 207 of the SO. The SO go into considerable procedural detail, exceeding 200 pages in length. The current SO were adopted on January 7th, 2013, superseding the previous SO that were adopted on December 10th, 2008. The procedures regarding budget scrutiny seem to be little changed, one change being the renaming of the Budget Committee to BAC (referred to in section 190 of the previous SO).

Section 190 of the SO require that minutes be made for Committee meetings and tabled before the House along with the reports prepared by the Committee, and may be published, subject to SO 247 (on Custody of Journals and Records) under Part XXV on 'Journals, Records and Broadcast of Meetings'. SO 247 (1) requires that the custody of journals and records shall be vested with the Clerk of the Assembly who is required to allow public access to them. Section 198 provides for public access to Select Committee meetings (which includes BAC), unless the Speaker decides to not allow such access. Section 248 requires that verbatim transcripts of all meetings of the House be published within 48 hours of the meetings (known as Hansard reports in the British parliamentary tradition). These are posted routinely every few days on the Parliament's website, as checked by the team (www.parliament.go.ke), going back to April 2013. Part XXVII of the SO provides for public access (including private sector media companies) to the House and its Committees (Sections 252-255); section 253 provides for a member of a Committee requesting exclusion of a specified member of the public from a Committee meeting. The provisions of the SO for the above are unchanged from the 2008 SO.

This dimension was discussed with the head of the Parliamentary Budget Office (PBO) during its meeting with the team. The PBO indicated that the SOs were to be changed in June 2017 mainly in relation to minor procedural issues. Concerning the extent that the procedures laid down in the SOs are observed, the PBO indicated that they generally are, MPs being determined to 'go by the book'. It developed a compliance check-list during FY 2015/16, compliance being measured on a scale of 1 to 10.

The PBO itself analyzes the draft budget and provides feedback to the Parliament. It is a non-partisan professional office of the Parliament, its primary function being to provide professional advice and objective analysis with respect to the budget, finance and the economy (in accordance with Section 210 of the PFMA (2012). Its analysis of the draft budget is contained in its "Unpacking the Budget Policy Statement", the last one being for the 2017/18 budget, issued in November 2016 (40 pages long), available on the internet. In previous years it was known as the 'Budget Watch'; the first edition was in FY 2008/09.

PI 18.3 Timing of budget approval

The PFMA (2012) made it obligatory for annual Appropriations Bills to be approved by Parliament no later than 30th June of the respective year. In compliance with the Act, the Bills for FY 2013/14-FY 2015/16 were all approved on time.

The score is much improved from the D score of PI-11(iii) in the 2012 assessment. The Appropriations Bills for the previous 3 years were approved 3-5 months after the end of the FY.

PI-18.4 Rules for budget adjustments by the executive

Reallocations within MDA approved budgets

Section 43 of the PFMA (2012) permits Accounting Officers of MDAs to reallocate budgetary funds within their authorized use (as per the approved budget) without requiring prior NT approval, subject to restrictions: (i) no transfer to another entity or person; (ii) no reallocation of capital expenditure items except to defray other capital expenditure items; (iii) no reallocation of wage to non-wage expenditure, and (iv) transfers that may result in the contravention of fiscal responsibility principles. Reallocations between programmes/sub-votes are allowed, subject to NT approval if: (i) budgeted provisions are unlikely to be utilized; (ii) reallocations do not exceed 10% of the approved budget for such programmes/sub-votes. A further condition stipulated in Section 48 of the Financial Regulations (2015) is that reallocation is in accordance with donor conditions if such re-allocation impacts on donor-funded expenditure.

Supplementary budgets
Article 223 of the 2010 Constitution specifies that the national government may spend money that has not been appropriated if:

- The money appropriated is not sufficient to meet the original purpose of the expenditure or if a new need has arisen for which no appropriation had been provided; or
- Money has been withdrawn under the Contingencies Fund, provided for under Article 208 of the Constitution; advances can be made from the Fund to fund urgent and unforeseen expenditures. Sections 19-23 of PFMA (2012) operationalize Article 208.

Article 223 places a limit of 10% of the approved budget that can be spent under the two circumstances mentioned above. Section 44 of PFMA (2012) and Section 40 of the Financial Regulations (2015) elaborate on Article 223. According to the latter, the 10% limit applies to the approved budget of any programme or Sub-Vote, unless justified by 'urgent and unforeseen' expenditure. Prior approval of the NT is required, and, if given, the approval of the Cabinet Secretary for the Treasury is then required. If given, the Accounting Officers of MDAs requesting increases/decreases in programme/sub-vote budgets are notified accordingly.

In both circumstances, the approval of Parliament should be sought through a Supplementary Appropriations Act within two months after the initial spending of the money. Unlike the situation in many countries, Article 223 provides for spending of funds under the first circumstance outside the original approved budget prior to parliamentary approval through a Supplementary Appropriations Act (as noted in the 2012 PEFA assessment).

The Parliament approved Supplementary Appropriations Bills for FYs 2013/14, 2014/15 and FY 2015/16 on 2nd April 2014, 6th May, 2015, and 29th April 2016 (as recorded in the Government Gazette):

- The FY 2013/14 Supplementary Appropriations Act increased the expenditure of several votes/programmes by Ksh 74.6 billion and decreased expenditure of several votes/programs by Ksh 9 billion. Spending financed by AiA decreased by Ksh 4.6 billion (net). The total adjustments of Ksh 88.2 billion represented 8.4% of the original approved budget;
- The FY 2014/15 Supplementary Appropriations Act increased total expenditure by Ksh 50.5 billion, spread over 42 recurrent and development budgets. The amount was 3.2% of the original approved budget;
- The FY 2015/16 Supplementary Appropriations Act increased spending by Ksh 35.7 billion for programmes under several votes, but decreased spending by Ksh 72.5 billion under several votes. In addition, spending increased by Ksh 14.2 billion, financed by AiA. The total adjustments of Ksh 122.4 billion represented 6.1% of the original approved budget of Ksh 2000 billion;
- A second Supplementary Appropriations Bill for FY 2015/16 was approved by Parliament on 30th June 2016. According to the Budget Department, this regularized spending financed by advances under the Contingencies Fund, the constitutional and legal basis of which was noted above.

The first Supplementary Appropriations Act for FY 2016/17 was approved by Parliament on 25th February 2017. Recurrent expenditure was increased by Ksh 61.7 billion and Development expenditure was decreased by Ksh 60.7 billion. The total adjustments (about 350 programmes adjusted) of Ksh 122.4 billion represent 6.1% of the budget of Ksh 2000.6 billion (the table of adjustments are shown in both positive and negative terms, so the total is higher than 6.1% of total budgeted expenditure, but unlikely to be higher than 10%).

The narrative accompanying the tables of adjustments indicate that problems in budget execution are the main reasons for the adjustments.

3.5 Pillar V. Predictability and Control in Budget Execution

PI-19 Revenue administration

PI-19: Revenue Administration M2-AV	Score/Criterion D+	Explanation
19.1. Rights and Obligations for revenue measures (at time of assessment)	C. *Entities collecting the **majority** of revenues provide payers with access to information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures*	This dimension combines the three dimensions under PI-13 under the 2011 PEFA Framework. This scored B+, but should have been lower. • KRA collected about 95% of GoK domestic annual revenues on average during FY2013/14-FY 2015/16 (Table 10 under PI-3). Apart from being responsible for collecting revenues that fall under the various tax acts, it also collects some non-tax revenues that fall under the responsibility of certain MDAs; • KRA website contains up-to-date tax guides (e.g. Employers Guide to Pay As You Earn, revised 2017). KRA continues to operate a comprehensive taxpayer education system, as indicated on KRA's website and information provided by KRA to the team. ITax was in the early stages of being introduced at the time of the 2012 assessment. Most of its modules are now operational, making it easier for taxpayers to obtain information and submit returns. The large increase in the use of mobile phones with internet access has also had a large positive impact; • The 2015 Tax Procedures Act (TPA) provides for harmonised procedures, thus also facilitating access to information on all tax types; • Part VIII of TPA (sections 49-57) covers the procedures for objecting to KRA decisions on amounts of tax liable, including the right to appeal KRA decisions on taxpayer objections to the independent Tax Appeal Administration Tribunal (TAT) established under its own Act in 2013. It appears not to be fully functioning yet. Many appeals go to higher court levels, when they could be resolved more efficiently through a functional TAT; • The performance of the appeals mechanism causes the score to be C, rather than A.

PI-19: Revenue Administration M2-AV	Score/Criterion D+	Explanation
19.2. Revenue risk management (Time of assessment))	*C: Entities collecting the **majority** of revenues use approaches that are partly structured and systematic for assessing and prioritizing complianceriksfor **some** revenue streams D.*	Strengthening of revenue risk management is still an on-going process. KRA collects 95% of GoK revenues. • *Domestic Tax Department* has a Compliance Risk Management strategic plan and a Risk Management Framework in place under the direction of a new Corporate Risk Management Dept. The preparation of a robust risk register, as required by the strategy, is on-going. The Offices (LTO, MTO, RACs) responsible for collecting the main taxes (VAT, PAYE) assess compliance risks in a less structured way; • *Customs & Border Control Department,* which collects import duties*,* has a Risk Management Unit and has taken steps to identify and control risks through its Post Clearance Audit process. It is in the process of replacing its largely manual control system by a fully automated electronic system (Integrated Customs Management System).
19.3. Revenue audit & investigation (Last completed FY)	*C: Entities collecting the **majority** of government revenue undertake audits and fraud investigations using a compliance improvement plan and complete the **majority** of planned audits and investigations.*	• KRA collects 95% of GoK revenues. Although not yet specified in detail, the 6th Corporate Plan, the Compliance Risk Management Strategy and the 'KRA Risk Management and Policy and Framework' comprise the basics of a compliance improvement plan; • As noted under 19.2, implementation is still in its early stages. Nevertheless, lowering the risk of non-compliance is the focus of planned audits and fraud investigations. Audit units in LTO, MTO and the 8 Regional Audit Centres separately plan and implement their annual audit plans, the Audit Unit in the Policy Division of DTD providing policy direction and guidance. The focus is increasingly on risk, as indicated under PI 19.2. They are not necessarily all completed as the audit module in iTax has only recently been fully functional, following the migration of data from the Legacy system. The de-centralised nature of the tax audit system complicates the collation of information on planned and actual audit activities; A Post Clearance Audit function (PCA) in CBC has been established and is partly effective. Its audits cannot be planned in advance. The planned establishment of the

PI-19: Revenue Administration M2-AV	Score/Criterion D+	Explanation
		'Integrated Customs Management System' (ICMS) in place of the less automated SIMBA should strengthen effectiveness of PCA.
19.4. Revenue arrears monitoring (last completed FY)	D: *Performance is less than required for a C score. This requires that debts older than 1 year should be less than 75% of total revenue arrears.*	• The stock of tax and customs debts at the end of FY 2015/16 was Ksh 206 billion, 17% of total revenue collection.. 46% represents interest and penalties. 86% of debt is older than a year, mostly recorded in the Legacy system.

Note
A tax administration assessment was conducted by a team of 7 in November 2016 using the Tax Administration Diagnostics Tool (TADAT) developed by IMF a few years ago. This PEFA assessment was conducted by only 2 people and was covering all aspects of PFM, so the amount of time that could be allocated to PIs 19 and 20 was very limited, given the overall shortage of man days provided for the PEFA as a whole (as elaborated on in Section 2)[25]. The TADAT goes into far more detail on domestic tax administration than the PEFA Framework. The team saw a copy during its field visit, but it had not yet been officially approved by GoK (this was the case at the time of the preparation of the first draft of this report, and is still the case in November 2017; approval would enable posting the report on IMF's website), and therefore the team is not allowed to incorporate its detailed findings into the assessment below. [26]

The TADAT assesses, using a scoring methodology similar to that of PEFA, nine Performance Outcome Areas (POAs) through 28 performance indicators (PIs). There is no 1-1 match between the scoring criteria for these POAs and the 9 dimensions under PEFA PIs 19-20.

Scores are low (C, D) under TADAT in the following areas, bearing in mind that these scores may not be the final ones. A score of D, unlike in the PEFA Framework, means both low performance and lack of the data necessary for scoring. Under the 2016 :PEFA Framework, the latter is denoted by D*.

- POA 1: Integrity of the Registered Taxpayer Base (2 PIs). The score is low for one of the PIs (The accuracy of the taxpayer database is questioned). This is partly due to the still on-going migration of data from the Legacy IT system to the new iTax system, which was adopted in FY 2014/15. Data accuracy is also an issue under other POAs (e.g. POA 4);
- POA 2: Effective Risk Management (4 PIs). The scores are low, which are also the case under PI-19.2 below;
- POA 3: Voluntary Compliance (3 PIs): The scores are low for 2 of the PIs (e.g. the information available to taxpayers is not always current, contrary to the findings of PEFA PI-19 1);
- POA 4: Timely filing of Tax Declarations (2 PIs): Electronic filing of taxes is compulsory, which is good (high score), but the data provided for on-time filing have weaknesses;
- POA 5: Timely Payment of Taxes (4 PIs): Timeliness of payments (PI-14) and data on stock and flow of arrears (PI-15) score low. The first is scored low due to lack of reliable data (due partly to the on-going migration of tax records to ITax. The second is consistent with PI 19.4 below;
- POA 6: Accurate Reporting in Declarations (3 PIs). All score low. The low score for PI-16 on the accuracy of reporting is partly attributed to the decentralization of the tax audit function to KRA county offices (in addition to the tax audit systems in LTO and MTO being independent of each other. The report says that this practice hinders cross-checking, but KRA considers that this has been a good thing (discussed under PI-19.3 below);

[25] One of the 4 members of the 2012 PEFA assessment team spent most of his time entirely on the three revenue administration indicators PIs 13-15.

[26] The Team Leader was informed at the PEFA workshop held on 27th June, 2018 that the TADAT report has since been published.

- POA 7: Effective Tax Dispute Resolution (3 PIs). All score low. Performance in this area also affects the score under PI-19.1;
- POA 8: Efficient Revenue Management (3 PIs): All score low. PI 23 on the adequacy of the tax revenue accounting system is directly comparable to PEFA PI-15.3;
- POA 9: Accountability and Transparency (4 PIs): Not directly covered by this PEFA assessment. 2 PIs score low.

The team's assessment is broadly consistent with the TADAT report and covers customs administration, which the TADAT report does not. Nevertheless, the team considers that the TADAT report should be considered as the principal assessment of tax administration in Kenya, once it becomes publicly available.

Background

The coverage of this indicator is wider than under the 2012 PEFA assessment, as revenues of MDAs are included in addition to those of KRA. Their revenues comprise about 5% of total domestic revenues. These are mainly in the form of fees and charges, the framework and management for which is clear, as defined in legislation. Fees and charges are paid up-front, so compliance risk is not a significant issue. Some of these revenues are collected by KRA on behalf of the MDAs[27]. Assessment of this PI therefore focuses on KRA.

The dimensions are specified differently to those under the 2011 PEFA Framework and the scoring criteria are more rigorously defined, thus limiting comparability of scores between the two assessments.

- Dimension 19.1 effectively combines the three dimensions of PI-13 under the 2011 Framework: (i) Clarity and Comprehensive of Tax Liabilities; (ii) Taxpayer Information on Tax Liabilities and Administrative Procedures; and (iii) Existence and Functioning of a Tax Appeals Mechanism. The scores were B, A, B and overall B+. The score for (iii) appears to have been too high;
- Dimension 19.2 is new;
- Dimension 19.3 bears some resemblance to PI-14 (iii) under the 2011 Framework (Planning and Monitoring of Audit and Fraud Investigation Programmes), but is more rigorously defined. The score was B, but probably should have been C. Comparability is problematic as the scoring criteria are specified differently.
- Dimension 19.4. is similar to PI-15 (i) under the 2011 PEFA Framework. The score was D in the 2012 PEFA assessment. 50% of tax arrears consisted of interest and penalties. Collection of corporate income tax due was a particular problem. Information on arrears of VAT and PAYE was available on ITAS (Legacy system), but not for other types of tax arrears. Tax debt management would be part of iTax in the near future under the framework of Phase II of the implementation of iTax.

On-going and planned activities at the time of the 2012 PEFA assessment were:

- A VAT bill was being discussed in Parliament. One issue was that VAT refunds had to be budgeted for, rather than being automatic as long as procedures were correctly followed; refunds were being paid with long delays. An Income Tax Bill and Excise Tax Bill were being prepared;
- KRA was planning to draft a tax procedures bill that would harmonise and simplify all the administrative procedures concerning objections and appeals. In order to streamline the appeals process, KRA had prepared a draft Tax Appeals Tribunal Bill; taxpayers would have only one institution to go to for issues concerning all types of taxes;

[27] Sugar Development Levy under the Sugar Act; Petroleum Development Fund Act; and the Merchant Shipping Act. The Railway Development Levy introduced in 2013 has since been transferred to KRA.

- For customs duties, the web-based customs information system, Simba (2005), and subsidiary systems were being used to streamline collection, in terms of both speed and accuracy.[28] Simba was facilitating self- assessment and enabling Post Clearance Audit (PCA);
- At the time of the 2012 PEFA assessment, KRA's administrative structure comprised four tax collection departments (Domestic Tax, Customs Services, Roads Transport and Investigations and Enforcement) and seven service departments, including internal audit and ICT. It had five Regional Offices. A Large Taxpayers Office (LTO) was established in 2010. A Medium Tax Office and Small Tax Office were established later.

The KRA prepares three year corporate plans, each plan reviewing performance under the previous plan. As indicated below, the current 6th Corporate Plan covers FYs 2015/16-2017/18. It prepares cumulative monthly and quarterly revenue performance reports, which are forwarded to the National Treasury, It does not prepare an Annual Report which assesses progress in implementing the planned revenue enhancing measures contained in its Corporate Plan.

At its meeting with the assessment team KRA provided a detailed response to the information requests submitted to it earlier.

PI 19.1 Rights and obligations for revenue measures

Legislative developments since 2012 PEFA assessment:

Since the 2012 PEFA assessment, the following tax laws have come into force, some updating previous laws, others being new laws. Both types strengthen the legal basis for revenue administration. All tax laws are publicly available, via GoK's website and Parliament's website:

1. *Updated Income Tax Act (September 2014) and VAT Act (2013).* The main purpose of the latter was to simplify VAT administration, thereby reducing compliance costs and the burden of VAT refunds. Simplification was through drastically reducing the numbers of exempt and zero-related items; the number of fully exempt goods fell to 39 from 400, and the number of zero-rated goods and services fell to 22 from 322.

7. *Excise Tax Act, 2015*, which puts excise duties under its own law, separating it from the Customs and Excise Duty Act; and Capital Gains Tax, 2016;

8. *Tax Procedures Act (December 2015*) which acts as a handbook for all tax payers who benefit from a single source of information on procedures for all taxes, and therefore represents an improvement for the taxpayer.
   Section VIII of this covers Tax Decisions, Objections and Appeals. The first stage covers objections by tax payers to decisions of KRA on the tax liabilities of tax payers. The decisions are based mainly on the findings of tax audits. The objection must be filed with the Commissioner General (CG) within 30 days. The CG has up to 60 days to provide a judgement. Some cases are posted on KRA's website.

2. A statement made by the CG later in FY 2015/16 provided for an Alternative Disputes Resolutions (ADR) to facilitate resolution of disputes, thus improving cost effectiveness of the complaints/appeals process. The ADR had been proposed in the 6th Corporate Plan. The ADR

[28] These subsidiary systems, as noted under PI 14 (i) of the 2012 PEFA assessment, were and still are being used to streamline collection, in terms of both speed, accuracy, verification and detection: Cargo Management Information System (CAMIS), Customs Oil Stocks Information System (COSIS), Electronic Cargo Tracking System, RADDEx (for exchange of customs data within the East African Community (EAC)), and Cargo X-ray scanners. The web-based Simba, established in 2005, was facilitating self-assessment and enabling post clearance audit. Tax payers were being served 24 hours per day anywhere in the world through the Document Processing Centre (DPC). Entries were being are processed within 24 hours of being lodged.

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mechanism is independent of the department from which the audit originated. The mechanism also applies to cases that have already gone to Court level, but where the parties would prefer an out-of- court settlement.

The same statement also expressed the need to strengthen the public perception of the tax audit process as being fair and transparent. Auditees would be better informed in advance of the scope of the audit and the information requirements. Audit processes would be centralized through the establishment of Regional Audit Centres (RACs) at the five main Regional Offices the other offices focusing mainly on taxpayer support activities.

The RACs have been established, but they are only just becoming fully effective as the tax audit module only recently reached full functionality under iTax, as noted in 19.3 below. It is too early, therefore, to judge whether the transparency and effectiveness of the objections/appeals process has improved significantly.

As discussed below, the second to fourth sequential stages of the appeals process are at a higher and independent level of the complaints/appeals process: appeal to the Tax Appeals Tribunal, appeal to the High Court, and appeal to the Court of Appeal.

9. *Tax Appeals Tribunal Act (November 2013)*: This brings all tax appeals procedures under one law, rather than being split between the Income, VAT and Excise Acts. An [29]article prepared by Taxwise Africa Consulting considered the Act was an improvement on the previous situation, as Tribunal members were required to have specific relevant experience, whereas this was not previously the case. Another improvement was that the Tribunal could award costs, in contrast to the previous situation.

   In contrast, several cases appear to go to court level, as indicated by several cases being posted on KRA's website. The cases were brought to the courts between 2012 and 2015, none so far in 2016 (though there may be delays in posting). The evaluation of the 5th Corporation Plan indicates that judicial reform is one reason for the use of the court system. It would seem preferable, however, for the cases to be resolved at TAT level, given that the Tribunal members have specific relevant experience. But, first, the TAT needs to be fully functioning. The courts will not accept appeals cases if these have not first gone through TAT, implying that the number of cases going to court should be very small. The use of the ADR mechanism referred to above, has helped to slow down the number of appeals going to court, but the number still seems high.

   The team was unable to meet the TAT, due to lack of time and difficulties in making contact with it. Information on the operations of the TAT is not available on any website. It appears not to prepare any reports. It would appear, therefore, that the TAT indeed is not yet fully functional.

Taxpayer education measures since 2012 PEFA assessment

Information readily available to taxpayers on tax payer procedures (registration, filing of returns, payments, appeals/objections) has strengthened relative to the already strong availability levels as indicated in the 2012 PEFA assessment, The KRA website (which covers both Domestic Tax Department and Customs Border Control Department) continues to be a strong source of information. Strengthening has occurred through modernization of the tax administration system, advances in technology, and continuing of taxpayer education programmes (availability of brochures, guides, explanatory videos). A Taxpayers' Charter was already in effect at the time of the 2012 PEFA assessment.

[29] The TADAT assessment says that the tax audit module has not yet been integrated with iTax.

Modernisation of the tax administration system. This has been through the establishment of iTax during FY 2012/13 in place of the Legacy system in place. Most of its modules have been installed, including the tax audit module. Combined with the advancement of the Internet and mobile phone technology (fully in place by April 2014), taxpayers now have much easier access to information on taxes (e.g. the now very wide-use of M-PESA). Queues at KRA offices have diminished significantly. Preparation of PAYE and VAT returns using ITax became mandatory in FY 2013/14.

KRA has continued its taxpayer education programmes countrywide, with particular focus on Small Scale Enterprises and NGOs. It conducts workshops, visits Youth Careers Fairs, and conducts an Annual Kenya Taxpayer month. A mobile bus is in use by the Mobile Tax Unit country-wide to conduct tax clinics and provide advice. KRA has opened 16 Tax Support centres country wide outside Nairobi, and taxpayers are also served at 42 Huduma Centres. There is a 24 hour complaint and information centre based at the Commissioner General's Office, equipped with hotlines. Five additional iTax Support Centre Offices were established. A One Stop Border Post was established, despite funding constraints. Revamping of the contact centre and the website did not happen.

The Kenya Chamber of Commerce and Industry (KCCI), met by the team, is the main representative for small and medium scale enterprises (SMEs). It considered that KRA could do more to liaise with SMEs, some of which consider that they tend to be harassed by KRA (although this may y reflect relatively lower compliance with tax laws than large enterprises). The team did not have time to meet representatives of larger enterprises, but harassment may also happen at this level.

Work-in-progress, according to KRA, includes; (i) upgrade of the Contact Centre and the Customer Service Centre; and (ii) the commencement of Customer Service Training for Staff.

PI 19.2 Revenue risk management

This dimension was not in the 2011 PEFA Framework.

Despite strengthened legislation and knowledge available to taxpayers on procedures, partly due to IT system modernization and its interfacing with mobile telephony, compliance is still an issue; compliance covers registration, filing, reporting and payment requirements.

KRA's 6th Corporate Plan covering FY 2015/16-2017/18 includes a review of performance during the 5th Corporate Plan (previous 3 years). The review identifies the following:

i. Domestic taxes: With regard to automation of administration of domestic taxes (under Domestic Tax Department), the commencement of the establishment of iTax in FY 2012/2013 in place of the Legacy system is reducing the risks of non-compliance to some extent. By FY 2015/16, most of the modules had been established. The audit module of iTax had not been implemented, but has since been implemented. This would have enabled risk profiling of audit cases.
    - Despite the roll out of iTax, the use of electronic services under-performed relative to targets, particularly in the case of CIT and PIT, even for PAYE. E-filing rates fell well short of the end FY 2013/14 target of 34%, the exception being the electronic filing of VAT returns, which was 33% higher than targeted. The shortfall was perhaps due to the roll-out in FY 2013/14 being relatively recent. Performance was lower than planned with respect to timely payment of refunds (VAT and income tax) and collection of taxes through audit efforts. The GPRS-enabled Electronic Tax Register (ETR) system (also known as the Tax Invoice Management System) was not rolled out, as had been planned;

- KRA's weighted compliance target is 65% for the period of the 6th Corporate Plan;
- The continually growing informal sector is a major challenge for KRA. No matter how sophisticated the taxpayer services and the measures to increase compliance rates, it remains difficult to bring the informal sector into the tax net. KRA is tracking mobile telephony use as one mechanism for bringing people into the tax net;
- Targets for upgrading KRA's ICT system were partly met: (i) Development of the ICT2 strategy was completed; (ii) improvement of the ICT security system was not met due to funding constraints and approval delays; (iii) targets for modernizing, maintaining and integrating ICT systems were met, but the targets of achieving a seamless interface for sharing data and achieving redundancy in the system (that would provide back-up if ever needed) were not met due to funding constraints and approval delays;
- The implementation of the enforcement strategy was not completed: automated risk-based audits were delayed due to delays in rolling out the iTax audit module, procurement delays with GRPS-enabled ETR, legal hurdles with regard to the implementation of GIS solutions (to be used to better identify real estate and thus to obtain more real-estate related revenue);
- Table 4 in the report summarises the reasons for delays, the main ones being human resource capacity (e.g. skilled staff, in particular, those with IT skills, being attracted away to 'greener pastures', KRA has a large staff shortfall), funding constraints, and approval and procurement delays. Insufficient prioritization and logical sequencing are probably also a factor, the report stating that there were too many targets;
- Page 46: Many SMEs and landlords were still not registered or not filing. KRA can track down through their usage of mobile devices. KRA intends to implement a data matching and mining exercise, also bank and loan accounts;
- KRA wants to link iTax to IFMIS and to integrate this with the awaited ERP.

ii. Customs

- The 6th Corporate Plan mentioned that automation of the Customs Border Control (CBC) system still had some way to go. A Single Customs Territory and Port Community Charter (East African Community) were established, as were systems for paying duties by mobile phone, all leading to reduced backlogs and improved logistics performance. A legal obstacle that delayed the implementation of the Electronic Cargo Tracking System was settled. CBD's goal is full electronic control of Kenya's borders.

3. Development of a compliance risk management framework and risk management framework

KRA has had an Overall Risk Management Policy and Framework in place since September 2014, based on its Compliance Risk Management Strategy prepared in FY 2012/13. The DTD established a Corporate Risk Management Department and the CBD established a dedicated Risk Management Unit, called the National Targeting Centre (NTC).

Prior to the strategy, the system was mainly one of checking compliance by individual taxpayers with the rules. There was no known list of compliance risks and no standardised system for appraising success or failure of compliance efforts. KRA considered there was a need for a complete change in the compliance management environment in order to bring its compliance framework up to international standards. Identification of all the different types of risk for each tax type would result in the preparation of a Risk Register, describing each risk and the likely impact on revenues.

The Strategy estimated compliance gaps for each major tax. The gap is measured by estimated tax capacity less actual collections. The gaps identified were: 37% for CIT (FY 2010/11 data); 27% PIT; 45% import duty; 15% VAT; 88% rental income tax. Timely filing rates were no higher than 31% (measured as number of filers per tax type as a % of the taxpayer population for each tax type), the highest percentage being for VAT (31%), the second highest for CIT (23%). Such gaps pose significant risk to revenue collection.

The Overall Risk Management Policy and Framework is derived from the Strategy. Implementation is still in its early stages in both the DTD and CBD. A Corporate Risk Management Plan has been prepared, but is still in draft form. The Risk Register referred to above has taken DTD some time to compile[30]. As noted in the Strategy, considerable amounts of information are required (as shown in the table templates), following which annual work plans have to be prepared to implement the Strategy, such plans containing risk mitigation activities. This is still work in progress. Compliance risk monitoring reports are therefore not yet being prepared. A Risk Management Committee was established in 2015 and meets periodically to discuss risks, but not risk mitigation activities as yet.

The National Targeting Centre (NTC) in CBD has conducted some risk profiling, and, on this basis, has targeted select consignments for enhanced interventions. The establishment of the Post Clearance Audit (PCA) has helped in this regard. The NTC has therefore helped to increase compliance. It periodically issues Risk Alert Reports for various sectors. As a result it has seen a decrease in mis-declarations and an increase in the yield per container of declarations in these sectors. It has been able to note the frequency of infringement of the Customs Law.

A disadvantage that NTC faces is that all risk management activities are carried out manually, through SIMBA. CBD is in the process of acquiring an automated system – Integrated Customs Management System (ICMS) – which will greatly facilitate risk management through the building of individualized stakeholder profiles. Other risk management tools that CBD already uses will be interfaced with it: e.g. x-ray cargo scanning, radiation detection equipment, and Regional Electronic Cargo Tracking Systems (the last mentioned only rolled out in February 2017).

PI 19.3 Revenue audit and investigation

The 2012 PEFA assessment findings for PI-14 (iii) were:

- Audit selection was being done manually or through ad hoc compliance checks. KRA was planning risk-based audit selection to be an automated process once a planned fully integrated tax administration system (iTax) had been established. The Investigations & Enforcement (I&E) Department was conducting special fraud investigations, based on intelligence gathering and feedback from respective KRA departments and branch offices; The score was B, but looking back on it, the score should have been C.

Developments since 2012

(i) Domestic Tax Department

The 6th Corporate Plan (FY 2015/16-2017/18) noted the disadvantages of the manual audit processes still being used. These were taking a long time to complete, leading to a backlog of pending cases and the effective exclusion of small and medium tax payers from audit scope. The process also lacked transparency leading to integrity concerns among staff.

[30] This was in place by the time of the 27th June, 2018 PEFA workshop.

KRA therefore planned to invest in automated audit processes. It would also create RACs, shifting audit away from station offices, thereby leading to strengthened harmonization of audit standards and efforts.[31]

An IT-based audit module is now operational in iTax.[32] It applies to all tax heads, most recently to rental income. The iTax system is linked to third party databases such as IFMIS and National Security and Social Fund (NSSF), thereby assisting the audit process. The process of transferring taxpayer data to ITax from the Legacy system took some time and the operationalization of the audit module was achieved relatively recently. For this reason, not all planned audits have necessarily been carried out.

The Tax Audit Unit in the Policy Division of DTD determines audit policy and provides direction on case selection and risk profiling to the tax audit units in LTO, MTO and STO (the last mentioned through the 8 Regional Audit Centres (RAC)), with focus on the major taxes. These units prepare annual audit plans independently of each other and the Tax Audit Unit.

The audit module has been particularly useful for VAT; auditing of VAT refund cases during FY 2015/16 reduced the amount of refund claims by Ksh 9 billion. VAT comprises about 25% of total domestic revenue. Overall, audit processes resulted in extra collection of Ksh 11 billion during FY 2015/6, of which Ksh 7 billion came from LTO. The number of audits carried out in 2015/16 was 917, of which 151 were from LTO, 111 from MTO and 655 from RACs. Audits of companies falling under LTO therefore seem to have been particularly effective, helped by risk profiling through iTax and use of local knowledge.

(ii) Customs Border Control

A Post-Clearance Audit (PCA) programme was in place at the time of the 2012 PEFA assessment. A manual (concerning customs duties) provided detailed guidance on audit phases, risk-based case selection, and procedures. The actual risk profiling framework was not in place, however, and audits were being conducted on a random sample basis. Such a framework has since been developed. The audit framework uses a scoring and weighting mechanism to allocate points on various indicators to enable the identification of the most risk prone taxpayers.

As noted under PI 19.2 above, the effectiveness of the PCA process has been hampered by their manual nature. At the time of the PEFA field visit, CBC was in the process of acquiring an Integrated Customs Management System (ICMS).[33]

Data provided by CBC indicates that the amounts of assessed revenue (mainly import duties) arising from PCA increased sharply to Ksh 7.6 billion in FY 2015/16 from Ksh 2.3 billion in FY 2012/13, the amounts being well above forecast amounts. Actual collections were well-below amounts assessed, but rose sharply to Ksh 747.4 million in FY 2015/16 from Ksh 546 million in FY 2012/13.

(iii) Investigation

The Investigation and Enforcement Department (IED) of KRA deals with fraud cases in accordance with a procedure manual. All officers are trained in fraud investigation. The cases emanate from several sources which include sector risk analysis, feedback from respective KRA departments,

[31] The TADAT report raises the decentralization of the tax audit function to LTO, MTO and RACs (under the policy direction of the Tax Policy Department of KRA) as an issue. The audit units in each of these prepare audit plans independently of each other and the Tax Policy Department.

[32] The first draft of this report said that the tax audit module of ITax was not fully operational. In its review of the report, KRA said that the module was fully operational, and a deployment certificate had been granted.

[33] The ICMS had been put in place by the time of the 27th June, 2018 PEFA workshop.

informers, public institutions and other law enforcement agencies. In addition, IED has a toll free line used by the public to report suspected fraud and a web page in the KRA website through which members of the public can report suspected fraud. Successful prosecutions are publicized, as are raids on illegal activities.

In order to enhance the success rate in case prosecution, IED recruits officers with legal background and experience in case prosecution. To build capacity in financial investigations, it has also recruited financial auditors. It is currently building capacity in forensic investigations.
To further enhance its capability in combating fraud, IED is represented in the Multi - Agency Taskforce (MAT), which includes other enforcement agencies that are fighting major financial crime, and which have information that is helpful to IED.

IED successfully lobbied for the inclusion in the Tax Procedures Act of powers of the Commissioner to preserve funds for 10 days pending investigation. This ensures that suspects do not transfer funds from which taxes are to be recovered.

Disputes are resolved in the same way as described under PI 19.1 above.

Data provided by KRA show that there were 195 prosecutions in FY 2014/15, and 144 prosecutions in FY 2015/16, both higher than expected. About 100 prosecutions have been conducted in FY 2016/17 to date. Prosecutions resulted in revenue collections of Ksh 2.3 billion in FY 2014/15 and Ksh 9.1 billion in FY 2015/16.

Ongoing and planned activities

The Tax Invoice Management System (TIMS) currently under development will be linked to iTax. This will capture tax invoicing by merchants in real time. This will greatly enhance audit and compliance checks and increase revenue collection.

PI 19.4 Revenue arrears monitoring

The stock of DTD revenue arrears at the end of 2015/16 was Ksh 184.6 billion, an increase of Ksh 30 billion from the year before. The arrears comprised 15.4% of total revenue collection of Ksh 1.2 trillion. The composition of the arrears was Ksh 80 billon income tax, Ksh 19 billion VAT and Ksh 84 billion in interest and penalties, the last mentioned comprising 43% of all arrears owed to DTD. The new tax debt created during the year amounted to Ksh 26 billion. Debt collection for the year amounted to Ksh 21 billion, later changed to Ksh 30 billion after correction for data errors. No tax was written off during the year.

The accuracy of the revenue arrears figures, however, is open to question. Revenue arrears older than 12 months were 86% of total revenue arrears outstanding at the end of FY 2015/16, most of which are recorded in the Legacy system and may not be accurate. The iTax was not fully in place until FY 2014/15 and migration of data to iTax is still on-going. Delays in posting payments to taxpayer accounts further reduce the reliability of the arrears figures. [34]

Debt owed to CBC at the end of FY 2015/16 amounted to Ksh 11.8 billion. Thus total debt owed to DTD and CBC amounted to Ksh 206 billion, representing 17.1% of total revenues.

The 6th Corporate Plan document mentions in its review of the 5th Corporate Plan the failure to implement a debt management reform programme. One of the goals announced in the 6th Plan was to strengthen debt management.

[34] The debt module in iTax had been put in place by the time of the 27th June PEFA workshop. The KRA has been receiving TA from the iMF in this regard. Much work on data migration and verification was still going on.

Ongoing and planned activities

Strategies that are being put in place during the 6th Corporate Plan period to reduce revenue arrears and bring them under control include:

- Creation of a debt enforcement unit at DTD head office and automation of the debt management control process through establishing the iTax debt and enforcement model. The module will create a single view of all taxpayer transactions, thereby facilitating debt collection enforcement. It will not cover pre-2013 debt. To collect debt DTD will issue Agency Notices, warrants of distress and charges on immovable property. It will also facilitate cleaning up of the database;
- CBC is issuing Agency notices and alerts on cargo undergoing clearance at the various release points. The forthcoming adoption of ICMS will strengthen debt management.

PI-20 Accounting for revenue

PI-20: Accounting for Revenue (M1-WL)	Score/Criterion D+	Explanation
20.1: Information on revenue collections (at time of assessment)	A. *A central agency obtains revenue data at least monthly from entities collecting all central government revenue. - This information is broken down by revenue type and is consolidated into a report*	• As provided for in PFMA (2012) and its Financial Regulations, NT receives revenue data from the 11 revenue collection agencies every month. KRA collects 95% of this revenue. The information received is broken down by revenue type; • The Office of Controller of Budget (OCOB) prepares detailed reports using information from IFMIS and Resource Mobilisation Department in NT (the latter for externally financed AiA).
20.2 Transfer of revenue collection (at time of assessment)	B. *Entities collecting most central government revenue transfer the collections to the Treasury and other designatedagencies at least weekly*.	• 85% of KRA revenues are deposited into its accounts in commercial banks. It takes 3 days for the deposits to be deposited into NT's Exchequer account in CBK (2 days for the money to be transferred to KRA's collection accounts in CBK and another day for transfer to the Exchequer account); • Non-KRA revenues (5% of all domestic revenues), excluding A-i-A revenues collected by MDAs, are first paid into their own accounts in CBK and then transferred the same day into NT's account in CBK; • An 'A' rating requires daily transfer of all revenues.
20.3. Revenue accounts reconciliation (at time of assessment)	*D*. Insufficient data available to score this information. A score of C requires that entities collecting most government revenue undertake complete reconciliation of collections and transfers to Treasury and other designated agencies at least annually within 2 months of the end of the year*.	• As indicated in OAG reports, reconciliation issues may arise in NT itself between revenue statements and cashbooks, but not so much in terms of collections and transfers to NT. The errors appear to be small, but the data on the timeliness of reconciliation after the end of the FY were not available; • A score higher than B would require complete reconciliation between assessments and revenue collection reports prepared by NT. This is not done yet, partly because of the insufficient reliability of

PI-20: Accounting for Revenue (M1-WL)	Score/Criterion D+	Explanation
		pre-2014 (iTax was established in 2014) revenue arrears data and transfer of taxpayer files from the Legacy system to iTax being not yet complete.

PI 20.1 Information on revenue collections

Part VI of the Financial Regulations (2015) covers Management of Revenue and Other Receipts (sections 58-69). The main provisions are:

- Section 75 of PFMA (2012) stipulates that only officially designated 'Receivers of Revenue' may collect revenue. This was also the case under the previous PFMA. Eleven receivers of revenue designated by the Cabinet Secretary are responsible for the collecting of revenue or authorising collection by another agency and for reporting such revenues monthly to NT. The Receivers are appointed every year. The information on revenues collected by MDAs is entered into a template form prepared by NT, as specified in the Financial Regulations (the team downloaded this). NT authorises KRA to collect tax revenues (Sections 62-63 of FR).35 The form should show: (i) actual revenues received by type and transmitted to the Exchequer Account held by NT in CBK; (ii) actual revenue received and not transmitted to the Exchequer Account (e.g. AiA); (iii) revenue arrears not collected; and (iv) a responsibility statement. Section 81 of the FR requires that Receivers of Revenue should deposit revenues into the Exchequer Account no later than 5 days after their receipt;
- Domestic revenues collected by MDAs from the provision of services (e.g. fees) may be appropriated for the funding of the expenditures incurred on providing such services. Such revenues are denoted as 'Appropriations in Aid' (AiA) (section 60 of PFMA). In many countries (e.g. Uganda from 2003), this is not allowed, such revenues having to be deposited directly into the Ministry of Finance's main account, and the spending of such revenues budgeted for in the same way as for other revenues (section 60). AiA provisions may have efficiency benefits, but raise the risk of mis-spending due to insufficient accountability provisions (which is why the practice stopped in Uganda);
- Receipts collected by MDAs directly related to the implementation of a development project may be used to finance expenditure under that project. Such receipts are also noted as AiA and comprises the bulk of all AiA (Section 61);
- According to the FR, the Accounting Officer or receiver of revenue or collector of revenue shall prepare quarterly revenue performance reports no later than 15 days after the end of the quarter. Waivers or variations should be indicated in the reports, which should be sent to NT with a copy to the Auditor General (Section 65);
- The NT prepares Quarterly Budget Execution Reports (QEBRs), which include revenues collected by tax type, including AiA-related (the last one posted on NT's website covers Q4 of FY 2016/17 (posted in August 2017), revenue performance is shown in Table 5). [36] The information is based on monthly reports on revenue collection prepared by KRA and other Receivers of Revenue;

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[35] The 11 Receivers of Revenue are; National Treasury (recurrent and development revenue classified separately as receivers); State Department of Interior; Registrar of High Court; (Judiciary); Ministry of Lands, Housing & Urban Development; Pensions Department; State Law Office; Ministry of Agriculture, Livestock & Fisheries; State Department for National Co-ordination; State Department for Commerce & Tourism; and; Ministry of Information, Communication & Technology.

[36] KRA has also created a web based repository/portal where daily revenue performance reports are deposited for access by NT and other authorized stakeholders. The reports show performance by revenue department, tax type and consolidated performances.

- The Office of the Controller of Budget (OCOB) also prepares reports in the form of quarterly Budget Implementation Review Reports (BIRR) for Parliament, including on revenue collections, based on NT information;
- The Kenya National Bureau of Statistics (KNBS) also prepares revenue performance reports as part of its quarterly reports on the economy. The information comes from NT.

The Auditor General compiles annual reports on revenue collections and arrears of revenue collections. The NT prepares an annual report “Status of receipts’, the last is for FY 2015/16.

PI 20.2 Transfer of revenue collections

According to KRA, it takes 3 days for tax collections to reach the Treasury-controlled Exchequer account held in CBK. The bulk (84%) of tax revenues is paid into KRA revenue collection accounts held in 40 commercial bank accounts, the banks having being designated as Agencies by KRA. The agent bank systems are integrated with the KRA business systems through the Common Cash Receipting System (CCRS) and Payment Gateway to facilitate real time update of the tax payers’ records held by KRA and revenue collection reports. The CCRS and Payment Gateway were established after the 2012 PEFA assessment. They are integrated with the systems of the Agency bank thus facilitating tax payments and replacing the cash receipting centres at KRA offices. The transfers are recorded by tax type, thus facilitating reporting. After 2 days the funds are transferred from these banks to KRA collection accounts held in CBK. The funds are transferred into the NT-controlled Exchequer account at CBK on the following working day.

KRA’s introduction of its M-service (Mobile Payment and SMS query) since the 2012 PEFA assessment has also helped to speed up transfers of tax payments to the Exchequer account.

Non-KRA revenues collected by MDAs (5% of all domestic revenues) are first paid into their own accounts in CBK, which transfers the amounts to NT’s account in CBK on the same day.

PI 20.3 Revenue accounts reconciliation

Full reconciliation means that the amount of tax paid by each taxpayer and deposited in the Exchequer (NT) is consistent with the amount originally assessed, the amount due but not yet in arrears, the amount overdue, amount paid but not yet in the Exchequer account, and, finally the amount paid into the Exchequer accounts. Revenue reports prepared by NT should be consistent with the transactions records of NT, which should be consistent with those of the agencies collecting the revenue (mainly KRA) and with bank account transactions records.

This indicator is broadly the same as PI-15 (iii) in the 2011 PEFA Framework. The score was A. KENAO reports at that time identified differences between KRA records, MoF records based on statements of revenues per tax head, and transactions shown in MoF’s Exchequer account held in CBK. These differences were very small. Taxes due but not paid (i.e. arrears) automatically attracted penalties and interest, which were added to the taxes due.

The annual reports of KENAO/OAG since the 2012 PEFA assessment continue to point out various revenue reconciliation issues for all types of revenue. The report for FY 2014/15 refers to:

- Unexplained and un-reconciled differences amounting to Ksh 1.2 billion between revenue statements’ balances and the exchequer records maintained at the National Treasury. The KENAO report states: ‘From the above differences it is apparent that there are still persistent and disturbing problems in collection and accounting for revenue which have therefore, resulted in 6 of the 11 statements of revenue for 2014/2015 having qualified audit opinions.’ (page 15 of Summary Report).

- The differences between the statement balances and exchequer reports are very small, however, no more than 0.6% during FY 2010/11-FY 2014/15. Revenue statements with qualified opinions comprised 96% of total revenues, recurrent revenue received by NT being by far the largest item.[37] Statements with adverse or disclaimer of opinion, much more serious than qualified opinions, covered 0.27% of total revenues;
- The main reasons for the differences are, according to KENAO: (i) failure to collect revenue arrears; (ii) differences between revenue statement amounts and records reported at collection points; and (iii) failure to surrender end-year revenue balances to the Exchequer.

Full reconciliation between assessments and NT records of revenues received is not possible at present because: (i) the accuracy of the stock of pre-2014/15 revenue arrears is dubious; and (ii) the transfer of data from the Legacy system to ITax is still on-going, Monthly reconciliation takes place, however, between KRA (its monthly reports on revenues collected), CBK (information on revenues deposited into the Exchequer account) and NT (the reports it compiles on revenue collections).

The TADAT report notes considerable strengths in the registered taxpayer database, but points out some weaknesses: data in the Legacy system not yet fully migrated to the ITax system; procedures for using the iTax system not yet available, the Legacy system procedures still being used; iTax not yet linked to the Registrar of Companies (important for checking that companies are registered for tax). Thus PI-1 on 'Accuracy and reliability of taxpayer Information' scores low (D). These weaknesses contribute to the low score for PI-20 on the 'Adequacy of the tax administration's revenue accounting system' (D).[38]

PI-21 Predictability of in-year resource allocation

This indicator assesses the extent to which the central Ministry of Finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

PI-21: Predictability of in-year resource allocation M2-AV	**Score/Criterion C**	**Explanation**
21.1: Consolidation of cash balances (at time of assessment)	*D*: The information available is not sufficient to score this dimension.*	• The cash balances held in donor projects accounts in commercial banks are not consolidated. These tend to be e small amounts, as donors mainly keep their funds outside the country, but nevertheless they are not reported on. The cash balances of accounts held by primary schools are also not reported on and thus are not routinely consolidated. The several

[37] Of the other 5 statements, 2 were unqualified, 2 had adverse opinions, and 1 had a disclaimer of opinion. The last-mentioned was on the inability to quantify these arrears; (ii) its inability to verify the accuracy of the data on revenues transferred to the Exchequer Account; (iii) missing receipt vouchers; (iv) under-banking of revenue collections; (v) un-reconciled differences between the cash book and revenue statements. The adverse opinions were on: (i) Pensions Department (e.g. no documentation supporting transfer of revenue to Exchequer account); and (ii) Ministry of Foreign Affairs, due partly to lack of reconciliation between fees reported and fees deposited in Exchequer Account, and use of consular fees as AiA, when they should be classified as revenues to be deposited in the Exchequer Account.

[38] The report justifies D by : (i) Two tax payer ledgers in place, one under iTax, the other under the old (Legacy) system; (ii) payments in revenue suspense accounts not eventually accounted for as revenue; (iii) delays in payments to taxpayer accounts, in some cases longer than a year; (iv) gross withholding of VAT payments receipts being counted as revenue, thus overstating revenues.

PI-21: Predictability of in-year resource allocation M2-AV	Score/Criterion C	Explanation
		thousands of such schools indicate that the total amount of un-reported cash balances could be substantial; • The 'bulk' of GoK cash balances are held by NT in CBK and MDAs with accounts in CBK. Information on the balances on these is available immediately. The size of the 'bulk' is not known with accuracy, however, due to the insufficient knowledge of the size of GoK cash balances held outside CBK.
21.2: Cash forecasting and monitoring (last completed FY)	C: *A cash flow forecast is prepared for the fiscal year.*	• The Financial Regulations require MDAs to prepare a cash flow forecast for the year, broken down into quarterly forecasts, which are revised and rolled forward each month; • This has not been happening in practice. MDAs prepare cash flow forecasts for the year, but instead the budget is executed in in two equal quarters for the first half of the year, following which a supplementary budget is prepared.
21.3. Information on commitment ceilings (last completed FY)	C: *Budgetary units are provided reliable information on commitment ceilings at least one month in advance.*	Under the current situation of uncertainty of predicted cash inflows and expenditure demands, most recurrent expenditure can only be committed for payment a month ahead. Capital expenditures can be committed for payment up to six months ahead. Expenditures on commonly used items can be committed for payment up to 12 months ahead.
21.4. Significance of in-year budget adjustments (last completed FY)	B*: Significant in-year adjustments to budget allocations take place no more than twice in a year and are done in a fairly transparent way.*	The adjustments take place through one or two supplementary budgets a year. The number of adjustments is large, based on evidence from a document on the 1st Supplementary Estimates for FY 2016/17. The document explicitly lists the adjustments.

PI 21.1 Consolidation of cash balances

Information on GoK cash balances is immediately available to NT for its and MDA accounts held in CBK. The balances on these accounts comprise the bulk of GoK balances. CBK does not know the cash position of MDA accounts held in commercial banks, except for KRA accounts (as noted under PI 20.2). Most non-KRA accounts held by GoK in commercial banks represent donor project accounts. Since the free primary school grants scandal of a few years ago, balances in donor project accounts in commercial banks have tended to be small. Donors instead hold their project accounts in US$ in CBK (notably World Bank) or in their home countries (many of the same are for old projects and are closed following project completion).

Several thousand primary schools hold accounts in commercial banks. These schools operate in the same manner as SAGAs, reporting to Boards of Management, although they fall directly under the Ministry of Basic Education. The CBK does not have information on the bank account balances held on them, thus precluding a fully consolidated position of GoK cash balances at any time. Ministry of Education knows how much it transfers to these school bank accounts each month in the form of capitation grants, but does not know their day-to-day balances.

PI 21.2 Cash forecasting and monitoring

Section 29 of PFMA (2012) requires each MDA to prepare a cash flow forecast and cash plan for the year at the beginning of the new FY and to submit this to NT and OCOB. The cash flow plan is required to be broken down into a 3 month rolling basis. As far as possible, the quarterly forecasts should be supported by the annual procurement plan that is required to be prepared under the Public Procurement and Asset Disposal Act. Section 44 of the Financial Regulations (2015) elaborates. Under Section 45 of the FR, NT should then consolidate the cash flow forecasts of MDAs and then compare with cash inflow forecasts (revenues, grants, loans) in order to arrive at an annual cash limit on expenditure. It then issues a Circular to MDAs informing them of their quarterly limits. In the event of unanticipated cash flow fluctuations, NT can request Accounting Officers to review and revise their projections.

As noted in the 2012 PEFA assessment, cash flow forecasting seemed to have fallen by the wayside because of the in-year unpredictability of the budget and NT-enforced cutbacks later in the year. MDAs prepared forecasts, but in practice budgets were executed in two equal quarters for the first half of the year, following which a supplementary budget was prepared. This is still the practice. Some MDAs find cash flow forecasting to be more useful than others (e.g. Ministry of Infrastructure consider it to be useful, more so than the other 3 large MDAs visited).

PI 21.3 Information on commitment ceilings

As elaborated on under PI-25, in principle, MDAs can commit expenditure for payment within the current quarter, Exchequer issues into MDA accounts guaranteeing the cash will be available for payment. In practice, the time horizon is a month, due to uncertainties in the timeliness and magnitude of financial inflows and possible in-year adjustments to the budget. As stated in the FR, Local Purchase Orders in fact have a time validity of only 1 month. The cash is already available at the beginning of the month through Exchequer issues.

MDAs, however, can commit capital expenditures for payment up to 6 months ahead and expenditure on commonly used items for up to 12 months.

PI 21.4 Significance of in-year budget adjustments

The system of in-year budget adjustments is mainly unchanged since the 2012 assessment (B rating). The adjustments take place through one or two supplementary budgets a year. The number of adjustments is large, based on evidence from a document on the 1st Supplementary Estimates for FY 2016/17, provided to the team. The document explicitly lists the adjustments. The Parliament Budgetary Office (PBO) acknowledges that the number of adjustments is still an issue, reflecting insufficient accuracy in budgeting and insufficient discipline of MDAs in demanding extra funding, even though this may mean corresponding downwards adjustments for other MDAs).

Ongoing and planned activities

Establishment of a Treasury Single Account

Section 28 of the PFMA (2012) provides for the establishment of a Treasury Single Account (TSA) into which all domestic revenues shall be paid and from which all payments on behalf of national government entities shall be made. According to Section 95 of the Financial Regulations (April 2015), this was to have been established no later than 6 months of issue of the FR.

At the time of the PEFA field visit, the TSA had not been fully established, although a structure was being put in place through a decision by CBK management and just-in-time (JIT) funding of MDA payments accounts was already happening, as implied under 21.3. above. The ASD provided a team with a paper that outlined a variety of design solutions. One of these was a Central Payments System (CPS) based in CBK, which would consolidate MDA payments into it. It would not receive revenue inflows, which would still flow into the Exchequer Account from which JIT funding to the CPS would be made. Zambia and Rwanda have similar systems. The ASD expected the TSA to be operational in the second half of 2017. Section 96 of the FR elaborates on the working modalities of the TSA.

Strengthening of cash management
NT is currently preparing a tool for more efficient cash planning. The ASD showed the team a document explaining this ("Cash Management Business Management Requirement Mapping Document", April 2016). Under this, cash flow management would be automated from the largely manual processes that have been used so far. The IFMIS cash management module will be customized by designing annual cash planning and monthly cash plans. Forms will be developed to enable NT (also Counties) to analyse all inflows and outflows and then to establish monthly cash management limits. The latest (February 2017) IMF report on Kenya emphasizes the desirability for strengthened cash flow forecasting.

PI-22 Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control.

PI-22: Expenditure Arrears (M1-WL)	**Score/Criterion C+**	**Explanation**
22.1. Stock of expenditure arrears (last 3 completed FYs)	B: *The stock of expenditure arrears was more than 2% but no more than 6% of total expenditure in at least two of the last three completed fiscal years*.	Pending payments were 2.3% and 3.8% of total GoK expenditures at the end of FYs 2014/15 and 2015/16 respectively. The main reason for the sharp increase in FY 2015/16 was revenue shortfalls leading to delays in Exchequer releases and expenditure cutbacks even after commitments had been made.
22.2. Expenditure arrears monitoring *(at time of assessment)*	*C: Data on the stock and composition of expenditure arrears are generated annually at the end of each fiscal year.*	Monthly reporting started in early FY 2016/17 as one of the agreements with IMF under its current support programme. Coverage of MDAs was partial at first, becoming fully comprehensive in early FY 2016/17. The 1st report was for end-September 2016, and showed outstanding pending payables by total recurrent and total development expenditure for each MDA for each of the last several months. At the time of the field mission in February, the report for the end of November had been prepared, indicating about 3 months after the end of the month being reported on.

PI 22.1 Stock of expenditure arrears

In Kenya, no commitment can be introduced in IFMIS without a financial control. For investment projects that have a long time horizon, with payments certificates being periodically submitted by contractors, commitment can be realised outside IFMIS for development expenditure if a demand for authorization is addressed to the NT. This is the case. Implicit commitment can also be generated on the basis of contractual agreements with utility companies, such as electrical power usage, water, etc. when invoices exceed the amount scheduled in the original budget.

Therefore, arrears originate mainly from invoices not paid, mainly due to lack of cash. Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Government at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

The pending payables of the last two years are presented in the table below, as recorded in the AFS for FY 2015/16:

Table 3.12 Pending Accounts Payables as at June 30, 2016 (Ksh millions)

Description	FY 2013/2014	FY 2014/2015	FY 2015/2016
Goods and Services Pending Payable	*3,476.4*	*24,173.9*	*45.126.9*
Construction of buildings	n.a.	3,132.8	2,380.4
Construction of civil works	n.a.	7,350.4	2,500.2
Supply of goods	n.a.	5,026.8	9,005.1
Supply of services	n.a.	8,664.0	31,241.2
Deposits	3,192.1		
Others	284.3		
Pending Staff Payables	*n.a.*	*225.4*	*53.4*
Senior management	n.a.	6.0	2.4
Middle management	n.a.		12.3
Others	n.a.	219.4	38.7
Grand total, Pending Payables	n.a	24,399.3	45,180.3
Total GoK expenditure	1,542,500	1,377,900	1,091,500
-Pending payables, % total expenditure	*n.a.*	*2.3%*	*3.8%*

Source: Annual financial statements 2015/16: Table 22, Pending Accounts Payable, Appendix I

Table 3.12 indicates a sharp increase in end-year pending payables in FY 2015/16. This followed another sharp increase in FY 2014/15 over the year before, according to KENAO's report on the FY 2014/15 annual financial statements. This report notes several instances of MDAs with in-year pending payments, noting the contravention of the provisions of the PFMA (2012) and the Financial Regulations (2015). The Sector Reports prepared by Sector Working Groups as part of the annual BPS preparation indicate year-end pending payments being the result of KRA revenue shortfalls (PI-3), leading to delays in Exchequer releases and expenditure cutbacks when expenditure commitments have already been made. Unexpected budget reallocations may also be a factor.

PI 22.2 Expenditure arrears monitoring

IFMIS can presumably track unpaid invoices as these have been put into the system. However, not all of the information on current arrears can be provided by IFMIS, because part of commitments may have been made outside IFMIS, particularly for the development budget. Even for recurrent expenditure, some commitments may be made outside IFMIS, due to manual commitment methods still being used, as indicated by KENAO. This seems to be due to insufficient understanding of how IFMIS works or issues with IFMIS itself. Nevertheless, the number of operations made outside IFMIS has been reduced dramatically since the 2012 PEFA assessment.

End-year pending payments due to lack of budget provision (which may happen if manual commitment methods are used) can therefore only be monitored through requests to MDAs to provide information on them. It is not clear how compliant MDAs are in response to these requests.

The BIRRs prepared by OCOB included a table of pending bills for FY 2014/15, though not for each quarter. The BIRRs for FY 2013/14 and FY 2012/13 (the latter was the first one) do not include this table, and neither does the BIRR for FY 2015/16 include it, indicating possible measurement and definition issues. The table for FY 2014/15 showed end-total pending bills of Ksh 76.9 billion, which is not consistent with the Ksh 24.4 billion shown in the above table.

At the suggestion of IMF, a spending bill unit was put in place in NT in early FY 2016/17 in order to follow up on in-year expenditure arrears (pending bills) and generate an age profile, which had previously been absent. In principle, generating an age profile should not be a problem as submitted invoices are dated. GoK currently receives financial support from IMF (as noted in Section 2), and improved tracking of pending bills is one of the agreed strengthening activities. IMF presently requires NT to send it monthly reports on pending payables. Figures provided by Accountant General are presented in the table below for the period ending November 2016:

Figure 3.1 Pending payables situation as of November, 2016 (Ksh billion)

MDA	30 Days and Below	31-60 Days	Over 60 Days	Total
Total of pending bills	34	4.1	2.6	40.7

Source: Accounting Services Department

The table indicates: (i) Ksh 40.7 billion of payables outstanding at the end of November; this is consistent with the end-FY 2015/16 figure indicated in Table 3.12 showing a small reduction; and (ii) 84% of pending bills are up to 30 days old, 10% between 30 and 60 days old, and 6.3% more than 60 days old. Detailed spreadsheet tables provided to the team show pending payables for each MDA for each month going back to late 2015/16 for recurrent and development expenditure separately. The tables do not show the composition of expenditure by broad economic classification (e.g. purchases of goods and services). The table at the time of the mission was the latest information, indicating each report is available about 3 months after the time period to which it refers.

PI-23 Payroll controls

This indicator is concerned with payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls in PI-25.

PI-23: Payroll Controls (M1-WL)	Score/Criterion B	Explanation
23.1 Integration of payroll and personnel records *(at time of assessment)*	B. *The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous*	The approved staff list, personnel database, and payroll are not fully integrated yet, but changes in the personnel database are entered into IPPD, leading directly to changes in the payroll. Prior to running the new payroll,

PI-23: Payroll Controls (M1-WL)	Score/Criterion B	Explanation
	month's payroll data. Staff hiring and promotion is controlled by a list of approved staffpositions:	it is checked against the previous payroll and changes made to it.
23.2 Management of payroll changes *(at time of assessment)*	B: *Personnel records and payroll are updated at least quarterly and require a few retroactive adjustments*	Personnel records and payroll are updated at least every two months and require a few small retroactive adjustments.
23.3 Internal control of payroll *(at time of assessment)*	B: *Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data*.	Authority to change records and payroll is restricted. Changes generate an audit trail which can be checked. The integrity of data is high but not yet fully achieved. The OAG report for FY 2014/15 identified some control weaknesses.
23.4 Payroll audit *(last three completed FYs)*	*B: A payroll audit covering all central government entities has been conducted at least once in the last three completed fiscal years (whether in stages or as one single exercise).*	Partial payroll audits covering all MDAs were conducted yearly in two of the last three FYs. The audit for 2015 included a head count, making the audit fully comprehensive.

PI 23.1 Integration of payroll and personnel records

Ministry of State and Public Services (MSPS)

The MSPS oversees payroll and personnel management for all MDAs except the Teacher Services Commission (TSC), the military, statutory commissions and SAGAs. It covers 220,000 employees. Military expenditure as a whole is included in the annual budget as a one line item, with no differentiation between personnel and other expenditure. Statutory Commissions, such as the Public Service Commission (PSC) fall outside the MSPS payroll, but their personnel expenditures are very small in relation to total government expenditure. The payrolls of SAGAs also fall outside the MSPS payroll. This PEFA assessment therefore covers only the MSPS and TSC payrolls. It does not cover temporary employees and consultants.

IPPD (Integrated Payroll and Personnel Database) is a comprehensive software for HR and Payroll used by HR sections and the payroll division of each MDA. IPPD is a stand-alone system developed on Clarion and a top speed database developed on Windows and managed by each MDA. The first table of IPPD contains identification data of the employee: Payroll N°, ID Number, Tax PIN. The second table contains employment data. Users' privileges and access to tables are specified according to the division of duties.

Payroll is decentralized, with each ministry is managing its own IPPD. However, IPPD is not yet integrated within IFMIS.

Apart from teachers that are paid by the Teacher Services Commission (discussed below), the consolidation of the payroll is made every month by the Ministry of State and Public Services (MSPS) on the Government Human Resources Information System (GHRIS), which is a web-based platform operational since the end of 2012, each MDA having internet access to it. Presently, the GHRIS and the stand-alone IPPD are not integrated in one IT software system, and GHRIS is not yet integrated into IFMIS; integration has been planned, however, the data exchange formats having being developed in June, 2016 through a 'Joint System Integration Exercise' with the IFMIS team in NT. Data are transferred monthly between IDDPs in MDAs and GHRIS by flash drive or by uploading the files in order to update the GHRIS. GHRIS distributes monthly pay slips (showing tax deductions where relevant). An electronic connection has been established between GHRIS and KRA in order to pay taxes.

The role of GHRIS is to centralise the approved establishment list, staff list and the personnel database. It has enabled the reconciliation process to ensure that the payroll is consistent with the establishment list. Prior to GHRIS coming into operation, it was possible in principle for MDAs to appoint new staff who were not on the establishment list, as pointed out in the 2012 PEFA assessment.

Teacher Services Commission (TSC)
About 270,000 teachers fall under another payroll, managed by the Teachers' Service Commission (TSC). All teachers are appointed as permanent staff and are pensionable; i.e. no temporary/supply teachers. As noted in the 2012 PEFA assessment, the TSC has been using IPPD since 2008. Comprehensive documentation shown to the team showed that changes in HR records (e.g. new teachers appointed) are entered (manually) into IPPD, enabling an electronic recalculation of the payroll; the changes in HR records are still a manual process. Prior to running the new payroll, it is checked against the previous payroll and the changes made to that payroll.

Establishment lists are less relevant for teachers, who are recruited in relation to demand, based on pupil enrolments and forms of entry, which are not known with certainty. The number of teachers is termed as the 'complement'. The annual budget, however, sets a ceiling on the total teacher wage bill and thus provides a control. As indicated to the team. TSC does not yet have access to GHRIS, but this is not an issue, due to the different employee status of teachers (i.e. staff complement rather than staff establishment list). Nevertheless, TSC would like to have access to GHRIS so that a greater range of personnel information per teacher can be computerized, but GHRIS does not have the capacity to accommodate 270,000 teachers.

PI 23.2 Management of payroll changes

MSPS
MDAs are responsible for changes to the payroll. Upon completing the required documentation, the request for a payroll change needs to be approved by the financial control department.
Except in the cases of terminations/resignations, changes are processed monthly, immediately after the payroll has been processed. When the grade of an employee is updated as scheduled in the HR file, the employee is paid the following month according to the new level. If the employee gets a promotion, the MDA HR department issues a sheet that is verified, signed by the control authority and kept in files. The HR department of each MDA has two months to clear the file in order to avoid affecting pensions. Terminations/resignations are generally captured in the payroll within 2 months. The KENAO report for FY 2014/15 indicates, however, instances of significant longer delays in removing retirees from the payroll.

TSC
The processes are the same. As changes to personnel records are still manual, it may take some time for changes to be reflected in the payroll as most teachers operate at district level. The delays may be longer in the case of resignation or termination. Nevertheless, retroactive pay adjustments are usually lower than 1% of the payroll. Documentation provided by TSC indicated that they were 0.3% of the payroll for the most recent payroll run.

PI 23.3 Internal control of payroll

Authority and basis for changes to personnel records and the payroll are restricted. Different levels of access have been defined for accessing IPPD, which restricts the authority to change records and payroll. IPPD enables the production of an audit trail that presents the history of transactions together with details of the authorising officers. The audit trail can be analysed by authorised staff (e.g. internal auditors).

TSC indicated that the audit trail reveals only about 5 cases a year of the trail being broken. Full electronic integration of human resources records and IPPD would strengthen the audit trail.

The control system is adequate to ensure high integrity of data, but not yet full integrity of data. The OAG report for FY 2014/15 identified discrepancies between payroll summaries and statements of compensation of employees amounting to Ksh 101.4 million, representing 4% of the payroll summaries. Delays in taking people off the payroll (as noted under 23.2) may also represent controls not working properly. The report also noted that some staff were commuting their leave days and at the same time being paid leave allowance (i.e. double benefit). Some staff on study leave were being paid full salary.

PI 23.4 Payroll audit

An internal audit unit is operational in each ministry and checks monthly staff payments though queries made upon the IPPD system, which provides an audit trail. The establishment of Team Mate and Interactive Data Extraction Analysis (IDEA) in 2012 has facilitated interrogation of IPPD. Any irregularities discovered can be followed up on by management. In effect, the payrolls of all MDAs are audited every year. A payroll audit unit was established in MSPS in 2009. This can be used to interrogate the GHRIS.

The detailed information provided by TSC to the team indicates an active payroll audit function that is exercised by the Directorate of Internal Audit through its 40 auditors through an annual audit plan. Audit Committees in MDAs (required under PFMA (2012) look at quarterly payroll audit reports; the Director of Internal Audit reports functionally to the Audit Committee. The documentation provided to the team included the minutes of an Audit Committee meeting convened to discuss an audit report.

Because of its size, Payroll is considered to be a high risk area. The consolidated decentralized payroll is audited monthly by the Internal Auditor General in National Treasury. The NT receives a copy of the payroll on a flash disk and the data are compared with the approved positions on a separate worksheet.

A comprehensive payroll audit has not been conducted either by internal auditors in MDAs or OAG that includes head counts in districts in order to identify ghost workers. A separate headcount was conducted in in ministries and county governments in 2015, during which a biometric identification system was established.

On-going and planned activities

An electronic interface between IFMIS and IDDP is under development.

PI-24 Procurement

Significant public spending takes place through the public procurement system. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of the indicator covers the entire central government and all procurement of goods, services, and civil works whether classified as recurrent or capital investment expenditure (e.g., including civil works and major equipment investments).

PI-24: Procurement (M2-AV)	**Score/Criterion A**	**Explanation**
24.1 Procurement monitoring *(last completed FY)*	A: *Databases or records are maintained for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for all procurement methods for goods, services and works.*	• The PPADA requires all government procurement entities, including SAGAs, SCs and Counties, to regularly report procurement information to PRRA; • Accordingly, PPRA developed and now manages a large Excel-based comprehensive procurement database that includes procurement method, number and value of procurements by type of agency.
24.2 Procurement methods *(last completed FY)*	A: *The total value of contracts awarded through competitive methods in the last completed fiscal year represents 80% or more of total value of contracts*.	As indicated in Table 18, the total value of contracts awarded through open competition (including restricted tendering) during FY 2015/16 was close to 100% of the total value of contracts.
24.3 Public access to procurement information. *(at time of assessment)*	*B: At least four of the key procurement information elements are complete and reliable for government units representing **most** procurement operations and are made available to the public in a timely manner.*	Five of the six key procurement information elements are met, as shown in Table 19. The PPADA does not require publication of procurement plans.
24.4 Procurement complaints management. *(at time of assessment)*	*A: The procurement complaint system meets every criterion.*	As indicated in Table 20, the procurement complaint system meets all six criteria.

Background

Public procurement in Kenya is governed by the Public Procurement and Asset Disposal Act (PPADA) dated December 2015, which replaced the Public Procurement and Disposal Act of 2005. All public entities are required to comply with this law, except where the provisions of the Public Private Partnership Act, 2013 (see PI-10) already apply, or in the case of donor-funded projects. Regulations to accompany the Act have been prepared but, as of June 2018, had not yet been approved. At the time of the PEFA field visit during February/March 2017, the Public Procurement & Regulatory Authority (PPRA) was expecting approval by Cabinet that year. In the meantime, the regulations under the previous Act remain in effect.

A key new feature is that under section 157 of PPADA entities have to report on contract awards every 6 months to the PPRA, which replaced the Public Procurement Oversight Authority (PPOA) also in 2015. The oversight/policy role is now performed by the Procurement Department in NT, which was established under PPADA. The Public Procurement Administrative Review Board (PPARB) remains in place as an independent body.

A strengthened feature of the procurement legislation is the requirement for all -procurement entities (including those in Counties, SAGAs and State Corporations) to regularly provide all operational procurement information to PPRA, which has the capability to inspect any entity. This was not the case under the previous law. Any lack of compliance is reported to the Ethics and Anti-Corruption Commission.

A Procurement to Pay module (P2P) was completed in 2015 as one of the IFMIS modules, and is now operational. The four large MDAs and the Kenya Chamber of Commerce and Industry met by the team all indicated that the module has significantly contributed to the transparency and efficiency of the procurement process through enabling e-procurement. However, challenges remain in making the beginning of the P2P procurement process fully operational. One challenge is to align P2P with the requirements of the new PPADA. PPRA is developing a new portal in order to address this challenge.

PPRA prepares and publishes quarterly and annual reports, as required under Section 26 of PPADA. The report for FY 2015/16 will be ready by end-March.

At the time of the 2012 PEFA assessment, the PPOA was conducting reviews of MDA compliance with procurement legislation and regulations. Reviews, essentially representing audits, followed a standardised format resulting in the calculation of a compliance index (CI). The minimum acceptable CI was 60 percent. The PPRA has continued this practice. Reviews, essentially representing audits, follow a standardised format resulting in the calculation of a compliance index (CI). The minimum acceptable CI is 60 percent.

PI 24.1 Procurement monitoring

With all MDAs required since 2015 to regularly submit procurement information, PPRA developed a large Excel-based comprehensive procurement database. A copy was provided to the team. It covers more than 90% of procurement, including SAGAs, State Corporations and Counties. Data are shown for the different types of procurement (e.g. open tendering, restricted tendering, request for quotations) undertaken by each type of body. Numbers and values of each type of procurement are shown. The database can be filtered to meet specific user requirements, as indicated in PI-24.2.

PI 24.2 Procurement methods

Part XI of the PPADA (2015) specifies the different types of procurement methods applicable to tenders begun after Jan 7, 2016.

The various methods public entities can use to procure goods and services under PPADA are not significantly different from those indicated under the previous law, as summarized in the 2012 PEFA assessment

(a) Open Tender
This method is prioritized by law (Sec. 91 of PPADA). All other methods need to be justified by special circumstances. Open tendering is required for the procurement of goods and services above Ksh 20 million. Goods and works must be tendered nationally for amounts above Ksh 6 million, the threshold being Ksh 3 million for services. Section 96 provides details.

(b) Two-stage tendering
Two-stage tendering is a procedure typically used to achieve an early appointment of a contractor to a lump-sum contract. A procuring entity may engage in procurement by means of two-stage tendering when, due to complexity and inadequate knowledge on its part or advancements in technology, it is not feasible for the procuring entity to formulate detailed specifications for the goods or works or non-consultancy services in order to obtain the most satisfactory solution to its

procurement needs. In the first stage competitors formulate proposals without a tender price. In the second stage selected competitors are invited to submit tenders with price tags. Details about two-stages tendering can be found in Sec. 99 b of the Act.

(c) Design competition
In this type of procurement, part of the services are already a part of the tender, because the overall shape and the details of the contract are offered by the contractual partner and not by the procuring entity. An example of such services are urban design projects (Section 2). Sections 100-101 of the Act elaborate.

(d) Restricted tendering
An accounting officer of a procuring entity may use restricted tendering (Section 102) only if any of the following conditions are satisfied:

- a complex or specialized nature of the goods;
- the time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods;
- if there is evidence to the effect that there are only a few known suppliers, an advertisement is placed, where applicable, on the procuring entity website regarding the intention to procure through limited tender.

(e) Direct procurement
A procuring entity may use direct procurement as allowed as long as the purpose is not to avoid competition. Because the procedure is especially corruption-prone, this type of procurement is strictly limited to goods, works or services that are available only from a particular supplier or contractor, or a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exists, or in the event of catastrophic events and unforeseeable needs.

Table 3.13 below presents the amounts of procurement according to different methods used by public entities for the last FY.

Table 3.13 Amounts of procurement according to different methods - 2015/2016 (Ksh billion)

Procurement methods	Amount	Percentage
Restricted tenders	13.2	6.42%
Open Tenders	191.46	93.06%
Direct Procurement	1.08	0.53%
Total	205.64	

Source: PPRA

This table shows that the amount of direct procurement in value is far below 20% of the total value of contracts (restricted tendering has the same status as for open tenders; it is used where particular technical specifications have to be met).

The Access to Government Procurement Opportunities (AGPO) law, originally introduced in 2012, set aside 10% of government contracts to be awarded to disadvantaged groups (i.e. enterprises owned by young people, women or persons with a disability) without competition from established firms. This percentage was increased to 30% in 2013. Companies owned by the target groups compete for the reserved procurements among themselves, sometimes even on an open tender basis. Registration under AGPO is not a guarantee for a firm to be given a direct contract. Since there are hundreds of small firms registered under the scheme, contracts can only be awarded through a competitive process.

PI 24.3 Public access to procurement information

Table 3.14 below presents the key procurement information to be made available to the public:

Table 3.14

Procurement information available to the publicPEFA benchmark on transparency	Met / not met	Justification
Legal and regulatory framework for procurement	Met	The legal and regulatory framework for procurement is available for download on the web site: http://www.kenyalaw.org/lex//actview.xql?actid=No.%2033%20of%202015.
Government procurement plans	Not Met	As with the old law, the PPADA (2015) does not require the publishing of the procurement plans of GoK entities. Publishing in newspapers is not compulsory, though many entities do so. Some entities such as primary schools do not publish their plans on the website, but they publicise their procurement on notice boards. Not all government procurement plans are published on the Internet, but this is due to the internet not being available in all parts of the country. Primary schools that do not have internet access publish procurement plans on their notice boards.
Bidding opportunities	Met	All bidding opportunities above the threshold value are advertised in the national newspaper or on notice boards (for schools). Many are posted on the internet.
Contract awards (purpose, contractor and value)	Met	Contracts awards are published on the PPRA website. This publishes contract awards including project description, contractor and the contract value.
Data on resolution of procurement complaints	Met	Most of the information on resolution of procurement complaints is published.
Annual procurement statistics	Met	The PPADA requires that MDAs keep records of their procurement activities. PPRA Annual Reports, which are available on PPRA's website in the form of comprehensive summary statistics on annual procurements (e.g. contract awards, 30% public procurement reservations and preferences for youth, women).

PI 24.4 Procurement complaints management

All complaints are reviewed by the independent Public Procurement Administrative Review Board (PPARD). The table below summarises the extent to which it meets the PEFA benchmarks on transparency.

PEFA benchmark on transparency	Met / not met	Justification
Complaints are reviewed by a body which:		
(i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Met	Section 27 of PPADA establishes an independent Public Procurement Administrative Review Board (PPARB) to ensure the proper and effective performance of the functions of the PPRA. This was in fact in place under the previous public procurement legislation, as noted in the 2012 PEFA assessment. .
(ii) Does not charge fees that prohibit access by concerned parties	Met	The schedule of fees is contained in the he Public Procurement and Disposal Regulations, 2013. The Kenya Chamber of Commerce did not raise the level of fees as an issue. PPRA considers that fees should be charged in order to discourage frivolous bids, also indicated in the 2012 PEFA assessment..
(iii) Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Met	The process for submission and resolution of complaints is clearly provided for in the PPADA (Section 27) which is publicly available.
(iv) Exercises the authority to suspend the procurement process	Met	The PPADA provides grounds for debarment of a person from participating in procurement or asset disposal proceedings.
(v) Issue decisions within the timeframe specified in the rules/regulations.	Met	The PPADA requires the PPARB to make a decision within thirty days of the date of submission of an application for review. The PPARB report for 2015/16 states that all cases lodged were heard and determined within an average of 22.5 days.
(vi) Issue decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Met	The Procurement Regulations state that “a decision by the Review Board is binding on all parties concerned subject to judicial review where the parties so appeal”.

Ongoing reforms

- Procurement capacity is being improved;
- When the Procurement 2 Pay module is fully complete, it will be possible to get real-time statistics on procurement both at the national and county levels.

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

PI-25: Internal Controls on Non-salary Expenditures (M2-AV)	Score/Criterion B+	Explanation
25.1 Segregation of Duties *(last completed FY)*	A: *Appropriate segregation of duties is prescribed throughout the expenditure process.*	The concept of segregation of duties has been embedded in Kenya’s PFM system for a long time. The replacement of manual

PI-25: Internal Controls on Non-salary Expenditures (M2-AV)	Score/Criterion B+	Explanation
	Responsibilities are clearly laid down.	systems by IT systems (IFMIS) has reinforced the concept.
25.2 Effectiveness of expenditure commitment controls *(last completed FY)*	C: *Expenditure commitment control procedures exist which provide partial coverage and are partially effective*.	• Expenditure commitment controls are in place consistent with approved budgets, but they are based on actual cash availability for much of recurrent expenditure rather than projected cash availability; • -Controls on capital expenditure items and commonly used recurrent expenditure items are based on projected cash availability.
25.3 Compliance with payment rules and procedures *(at time of assessment)*	A. *All payments are compliant with regular payment procedures. The majority of exceptions are properly authorised and justified.*	• The 2012 PFMA and 2015 PFM Regulations have strengthened the clarity of payments rules and procedures; • The re-engineered IFMIS and its coverage of all central government MDAs (except defence and national security) has made it very difficult for payments to be made in non-compliance with rules and procedures.

PI 25.1 Segregation of duties

This is a new dimension.

The concept of segregation of duties has been long embedded in public finance management in Kenya, a product of its colonial heritage. The PFMA (2012) and its Regulations (2015) and previous PFM Acts/Regulations do not explicitly refer to the concept of segregation of duties, but they imply them in the organisation of the different responsibilities. Manual controls and procedures were in place in MDAs prior to the establishment of IFMIS.

The concept of segregation of duties has been reinforced though its integration into the conceptual framework of IFMIS. Each responsibility is now clearly separated according to different rights and access to the system. The main incompatible responsibilities: authorization, purchase, recording, reconciliation, and custody of assets are segregated and managed by IFMIS. For example, IFMIS automatically blocks an LPO for a good that is not provided for in the approved budget. Under the manual system, the proposer of an LPO would have to fill out a form, which would need least two signatures of approval.

The appropriate segregation of duties is prescribed throughout the expenditure process. Responsibilities are clearly laid down. The use of IFMIS has reinforced the concept of the segregation of duties. Much of budget execution takes place through IFMIS, which implies controls at each stage of budget execution.

PI 25.2 Effectiveness of expenditure commitment controls

This dimension is unchanged from the 2011 PEFA Framework

The PFM Financial Regulations (2015) cover budget execution, going into more detail than under previous legislation. Sections 42-57 covers budget execution. The main features are:

- MDAs shall prepare annual cash flow plans broken down into rolling 3 month quarters, submits these to NT, which then prepares a consolidated cash plan on an MDA-by-MDA basis, taking into account projected financial inflows. The basis for Exchequer quarterly releases of cash to MDA accounts is the cash flow plan. The NT may require MDAs to revise their cash flow plans if financial inflow projections change;
- Expenditure commitments shall be controlled against spending and procurement plans based on budget allocations and allotments from approved budgets. Spending or commitment of funds requires first an 'Authority to Incur Expenditure' (AIE), broken down into line item detail.

In practice, as noted under PI-21, cash flow forecasting and the associated preparation of cash management plans has progressed little since the 2012 PEFA assessment, which itself noted little change since the 2008 PEFA assessment. This is because of continued uncertainties in in-year financial inflow projections and expenditure needs. Essentially, there are still two budgets, the approved budget covering the first half of the year and a supplementary budget covering the second half.

Most recurrent expenditure commitment requests are therefore not based on projected cash availability, as projections are too uncertain. They are approved on the basis of actual cash availability, meaning that Exchequer funds have already been released into MDA accounts at the beginning of each month. Local Purchase Orders (LPOs) issued against these funds have a validity period of one month (Section 52 of FR). The accounting department of each MDA checks the availability of cash before paying bills. The amount of quarterly allocation and monthly cash release is determined by the Cash Management Committee (previously known as Exchequer Release Committee), which is based in NT, members of which are NT departments, CBK and KRA.

This system does not apply to capital expenditure commitments (six month time horizons) and commitments for commonly used recurrent expenditure items, for example electricity, text books and medical drugs (12 month time horizons). Capital expenditure commitments are usually based on signed contracts consistent with approved budgets, payments being made upon submission of payments certificates. Commitments are therefore entered into on the basis of the approved budget and, implicitly, projected cash availability. If the cash is not available at the time of required payment, adjustments have to be made elsewhere in the budget.

IFMIS rejects any attempts by MDAs to enter planned expenditure commitments into IFMIS if they are not covered by AIEs, themselves covered by exchequer releases.

The Office of the Controller of the Budget (OCoB), established in 2012 under PFMA (2012) in line with the new 2010 Constitution, has added further to the strength of controls. It falls under the jurisdiction of the Parliament and is required to approve NT's list of planned exchequer releases.

PI 25.3 Compliance with payment rules and procedures

The 2012 PFMA and 2015 PFM Regulations have strengthened the clarity of payments rules and procedures, while the re-engineered IFMIS and its coverage of all central government MDAs (except defence and national security) has made it very difficult for payments to be made in non-compliance with rules and procedures. Requisition can be put in the system, but no payment is made without service rendered.

All payments made through IFMIS are compliant with regular payment procedures. Transfers can be made between economic classifications but not more than 10% of the amount budgeted. The threshold is respected as it is controlled by IFMIS. The majority of exceptions are properly authorised and justified. IFMIS is implemented everywhere in MDAs except National Intelligence Security Authority and Defence, these comprising a small percentage of the budget (7.5% in the 2015/16 budget). These have their own procedures due to the confidential nature of their activities. The annual reports of the Auditor General over the period do not mention deficiency of compliance with budget execution procedures.

IFMIS is not implemented in SAGAs, which could be a budget execution issue if they are implementing parts of sector budgets.

Ongoing and planned activities

On the recommendation of IMF, the NT is moving towards a Central Payments System located in BoK in the context of a Treasury Single Account. Bills will be paid on a 'just in time' basis. Accounting Services Department expects this new arrangement to be in effect by the beginning of FY 2017/18. To this end, the IMF is to provide assistance in strengthening cash flow forecasting. Unsuccessful efforts to improve this have been made in previous years due to insufficient resources inflow predictability and numerous mid-year budget adjustments, partly due to inaccuracies in budgeting in the first place.

PI-26 Internal audit

This indicator assesses the standards and procedures applied in internal audit.

PI-26: Internal Audit (M1-WL)	**Score/Criterion D+**	**Explanation**
26.1 Coverage of internal audit *(time at assessment)*	A. *Internal audit is operational for all central government entities.*	Internal audit is operational for all central government MDAs, as was the case at the time of the 2012 PEFA assessment.
26.2 Nature of audits and standards applied *(time at assessment)*	A. *Internal audit activities are focused on evaluations of the adequacy and effectiveness of internal controls. A quality assurance process is in place within the internal audit function and audit activities meet professional standards, including focus on high risk areas.*	• Internal audits are risk-based, focusing on the main PFM systems. Audits are conducted according to international audit standards, also the case at the time of the 2012 PEFA assessment. • The Internal Auditor General located in NT has until now, since the position was established in 2004, provided guidance and quality assurance to internal audit departments in MDAs. In line with PFMA (2012) and its Regulations, this role is being taken over by Audit Committees.
26.3 Implementation of internal audits and reporting *(last completed FY)*	A. *Annual audit programs exist. All programmed audits are completed, as evidenced by the distribution of their reports to the appropriate parties.*	IADs of MDAs have been required to report quarterly to IAG and the senior management of their MDAs on the implementation of their annual audit plans. They have been implementing all their plans and reporting accordingly.
26.4 Response to internal audits *(last 3 FYs)*	D*.*Not enough information to score this dimension.*	The IAG indicated at the workshop on 27th June 2018, that in the end it was able to retain its quality assurance function. But the team leader did not have enough time

PI-26: Internal Audit (M1-WL)	Score/Criterion D+	Explanation
		to be able to collect the information necessary to score this dimension.

Background

The Internal Audit function has been in place since 2004, under the Government Financial Management Act of 2004. The position of Internal Auditor-General (IAG) was established at that time in the Ministry of Finance, reporting to the Permanent Secretary. Internal Audit staff are mainly located in MDAs, reporting both to senior management and to the IAG. The IAG oversees the internal audit staff in MDAs and plays a quality assurance role. An Audit Manual ('Procedures Manual, 2006) was prepared, in accordance with the International Institute of Internal Auditors (IIA) Standards.

At the time of the 2012 PEFA assessment, there was still a strong focus on checking transactions and investigating transactions errors. The assessment team considered this to be a justified strategy in view of the manual systems being used and the high incidence of errors found by the external auditor which suggested that systems could not be readily relied upon. In many cases, the main issue was non-compliance with a clear and well-understood control. The reports reviewed by the team were clear and demonstrated that the testing was well directed and reflected an understanding of how the system was supposed to work.

The scores for PI-21 in the 2012 PEFA assessment were: (i) B: Coverage and quality of the internal audit function; (ii) B: Frequency and distribution of reports; and (iii) C: Extent of management response to audit findings.

The meeting of the team in February with the Internal Auditor General (IAG) indicated serious concerns about an imminent loss of quality assurance of the work of internal audit departments (IAD) in MDAs. As of 1st July, 2017, IAG would no longer have this function as a result of a Cabinet decision that puts into effect Financial Regulations (FR) 160-182 (December 2015) under PFMA (2012). IADs will report only to the Accounting Officers of their respective MDAs and the IAG will cease to have any quality assurance function, having only a policy, strategic direction and capacity building function. Audit Committees in MDAs currently being established in line with PFMA (2012) and the FR are taking over the quality assurance function, though it is not clear whether it can be as good as the assurance provided by IAG. The IAG has appealed the decision.
In line with the fundamental change in its role, the IAG is now a department within the Accounting Services Directorate, rather than being an office reporting directly to the Principal Secretary of NT.[39]

PI 26.1 Coverage of internal audit

Internal audit is mandatory for all entities. Coverage is 100 % of MDAs.

Section 73 of PFMA (2012) requires National Government MDAs to put in place appropriate arrangements for conducting internal audit. Section 155 requires the same for county governments. The same sections establish Audit Committees for national and county government entities, whose composition and functions are prescribed by the PFMA FR(2015), as elaborated on in Section 2 of this report. Regulation 164 of the PFMA specifies that the IAGis now responsible only for policy formulation and strategic direction of the internal audit function within national government entities, and no longer has a direct quality assurance role.

[39] At the workshop held on 27th June, 2018, the IAG indicated that it had not, in the end, lost its quality assurance functions.

As was increasingly the case at the time of the 2012 PEFA assessment, audits are planned annually using a risk-based approach focusing on the main PFM systems: budget execution, procurement; cash management; and payroll categorised as high risk. An Audit Management and Analytics system (Teammate) covers the entire audit process: risk assessment, planning, execution, reporting and follow-up and data analysis.[40] The system was introduced in 2015, but it took two years to become fully operational. It has not yet been integrated into IFMIS.
The table below presents the internal audit annual work plans for FY 2016/2017 according to the level of risk.

Table 3.15 Internal audit annual work plans for 2016/2017 based on the level of risk

Risk	Number of projects	% of projects
High	135	42.99%
Low	1	0.32%
Medium	115	36.62%
ND	63	20.06%
Total	314	100.0%

Source: IAG.

The High Risk areas are audited every year and the Middle Risk areas every two years. The Low Risk areas are supposed to be audited every three years, but manpower shortages have precluded this, according to the follow-up database provided to the team. More staff are being recruited.

PI 26.2 Nature of audits and standards applied

Internal audit annual work plans for 2016/2017 for Government entities are presented in the table below:

Table 3.16 Government entities' internal audit annual work plans for 2016/2017

Project Type	Total of projects	% of projects
Compliance	15	4.78%
Routine	256	81.53%
Special Audit	2	0.64%
Value for Money	34	10.83%
ND	7	2.23%
Total	314	100%

Source: IAG

'Routine' audits are those that look at the High/Medium risk PFM systems mentioned above. Compliance audits are in practice a sub-set of Routine audits, but with greater emphasis on compliance. Special audits tend to be those requested by MDAs that suspect fraud is being committed by staff. Value for Money (VFM) audits examine cost efficiency issues rather than PFM system risk. As in some other African countries, VFM audits are at a relatively early stage of implementation and capacity constraints tend to preclude more rapid expansion.

PI 26.3 Implementation of internal audits and reporting

Internal Audit Departments in MDAs are required to prepare quarterly reports (Section 171 of PFMA Financial Regulations) following the Internal Audit Guidelines. A consolidated annual report for FY 2016/17 has not yet been produced. This is a requirement of the PFM Financial Regulations (2015).

[40] The IAD of Ministry of Agriculture however indicated that procurement and payroll activities are now considered as low risk.

The TeamMate system is able to monitor the audit process of each entity relative to the initial work plan. Follow up audits in FY 2015/16 in Kenya's 16 Foreign Missions and audits of 11 donor-funded projects are not captured as they were not planned, but requested by management; these comprise 8.3% of the 314 audits conducted that year.

PI 26.4 Response to internal audits

The PFM FRegulations (2015) require that auditees must respond to the recommendations of audit reports and complete an implementation matrix within 14 days after the end of the audit. The auditor then finalises the report and sends it to the head of the audited ministry. The auditor is expected to follow up 6 months later on the extent of implementation of recommendations that have been agreed with the management. The Teammate system has improved the tracking of follow up of recommendations.

In line with Article 73 of PFMA (2012) and its Financial Regulations, internal audit reports now remain at the level of MDAs and are no longer sent to IAG. The assessment team's time and manpower constraints meant that it was not feasible to visit all MDAs in order to obtain information on the extent of management response to audit recommendations. The Ministry of Health indicated to the team that the IA function had been very useful in identifying areas of financial risk and recommending effective measures to reduce risk.

Planned and on-going activities

The meeting of the PEFA team with the Internal Auditor General (IAG) brought to light serious concerns about an imminent loss of its quality assurance of the work of internal audit departments (IAD) in MDAs. In line with the Financial Regulations (2015), the IAG will no longer have a quality assurance and supervisory role in relation to IADs in MDAs. A subsequent decision by Cabinet makes this change effective from 1st July, 2017. IADs will report only to the Accounting Officers of their respective MDAs. Audit Committees in the process of being established under FR 174 would take over the quality assurance role. The IAG has appealed this decision. It is concerned that the quality assurance to be provided by Audit Committees would not be as good as that provided by IAG.

Audit Committees were in place at the time of the 2012 PEFA assessment, having been established under Treasury Circular No. 16, 2005. They were not effective, however, mainly because members were not independent of the senior management of the respective MDAs. The Kenya Gazette Notice Vol CXVIII No. 40 of 15th April 2016 issued detailed guidelines for the establishment of audit committees (AC) in all public entities, including State Corporations. Committee members are to be mainly drawn from outside the respective MDA, as is the usual international practice. A public notice issued by the Cabinet Secretary on 2 June 2016 emphasized the need to operationalize the guidelines.

According to the new guidelines, the main function of Audit Committees is to support their respective Accounting Officers with regard to their responsibilities for issues of risk, control and governance. The functions are outlined in the Audit Charter. They must include, at a minimum, review of the appropriateness of financial reporting, performance reporting, risk oversight and management of internal control systems, taking into account the recommendations contained in internal audit reports. They will review annual work plans prepared by IADs and the reports that they prepare. MDAs (e.g. MoE) are now in the process of establishing Audit Committees, somewhat behind schedule indicated in Gazette Notice No. 40.

3.6 Pillar VI. Accounting and Reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

PI-27: Financial Data Integrity (M2-AV)	Score/Criterion C	Explanation
27.1 Bank account reconciliation *(at time of assessment covering preceding FY)*	B. *Bank reconciliation for all active central government bank accounts takes place at least monthly, usually within 4 weeks from the end of each month. 1/*	• Bank account reconciliation is still done mainly outside IFMIS as the auto bank - reconciliation is not yet fully functional; • All reconciliation statements are prepared monthly. The deadline is the middle of the month. This may be missed but virtually all statements are submitted by the end of the month; • A table of bank reconciliation statements for the 69 MDAs at the end of January 2017 provided by NT indicates that 93% were submitted on time. *2/*
27.2 Suspense accounts *(at time of assessment covering preceding FY)*	D *Performance is less than required for a C score*	• Suspense accounts are reconciled monthly. They are not all cleared by the end of the FY because of ‘old’ pre-IFMIS suspense balances that were not transferred to IFMIS and have not been validated; • A ‘C’ score requires clearance of suspense accounts by FY-end.
***27.3* Advance accounts *(at time of assessment covering preceding FY)*	D. *Performance is less than required for a C score*	Advance accounts are reconciled monthly but they are not all cleared by the end of the FY. A ‘C’ rating provides for frequent clearing with some delay.
27.4 Financial data integrity processes *(at time of assessment)*	B. *Access and changes to records is restricted and recorded, and results in an audit trail.*	• The 2015 Financial Regulations covers such processes (FRs 97-111). These result in an audit trail, the processes being embedded in IFMIS. Changes to records in IFMIS are restricted and recorded; • A Information System unit within the IFMIS Office in NT is responsible for checking the integrity of IFMS, including through the contracting of consultants. The Office has not prepared any reports on this.

1/ As noted in the PEFA Field guide under ‘Timing, Coverage, and Data Requirements’ on page ,183 this dimension is assessed with respect to NT-managed bank accounts.

2/ The table provided by NT does not show the budget of each MDA alongside the date of submission of the monthly reconciliation statement, Calculating the sums of the amounts of the budgets for which statements were prepared as a ratio of the total approved budget would have been very time consuming.

PI 27.1 Bank account reconciliation

This dimension is mainly unchanged from the 2012 PEFA assessment, which scored D due to delays in bank account reconciliations being prepared, as recorded in reconciliation status reports prepared by ASD in NT. One difference, however, is that an A rating under the 2011 PEFA Framework required timely reconciliation for all central government bank accounts, whereas under the 2016 Framework, the A rating applies to all Treasury-managed bank accounts.

Section 90 of the 2015 Financial Regulations state the requirements for monthly bank reconciliations to be performed: Accounting Officers (AOs) are required to ensure: (i) that bank account reconciliations are performed each month for each bank account held by the AO; (ii) each AO should submit a bank reconciliation statement to the NT, with a copy to OAG, by no later than the 10th of the following month; (iii) AOs should investigate any discrepancies identified in bank reconciliation statements, take appropriate corrective action to remove these, and update the cash book; and (iv) the NT will review bank reconciliation statements submitted to it and take appropriation action if necessary. These requirements are not substantively different from the FR in place at the time of the 2012 PEFA assessment (Section 5.9.2. of the 1989 of the Financial Rules and Procedures (FRP)).

The main concerns indicated in the 2012 PEFA assessment were the delays in the submission of monthly bank reconciliations to Ministry of Finance. These delays were the main reason for the D score. Performance has improved since then due to:

- The re-engineering of IFMIS, which has facilitated the quicker and more comprehensive recording of revenues and expenditures in the General Ledger (GL) of IFMIS. This is not perfect yet, as, according to KENAO, MDAs are still using manual methods alongside IFMIS, resulting in errors and delays;
- The expansion of internet-based banking (referred to as the T-24 project managed by CBK in the 2012 assessment), which, starting in FY 2013/14, has facilitated quicker submission of MDA-held commercial bank account statements to MDA accounts held in CBK, particularly in the case of MDAs with district offices, most of which are now connected to the internet.

The improvement process has not yet, however, been completed, however. At the time of the PEFA field visit, bank reconciliation was still being carried out through the semi-manual pre-IFMIS Legacy system. The Cash Management module of IFMIS was in the process of being introduced. Its auto-bank reconciliation sub-module had not yet been established due to technical problems. ASD and CBK were expecting it to be functional by the beginning of FY 2017/18. Once established, daily reconciliations would be possible.

The comments on the first draft report submitted to the team on 26th July 2017 indicated that the auto-bank reconciliation sub-module had now been established.

Most National Government expenditure and revenue transactions are performed through its accounts located at CBK. NT holds its accounts in CBK, the most important of which is the Exchequer account from which it releases cash to MDA bank accounts held in CBK. Each MDA holds a separate recurrent and development expenditure account. KRA keeps its main account at CBK and subsidiary accounts in commercial banks. CBK provides a daily cash position to each MDA.

At the aggregate level, the NT reconciles the transactions of the Exchequer Account in CBK, with the Exchequer releases into this Account and the actual financial resource inflows and outflows to/from the Account. At the dis-aggregated level, MDAs reconcile their bank accounts transactions with their cashbook transactions. Section 90 of the 2015 PFM Financial Regulations stipulates that

MDAs should prepare bank reconciliation statements monthly by 10 days after the end of the month.

Bank reconciliation statements were shown to the team during a meeting with ASD. The statements showed the instances where (i) transactions in cash books in NT that were not shown in bank statements; and (ii) bank statement inflows and inflows that were not shown in the cash books. A list provided to the team showed the dates of submission of reconciliation statements by MDAs (for December 2016/January 2017). For the reconciliation statement period ending on 10th January 2017 (i.e. for the statement for December 2016), 64 out of the 69 MDAs (93%) submitted their statements on-time, most of these prior to the deadline.

For autonomous bodies that have accounts in commercial banks, reconciliations may take several months. Reconciliation of donor project accounts held in commercial banks may be conducted only annually; the balances on these accounts are known to be small, mainly for financing small transactions. For the purposes of scoring this dimension, however, only NT-managed accounts are taken into consideration, as indicated by the methodology.

The annual KENAO reports cite instances of delays by MDAs in preparing bank reconciliation statements (e.g. Ministry of Health).

PI 27.2 Suspense accounts

Clearance of advances and suspense accounts was assessed under one dimension in the 2012 assessment, but has been separated under the 2016 Framework. The score was D in the 2012 PEFA report. This applied to both advances and suspense accounts, so comparability of scores is possible.

According to Section 107 of the 2015 PFM Regulations, suspense accounts should be cleared and reconciled monthly. Clearing means that suspense accounts balances related to revenue and expenditure transactions that have not yet been allocated to the correct cost centres are correctly allocated. Reconciliation means that suspense account balances are validated and those not validated are included in monthly reports submitted to NT by MDAs.

The 2012 PEFA report referred to the issue of uncleared ‘old balances’ that preceded the establishment of IFMIS and were not brought onto IFMIS. An ‘Old Balance’ Committee was subsequently formed in 2015 to determine what to do about these balances: whether to write them off or reconcile and clear them. Writing off requires Cabinet approval. The Committee prepares periodic Old Balance reports, copies of which were provided to the team.

Reconciliation of suspense accounts is made monthly, but the ‘old’ balances remain uncleared at the end of the year due to the difficulties in validating them and then transferring them to IFMIS. The table below shows end-FY closing suspense account balances. The balance fell in FY 2015/16 due to movement of some balances to IFMIS.

Table 3.17 End-fiscal year suspense account balances of MDAs (Ksh)

	FY 2013/14*	FY 2014/15**	FY 2015/16**
Suspense balances	(243,762,098)	(302,507,018)	(88,215,762)

Sources: Annual Financial Statements for FY 2014/15 & 2015/16. Appendix II & Appendix IV respectively.

PI 27.3 Advance accounts

Sections 91-94 of the PFM Financial Regulations (2015) provide for the establishment of an imprest facility, as were already provided for under the 1989 Financial Regulations and Procedures.

Impests are defined in three categories: (i) temporary (e.g. travel advances), to be cleared within 7 days of use; (ii) standing, for a fixed period, to be drawn down for minor expenses, and then replenished after the expenses are accounted for; and (iii) special imprest. Advances to other ministries and districts offices are also possible. Advances to district offices are accounted and cleared through the submission of expenditure returns against the advances. These procedures mainly take place through IFMIS, though manual procedures for preparing expenditure returns are still used by district offices in some instances.

The spending of advances should be accounted for as soon as possible, the spending then regularized as expenditure and the advance retired. In accounting terms, they are financial assets under 'cash and cash equivalents'.

The following table shows imprests and advances outstanding (i.e. not yet cleared) at the end of the FY.

Table 3.18 End-FY outstanding imprests and advances (Ksh).

Description	FY 2015/16	FY 2014/15
Outstanding Imprests and Advances	970,054,226	1,007,937,990

Source: Annual Financial Statements 2015/2016: Consolidated Statement of Financial Assets (Cash & Cash Equivalents).

The annual reports of the Auditor General on the Annual Financial Statements of the National Government refer to advances that have not been cleared by year-end. Imprests totalling Ksh 117.6 million were still outstanding at the end of FY 2014/15. This was an improvement, however, over the Ksh 351 million outstanding at the end of the previous year. The report notes the amounts outstanding for each MDA and points out the lack of explanation for failures to clear advances by the end of the FY.

These figures exclude advances to other ministries of Ksh 2.4 billion that had not been cleared by the end of FY 2014/15. The report also notes significant discrepancies between the audited balance of advances outstanding at the end of FY 2013/14 and the unaudited balance as shown in the annual financial statistics of FY 2013/14.

PI 27.4 Financial data integrity processes

This is a new dimension. The Financial Regulations (2015 and its previous version of 1989) cover procedures for budget execution, reporting and accounting, the procedures including those governing access to data records and making changes to these. A financial manual goes into more detail on procedures. Procedures for making changes are embedded in IFMIS and transaction changes are automatically recorded in IFMIS, thereby creating an audit trail. [41]

An Information System unit within the IFMIS Office within the Accounting Services Department in NT is responsible for checking the integrity of IFMS, including through the contracting of consultants. The unit does not prepare specific integrity reports.

[41] E.g. Part IX of FR on Accounting and Reporting, paras. 97-111. For example, FR 102 covers financial records, both manual and electronic. FR 102 (3) states: "An Accounting Officer shall satisfy himself or herself that where an alteration of a financial record requires the authorisation, approval and/or deletion of any transaction or data whether manual or electronic, that there is a sufficient audit trail that will identify the person who authorized the transaction. FR 103 covers the preparation, authorising and posting of journal vouchers. FR 104 covers the procedures for preparing, authorising and documenting pre-numbered receipt and payments vouchers. FR 107 covers the procedures for authorising and documenting suspense account transactions. FR 109 covers procedures for using electronic systems for financial operations. FR 110 provides procedures for restricting access to these systems (e.g. uniform application forms for new users, segregation of duties, use of multifactor authentication),

Ongoing and planned activities

NT is planning for the implementation of the auto-bank reconciliation sub-module of the Cash Management Module of IFMIS to be in place by the beginning of FY 2017/18.

- It is also planning for the establishment of the TSA at the same time. The TSA would be located in CBK in the form of a Centralised Payments System: all financial resources would be deposited into it, and all expenditures would be paid out of it.

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

PI-28: In-Year Budget Reports (M1-WL)	Score/Criterion C+	Explanation
28.1 Coverage and comparability of reports *(last completed FY)*	C. *Coverage and classification of data allows direct comparison to the original budget for the main administrative headings*	• The BIRR reports show actual quarterly expenditure by administrative, sector & programme classification for each of the recurrent and development budgets against the original budget, except for the last quarter, which compares to the revised budget only; • Actual expenditures of d e-concentrated units financed by advances from HQs are reported on, facilitated by the availability of IFMIS to these units since FY 2014/15; • Part of sector budgets are implemented by SAGAs, financed by transfers from the GoK budget. Actual expenditures may not be reported in time, although SAGAs are supposed to report these every quarter.
28.2 Timing of in-year budget reports *(last completed FY)*	C *Budget execution reports are prepared quarterly and issued within 8 weeks from the end of each quarter.*	• Actual external AiA spending takes longer to prepare as the information is not captured by IFMIS (funds are kept in commercial bank accounts); • Information on actual spending by SAGAs of transfers from parent MDAs takes time to compile, as they are also not on IFMIS.
28.3 Accuracy of in-year budget *(last completed FY)*	B. *There may be concerns regarding data accuracy. Data issues are highlighted in the report and the data is consistent and useful for analysis of budget execution. An analysis of the budget execution is provided on at least a half-yearly basis. Expenditure is captured at least at payment stage*	• The quarterly Budget Implementation and Review Reports (BIRRs) highlight data issues (AiA spending, spending of transfers to SAGAs, neither captured by IFMIS). Most spending is captured by IFMIS; • Exchequer releases into MDA bank accounts and actual expenditure (payments) are reported. Expenditure commitments are not reported, but short term ones are implied by the exchequer releases.

PI 28.1 Coverage and comparability of reports

According to Article 228 (6) of the 2010 Constitution the Office of Controller of Budget (OCOB) is required to submit quarterly budget implementation review reports (BIRR) to Parliament. These are posted on OCOB's and NT's websites. Parliament can access the data on IFMIS. MDAs are required (Section 83 of PFMA) to submit quarterly budget execution reports to OCOB and NT. The team obtained a copy of the in-year budget reporting template, posted on NT's website.

For the first three quarters, coverage and classification of data allows direct comparison of actual expenditure to the original approved budget according to administrative, sector, and programme classification. The original approved budget is not prepared on a GFS-consistent economic classification basis, mainly because there is no explicit capital budget. Much of capital spending is covered by the development budget, but it also includes some items of recurrent expenditure.

There is no report for the 4th quarter, the end-year report including the 4th quarter, and therefore representing the annual report. This compares actual expenditure against the revised budget, which takes into account one or two supplementary budgets, not the original approved budget. The NT staff consider that the original budget is not relevant for comparison at this stage, even though this is the document, which indicates the policy intent of the Government. The revised budget is of course much closer to actual expenditure than the original budget. Assessment of in-year predictability of the budget is therefore misleading if it is based on the revised budget, particularly if the revision applies to the last quarter only. Comparison can of course be made by the reader by referring to other reports (e.g. BROP) that show the original budget.

The reports show expenditures on a 'gross' and 'net' basis. The difference is Appropriations in Aid (AiA), this representing expenditure by MDAs of financial resources received directly by them without having to deposit them first into the Exchequer Account. AiA comes from both domestic (non-tax revenues collected by MDAs) and external (donor aid) sources, most of it from the latter.

The BIRR for FY 2015/16 raises the following issues regarding timing and data accuracy;

- Delays by some MDAs in the submission of financial reports to OCOB;
- IFMIS is not always updated by MDAs to capture AiA generated by MDAs. Financial reports prepared through IFMIS may therefore be incomplete, reported expenditure being lower than actual expenditure. This is particularly the case for external AiA, the funds being deposited in MDA-held commercial bank accounts, the transactions in which are outside the scope of IFMIS. OCOB informed the assessment team that it endeavours to obtain the data on actual expenditure, but this takes time. OCOB has direct access to IFMIS, but this of no help if a portion of expenditures is recorded outside IFMIS.
    - Donor-funded project implementation may be delayed due to the need to follow donor procedures. Donor projects may be entered into the annual budget after the FY has started, thereby requiring a supplementary. Categorising the budget according to gross and net is therefore helpful as it helps to separate out the budget execution factors specific to donor project aid.
- Capital transfers to SAGAs from parent ministries are treated as expenditures by the ministries, leading to possible overstatement of expenditures if the transfers are not all spent at once by the SAGAs. As mentioned in the BIRRs, this is a particular issue where sector budgets are partly executed by SAGAs, for example the health sector budget, which is executed by Ministry of Health and 8 SAGAs, which receive transfers from Ministry of Health. SAGAs are required to submit in-year financial reports to their parent ministries, which should show actual expenditures, but timeliness is an issue, as SAGAs are not yet connected to IFMIS. During the process of preparing consolidated quarterly expenditure

reports, the initial spending of advances by SAGAs is eventually netted out, so as to avoid double counting.

Another issue is the reporting of expenditures by de-concentrated district offices of MDAs. These offices receive advances from their HQs. These are regularized as expenditures once the spending has been accounted for, but there may be delays. This issue is not as significant as it was as the time of the 2012 PEFA assessment, as all district offices are now hooked up to IFMIS.

PI 28.2 Timing of in-year budget reports

OCOB requires MDAs to submit financial reports by the 10th of the month following the end of each quarter. However, as noted under PI-28.1, some MDAs do not submit on time (e.g. 12 MDAs submitted their FY 2014/15 annual financial reports after the BIRR for that year had been completed).

The quarterly BIRRs are finalised about two months after the end of the period (e.g. the report for the third quarter of FY 2015-2016 -Jan-March- was published In May 2016). The report for the second quarter of FY 2016/17 has yet to be finalized.. PI-28.1 specifies the reasons that delay finalising of BIRRs.

PI 28.3 Accuracy of in-year budget reports

The BIRRs include concerns regarding data accuracy, as indicated above. The Auditor General annual reports also express concerns. Nevertheless, the data are consistent and useful for analysis of budget execution.

Expenditure is reported on at the payment stage only, not at the commitment stage, which is a limitation for monitoring budget implementation and the remaining uncommitted budget available to spend. The reports, however, show quarterly Exchequer Releases of funds into MDA accounts in CBK. These imply commitment to spend within the quarter. Longer term development expenditure commitments and commitments to purchase commonly used items during the year are not included.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the public financial management system.

PI-29: Annual Financial Reports (M1-WL)	**Score/Criterion C**	**Explanation**
29.1 Completeness of Annual Financial Reports *(last completed FY)*	*C. Financial reports for budgetary central government are prepared annually, and are comparable with the approved budget. They include information on revenue, expenditure, and cash balances.*	• Annual Financial Statements (AFS) are prepared annually by NT. Actual grants, expenditures and financing are shown in the AFS and are comparable with the approved budget (on a broad economic classification basis for expenditure). Domestic revenue performance by broad category is not shown. There is no analysis of revenue and expenditure performance, but this is shown in the annual BIRRs and BROPs;

PI-29: Annual Financial Reports (M1-WL)	Score/Criterion C	Explanation
		• The AFS also include information on financial assets, liabilities except public debt stocks, loan guarantees, cash flow and end-year cash balances. Public debt stock information is prepared separately by PDMO in NT. This is a major omission from IPSAS-cash compliance requirements. The tables do not contain full information on non-financial assets.
29.2 Submission of reports for external audit *(last annual financial report submitted for audit)*	*C. Financial reports for budgetary central government are submitted for external audit within 9 months of the end of the fiscal year*.	MDAs are required by PFMA to send their AFS to NT by 3 months after the end of the FY. According to OAG, these nominally comply with PFMA, but in practice MDAs tend to revise them. The draft consolidated AFS for FY2015-16 while provided to the assessment team it was dated March 3, 2017, 8 months after the end of the FY.
29.3 Accounting standards *(last 3 years' financial report)*	*C. Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed*.	The AFS have been prepared according to IPSAS cash since FY 2014/15. They are mainly in compliance with them, but they do not disclose public debt stock information (as noted with regard to the draft AFS FY 2015/16)

PI 29.1 Completeness of annual financial reports

This dimension is similar to PI-25 (i) in the 2011 PEFA Framework. The main difference is that PI 29.1 requires comparison of actual expenditures in the annual financial statements (AFS) with the original approved budget, and the provision of an analysis for reasons for differences between outturns and budgets. PI-25 (i) did not specify this, the requirement being only to show outturns for revenues and expenditures.

The annual financial statements (AFS) for FY 2015/16 (the last available to the team, and still not in final form) include detailed tables providing full information on actual expenditures for MDAs for FY 2015/16, but no information on budgeted and actual domestic revenues. The original approved budget ('printed estimates') for expenditure is shown on a broad economic classification basis alongside actual expenditures on the same basis (Table 6 in AFS), enabling a comparison of the outturn with the budget, but with no analysis of reasons for differences. Such analysis is provided, however, in the annual Budget Review and Outlook Paper (BROP) and BIRR.

The AFS also provides information on assets, liabilities, guarantees, and short-term obligations. The table on cash flows in section 1.2.9 of the 2015/16 AFS shows the net cash flows generated from operating, investing and financial activities during FY 2014/15 and FY 2015/16, alongside the stock of cash and cash-equivalent balances at the end of each of the 2 years. The change in the stocks is consistent with the net cash flows.

The AFS do not include the end-year stock of public debt. This is an institutional peculiarity of NT, as the Public Debt Management Office (PDMO) is separate from ASD. PDMO's annual reports are published separately. The omission of the end-year stock of public debt precludes the preparation of an annual Statement of Assets and Liabilities and thus a balance sheet MDAs do not report all fixed assets and some report only financial assets.

As noted in PI 27, advances and suspense accounts are not all cleared by the end of the FY (as noted in the annual OAG reports), thereby detracting from the completeness of the annual financial reports.

PI 29.2 Submission of reports for external audit

According to Section 80 of PFMA (2012) NT is required to submit a consolidated annual financial statement to the Auditor General within 4 months after the end of the FY, with a copy to the Controller of Budget and the Commission on Revenue Allocation by 31 October 2015. MDAs are required to submit their AFS to NT within 3 months of the end of the FY. MDAs nominally comply with the regulation. In practice, however, according to OAG, they tend to make revisions, due to mistakes they make (this was also noted in the 2012 PEFA assessment). This is because they are using IFMIS and manual methods in parallel when preparing their AFS, although they are supposed to only use IFMIS. There is apparently still some distrust/lack of understanding of IFMIS. Plenty of training has been provided to staff by the IFMIS Office, but more training is often requested due to staff turnover. Some AFS may not be finalised until several months after the end of the FY, as can be seen on OAG's website.

The draft consolidated AFS for FY 2015/16 provided to the assessment team is dated 3/3 2017, about 8 months of the end of FY 2015/16.

PI 29.3 Accounting standards

Section 80 of the PFMA, 2012 requires NT to prepare AFS that consolidate the financial statements prepared by all National Government MDAs, in compliance with the accounting policies and formats prescribed by the Public Sector Accounting Standards Board (PSASB) that was established in NT in FY 2015/16. The financial statements comply with the form of presentation prescribed by PSASB (as per the template shown on NT's website).

Starting with FY 2014/15, the AFS for the National Government have been prepared in compliance with the International Public Sector Accounting Standards (IPSAS) using the Cash Basis of Accounting for MDAs and County Governments. SAGAs and State Corporations use IPSAS accrual to prepare their AFS.These are incomplete, due to fixed asset registers not being complete (see PI-12), but is not relevant for the MDAs and Counties that prepare the AFS on a cash basis.

The AFS have been prepared according to IPSAS cash beginning in FY 2014/15 and are mainly in compliance with them.

3.7 Pillar VII. External Scrutiny and Audit

PI-30 External audit

This indicator examines the characteristics of external audit.

PI-30: External Audit (M1-WL)	Score/Criterion D+	Explanation
30.1 Audit coverage & standards *(last 3 completed FYs)*	B *Financial reports of central government entities representing most total expenditures and revenues have been audited using ISSAIs or national auditing* standards *during the last three completed fiscal years. The audits have highlighted any relevant material issues and systemic and control risk*s.	• Financial accounts of all national government MDAs connected to IFMIS are audited by OAG every year in conformity with ISSAIs.as indicated in the audit reports for FY 2012/13-14/15 (the report for FY 2015/16 has not yet been issued); • National Security institutions are audited periodically, but not annually as they are not connected to IFMIS.
30.2 Submission of audit reports to the legislature *(last 3 completed FYs)*	D *Performance is less than required for a C score.*	MDAs are required to submit their draft AFS to OAG no later than 3 months after the end of the FY. Most comply, but then make revisions, which may continue for several months. This hinders OAG in meeting its constitutional requirement to prepare its audit reports on MDAs no later than 6 months after the end of the previous FY. The reports for the last few years have been submitted more than 12 months after the end of the FY and the report for FY 2015/16 appears not yet to have been submitted to Parliament.
30.3 External audit follow-up *(last 3 completed FYs)*	*D* Insufficient information was available to enable scoring*.	• Audited MDAs provide a formal response to audit findings through Management Letters to OAG, but it is not necessarily comprehensive & timely. The 2009 Public Audit Act did not provide for this; • The OAG reports on the AFS for FYs 2012/13-2014/15 do not include any assessment of whether its recommendations were implemented; • The December 2015 Public Audit Act explicitly covers the audit process, including response and follow-up. The Public Sector Accounting Standards Board has prepared a template for this. It is too early to assess its effectiveness.
30.4 Supreme Audit Institution (SAI) Independence *(at time of assessment)*	A *The SAI operates independently from the executive with respect to procedures for appointment and removal of the Head of the SAI, the planning of audit engagements, arrangements for publicizing reports, and the approval and execution of*	• The 2010 Constitution (Article 249) and Section 10 of the December 2015 Public Audit Act (PAA) confirm OAG's independence from the executive branch of GoK.

PI-30: External Audit (M1-WL)	Score/Criterion D+	Explanation
	the SAI's budget. This independence is assured by law. The SAI has unrestricted and timely access to records, documentation and information.	

Background

Prior to the 2010 Constitution, the Auditor General was also Controller, having the authority to approve releases from the Exchequer Fund. This dual function was abolished in Article 229 of the 2010 Constitution, Article 228 providing for the establishment of a separate Controller of the Budget (as referred to in other parts of this PEFA assessment). Articles 248 and 253 establish corporate body status for each commission and independent office, thereby providing for the establishment of the Office of the Auditor General (OAG).

The Public Audit Act (PAA) of December 2015 replaced the 2009 Public Audit Act. The major changes reflected the provisions of the 2010 Constitution, noted above. Under Section 4, the OAG was established, replacing the Kenya National Audit Office (KENAO). Section 10 provides explicitly for the independence of the Auditor General. Section 11 significantly reinforces the process for selecting competent persons to the position of the Auditor General in case of any vacancy. The President may nominate a candidate and submit it to Parliament for its approval. Section 24 provides for outsourcing. Section 25 provides for an Audit Advisory Board in place of the National Audit Commission (established under the 2003 Act to consider and approve the annual budget for NAO and to determine the remuneration and other terms of appointment of staff). It affirmed that only a person registered and practicing as an accountant under the Accountants Act, 2008, should be qualified for the purpose of provision of a financial audit opinion.

Sections 47-48 provide for the auditing of financial statements required by the PFMA (2012) and the time deadlines to be adhered to (MDAs have to submit their annual financial statements no later than 3 months after the end of the FY and OAG is required to submit its report on these accounts no later than 6 months of the end of the FY).

PI 30.1 Audit coverage and standards

The OAG, headed by the Auditor General, has the primary oversight role of ensuring accountability in the use of public resources. OAG may audit the accounts of any entity that is funded from public funds (including SAGAs, as discussed under PI-10). The 2010 Constitution and 2015 PAA specify that OAG must, within 6 months of the end of the FY, audit and report on the accounts of all National Government entities, covering revenue, expenditure, assets, and liabilities, using International Standards on Supreme Audit Institutions (ISSAIs) or consistent national auditing standards. The audit reports should highlight relevant material issues and systemic and control risks. In depth audits should be carried out on the basis of risk analysis methods. More emphasis is given to performance audits (value for money), forensic audits, and procurement/asset disposal than under the previous law (sections 34-38 of the 2015 law).

The OAG annually audits all central government MDAs that are linked to IFMIS. Audits are performed according to ISSAIs. The national security institutions (e.g. Defence) are not linked to IFMIS, but are audited periodically, including during the last 3 FYs.

Reports of the OAG also cover SAGAs. The reports are individually posted on OAG's website, the latest postings cover FY 2013/14. The audit reports for FY 2014/15 have been prepared but have not yet been posted on OAG's website. The capacity of the website limits the amount of documentation that can be posted on it. The capacity needs expanding.

The annual audit report prepared by OAG on the annual financial statements of GoK has two parts: (i) summary; and (ii) main report. The most recent report at the time of the PEFA field visit covered FY 2014/15. Section 3 of the report on Auditor General's Responsibility indicates that the Auditor General carried out the audit in accordance with ISSAI, also indicated in the reports on FYs 2011/12- 2013/14.

The 2012 PEFA assessment indicated that INTOSAI standards were met in terms of planning and carrying audits, but that the audit reports on the AFS (the last of which covered FY 2009/10) fell short of these standards. Two sets of opinions were given; one set consisted of unqualified opinions for a number of MDAs, the other set consisting of disclaimers of opinion for the other MDAs, which are at the other extreme. Such a scenario was highly improbable; the usual range is: unqualified, qualified, adverse and disclaimer. The 'worse' the opinion, the greater the materiality issues and the greater the systemic control risks (see PI-25 on internal controls, showing the distribution of the types of opinions). The reports for FYs 2010/11- 2014/15 contain a much more plausible range of opinions, covering the whole range. The Summary of the audit report for FY 2014/15 contains a list of opinions on the AFS of each MDA, by type of opinion.[42]

Article 229 (4) of the 2010 Constitution stipulates that within 6 months after the end of the FY the Auditor General will audit, *inter alia,* the accounts of the national government, county governments, and the funds and authorities of these bodies. The audit report should then be submitted to Parliament/County Assembly. Section 9 of the Public Audit Act (PAA, 2009) stipulates that the Controller and Auditor General (Office of Auditor General (OAG) from 2010 under the 2010 Constitution) should submit the report to the Minister of Finance, who, under Section 10, will lay the report to Parliament no later than 7 days after receipt of the report (or no later than 7 days after Parliament reconvenes).

The Public Audit Act (2009) stayed in effect until December 2015, when it was replaced by the PAA (2015). The main change, reflecting the provisions of the 2010 Constitution, is the separation of the audit function from the controller function and the explicit emphasis of the independence of the Auditor General (renaming of KENAO to OAG). The Auditor General now submits audit reports directly to Parliament rather than to Ministry of Finance. Article 229 (4) of the Constitution still holds

PI 30.2 Submission of audit reports to legislature

The reports of the Auditor General on the Financial Statements of the National Government for FYs 2012/13, 2013/14 and 2014/15-were completed on 16th June 2014, 29th June 2015 and 15th July 2016 respectively (as indicated at the end of the reports) and submitted to Parliament. The reports were posted on Parliament's website seven days later, and on OAG's website a further week later (section 32 of the PAA). The dates of submission are over 12 months from the end of relevant FY and thus well past the constitutional 6 month deadline. At the time of the PEFA field visit, the preparation of the audit report for FY 2015/16 was still on-going. As of November 2017, it has not yet been posted on OAG's website, although OAG had projected it to be posted in June 2017.

The reason for the long delay is that MDAs tend to revise their statements after the end-September legal deadline for submitting them to OAG, as noted under PI-29.1. According to OAG, such

[42] The scope of the audit reports changed in FY 2013/14 due to the establishment of County Governments, the audit reports for which are separate from the audit reports on the National Government. The district governments that they replaced were covered by OAG in its annual audit reports of national government.

revisions continue to as late as March. This is partly because MDAs continue to use manual methods to prepare their AFS in parallel to using IFMIS, leading to many errors. According to OAG, Local Purchase Orders (LPOs) and Payments Vouchers are still being prepared manually, even though many steps are involved which IFMIS could do in one step (e.g. 13 steps for payments voucher processing). The delays hold up the finalisation of the consolidated AFS by NT. Time is also required for NT to make changes to the draft AFS in response to the comments of the OAG. OAG can meet the 6 month deadline, but only if the AFS have been correctly prepared on time in the first place.

The timeliness has actually worsened since the 2012 PEFA assessment. The audit reports for the three FYs prior to that assessment were submitted to Parliament in May.

PI 30.3 External audit follow-up

This dimension assesses the follow-up by MDAs on implementing the recommendations made by the OAG with regard to its audit reports on the last three annual financial statements (AFS) of the Consolidated Fund. At the time of fieldwork for this PEFA assessment (February-March 2017), the OAG had not completed its audit of the FY 2015/16 AFS. Thus, the extent of follow-up is assessed in relation to the audit reports covering FYs, 2012/13-2014/15.

The audit process is prescribed in Section 31 of Part IV of the 2015 Public Audit Act (PAA) on the 'Audit Process and Types of Audit'. The process was not explicitly described in the previous Act. The PAA came into force in January 2016, the follow-up process becoming more formalized as a result The steps are:

- Inception meeting with the MDA to be audited to discuss the scope of audit and to check that the MDA has finalised its AFS for the previous year and implemented the recommendations contained in the previous year's Management Letter. The MDA is required to provide unfettered access by the OAG team to internal audit reports (section 33 of the Act).
- Exit meeting on conclusion of the audit work, at which the Auditor General presents a draft Management Letter to the MDA indicating his findings and recommendations.
- The Accounting Officer of the MDA submits a response to the Auditor General within 14 days, indicating remedial actions that have been taken in response to the issues raised in the Letter. If no response is received the Auditor General finalises the Letter.

The Public Sector Accounting Standards Board (established in sections 192-195 of the PFMA (2012) and elaborated on under Financial Regulation 111; the Board is located in NT) prepared a template in FY 2015/16 for preparing annual financial statements. Section 27 of the template (on NT's website) provides for monitoring the actions taken by an MDA in response to the recommendations of audit reports. A matrix contains the following in column form: list of Issues raised by OAG in its Management Letter to the respective MDA; Management comments; name of MDA staff person in charge of resolving the issue; status of resolving the issue; and expected date for resolving the issue.

The template came into effect for FY 2016/17. The audit process for FY 2015/16 is still on-going, so it is not possible to assess how well this new process has worked. Thus this dimension can only be assessed according to the follow-up processes in place before the PAA became effective.

Time constraints precluded a detailed assessment. PI-26 (iii) in the 2012 PEFA assessment covered the extent of follow-up by MDAs on external audit recommendations. The score was D, indicating little follow-up, despite issues of management letters to KENAO indicating what actions would be taken. The issues raised by KENAO tended to re-occur in following years, as also noted by the Public Accounts Committee (PAC) of Parliament (C score for PI-28 iii), unchanged from the 2008 PEFA assessment.

The audit reports for FYs 2010/11-2014/15 show that the same issues raised by OAG have tended re-occur every year, as shown in the table below.

PI-26 (iii) in the 2012 PEFA assessment covered the extent of follow-up by MDAs on external audit recommendations. The score was D, indicating little follow-up, despite issues of management letters to KENAO indicating what actions would be taken. The issues raised by KENAO tended to re-occur in following years, as also noted by the Public Accounts Committee (PAC) of Parliament (C score for PI-28 iii), unchanged from the 2008 PEFA assessment was 37.8.%, 24.7% and 27.8% with regard to the audited AFS for FYs 2012/13-2014/15 respectively. The proportions have fallen, indicating stricter compliance with internal controls (see PI 25.3). They are still significant, however, indicating a significant lack of follow-up by MDAs on audit recommendations.

Table 3.19 Number and type of OAG audit opinions *1/*

Opinion type/#	2012/13	% total	2013/ 14	% total	2014/ 15	% total
Unqualified	41	12.0	26	25.7	27	25.0
Qualified	172	50.2	50	49.6	51	47.2
Adverse	45	13.1	16	15.8	19	17.6
Disclaimer	85	24.7	9	8.9	11	10.2
Total	343	100	101	100	108	100

Source: Audit reports prepared by OAG (posted on its website.

1/ The numbers of MDAs fell sharply in FY 2013/14 due to Government reorganization.

Other on-going reforms

As is the case for the Internal Auditor General's Office, OAG is increasingly using TeamMate (a software package) as a tool for managing its audit activities, which include the assessing of the extent of follow-up by MDAs on audit recommendations. Team Mate was in the process of being adopted at the time of the 2012 assessment. About half of the staff are now using Team Mate, and it is planned that the other half will be using it during the next audit cycle

PI 30.4 Supreme Audit Institution Independence

As noted in 'Background' above, the OAG is established as an Independent Office under Articles 229, 248 & 253 of the 2010 Constitution. The Auditor General is appointed in accordance with the Constitution. The statutory duties and responsibilities of the position are given in Article 229 and in the Public Audit Act (December 2015), which replaced the 2003 Public Audit Act (updated 2009). OAG now operates independently from the executive with respect to procedures for appointment and removal of the Head of the OAG, the planning of audit engagements, arrangements for publicising reports, and the approval and execution of the OAG's budget. This independence assures unrestricted and timely access to records, documentation and information. OAG still considers its budget is too small relative to its duties stipulated in the Constitutional duties

PI-31 Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the national government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

PI-31: Legislative Scrutiny of Audit Reports (M2-AV)	**Score/Criterion C**	**Explanation**
31.1 Timing of audit report scrutiny *(last 3 completed FYs)*	D *Performance is less than required for a C score* *A score of C requires that 'Scrutiny of audit reports on annual financial reports has been completed by the legislature within twelve months from receipt of the reports'* .	At the time of the PEFA assessment field visit in February-March 2017, the PAC was still reviewing the audit reports for FYs 2013/14 and 2014/15. So far, it had taken 21 months and 9 months respectively to review them, over 12 months on average.
31.2 Hearings on audit findings *(last 3 completed FYs)*	D *Performance is less than required for a C score* *A score of C requires that In-depth hearings on key findings of audit reports take place regularly with responsible officers from most audited entities, which received a qualified or adverse audit opinion or a disclaimer*.	The PAC conducts hearings for those audited entities that receive OAG audit opinions that are not unqualified (75 out of the 101 opinions on the FY 2013/14 accounts and 82 out of 106 opinions on the FY 2014/15 accounts of the National Government). The team was unable to meet the PAC and obtain evidence on the actual number of hearings on the audit reports for FYs 2013/14 & 2014/15, and on the extent of 'materiality' of the MDAs for which hearings were held. The team was informed that the minutes of PAC meetings could be accessed on-line, but this was not the case (the file was too large).
31.3 Recommendations on audit by the legislature (*last 3 completed FYs)*	*D. Performance is less than required for a C score* *A score of C requires that 'the legislature issues recommendations on actions to be implemented by the executive.'*	As noted under PI 31.1, the PAC is still reviewing the audit reports submitted to it for FY 2013/14 and FY 2014/15, and has not yet received the report for FY 2015/16. Thus, it has not been possible for it to issue any recommendations with regard to audit reports covering the last three completed FYs.
31.4 Transparency of legislative scrutiny of audit reports *(last 3 completed FYs)*	D *Performance is less than required for a C score* *A score of C requires that 'Committee reports are published on an official website or by any other means easily accessible to the public.'*	Hearings on audit reports are not open to the public but PAC reports are published on the Parliament web site[43]. Reports on FYs 2013/14 & 2014/15 have not yet been completed

[43] www.parliament.go.ke. The PAC report for FY 2012/13 is on the website, but it is so large that it was not possible to download it.

PI 31.1 Timing of audit report scrutiny

The most recent Auditor General's reports on the accounts of the National Government were tabled at the Parliament as follows:

- On 02/04/2012 for the report on FY 2010/11- On 08/10/2013 for the report on FY 2011/2012;
- On 17/07/2014 for the report on FY 2012/2013;
- On 29/06/2015 for the report on FY 2013/14;
- On 16/07/2016 for the report on FY 2014/15.

The reports of the Public Accounts Committee (PAC) of Parliament on the OAG reports for FYs 2010/2011-2012/2013 were transmitted to the full Parliament at the same time on 02 December 2014 and voted on together on 4 March 2015.[44]

The report on FY 2015/16 i expected, according to the Accountant General and OAG, to be tabled in July 2017 (but, as of December 2017, the audit report for FY 2015/16, still had not been submitted to the PAC).

The PAC now has direct access to the reporting module of IFMIS (see PI-28.3), which should help to expedite the review process.

At the time of the field mission for this PEFA assessment (February-March 2017), the PAC was analysing OAG's reports for FYs 2013/14- 2014/2015. PAC received the FY 2013/14 report on 29th June, 2015, so its review had so far taken 21 months. It received the FY 2014/15 report on 16th July 2016, so its review had so far taken 9 months. The PAC now has direct access to the reporting module of IFMIS (see PI-28.3), which should help to expedite the review process.

PI 31.2 Hearings on audit findings

The National Assembly is organised into different Standing Committees, as was the case at the time of the 2012 PEFA assessment. The PAC is responsible for reviewing the annual audit reports prepared by OAG on the financial accounts of the National Government. The audit reports submitted to PAC for the last 3 completed FYs are for FY 2013/14 and FY 2014/15. At the time of the PEFA field visit, OAG had not yet submitted its report for FY 2015/16 (which was the last completed FY at the time of the PEFA field visit).

The PAC conducts hearings with responsible officers from all audited MDAs, which received a qualified or adverse audit opinion or a disclaimer opinion. OAG's summary report on the accounts for FY 2013/14 indicate 50 qualified opinions, 16 adverse opinions and 9 disclaimers of opinions. Its report for 2014/15 indicates 51 qualified opinions, 19 adverse opinions and 11 disclaimers of opinion. The Minutes of PAC Hearings are provided in the Appendix of the Annual Report of the PAC on the Government of Kenya accounts.

At the time of the 2012 PEFA assessment, the PAC scrutinized all audit reports, including those with an unqualified opinion. The report noted the inefficiency of this practice. The situation has improved since then, the PAC no longer scrutinizing audit reports with unqualified opinions The 2012 PEFA assessment team met the PAC, but the 2017 PEFA team was not able to meet the PAC and obtain the information on the actual number of hearings so far on the submitted audit reports for FYs 2013/14 and 2014/15.The team was informed that the minutes of PAC meetings could be accessed on-line, but this was not the case.

44 The PAC is established pursuant to Standing Order No. 205. It consists of a Chairman, Vice Chairman and 15 other members. The Chairman and Vice Chairman are elected by the PAC's members (information from Parliament's website).

It is undoubtedly the case that hearings are held on most audit reports at least, as was the case at the time of the 2012 PEFA assessment. The team was not able, however obtain a list of the MDAs for which hearings were held. Without this list, it is not possible to provide a score based on materiality (in this case, the expenditure of each MDA for which hearings were held).

PI 31.3 Recommendations on audit by the legislature

As noted under PI 31.1, the PAC is still reviewing the audit reports submitted to it for FY 2013/14 and FY 2014/15, and has not yet received the report for FY 2015/16.

As noted under PI-28 in the 2012 PEFA assessment, a large number of recommendations were issued in the PAC reports on the basis of the audit reports submitted by OAG. . Many recommendations concerned the resolution of basic accounting issues. The PAC was clearly concerned that insufficient progress was being made by MDAs in implementing these recommendations, despite both OAG and NT following up on their implementation. OAG follows up at its introductory meeting with auditees in preparation for the next round of audits.

The recommendations of PAC for each MDA are collated into a report (very large due to the large number of recommendations) which is then tabled before Parliament as a whole. Once approved, the recommendations become binding on MDAs to address.

One major recommendation of PAC's report on the FY 2012/13 audit report was that some Accounting Officers should act far more responsibly in their meetings with PAC.: "… the Committee was quite frustrated by the unacceptably poor performance by some Accounting Officers who made work difficult by their numerous requests to postpone appearance; coming before the Committee unprepared; submitting poorly prepared, casual and unconvincing responses; late submission of responses; and failure to furnish the office of the Auditor General with advance copies of responses. The Committee holds the view that this is reprehensible conduct that compromises the audit cycle, and must be strongly discouraged by all means. Accordingly, the Committee wishes to commend all those Accounting Officers who took their work seriously". As indicated in the 2012 PEFA assessment report, similar comments were made with respect to the FY 2007/08 audited account.

The 2012 PEFA assessment (under PIs 26 and 28) noted the large number of recommendations that the PAC makes, causing its report to be very so large (nearly 400 pages). The reason that KENAO identifies many technical deficiencies in the use by MDAs of their PFM systems, but doesn't discuss with their auditees ways of resolving these prior to finalization of the report prior to submission to Parliament. The PAC therefore finds itself discussing a multitude of technical issues that could have been resolved prior to the report being sent to Parliament.

This situation appears not to have changed, as implied by the length of time still being spent by PAC in reviewing reports: 21 months to date for the FY 2013/14 report and 9 months for the FY 2014/15 report (PI 31.2).

PI 31.4 Transparency of the legislative scrutiny of audit reports

Hearings on audit reports are not open to the public. However, PAC reports are debated in the full chamber of the legislature and published on the Parliament's official website or by any other means easily accessible to the public.

PAC reports have yet to be published for FYs 2013/14 & 14/15 as they have not yet been completed. The last published report covers FY 2012/13.

4 Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Summary

Overall PFM system performance has improved somewhat since the time of the 2012 PEFA assessment, but by not as much as anticipated at that time. Substantial improvement was expected on the basis of the 2010 Constitution and the 2012 PFM Act that arose from this. The re-engineering of the Integrated Financial Management Information System (IFMIS) that had just started was projected to be a major vehicle for improvement. Improvements in other PFM-related other IT programmes (procurement database strengthening, establishment of a modern IT-based tax administration system (iTax) under Kenya Revenue Authority (KRA), and the electronic linkage of these with IFMIS would also help drive improvement.

Although the PFMA came into force in 2012, the Financial Regulations that would give effect to the Act did not come into effect until March 2015. Thus, implementation of PFMA only fully got underway in FY 2014/15 (e.g. FY 2014/15 was the first year of preparation of annual financial statements according to IPSAS cash).

Implementation of IFMIS and its integration with other PFM-related IT packages has been slower than anticipated, mainly for technical reasons. The General Ledger, Accounts Payables and Plan to Budget modules are fully established throughout national government offices in Kenya. Approved budgets can be incorporated directly into IFMIS, and budget execution, accounting and reporting processed through IFMIS. The Procurement to Pay module is partially established. E-procurement is taking hold and has been favourably received by suppliers. There are still some teething problems, however, in relation to the Procurement part of the module.

The Cash Management Module has not yet been implemented: the auto-bank reconciliation feature of this has not yet been established due to technical problems in relation to the interface with CBK's systems. Cash flow forecasting and cash management plans have not yet been incorporated, one issue being delays in establishing a Treasury Single Account (TSA) in CBK. This is expected to be established by the beginning of the new FY (2017/18). The KRA IT-based tax administration system (iTax) has not yet been integrated with IFMIS, preventing full establishment of the Revenue to Cash Module). The Commonwealth Secretariat Debt Recording Management System (CSDRMS) located in the Public Debt Management Office (PDMO) has not yet been interfaced with IFMIS due to technical problems.

A major issue is that staff are still using manual processes in parallel to IFMIS, for example for issue of Local Purchase Orders and Payments Vouchers. This has led to many mistakes being made by MDAs in preparing annual financial statements for submission to the Office of Auditor General (OAG), which then has to send the draft statements back to MDAs for correction. OAG's submission of its annual audit report to Parliament is therefore several months late; the report for FY 2014/15 was not submitted until July 2016 and OAG expects the report for FY 2015/16 to be submitted in July 2017. The time delays have increased over time.

Another major issue appears to be the lack of seriousness attached by MDAs to the findings of the external reports prepared by the Office of the Auditor General (OAG). The effectiveness of the external audit function is seriously compromised if MDAs do not address the issues raised by OAG. The Public Accounts Committee in Parliament also raises this issue.

Summary by PFM Core Pillar

PILLAR 1: BUDGET RELIABILITY (PIs 1-3)

The scores for PIs 1-3 are B, B+ and B respectively, indicating at first sight a reasonable degree of reliability in the budget. However, domestic revenues and external grants continue to underperform relative to budgeted amounts, leading to budget cutbacks during the year (PI-1).

The way in which the budget is prepared and executed raises some issues: Some MDAs appear to continue to have their budgets adjusted upwards each year, while some have their budgets adjusted downwards, indicating issues in accurately estimating budgets (PI-2). The annual approved budget is still effectively a semi-annual budget, executed on a monthly basis for the first half year. Preparation for a supplementary budget begins in mid-year, taking into account the resources situation and the requests from MDAs for adjustments. The resultant Supplementary Appropriations Bill tends to be submitted to Parliament very late in the FY, thus hindering the implementation of planned activities by MDAs, as noted by the Office of Controller of the Budget (OCOB). As was also the case at the time of the 2012 PEFA assessment, the BIRR reports and meetings with NT staff all indicate that the original approved budget is viewed as a starting off point for the new FY, rather than a reliable plan for the whole year.

This situation should improve if revenue estimates become more realistic, budgeting becomes more accurate, cash flow forecasting and cash management plan preparation are improved, the cash management module of IFMIS is implemented, and a Treasury Single Account (TSA) is established. Much of this was supposed to have happened since the 2012 PEFA assessment, but did not happen, despite the strengthened PFM legislation being in place since 2012 and the supporting financial regulations are in place only since 2015, and the progress made in re-engineering the IFMIS.

PILLAR 2: TRANSPARENCY OF PUBLIC FINANCE (PIs 4-9)

Transparency has improved to an extent since the 2012 PEFA assessment, but limitations remain. A weak area at that time was the transparency of extra-budgetary operations (EBO). Since then there has been some improvement. A significant issue is the non-transparency of the spending of third party grants to primary schools and the non-preparation of annual financial statements by the schools for submission to their Boards of Management. Transparency has improved through the establishment of these Boards, but the Office of the Auditor General (OAG) raised significant reporting and accountability issues in its report on the FY 2014/15 accounts. USAiD-financed projects, substantial in amount, remain as un-reported external EBOs, as GoK internal controls are still not considered to be strong enough by USAID to justify the use of GoK's PFM systems for their projects. (PI-6).

The classification of the budget (PI-4) has improved due to the introduction of a new Standard Chart of Accounts (SCOA). It still scores C, however, as the budget remains classified according to recurrent and development budget, the latter containing elements of recurrent expenditure. But such classification does not significantly detract from transparency.

PI-5 on budget documentation scores D, also the case in the 2012 PEFA assessment, but this can easily be rectified by including actual expenditure in the previous year in the budget documentation.

Another limitation is the timeliness of provision of information to county governments on the amount of fiscal transfers each will receive for the next financial years (PI-7). This tend to arrive several weeks late due to delays by Parliament in approving the annual County Revenue Allocation Act (CARA). This results in County Government legislative assemblies not being able to approve draft budgets until well into the new fiscal year. Changing the FY for Counties so that it would start later than for the National Government could help solve this problem.

Transparency of the transfers system is good, however, (PI-7.1), being determined by formulae. Its usefulness is undermined, however, by the delays by the National Government in providing information to County governments on the transfers each will receive in the next fiscal year.

The indicator (PI-8) on 'Performance information for service delivery' is mainly new. It scores C+, indicating some limitations, but performance is nevertheless quite good. Strengthening is a medium term priority, not an urgent priority. The indicator refers mainly to schools, primary health services having been devolved to Counties in 2013.

PI-9 covers public access to fiscal information. The main issue is the late publication of OAG's report on the annual financial statements due to delays in the submission of the annual financial statements to them. The audit reports are being published more than a year after the end of the period for which the report is being prepared. This delay has significantly increased since the 2012 PEFA assessment.

PILLAR 3: MANAGEMENT OF ASSETS AND LIABILITIES (PIs 10-13)

The coverage of this Pillar is diverse. The most important in terms of priority issues that should be addressed is PI-10 on fiscal risks. These are potentially high, which if they materialize, could negatively impact on macro-economic stability and the credibility of the budget. Fiscal risks may materialize in the form of public debt higher than anticipated, so management of this and reporting on it is high priority (PI-13 on Debt Management). As indicated in Annex 1 of the annual Budget Policy Statements, State Corporations (both commercial and non-commercial), Public Private Partnerships (PPPs) County Governments and public pension schemes all pose significant fiscal risk. An immediate priority should be strengthening of reporting and accounting procedures so that the annual financial statements of these public bodies can be prepared with much greater speed than at present, and thus be ready for audit much earlier than is currently the case. Most of the relatively recently established County Governments are not yet preparing annual financial statements; the BPS strongly emphasises the fiscal risks posed by these.

Issues arising under PIs 11 and 12 (both new) are medium term in nature. Strengthening public investment management (PI-11) is desirable in terms of strengthening the effectiveness of public expenditure, but its current status does not pose any immediate fiscal risk, particularly as a substantial component of investments is financed by donors. Procedures have been in place for several years for selecting capital projects, but as yet they do not fully meet the criteria specified in PI-11 (the rigidity of these criteria should perhaps be revisited).

The main issue under PI-12 (Public Asset Management), which scores D, is insufficient information on the stock and value of non-financial assets held by MDAs due to inadequately maintained fixed assets registers. Addressing this issue is a high priority one if GoK plans to introduce IPSAS-based accrual accounting in the near future, which would seem to be premature. IPSAS-based cash accounting was only established in FY 2013/14. OAG annual reports indicate a number of accounting issues in MDAs, noted under Pillar 6, which should have first priority for addressing.

Regarding debt management (PI 13), the main issue seems to be debt reconciliation errors that are highlighted in the annual OAG reports, which cast doubt on the accuracy of information on outstanding debt. In terms of monitoring fiscal risk, a high priority should be ensuring that debt records are accurate. In this regard, the electronic linkage between the Commonwealth Secretariat Debt Management Reporting System (CSDRMS) in Public Debt Management Office (PDMO) in

National Treasury (NT) and IFMIS and between the Public Debt Management Office (PDMO) and Central Bank of Kenya (CBK) that was being planned at the time of the 2012 PEFA assessment have not yet been established due to technical problems.

On a more positive side, the procedures for GoK approval of loans and loan guarantees appear to be transparent. A very well prepared Medium Term Debt Management Strategy (MTDMS) continues to be prepared annually.

PILLAR 4: POLICY-BASED FISCAL STRATEGY AND BUDGETING, PIs 14-18

A medium-term perspective to budgeting is nominally in place, as it was at the time of the 2012 PEFA assessment. In practice, however, the perspective is still semi-annual, budget execution at the beginning of the year planned for the first half of the year only, and then executed for the second half on the basis of one or two supplementary budgets (also addressed under PI-22 on budget execution). The approved budget appears to be considered as a starting off point for the year and not as a plan for the whole year. This situation reflects the continuing uncertainty of both revenue and expenditure estimates, as shown in the annual budget presented to Parliament at the beginning of the year. The uncertainty may not just reflect technical issues in making such estimates, but also a domestic and external environment that seems to tend towards uncertainty.

A big improvement in the budget preparation process since the 2012 PEFA assessment is the requirement for annual draft budgets to be submitted to Parliament by the end of April, instead of in June, and for the draft budget to be approved by June 30th (end of the FY). The change is a result of the requirements specified in the PFMA (2012).

The reform priorities in future years would seem to be: (i) continue to strengthen macro-fiscal forecasting (PI-14), particular on the revenue side (PI-3 indicates continual under-performance of revenue collection); and (ii) strengthen annual budgeting in terms of accuracy: PI-17 on budget preparation procedures scores high, but this does not guarantee accurate budgets. The introduction of periodic comprehensive spending reviews outside the budget preparation calendar would help to identify areas where spending efficiency and effectiveness could be improved (e.g. UK Government introduced these in 1997).

More realistic annual budgets would also reduce the need for annual supplementary budgets. The situation has been the preparation of these starting from mid-year and not ending until the near the end of the year. The supplementary budgets contain large numbers of changes and allow increases in overall expenditure (see PI-18). Parliamentary approval tends to be close to the end of the year, thus limiting the time available for MDAs to implement the changes. The quarterly Budget Implementation and Review Reports (BIRRs) prepared by the Office of the Controller of the Budget (OCOB) highlight this issue.

The scores under PI-15 (Fiscal Strategy) and PI-16 (Medium Term Perspective in Expenditure Budgeting) indicate relatively good performance and areas where strengthening could be achieved. These, however, are medium term areas for action. The immediate priority should be to strengthen annual budgeting.

PILLAR 5: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION (PIs 19-26)

Predictability (PIs 21-22)

The budget is still executed in the same way that it was at the time of the 2012 PEFA assessment, execution being predictable for only the first half of the year. Half of the approved budget is supposed to be allocated to MDAs in two equal quarters. In practice, this overstates predictability, as the amount of cash actually released into MDA bank accounts in CBK (“Exchequer release”) is determined by the amount actually available at the beginning of each month (i.e. a system of monthly cash rationing). MDAs can therefore only commit expenditure for only up to a month ahead (longer for capital projects and commonly used recurrent expenditure items). A supplementary budget is then prepared for the second half, comprising many reallocations between MDAs and adjustments due to changes in the total resource envelope. In effect, there are multiple budgets per year.

At the time of the 2012 PEFA assessment, this situation was expected to change through the strengthening of in-year cash flow forecasting, the associated preparation and execution of cash management plans for the whole period of the budget that would facilitate orderly execution of the budget, and the establishment of a Treasury Single Account (TSA).

This didn't happen. Initial attempts to establish robust cash flow forecasting mechanisms and associated cash management plans did not progress far. Obstacles were: (i) uncertainty of resource availability, actual revenues continually falling short of forecast amounts; (ii) in-year demands from MDAs for budget adjustments, indicating budget preparation issues; (iii) expenditure commitments being made which were not supported by cash availability, in-year and end-year pending payables (arrears) being a continual problem (PI-22); (iv) absence of a Treasury Single Account (TSA), which would enhance cash availability; and (v) development budgets that tended to be overly optimistic due to capacity constraints, and which were one-third financed by donor partners; this financing tending to be unpredictable due to donor conditionalities not being met, or met too late in the financial year.

NT is now in the process of establishing a Centralised Payments System (CPS) in CBK. All expenditures would be paid out of it through IFMIS direct to service providers on a 'just-in-time' (JIT) basis (i.e. Exchequer issues into MDA accounts would end). Revenues would continue to be deposited into NT's Exchequer Account in CBK, with funds then being transferred to the CPA on a JIT basis. In effect the payments system has already been partly operating on this basis, the main difference being that funds were provided to MDA bank accounts first so that they could make payments.

Supporting this system would be the establishment of the Cash Management Module (CMM) of IFMIS, which was supposed to have been established a few years ago, but was not due to technical difficulties. The CMM covers cash flow forecasting, cash plan preparation and an 'auto' bank reconciliation facility (PI-27). The IMF's review, dated 23rd December 2016, of progress made under its support programme, notes the above. Success in implementing the CMM, combined with successful operation of the CPS, would hopefully result in the end of the cash rationing system that has been in place for some time.

End-year pending bills (arrears) increased to 3.6% of expenditure in FY 2015/16 from 2.3% of expenditure in FYs 2013/14 and 2014/15. The main reason was revenue shortfalls leading to delays in Exchequer releases and expenditure cutbacks even after commitments had been made. The system for tracking arrears has improved since the start of FY 2016/17 through the introduction of an age profile. This is one of the benchmarks agreed with the IMF under its current support/monitoring programme with GoK.

Another improvement is a sharp decline in pending bills that have arisen due to lack of budget provision, indicating that the strengthening of controls through IFMIS re-engineering has made it more difficult to make expenditure commitments that are not backed by budget provision (noted under PI-25). Most of the pending bills are due to lack of cash to pay them. This itself is an important issue, indicating a flaw in the system, as noted under Pillar 6.

Revenue Administration, PIs 19-20

The IMF organised a detailed tax administration diagnostic study (TADAT) during late 2016. This had not yet been publicized at the time of the PEFA assessment team's visit, as official GoK approval had not been given. As the IMF team had far more resources than the PEFA team had to conduct a revenue administration- specific study, the TADAT report should be seen by GoK at least on the same level as this PEFA assessment, and, once approved, on a higher level.

The revenue administration indicators have been significantly restructured relative to the 2011 PEFA Framework. Nevertheless, assessment of performance change since the 2012 PEFA assessment is possible to an extent.

PI-19; Revenue administration: The 2012 PEFA assessment noted a number of 'Ongoing and planned activities'. Some of these were achieved, particularly the strengthening of legislation (harmonization through the Tax Procedures Act) and establishment of an up-to-date IT-based tax administration software package called iTax. The last mentioned-item enhances taxpayer understanding of the system as well as facilitating administration. Other ongoing and planned activities at the time are still work in progress: e.g. establishment of an independent Tax Appeals Tribunal, implementation of a Compliance Risk Management Strategy in Domestic Tax Department, replacement of Customs Border Control's manual – based customs administration system by a modern IT package, and, consequently, establishment of IT-based risk-based audit processes in both DTD and CBC.

Revenue arrears continue to be substantial. Most of them are over a year old (D rating for PI-19.4). The exact amount is not known as iTax had not been established at that time and recording was mainly manual. Arrears at the end of FY 2015/16 was 17% of total collections, of which 86% was more than a year old. These 'old' arrears may lack accuracy, as recording was mainly manual and iTax had not yet been established.

The overall score for PI-19 is C, indicating the need for KRA and CBC to continue with preparation and implementation of their revenue risk management strategies.

PI-20: Revenue Accounting.

- The NT collects 95% of all domestic revenues and receives monthly revenue reports from all other 'receivers of revenue' (11 in total). All domestic revenues are deposited into NT's Exchequer Account in CBK within a week, most of them within 3 days;
- Full reconciliation between domestic revenues received into NT's Exchequer Account and revenues originally assessed is not possible yet due to the unreliability of pre-2014 tax arrears data, as noted under PI-19.4 (the score can be no higher than C). The OAG report for FY 2014/15 indicates some minor reconciliation issues within NT, due to Exchequer account records of revenues received not completely matching revenue statements.

Internal controls and audit (PIs 23-26). See Section 4.2

PILLAR 6: ACCOUNTING AND REPORTING, PIs 27-29

Summary

Accounting and reporting have strengthened to an extent, helped by IFMIS Re-engineering. Delays in adopting the IFMIS Cash Management module have resulted in delays in 'automating' bank reconciliation. Issues remain in clearing suspense accounts and advances; such issues complicate the preparation of accurate annual financial statements. Strengthening is, however, hindered by manual methods still being used to an extent outside IFMiS for preparing annual financial statements.

Bank account reconciliation (PI-27) is still done mainly outside IFMIS as the auto bank -reconciliation module is not yet fully functional. Nevertheless, all reconciliation statements are prepared monthly, with virtually all statements submitted by the end of the month. This a big improvement since the time of the 2012 PEFA assessment due to many MDAs being several months in arrears in their bank account reconciliations. The main reasons are: (i) the re-engineering of IFMIS, which has facilitated the quicker and more comprehensive recording of revenues and expenditures in the General Ledger (GL) of IFMIS. This is not perfect yet, as, according to OAG, MDAs are still using manual methods alongside IFMIS, resulting in errors and delays; and (ii) the expansion of internet-based banking, which, starting in FY 2013/14, has facilitated quicker transmission of transaction data.

Suspense accounts are reconciled monthly, but are not cleared by year-end, also the case at the time of the 2012 PEFA assessment. The reason is ‘old’ pre-IFMIS suspense balances that were not transferred to IFMIS at its inception and thus not validated. Advances are still not all cleared by FY.

In-year reporting (PI-28): The OCOB prepares quarterly Budget Implementation Review Reports (BIRRs) for the first three quarters showing original approved budgets against actual expenditures (payments) according to administrative (MDA), sector and programme classification. Budgeted and actual expenditure on an economic classification basis is not shown, partly due to the difficulty of doing this in the context of the development budget including elements of recurrent expenditure. Expenditure commitments made by MDAs and payables due by them are not shown, though this would be useful information for the outside reader, as it would show the amount of ‘free’ budget left to spend for the rest of the year.

A fourth quarter BIRR is not prepared. The BIRR for the year as a whole shows total actual spending against the revised budget (reflecting fourth quarter revisions) and not the original budget. This reduces the usefulness of the report to the outside reader. To NT staff it makes sense, as the original approved budget is considered at the outset not to be the final one. Given both the uncertainty of the original revenue and expenditures, the time horizon for budget execution is effectively no more than 6 months.

The quarterly BIRRs are issued within 8 weeks of the end of the quarter. Most of the data are readily available through IFMiS, but information on actual external AiA spending and expenditure of the transfers to those SAGAs that are included in some sector budgets are not reported on in IFMIS, so it takes longer to obtain the information.

Although not fully reflected in the scores, in-year reporting has improved since the 2012 PEFA assessment due to the re-engineering of IFMIS and the preparation of quarterly BIRRs by OCOB, which was established in 2012. The analysis in these is more rigorous and detailed than that contained in the Quarterly Economic and Budget Reviews (QEBRs) prepared by Ministry of Finance at that time.

Annual financial reports (PI-29): Annual financial statements (AFS) are prepared and include most items. Non-financial assets are only partially covered (PI-12), but this would only become a major issue if full accrual accounting is introduced in the near future. This seems unlikely, the other PFM issues identified above being of greater priority at this time. The timeliness of the submission of AFS to OAG is not as good as it should be in terms of compliance with PFMA (2012). The 3-month deadline is nominally complied with, but in practice the submission is much later due to MDAs revising their AFS, The reason is that they are making mistakes using both manual methods and IFMIS in parallel when compiling their statements. Starting in FY 2013/14, the AFS have been compiled using IPSAS cash, a big improvement, since the 2012 PEFA assessment.

PILLAR 7: EXTERNAL SCRUTINY AND AUDIT, PIs 30-31

PI-30: External audit

The external audit function is performing satisfactorily with regard to audit coverage and adherence to international standards. Performance has improved since the 2012 PEFA assessment. The timeliness of submission of the audit of the annual financial statements to Parliament is an issue. The 2015 Audit Act requires (Section 48) OAG's audit of the AFS to be completed within 6 months of the end of the FY, but this is only possible for OAG to comply with if the AFS are submitted for audit within 3 months of the end of the FY. As noted under Pillar 6, this is only nominally the case due to the many revisions made by MDAs to their initial submissions of their AFS to OAG. As a result, the submissions of the audited AFS to Parliament were not until in May for FYs 2012/13 and 2013/14 (8 months late) and was not until July 2016 for FY 2014/15 (i.e. over 12 months late. The submission of the report for FY 2015/16 was planned for July FY 2016/17. As of the end of 2017, it appeared that it had not yet been submitted to Parliament.

The increasing delays in submitting the audited AFS to Parliament indicate serious issues with the preparation of these. The most serious issue, according to OAG, is the continuing use by MDAs of manual methods of reporting and accounting, in parallel to the use of IFMIS. This issue needs to be looked at further.

Audited MDAs provide a formal response to audit findings, but it is not necessarily comprehensive and timely. The previous Public Audit Act did not provide for this. - The December 2015 Public Audit Act (PAA) explicitly covers the audit process, including response and follow-up. The Public Sector Accounting Standards Board has prepared a template for this to be used for follow-up on the audited AFS for 2015/16. The usefulness of the external audit function is severely compromised if MDAs do not make sufficient effort to implement the recommendations of OAG. As mentioned in the 2012 PEFA assessment, the recommendations of KENAO tend to repeat themselves year after year, indicating insufficient progress made by MDAs in implementing them. The situation appears to have changed little since the 2012 assessment.

PI-31: Legislative scrutiny of audit reports

As was the case for the 2012 PEFA assessment, the Public Accounts Committee in Parliament has been diligent in reviewing audit reports submitted to them, summoning MDAs for hearings on these, and issuing recommendations for action by MDAs. The efficiency of this process has improved, hearings only being held for MDAs who's audited AFS have received qualified opinions (including adverse opinions and disclaimers of opinions).

The main issue is the timing of PAC's scrutiny of audited AFS, the scrutiny being long after the year to which the audited AFS apply to. The last audit report reviewed by the Public Accounts Committee (PAC) and then voted on by Parliament was for FY 2012/13. It was received from OAG in July 2014 and voted on by Parliament 7.5 months later. The amount of detail in the audit reports means it takes a long time to review them. The extent of the detail appears to indicate the insufficient diligence applied by audited MDAs in addressing the initial audit findings prior to finalisation of the audit.

The transparency of legislative scrutiny of audit reports has improved since the 2012 PEFA assessment. Hearings on audit reports are not open to the public but PAC reports are now published on the Parliament web site. The situation has improved since the 2012 PEFA assessment, due to PAC reports now being published.

The massive under-resourcing of this PEFA assessment combined with the other consultant selected dropping out at the last minute has precluded the depth of the evaluation stipulated in Sections 4.2-4.4 of the Framework document (and also Annex 2). The amount of evaluation required would have led Section 4 to vastly exceed the maximum 10 pages stipulated and would have required several extra days to accomplish.

4.2 Effectiveness of the internal control framework

The text below is a summary of the assessment of the relevant PIs (23-26).

Payroll control (PI-23)

This was already reasonably robust at the time of the 2012 PEFA assessment. It has since strengthened somewhat due to the establishment of the Government Human Resource Management Information System (GHRMIS) in MSPS (but not yet for Teachers' Service Commission). The strengthening is not enough to increase the score to A (the scoring dimensions are the same as for PI-18 in the 2011 PEFA Framework). The personnel records of MDAs are not yet electronically interfaced with the Integrated Payroll and Personnel data Base (IPPD) which each MDA has access to. Changes in records are manually entered by MDAs into IPPD, following which the new payroll is run by each MDA in IPPD. The IPPD is electronically interfaced with GHRMIS, which allows the latter to check each new run of IPPD submitted by each MDA. In doing this, GHRMIS also checks the personnel records included in the new IPPD run against the GoK staff list maintained in GHRMIS. GHRMIS has yet to be integrated with IFMIS, running the risk of errors being made when MSPS runs the monthly payroll.

A structural benchmark under the IMF SBA/SCF programme is the establishment of an electronic interface between IPPD and IFMIS, as indicated in the IMF's review of performance under the Standby Arrangement dated December 23, 2016.[45] The target date for this was June 2016, but this was not met. The interface has been designed and tested in three ministries, but not yet rolled out.

Public procurement (PI-24)

This has strengthened in light of a revised procurement law in support of increased transparency. The Public Procurement and Asset Disposal Act (PPADA) came into effect in December 2015, replacing the previous law dated 2005. Its regulations are not yet published. The PIs are broadly the same as those in the 2011 PEFA Framework, so comparison is possible with the 2012 PEFA assessment. A dimension on procurement monitoring is new.

Significant improvements are:

- Establishment of a large computerized procurement data base in PPRA (PI-23-1);
- All procurement entities are required to routinely report on all procurement operations to the Public Procurement and Regulatory Authority (PPRA), which replaced the Public Procurement and Oversight Authority (PPOA). A new Procurement Department was established in NT to perform oversight functions;
- All procurement entities are now required to publish their annual procurement plans. This was not previously a requirement. These plans are required to be incorporated into cash flow forecasts prepared by MDA (see PI-21);

[45] ' First Reviews under the 24 month Standby Arrangement and the Arrangement under the Standby Credit Facility and Requests for Waivers of Applicability, Rephasing of Disbursements, and Modification of Performance Criteria, IMF, December 23, 2017 (on IMF website).

- A Procurement to Pay (P2P) module of IFMIS was established in 2015. The four large MDAs and the Kenya Chamber of Commerce and Industry met by the team all indicated that the module has significantly contributed to the transparency and efficiency of the procurement process through enabling e-procurement. However, challenges remain in making the beginning of the P2P procurement process fully operational.

PPRA continues to conduct annual compliance checks of the extent to which procurement entities comply with the procurement law.

- Performance has unambiguously improved to B from D under 19.2 on the transparency of procurement methods used;
- Although not explicit, performance has strengthened under 19.3 (procurement information provided to the public), as annual procurement statistics and annual/quarterly procurement reports were not being published at the time of the 2012 assessment and were not included in the scoring dimension. Now they are included, implying strengthened performance;
- The score for 19.4 on appeals is unchanged at B;
- Dimension (i) on procurement monitoring was not part of the 2011 PEFA Framework, but if it had been part, the score would have been D, as a rigorous procurement monitoring framework had not yet been developed.

Non-salary internal controls (PI-25)

These have partially strengthened since the 2012 PEFA assessment.

PI-25: (i) Segregation of duties. This was not in the 2011 PEFA Framework.. The concept of segregation of duties has been embedded in Kenya's PFM system for a long time. The replacement of manual systems by IT systems (IFMIS) has reinforced the concept.
(ii) *Expenditure commitment control* is still based on the approved budget rather than cash availability (except for some items of capital expenditure and purchases of common use items), leading potentially to pending bills, as bills not covered are rejected by IFMIS.
(iii) *Compliance with other non-salary internal controls* has improved, partly due to the enhanced controls in the re-engineered IFMIS. The 2012 PFMA and 2015 PFM Regulations have strengthened the clarity of payments rules and procedures. The re-engineered IFMIS and its coverage of all central government MDAs (except defence and national security) have made it very difficult for payments to be made in non-compliance with rules and procedures. Nevertheless, as indicated by OAG to the assessment team, MDAs continue to use manual internal control methods in parallel to IFMIS procedures.

PI-26: Internal audit

This indicator is specified differently from PI-21 in the 2011 PEFA Framework, but comparability is possible.

The internal audit function is operational in all MDAs, as was the case at the time of the 2012 PEFA assessment. Internal audits are risk-based, focusing on the main PFM systems. Audits are conducted according to international audit standards, also the case at the time of the 2012 PEFA assessment. For the period under review, the Internal Auditor General (IAG) located in NT provided guidance and quality assurance to internal audit departments (IADs) in MDAs. IADs continued to report routinely to their senior management on the implementation of their audit plans.

However, the PFMA (2012) and its Financial Regulations (2015) now give Audit Committees the responsibility for monitoring whether audit recommendations are being implemented (PI 26-4). These Committees are in the process of being established in MDAs. It was not possible for the team to score dimension (iv), as it was not possible to visit all audited MDAs.

The role of the Internal Auditor General is therefore changing. Under the Constitution and PFMA, and elaborated on in the 2015 Financial Regulations, it will, starting in FY 2017/18, cease to have a quality assurance role with regard to internal auditors in MDAs. It will continue to have an advisory, monitoring and capacity building role. Internal Audit Departments in MDAs will instead report to Audit Committees that are currently being established in MDAs. It is no longer receiving audit reports for review.

4.3 PFM strengths and weaknesses: Impact of PFM system performance on the three main budgetary outcomes

1) Aggregate Fiscal discipline

As was the case at the time of the 2012 PEFA assessment, and as is apparent from budget documentation, GoK considers that preservation of aggregate fiscal discipline is a pre-requisite to maintaining overall macroeconomic stability, itself a pre-requisite for budget predictability. Weaknesses in fiscal discipline could quickly translate into rising budget deficits, rising debt, and eventually external debt crises. In such an environment, budgets are likely lack predictability and predictable public service delivery would suffer as a result.

As was the case at the time of the 2012 PEFA assessment, GoK has been quite successful in preserving aggregate fiscal discipline, although this has not always been easy in the face of revenue shortfalls and pressures from MDAs and politicians for budget adjustments and extra spending. The main means of doing this have mainly consisted of ensuring a credible medium term macro-fiscal framework *(PIs-13-14)* and ensuring that budgets can only be executed during the year according to the cash available (i.e. cash rationing) on a monthly basis. This has helped to keep end-year payment arrears down *(PI-22),* though these are still an issue due to approval of expenditure commitments being based on approved budgets rather than cash availability.

Cash rationing is a crude and inefficient form of budget execution, however, and can be improved through strengthened accuracy in budgeting (*PIs 11, 16-17)*, and active cash and debt management *(PIs 13 and 21)*. This would allow MDAs to plan their monthly/quarterly expenditures for a whole year according to well-prepared cash flow forecasts with the confidence that the cash will be available when needed to pay bills *(PI-21)*. This is not the case at present, although it was planned to be the case at the time of the 2012 PEFA assessment.

2) Strategic resource allocation

Adopting a medium term strategic perspective to budgeting has tended to be challenging in the face of both the challenges of maintaining aggregate fiscal discipline over the short term and the challenges in budgeting on an annual basis, let alone a medium term basis.

Nevertheless, the Medium Term Plans (MTP) of GoK and the references to these highlighted in annual budget statements indicate that GoK knows what it wants to achieve over the medium term and how it will do this. The MTEF processes that have been put in place in recent years, combined with the relationship between these and the MTPs indicate that the mechanisms are in place for achieving a strategic allocation of resources consistent with medium and long terms development plans. More emphasis could be placed on the preparation of forward spending estimates (also known as baseline estimates) that project costs of delivering services on the basis of services currently being delivered. These costs would include the projections of recurrent cost that would be generated by the completion of already committed capital investment projects (e.g. construction of schools, health facilities, roads). Such estimates would help to improve the accuracy of annual budgeting *(PIs 11, 15-17)*.

3) Service delivery

The main purpose of any democratically elected government is to provide the public services that a are necessary for socio-economic development. Budget constraints that face any country imply that such services should be provided as efficiently and effectively as possible, as evidenced by reports and audited financial accounts, the latter pointing out areas of possible wastage and inefficiency. PFM reforms help to mitigate against these.

GoK's progress in implementing its PFM reform agenda over the last few years has been slower than planned, partly because of capacity constraints, and insufficient prioritizing and sequencing of reforms taking into account these constraints. This is the case in most countries attempting to strengthen their PFM systems.

Nevertheless, though slower than planned for, some progress has been made in implementing the IFMIS reengineering strategy and strengthening of controls that has led to some strengthening of revenue administration, budget execution, accounting and reporting (PIs 19-21, 22, 27-29). Such strengthening has been facilitated through strengthening of internal controls (PIs-23-26), covering payroll, procurement, non-salary controls and internal audit. All these efforts help to strengthen service delivery, in terms of both quantity and quality.

Strong external oversight can result in pressures being placed on the executive branch of Government to strengthen PFM systems in support of strengthened service delivery. The Office of Auditor General and the Public Accounts Committee (PAC) generally perform well in this regard, but their effectiveness tends to be limited by the slow progress made by MDAs in implementing their recommendations (PIs 30-31).

On-Going and Planned PFM Reform Agenda

As described in Section 5, a PFM Reform Strategy (2013-18) is currently being implemented. It covers all the PFM reform areas. Issues are analysed and discussed in Section 3. The pace of implementation has not been as fast as planned, partly because of capacity constraints. These were already well-known, implying that the Strategy should have prioritized more in relation to addressing the most critical PFM weaknesses. Section 5 elaborates.

4.4 Performance change since the 2012 PEFA Assessment

Annex 1b and Annex 4 indicate performance change since the 2012 assessment. Annex 1b is based on the 2016 Framework. At the time of the 2017 PEFA assessment, the guidance note for assessing performance had not been prepared (it was issued in August 2017, well after the completion of the PEFA field work and the first draft report) and the methodology for assessing change was still under discussion. The Terms of Reference (ToR) for the PEFA assessment, finalised in November 2016, indicated the need to assess performance change, but with no guidance on how to do this. It made no reference to Volume 3 of the Fieldguide, noted on the second page of Volume 1 of the Fieldguide, but without indicating that this Volume included the methodology for doing repeat assessments. The structure of the PFM-PR report template did not include the extra annex (4) that was introduced after August 2017.

The Guidance Note on assessment of performance change indicated that much debate had taken place on whether it was possible to assess performance change in the context of the change in methodology that had taken place (i.e. the substitution of the 2011 PEFA Framework by the 2016 PEFA Framework). Given the similarity between many of the dimensions in both methodologies, it was thought that in many cases, performance change could be assessed on the basis of the 2016 methodology. The Team Leader had been involved (through the Kosovo PEFA assessment in 2015) in the 'testing' phase of the 2016 Framework and the methodology at the time of this phase indicated that comparability was possible in most cases.

In the absence of any guidance in the ToR on how to assess performance change the team assessed performance change on the basis of the 2016 PEFA Framework, as shown in the first draft of the report in May 2017 and subsequent drafts, the last of which was submitted on September 28, 2018. The details are shown in Annex 1b. As noted in this annex, comparability issues are clearly identified. Using this methodology was completely valid and useful, moreover, it was easier and quicker than assessing change using the 2011 Framework.

However, very late on in this assignment, the PFM Reform Secretariat and the EU office in Nairobi insisted that the assessment of performance change should be conducted on the basis of the 2011 Framework. This came after the submission of the third draft report in September, 2018, which was prepared by the team following the PEFA workshop held in Nairobi on June 27, 2018. The team disputed the need to do this, but it was clear in November 2018 that this task had to be done. This assessment is contained in Annex 4. This was a very time consuming exercise, as the assessment had to be based on the 75 dimensions of the 2011 PEFA Framework. This took 3 weeks (bearing in mind, the team comprised only one person after May 2017)

The summaries of the assessments of performance change using the two methodologies are shown below.

1) Assessing performance change on the basis of the 2016 Framework (detail in Annex 1b)

By definition, the new PIs and dimensions specific to the 2016 Framework are excluded.

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-1*: Aggregate expenditure outturn*	B	B	*The B score in the 2012 assessment is not directly comparable*, because aggregate expenditure under the 2011 PEFA Framework excluded interest on debt and expenditure financed by donors' funds.
PI-2 *Expenditure composition outturn*	C+	D+	*Scores are not comparable* due to differences in scope.
PI-3 *Revenue outturn*	B	B	*Performance unchanged.* Scores are broadly comparable.
PI-4 (PI-5 in 2011 Framework): *Budget Classification*	C	C	*Performance unchanged*. The scoring criterion is comparable, The Standard Chart of Accounts was established.
PI-5 (PI-6 in 2011 Framework): *Budget documentation*	C	D	*Performance unchanged*. The scoring criterion changed, and the scores are not directly comparable. Applying the 2016 PEFA methodology to the 2012 situation would, however, result in a D rating, the issue being the lack of information on actual expenditure in the previous year.

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-6 (PI-7 in 2011 Framework): *Central Govt. operations outside financial reports*	D	D	*Some improvement, though performance unchanged in terms of scores.* The methodologies are different, so direct comparison is not possible. Some improvement due to the establishment of school audits and the accountability of schools to Boards of Management.
PI-9 (PI-10 in 2011 Framework): *Public access to fiscal information*	B	B	*Performance has fallen.* The methodology is different, but comparability is possible with regard to timeliness of OAG reports available to the public. It now takes more than one year after the end of the previous FY for the reports to be completed and publicised. At the time of the 2012 assessment, it took less than one year.
PI-10*: Fiscal Risk Reporting* (PI-9 in 2011 PEFA Framework)	C	D+	*Performance unchanged.* The scoring criteria are more tightly specified in the 2016 Framework.
PI-13*: Debt Management (PI-17 (i) and (iii) under 2011 Framework)*	B+	B+	*Performance improved, though scores the same.* Reconciliation is still an issue (13.1). Performance under 13.3 has strengthened, with PDMO now conducting its own DSAs.
PI-17.3: *Timeliness of submission of draft budget to Parliament* (*PI 27-iii in 2012 PEFA assessment*); & PI-18.3*: Timeliness of approval of draft budget by Parliament* (PI 11 (iii) in 2012 PEFA assessment)	D	A	*Performance improved due to: (i)* the draft budget being submitted to Parliament by 30th April each year (17.3), as required by PFMA; and (ii) therefore enabling the budget to be approved by Parliament by 30th June each year (18.3), which is the end of the FY.
PI-19.1: *Revenue administration, Rights & obligations for revenue measures* (PIs 13.(i)-(iii) in 2011 PEFA Framework)	B+	C	*The scores are not directly comparable but performance improved due to strengthened legislation and establishment of a modern, fully integrated tax administration system. (iTax)* in place of the old legacy system. Establishment had just started at the time of the 2012 PEFA assessment.
PI-19.2 & 19.3: *Revenue risk management & revenue audit and investigation (PI-14 (iii) in 2011 Framework)*	B	C	*Performance unchanged.* The score in the 2012 assessment was too high. The scoring criteria under the two Frameworks are differently defined, but assessment of performance change is possible through inference.

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-19.4*: Revenue arrears monitoring (PI-15 (i) in 2011 Framework)*	D	D	*Performance unchanged.* The definitions are different, but the score is D, whatever the definition.
PI-20.2 *Revenue accountability (PI-15 (ii) on timeliness of deposits of tax revenues into NT account in CBK*	B	B	*Performance unchanged.* This is comparable to PI-15 (ii) in 2011 Framework.
PI-20.3. *Revenue accountability (PI-15 (iii) in 2011 PEFA Framework) on reconciliation between deposits of tax revenues into NT account in CBK and amounts originally assessed*	A	D	*Performance unchanged for PI-20.3,* which is comparable to PI-15 (iii) in 2011 Framework. The score in the 2012 PEFA assessment was too high and should have been scored C or D.
PI-21: *Predictability of in-year resource allocation (M2-AV*)	B	C	*Performance fell under 21.1, 21.2 and 21.3: (*Consolidation of cash balances, cash forecasting and monitoring, and information on commitment ceilings). Comparable with scores for. PIs 16(i)-16 (ii) and PI-17 (ii) in 2011 Framework. PI 21.4 comparable with PI-16.3 in 2011 Framework.
PI-22: Expenditure arrears (PI-4 in 2011 Framework)	C+	B	*Performance improved* due to the establishment of an age profile of arrears in FY 2015/16.
PI-23: Payroll control (PI-18 in 2011 Framework)	B+	B	*Performance remained unchanged in terms of scores, but has improved* due to establishment of the Government Human Resource Management Information System (GHRMIS) in MSPS. The score in the 2012 PEFA assessment was too high.
PI-24: Procurement (PI-19 in 2011 Framework)	C	A	*Performance improved due to use* of competitive tendering procedures becoming the norm, partial establishment of e-procurement, increase in procurement information available to the public, and procurement entities now routinely submitting procurement operational data to the Public Procurement and Regulatory Authority (PPRA), as required by the revised procurement law (December 2015).

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-25.3: Controls on non-salary expenditure; Compliance with payments rules & procedures (PI-20.3 in 2011 Framework)	C	A	*Performance improved*, mainly due to the re-engineering of IFMIS, which was only just beginning at the time of the 2012 PEFA assessment.
PI-26: Internal audit (PI-21 in 2012 assessment)	C+	D*	*Not possible to assess performance change, as internal audit units in MDAs are reporting less and less to IAG. Otherwise the quality of IA has been improving.*
PI-27: Financial integrity (PI-22 in 2011 Framework)	D	B	*Performance improved* due to re-engineering of IFMIS and expansion of internet banking (both leading to strengthened bank account reconciliation systems).
PI-28: In-year budget reports (PI-24 in 2011 Framework)	C	B	*Performance remained unchanged, It improved* due to IFMIS re-engineering and establishment of Office of Controller of Budget, which led to an improved quality of quarterly reports, through including expenditures of SAGAs and donor-financed projects. It takes longer to prepare reports however, as a result. The reports do not include expenditure commitments, as they did before.
PI-29: Annual financial reports (PI-25 in 2011 Framework)	D+	C	*Performance improved* due to IFMIS re-engineering and adoption of IPSAS cash.
PI-30 External audit (PI-26 in 2011 Framework)	D+	D+	*Overall performance unchanged, but improvement under 30.1* due to IFMIS expansion and under 30.3 due to strengthened follow-up. This was offset by reduced performance in timeliness of audit reports submitted to Parliament.
PI-31 Legislative scrutiny of audit reports (PI-28 in 2011 Framework)	C+	D	*Performance decreased, mainly because of the increased time lag between receipt of audit reports to review and the actual review.*

The main reasons for improvement have been the introduction of strengthened IT systems. Through IFMIS, performance improved under PIs 25, 27-29. Through iTax, performance improved under PI-19. Through HRMIS, performance improved under PI-23 on payroll control. Significant improvements in other areas are:

i. PI-19.1 (i)-(iii) on revenue administration due partly to strengthened tax legislation; the tax control regime still has weaknesses, however (PIs 19.2-4);
PIs 17-18 on budgeting. Performance has improved through budgets being approved before the start of the fiscal year, made possible through draft budgets being submitted to Parliament much earlier than before; the 2012 PFMA has made this possible.

The effectiveness of external audit and legislative oversight appears to have weakened due: (i) to the increasing length of time between the end of the financial year and the submission of consolidated annual financial statements (AFS) to OAG; (ii) resultant delays in the submission of audit reports on the AFS to Parliament for review; and (iii) the increasing length of time between the submission of such reports and their review by Parliament. Under (i) the increasing length of time that it is taking for MDAs to prepare credible financial statements is despite the establishment of the re-engineered IFMIS. Fiscal transparency also suffers, due to OAG's reports now being published more than a year after its receipt of annual financial statements.

2) Assessment of performance change, based on the 2011 PEFA Framework (summary of Annex

Indicator	Score 2012 assessment	Score 2017 assessment	Explanation of change
PI- 1. Aggregate expenditure outturn compared to original approved budget (M1)	B	NR	Since the establishment of programme budgeting in FY 2013/14, it has not been possible to separate out (as required under 2011 Framework methodology) total budgeted and actual donor project -funded expenditures from total budgeted and actual expenditures, as shown in the annual budgets.
PI-2. Composition of expenditure outturn to original approved budget (M1)	C+	NR	For the same reasons as for PI-1, it is not possible to separate out budgeted and actual donor project financed expenditure for each MDA.
PI-3. Aggregate revenue outturn compared to original approved budget	B	B	Performance unchanged.
PI-4 Stock and monitoring of expenditure payment arrears (M1)	C+	C+	Performance unchanged.
PI-5. Classification of the budget	C	C	Performance unchanged,
PI-6. Comprehensiveness of information included in budget documentation	C	B	Performance strengthened. 6 of the 9 information benchmarks are now met.
PI-7 Extent of unreported government operations (M1)	D	NS	Performance assessment change is not possible because of insufficient information.
PI-8: Transparency of Inter-governmental fiscal relations (M2)	C+	C	Assessment of performance change not possible due to the change in the structure of SNGs that took place after the 2012 PEFA assessment.

Indicator	Score 2012 assessment	Score 2017 assessment	Explanation of change
PI-9 Oversight of aggregate fiscal risk from other public-sector entities (M1)	C	C	Performance unchanged for PI-9 (i). Consolidated annual reports on the financial positions of State Corporations are still not yet being prepared. Performance change under P9 (ii) cannot be assessed due to the complete change in the structure of sub-national governments.
PI-10: Public access to key fiscal information	B	A	Performance improved. *Performance under elements (v) and (vi) improved* on the availability of procurement statistics (v) and the availability of information on primary service delivery (vi). The latter is partly because of responsibilities for primary health service delivery being transferred to Counties. *Performance fell* under element (iii) on the timeliness of the completion of the audited annual financial statements. It is now taking more than a year before these are being made available to the public.
PI-11. Orderliness and participation in the annual budget process	B	A	Overall performance improved through improvement under PI 11 (iii) on timeliness of approval of the budget by Parliament.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	B	Performance improved under 12 (iii) *Existence of costed sector strategies* and 12 (iv): *Linkages between investment budgets and forward expenditure budgets.*
PI-13 Transparency of taxpayer obligations and liabilities (M2)	B+	B+	Overall performance improved through strengthening under PI-13 (i). This was mainly done in the form of strengthened tax legislation and strengthened taxpayer access to the information. Compares with PI 19.1 in 2016 Framework.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)	B	B	Overall performance unchanged.
PI-15 Effectiveness in collection of tax payments (M1)	D+	D+	Overall performance unchanged, through dims.(i) and (ii). The A rating for dim (iii) in the 2012 assessment is too high, and should have been D. This makes no difference to the overall score.
PI-16 Predictability in the availability of	B	C	Overall performance appears to have fallen, under dim. (ii) on time horizon for making expenditure commitments.

Indicator	Score 2012 assessment	Score 2017 assessment	Explanation of change
funds for commitment of expenditures (M1)			
PI-17 Recording and management of cash balances, debts and guarantees (M2)	B	NS	Reflects NS for dim (ii) on ‘Extent of consolidation of the government’s cash balances”, as total government cash balances not known. (D* under PI 21.1 in 2016 Framework).
PI-18: Effectiveness of payroll controls (M1)	B+	B	Overall performance unchanged. The scores for dims. (i), (iii) and (iv) were too high in the 2012 Assessment; The scoring criteria under both the 2011 and 2016 (PI-23) Frameworks are directly comparable.
PI-19 Competition, value for money and controls in procurement (M2)	C+	B+	Overall performance improved through dim. (ii), on use of competitive procurement methods. Comparable with PI-24 in 2016 Framework.
PI-20: Effectiveness of non-salary internal controls (M1)	C	C+	Overall performance improved through dimension (ii), on understanding of internal controls (C to B) Dim. (ii) not in PI-25 of 2016 Framework; Dim. (iii) on non-compliance scores A in PI-25.3 of 2016 Framework due to establishment of IFMIS. This refers only to payments procedures. Compliance with other controls scored C, unchanged from 2012 PEFA.
PI-21 Effectiveness of internal audit (M1)	C+	NS	It was not possible to assess 21 (iii) on extent of management follow-up, due to lack of information available to IAG from internal audit departments in MDAs. Performance improved to A from B: • For dim. (i) on coverage and quality; • For dim. (ii) on frequency and distribution of audit reports.
PI-22 Timeliness and regularity of accounts reconciliation (M2)	D	C	Overall performance improved through dim. (i) on bank account reconciliation. Mainly due to IFMIS re-engineering, and advent of internet banking. Timely and accurate reconciliation is not perfect yet. MDAs are still using manual methods alongside IFMIS, resulting in errors and delays, The Cash Management module of IFMIS and its auto-bank reconciliation sub-module has not been established yet. Dim (ii) on suspense accounts/advances clearance and reconciliation remains unchanged at D.
PI-23 Availability of information on	D	B	Performance improved in relation to primary schools; primary health services are now delivered at County level.

Indicator	Score 2012 assessment	Score 2017 assessment	Explanation of change
resources received by service delivery units			This indicator is the same as PI 8.3 in the 2016 PEFA Framework.
PI-24 Quality and timeliness of in-year budget reports (M1)	C+	C+	Overall performance unchanged. It fell under PI 24.(i) & 24.(ii) and improved under PI 24.(iii). *24.*(i) Fell to C from A. In-year expenditure commitments not included in quarterly BIRRs; 24.(ii) Fell to C from A, but this does not imply a fall in performance. Reports of actual externally financed AiA expenditures and of actual expenditures of SAGAs were not included in the QEBRs at the time of the 2012 assessment. They are included now in BiRRs, but at a cost to timeliness.
PI-25 Quality and timeliness of annual financial statements (M1)	D+	D+	Overall performance unchanged. PI-25 (i) rating in 2012 PEFA assessment revised to D. Notwithstanding progress in establishing the IFMIS, it seems that a complete annual financial statement is not yet possible; The equivalent assessment of Pi 29.1 in the 2016 Framework scores C, but this is because the scoring criterion is less demanding than under the 2016 Framework; PI 25 (ii) on timelines of submissions of financial statements to Auditor General unchanged at B; PI 25 (iii) on accounting standards. Performance improved to C from D+ due to the adoption of IPSAS cash.
PI-26 Scope, nature and follow-up of external audit (M1)	D+	D+	Overall performance unchanged. PI 26 (i) Improvement from C to D in scope and nature of audit due to IFMIS expansion. PI 26 (ii): Fall from B to D on under PI 26 (ii) on timeliness of submission of audit reports to Parliament. PI 26 (iii): Performance of extent of follow-up on implementation of audit recommendations unchanged at D.
PI-27 Legislative scrutiny of the annual budget law (M1)	C+	B+	Overall performance unchanged. Scores for dims. 27 (i), 27 (ii) and 27 (iii) unchanged at A. Dim 27 (iii) comparable to PI-18.3 in 2016 Framework. PI 27 (iv): The score for PI-27 (iv) on rules for in-year adjustments to the Budget increased to B from C. This is due, however, to a provision in the PFMA (2012) that permits adjustments to the budget without prior Parliamentary approval. In practice, performance hasn't changed.

Indicator	Score 2012 assessment	Score 2017 assessment	Explanation of change
PI-28 Legislative scrutiny of external audit reports (M1)	C+	NS	Not possible to assess overall change in performance due to NS under dims. (ii) and (iii). Performance fell to D from C under PI-28 (i) on timeliness of examination of audit reports by Parliament. NS on PI 28 (II) on the extent of hearings held by PAC on audit reports. The team was unable to meet PAC and obtain information. NS on PI-28 (iii) on recommendations issued by Parliament in response to PAC's review of audit reports for FYs 2013/14 and 2014/15. PAC was still reviewing these reports.
D1: Predictability of Direct Budget Support	D	NA	Direct Budget Support no longer being provided to Kenya.
D-2: Financial information provided by donors for budgeting and reporting on project and programme aid	D	NU	This indicator was not assessed, as the team was using the 2016 Framework, which does not include donor practice indicators. There was no reason at the time of the assessment for considering that performance had strengthened.
D-3: Proportion of aid that is managed by use of national procedures	D	NU	As for D-2. Unlikely that this has changed

5 Government PFM Reform Process

5.1 Approach to PFM reforms

Many PFM reforms, including the development of IFMIS, IPPD, the modernisation of revenue administration and the introduction of an MTEF, started in the mid-nineties, though not within the explicit framework of a formal strategy. GoK launched its first formal “Strategy for the Revitalisation of Public Financial Management System in Kenya” in 2006 for a five-year period, which formally expired in June 2011. While clear progress was achieved in several areas during this period, the achievements could not in all cases be directly attributed to the reform strategy as such. Many reforms had been ongoing for many years and continued in parallel to the strategy in a more or less isolated environment. Some reforms appeared to be more successful than the others (e.g. IPPD on payroll control vis-à-vis IFMIS).

The PFM reform strategy (PFMRS) document that was prepared after the PEFA 2012 assessment covers 2013–2018. The findings of the 2012 PEFA assessment helped to inform the preparation of PFMRS. The overall goal of PFMRS is to ensure “A public finance management system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development”, the goal being similar to the previous strategy. The PFMRS fully takes into account the new Constitutional order under the 2010 Constitution, in particular the new devolved system of Government. Relative to the strategy in place prior to 2013, the PFMRS emphasized the need for strengthened strategic orientation, (ii) greater GoK ownership of PFM Reform Strategies; (iii) strengthened prioritization of proposed PFM reforms.

The main areas of emphasis in the PFMRS for 2013-18 were: (i) Macro-economic Management and Resource Mobilization, (ii) Strategic Planning and Resource Allocation, (iii) Budget Execution, Accounting and Reporting, (iv) Independent Audit and Oversight, (v) Fiscal Decentralization and Intergovernmental Fiscal Relations, (vi) Legal and Institutional Framework and (vii) IFMIS and other PFM Systems; and capacity building as a pre-requisite for strengthening the above. These are broadly the same areas as under the previous strategy, the main difference being the addition of Fiscal Decentralisation.

An action plan, provided in the Annex of PFMRS, is built upon the seven themes, with Key Performance Indicators (KPIs) outputs, activities and time frame defined for each priority area. The narrative of the PFMRS explains the underlying rational for the different themes and the costs of the key interventions are also presented by key interventions in a separate table, but without identified sources of funding.

A governance structure, comprising a high level PFM Sector Working Group, a Steering Committee (SC) supported by a Technical Committee (TC), was put in place to implement PFMRS. Development Partners are engaged through the Steering Committee and the PFM Sector Working Group. The technical and administrative support is brought by the PFM Reform Secretariat. The PFMRS Secretariat is responsible for coordinating and facilitating data collection located in NT, and providing timely feedback on the reports presented by implementing agencies. Development Partners support for the PFM Reforms is coordinated by the PFM Development Partner Group, and the various DPs pool together (subject to various terms and conditions of their respective facilities to do so) for this purpose (including through the PFMR Secretariat). The main DPs are the African Development Bank, International Monetary Fund (IMF), World Bank (WB), Royal Embassy of

Denmark (DANIDA) and the European Union (EU). These agencies would also provide comments on the reports prepared by implementing agencies.

Progress in implementing PFMRS was reviewed during 2015-2016, the result being an updated strategy published in June 2016 by the National Treasury. This is a very well prepared document. It indicates the areas of progress and what remains to be done. A revised Action Plan is provided in the Annex. Much had been achieved, but implementation was tending to fall below target. Frequently cited reasons were human resource capacity constraints, due to the capacity demands of implementing so many reforms and to the opportunities provided by the private sector and State Corporations.

Skilled human resources, a supportive institutional and legal structure, and careful prioritizing and logical sequencing of reforms are pre-requisites for the successful implementation of reforms (e.g. weak internal control systems may undermine the success of budgeting, budget execution and accounting and reporting reforms). The updated PFMRS indicates several instances of capacity constraints holding up reform implementation. Skilled human resources appear to be spread too thinly.

What is needed is:

- An analysis of capacity constraints, both institutional and human resources, and what is being done to alleviate these;
- A rigorous prioritizing of reforms; what needs to be done now and what can wait, perhaps enabled by what should be done now. This PEFA assessment hints strongly at what areas of reform should be treated now as highest priority. What needs to be done now is a function of the fiscal and fiduciary risks of not doing things now. *Fiscal risk* is mainly the risk to macroeconomic stability due to fiscal deficits becoming unsustainable because of delays in implementing fiscal policy and PFM system reforms. *Fiduciary risk* represents the impact on the efficiency and effectiveness of the use of fiscal resources of PFM reforms not being implemented now. The larger the impact, the greater the risk to domestic and external taxpayers of their taxes being used inefficiently and/or ineffectively, to the detriment of the quality and quantity of public services being delivered;
- The PFMRS puts nearly all the proposed PFM reforms as being High Priority. This is virtually self-defeating, as trying to implement hundreds of high priority activities is likely to result in actual implementation grinding to a halt sooner or later. It needs to go much further than that along the lines mentioned above. The more binding the capacity constraints, the greater the degree of prioritization required.

This PEFA assessment points at what appear to be high priorities in strong need of addressing now. The GoK should examine these and make changes where it considers appropriate. As referred to in Section 2, the Standby Arrangement with the IMF includes a limited number of structural benchmarks with regard to high priority reform measures. These, and some other measures that the assessment team considers to be high priority, are indicated below:

i. *Strengthen the accuracy of annual budget preparation*, so that the approved budget becomes a reasonably reliable guide for the year as a whole, rather than for just a few months. A comprehensive spending review outside the budget cycle would help in this regard, the review analyzing cost efficiency and cost-effectiveness in particular. Countries such as the UK, which pioneered such reviews, have found them to be useful. Another improvement would be to start to prepare detailed medium term baseline spending estimates for each MDA, These estimates (also known as forward expenditure estimates) project expenditures on the basis of the public services currently being delivered. The projections should take into account the future recurrent costs generated by investment expenditures already committed to. Such estimates would form the basis for a more rigorous MTEF (related to *PIs 14-17)*. These improvements would themselves help to strengthen the quality of annual budgets.

Nevertheless, spending reviews and preparation of medium terms baseline spending estimates would take time. As a starting off point, NT could conduct an exercise that would analyse what are the difficulties that are encountered in trying to prepare budgets that would have a one year horizon, What are the elements of uncertainty that are beyond the control of GoK to manage? Would it be easier to budget accurately if the large numbers of line items are reduced?

The Budget Call Circulars contain guidelines for the selection of capital projects, including the linkages of these to the objectives and targets of the Medium Term Plans, themselves based on the 2030 Vision. Projected expenditures are shown for the following three years. The World Bank, using its Public Investment Management (PIM) diagnostics tool designed in recent years, considers that much more can be done to improve the quality of public investment plans, the selection of projects, and the monitoring of implementation of them (PI-11).

Implementing the PIM methodology may take time, however, and GoK first needs to determine whether to implement it or do a better job of implementing its current capital project selection and budgeting procedures (e.g. conduct formal project appraisal and estimating the future recurrent costs generated by already committed capital projects). A significant portion of public investment is financed by DPs, using their project appraisal tools, so what is of concern is the portion financed directly by GoK.

ii. *Strengthen monitoring and management of fiscal risk (PI-10):* State Corporations, Public Private Partnerships (PPP), County Governments and Public Pension Funds all appear to pose significant fiscal risk, as well-emphasized in Annex 1 of the annual Budget Policy Statements. Such risks, if they materialize into significant negative impact on GoK budgets, could have negative outcomes in terms of macro-economic stability, if GoK borrows to finance the unbudgeted financial obligations imposed on it, or in terms of disruptions in public services if GoK cuts spending on these services in order to finance such obligations.

In principle, the mechanisms are in place to monitor and manage such risk, as indicated in PFMA (2012) and the Financial Regulations (2015). The relatively recent approval of the FR means, however, that these mechanisms are still in the early stages of implementation. The GPIPE Department in NT is supposed to play a key role, but it not clear that it is suitably equipped to play such a role. According to PFMA and FR, the Cabinet Secretaries with responsibilities for SCs and public investments have the main role for monitoring fiscal risks in these areas, not the NT. The NT seems to be involved, but perhaps at a later stage when it is being called upon to provide financing.

SCs are required to prepare annual financial statements and submit these to OAG for audit. As noted under PI-10, these tend not to be submitted on time, and thus the audit reports tend to be a long way behind schedule, thus reducing their usefulness in terms of SCs taking measures to reduce the fiscal risks posed by them.

The Fiscal Commitment and Contingency Liability (FCCL) unit was established in NT in FY 2015/16 to monitor and manage the potential fiscal risks posed by PPP agreements. The unit is not yet operational, however. PPPs are not fully planned yet (those being prepared are listed in Annex 1 of the annual BPS. Careful design and close monitoring of the implementing of such agreements is needed in order to minimize the probability of the contingent liabilities arising out of these agreements becoming actual liabilities. The FCCL unit, or an equivalent of it, needs to be fully operational, though capacity constraints are hindering this.

iii. *Strengthen IFMIS further and in the process persuade MDAs to use it for all accounting and budget execution processes.* The MDAs would then stop using traditional manual processes in parallel with IFMIS processes. This would sharply increase the speed and accuracy of the preparation of in-year budget execution reports and annual financial statements (AFS). MDAs would then have more chance of becoming compliant with the stipulation of PFMA (2012) that AFS should be prepared in full within the first 3 months of the new FY *(PIs-27-29).*

iv. *Finalize the establishment of the Centralized Payments System (CPS),* located in CBK under the control of NT. In effect, this is a version of the Treasury Single Account (TSA), which has been discussed for several years. The efficiency of budget execution should strengthen as a result, Combined with strengthened budgeting, this would be the appropriate time to strengthen cash flow forecasting and thus efficient cash management in place of the cash rationing system, which has been in place for several years. Effective use could then be made of the Cash Management Module in IFMIS *(PI-21)*.

v. *Continue with implementing the mechanism for in-year monthly monitoring of the age of pending payments (PI-22).* This was introduced only in early FY 2016/17, as one of the structural benchmarks agreed under the Stand-By agreement with IMF. This mechanism helps NT keep track of the dates when payables become due, and thus supports strengthened cash management. Strengthened expenditure commitment control (PI-25) based on projected cash availability would also help in this regard.

vi. *Complete the establishment of the auto-bank reconciliation function in IFMIS.* Technical issues have precluded this to date. Quicker and more accurate reconciliation (few reconciliation errors) would help to strengthen the accuracy of annual financial statements and the timeliness of their preparation *(PIs-27-29).*

vii. *Require primary schools to prepare Annual Financial Statements* (AFS) in order to strengthen the transparency of their operations. Such AFS would need to include grants from third parties and the expenditures of these (currently un-reported extra-budgetary operations, as noted under PI-6).

viii. *Continue to strengthen the Procurement to Pay (PtoP) function of IFMIS.* Its installation has already had benefits in terms of timeliness and transparency of procurement, but there are still some issues to be sorted out *(PI-24)*.

ix. *Continue to strengthen payroll controls* through integration/interfacing of IPPD and GHRIS with IFMIS. Currently the monthly payroll is still being manually fed into IFMIS *(PI-23),*posing some risk of diversion of the payroll to illegitimate uses.

x. *Continue to strengthen revenue administration* through continuing to implement its Overall Risk Management Policy and Framework in place since September 2014. This is based on its Compliance Risk Management Strategy prepared in FY 2012/13. Tax audits would become fully risk-based and thus more effective. It seems surprizing that more progress has not been made over the last several years in strengthening compliance with legislation and in making tax audit more effective.

The tax appeals mechanism still appears to not be fully effective. The Tax Appeals Tribunal appears not to be functioning and the main course for adjudicating appeals and complaints at a higher level than KRA still seems to be through the courts, which is an inefficient way of dealing with appeals.

xi. *Strengthen transparency of budget documentation,* by including in the budget documentation for the next FY, actual expenditures of the previous year and revised estimates for the current year. Many countries do this (e.g. Uganda), but Kenya doesn't. This may partly be due to the time it takes to prepare the AFS for the previous year (PI-29) but readers of budget documents will generally want to compare the budget proposed for next year with what happened the previous year and the expected outturn for this year.

Linkage between PEFA assessments and PFM reforms
PEFA assessments are useful for assessing the current performance of PFM systems. The PEFA methodology uses a scoring system based on what is perceived as 'international best practice'. It implies a 'one size fits all' approach.

As has been pointed out over the years in various circles, this is not necessarily a valid approach due to significant differences between countries in terms of political, legal, cultural, institutional structures, human resource endowments, and their geography and history.

In many countries where PEFA assessments have been conducted, the subsequent PFM Reform Strategy that has been prepared mainly consists of reform activities that should be implemented in order to increase the score of a particular indicator. This is rather a mechanistic approach and wrongly implies that low scores should have first priority for being addressed. This makes little sense. For example, Public Asset Management (PI-12) scores D_, mainly because monitoring of the stock of fixed assets is very rudimentary, as pointed out in annual OAG reports. Putting a lot more effort into identifying all fixed assets and valuing them correctly would only be considered as a major priority if GoK was planning to introduce IPSAS-based accrual accounting in the near future. This seems unlikely. This mechanistic approach also takes little account of institutional and human resource capacity constraints and the implications of these for prioritizing of reforms.

Even in the absence of such constraints, there tends to be insufficient analysis of what needs to be done now in order to enable other reforms to be implemented (logical sequencing issue). The PEFA Framework does not assess capacity constraints and does not address prioritization and sequencing issues. The PEFA Framework does not assess fiscal and fiduciary risks directly, though it is useful for identifying the PFM areas from which such risk can be inferred.

5.2 Recent and on-going reform actions

Key reforms have yielded significant results, notably within the areas of internal and external audit, tax collection and administration, budgeting, accounting and reporting, procurement, pension and payroll management, among other key Public Financial Management (PFM) systems, but many of the reforms have not been completed yet, as pointed out in the mid-term review of PFMRS and is largely still the case.

Following the structure of PEFA 2016, the table below summarizes the most important recent and ongoing reforms done by GoK in strengthening the PFM system.

PEFA Indicator	Measures undertaken and remarks on implementation status
1. Aggregate expenditure outturn	These indicators are the budget outcomes and improvements reflect reforms in the other indicators.
2. Expenditure composition outturn	
3. Revenue outturn	
4. Budget classification	The Public Sector Accounting Standards Board (PSASB) was set up with the adoption of International Public Sector Accounting Standards (IPSAS), cash basis of accounting for the ministries and county annual financial reporting. The Standard Chart of Accounts has been revised to provide for coding of projects and a unified Chart of Accounts has been adopted. The new COA provides bases for including program based budgeting, commitment management, and accrual accounting. A program-based classification was prepared and Programme based budgets have been prepared for the last two three completed FYs and submitted to Parliament. They have replaced the traditional tine item budgets as the official budget to be approved by Parliament. The line item budgets are still prepared. However, as information for MPs. Actual program expenditure is still not reported on in a comprehensive document. GFS 2014 is planned to be implemented in the coming years.
5. Budget documentation	This is comprehensive: Annual program budgets, Annual Budget Review and Outlook Paper (BROP), Budget Policy Statement (BPS), Budget Statement, Budget Summary.
6. Central government operations outside financial reports	• An External Resources Aid Policy was developed and published (KERP), and most donor operations are now recorded and monitored;. A significant exception is for USAID-financed projects, the size of which is significant; • Introduction of the Electronic Project Management Information System (E-PROMIS) to better capture development partners funding and non-financial project data. This has not yet been linked with IFMIS; • SAGAs prepare quarterly expenditure reports for submission to their parent MDAs and subsequently to Office of the Controller of Budget (established in 2012 in line with PFMA (2012). Transparency has improved, but the reports are mainly prepared outside IFMIS, leading to delays in preparing of budget execution reports for GoK as a whole; • A transparency issue is the spending by primary schools of the 3rd party grants received by them. The information on spending is not submitted to Ministry of Education.
7. Transfers to subnational governments	Implementation of the Devolution Act and the establishing of the Commission of Revenue Allocation (CRA) during 2013. The number of Ministries was significantly reduced as a result. The Government has recently decided to launch a PEFA assessment for 6 of the 47 counties that should be completed by mid-2017. As indicated in the annual Budget Policy Statements (BPS), County Governments pose significant fiscal risk to the National Government.
8. Performance information for service delivery	Significant improvement in this area as the GOK has adopted a program-based budget structure including 5-year strategic plan and sub-program including indicators and targets.

9. Public access to fiscal information	Improvement in transparency and access to budget information through the publication of annual reports on administration web sites and the development of a Citizen's Guide to Budget, in addition to other manuals and guides on MTEF and PBB. Public participation in Sector Working Groups (SWGs) has been broadened since 2011 and the discussion now includes development partners and districts. A major issue is the very late availability of external audit reports on the annual financial statements, due to the problems still being encountered by MDAs in preparing these.
10. Fiscal risk reporting	SAGAS are beginning to use IFMIS for reporting on expenditures and accounting for these.
11. Public investment management	GoK has begun the process of strengthening public investment management in order to reduce the risks of selecting investment projects that may not satisfy standard project appraisal criteria and/or for which management and institutional constraints may lower the changes of success.
12. Public asset management	Enactment of the Public Procurement and Asset Disposal Act 2015. Although, the new Chart of Accounts caters for recording assets and liabilities, the accounting system remains on IPSAS cash-basis. Recording of non-financial assets of MDAs is incomplete, but this is not a major issue unless a decision is made to introduce IPSAS accrual accounting.
13. Debt management	Development of the Medium Term Debt Management Strategy (MTDS), now prepared annually. Some accounting and reporting issues remain.
14. Macroeconomic and fiscal forecasting	A more detailed Budget Strategy and Outlook was incorporated in the last three FY budget document submitted to Parliament.
15. Fiscal strategy	The BROPs and BPSs include details on fiscal strategy.
16. Medium term perspective in expenditure budgeting	The MTFF and MTBF/MTEF approach have been further developed. Nevertheless, the usefulness of the MTEF is limited by problems of predictability in the execution of annual budgets, and the still limited capacity of MDAs to estimate the future recurrent costs implied by investment projects already committed to, an essential component of MTEFs.
17. Budget preparation process	Budget calendar has been improved in order to allow sufficient time for the scrutiny of the budget by the legislature, and increased public participation at County level. The process, however, does not ensure that the approved budget is fully in line with public policies and the Medium Term Plan, and that the proposed spending will be cost efficient and cost effective.
18. Legislative scrutiny of budgets	No on-going reforms identified.
19. Revenue administration	Tax administration has been modernised and an Integrated Tax Administration System (ITAS) has been implemented at KRA. A risk assessment approach is still being developed for the purposes of strengthening the tax audit system.
20. Accounting for revenue	This is improving through the establishment of ITAS. An obstacle, however, is the insufficient knowledge of the size of tax arrears prior to the establishment of ITAS. These are known to comprise a large proportion of total arrears, and collection of these remain an issue. Without this knowledge, full accounting for revenue is not yet possible. Timely deposit of revenues collected and deposited into NT's bank account in NT continues to be good.

21. Predictability of in year resource allocation	The GOK has put efforts in cash management to ensure the predictability of budget execution, but the integration of the cash management module with IFMIS has not been completed yet. Prerequisites for establishing meaningful cash management are the strengthening of annual budget preparation, so as to (i) reduce the extent of in-year budget adjustments; (ii) strengthening revenue forecasts; (iii) strengthening commitment control, which is still based on approved budgets, not cash availability.
22. Expenditure arrears	Expenditure arrears are still being incurred, despite the strengthening and expansion of IFMIS, partly indicating continuing issues in commitment controls. Monitoring of arrears improved in FY 2017/18 through development of a system that shows the age profile of arrears.
23. Payroll controls	All payments are done through an Integrated Personnel and Payroll Database (IPPD), which has been improved with prior first check through IFMIS and is now linked with the relatively established Government Human Resource Information System (GHRIS) located in Ministry of State for Public Service. A Pension Management Information System (PMIS) has been set up. The use of electronic funds transfer (EFT) and direct payments through G-pay/T24 system have enabled to improve control and efficiency in payments. The interface between IFMIS and G-Pay is under development.
24. Procurement management	Procurement module has been connected to IFMIS. E-Procurement is now operational, although there are some issues concerning the beginning of the procurement process. Some statistics on procurement are available in annual reports of PPRA. They are not very detailed, but a large procurement data base is now in place that can be used to prepare detailed reports.
25. Internal controls on non-salary expenditure	The Controller of Budget and Commission on Revenue Allocation (CRA) has been established in line with the new Constitution and the provisions of the PFM Act (2012). The re-engineering of the IFMIS system has been completed. The system, based on GFS principles and a programs structure, is the basis for budget preparation, execution and reporting and for bringing it into the budget. It allows for recording of commitments but it does not capture all commitments. The revenue systems at KRA, pensions (PMIS), personnel and payroll (IPPD/GHRIS) d debt (CS-DRMS) and the relatively recently established projects data base/Management Information System (E-PROMIS) are not connected to IFMIS yet.
26. Internal audit	The Internal Audit function has been strengthened, with the establishment of a training manual, the introduction and rolling out of TEAMMATE software and Computer Aided Audit Techniques (CAAT) to all MDAs and the approval of guidelines for the appointment of Audit Committees (ACs) by PSASB. The Audit Committees for MDAs are replacing the monitoring and advisory functions of the Inspector General of Audit (IGA) located in NT. Whether the ACs will be as effective as IGA is open to question.
27. Financial data integrity	An operational entity checking financial data integrity within IFMIS has been established. Bank account reconciliation has improved sharply since the 2012 PEFA assessment. An auto-reconciliation module was planned to be established through IFMIS, the module linking CBK and NT's figures on budget execution and the financing of this, Technical issues have delayed this, but full implementation was projected for the start of FY 2017/18.

	Despite IFMIS, Issues in reporting on suspense accounts and advances remain, complicating the preparation of annual financial statements.
28. In-year budget reports	In-year and annual reporting templates are now established with an automated process. IFMIS is a web-based system and the reporting service allows budget users to have an instant view on their budget execution rate. The reporting module is also accessible by the Parliament.
29. Annual financial reports	Annual Financial Statements of the Government include statements on assets, liabilities, guarantees, and long-term obligations. The Public Sector Accounting Standards Board (PSASB) has been established. It has issued applicable accounting standards for public sector entities. These have provided the basis for reforming financial reporting for MDAs and counties to conform to these standards. Annual Financial Statements are now being prepared in compliance with IPSAS. PSASB has issued standardized templates as specified by IPSAS. In time, it will be possible to consolidate state owned enterprise accounts with the government accounts.
30. External audit	The capacity of the Office of the Auditor General has been reinforced.
31. Legislative scrutiny of audit reports	In-depth hearings on key findings of audit reports take place regularly, and they constitute the basis of recommendations after reviewing the OAGs annual audit report on the Annual Financial Statements submitted to it. As yet, there is little evidence of effective follow-up.

5.3 Institutional Considerations

A governance structure, comprising a high level PFM Sector Working Group and a Steering Committee (SC) supported by a Technical Committee (TC), was put in place to implement PFMRS 2013-18 (see Figure 1 page 58 in PFMRS). Development Partners (DPs) are engaged through the Steering Committee and the PFM Sector Working Group. The technical and administrative support is brought by the PFM Reform Secretariat, which is responsible for coordinating and facilitating data collection located in NT, and providing timely feedback on the reports presented by implementing agencies. Development Partners support for the PFM Reforms is coordinated by the PFM DP Group, and the various DPs pool together (subject to various terms and conditions of their respective facilities to do so) for this purpose (including through the PFMR Secretariat). The main DPs are the African Development Bank, International Monetary Fund (IMF), World Bank (WB), Royal Embassy of Denmark (DANIDA) and the European Union (EU). These agencies would also provide comments on the reports prepared by implementing agencies.

The 2012 PEFA assessment was somewhat negative about the effectiveness of the institutional structures for the PFM reform process. This was mainly a function of lack of political leadership at the highest level rather than deficiencies of the structures themselves. The PFMR Secretariat seemed to lack effectiveness, partly because it was seen as mainly a non-technical co-ordination unit rather than a unit that could pro-actively push the reform process.

The situation has markedly improved since then, mainly because of stronger political championing of the reforms. Devolution of PFM responsibilities to the Counties in line with decentralization of governmental powers to them required strong political leadership by definition. This enabled Devolution to take place at what appears to be a remarkable speed. The Re-engineering of IFMIS was, and still is, very prominently highlighted at the highest levels of government, as reflected by lots of billboards in buildings, particularly in the Ministry of Finance.

The governance structure of PFMRS, described above, at first sight appears somewhat cumbersome. The more complicated the structure and the larger the numbers of people involved, the more difficult it is to administer and co-ordinate. But PFM reform is complex and involves many players, so streamlining the governance structure could be difficult. The over-riding factor, however, is political leadership and enthusiasm for reform. It this is absent, the nature of the institution/governance structure becomes irrelevant.

- Another over-riding factor of course is human resource capacity constraints. The more binding these are, the more difficult it is to implement PFM reform, except at a very low pace. The importance of these constraints and the difficulties of resolving these are not nearly highlighted enough in the PFMRS.

Annex 1a: Performance indicator summary

INDICATOR	SCORE	JUSTIFICATION
Pillar I. Budget reliability		
PI-1: Aggregate expenditure outturn (M2)	B	Actual expenditures fell short of the original approved budgets in all 3 years, due to shortfalls in revenue collection (PI-3) and over-estimation of capacity to spend the budgeted amounts.
PI-2: Expenditure composition outturn (M2)	B+ -2.1: B -2.2: D* -2.3: A	• 2.1: Variance in expenditure composition of larger for development expenditure than recurrent expenditure due to delays in implementing projects; • 2.2.: Development expenditure includes recurrent expenditure elements, contrary to GFS; • 2.3: Nearly all contingency allocations are allocated to MDAs during the year.
PI-3: Revenue outturn (M2)	B -2.1: B -2.2: B	• Actual revenue fell short of budgeted revenue in all 3 years; • Variance in revenue composition outturn averaged 9%.
Pillar II. Transparency of publicfinances		
PI-4: Budget classification(M2)	C	SCOA in principle meets GFS requirements, but in practice only partially meets them: the development budget contains recurrent expenditure elements as well as capital budget elements, and classification is not all at 3-digit GFS level.
PI-5: Budget documentation: (M2)	D	The budget documentation fulfils 6 elements but only 2 basic elements (1–4). If documentation is included the previous year's budget outturn and the revised estimates for the current year, the score would be B.
PI-6: Central Govt. operations outside financial reports (M2):	D*	*Information not fully available to score*: The spending of grants received by primary schools and of external grants received from external sources are not fully captured in financial reports. The amounts are not known.
PI-7: Transfers to SNGs (M2)	C+ -7.1: A -7.2: D	• 7.1: The system of transfers to SNGs is very transparent; • 7.2: Reliable information on the annual horizontal allocations to County Governments is not provided until several weeks after the start of the new FY.
PI-8: Performance information on service delivery (M2)	B - 8.1: B - 8.2: B - 8.3 BA- 8.4: B	• 8.1: Performance plans are published, but only partly for outcomes; • 8.2: Information on actual outputs is published, but not for outcomes; • 8.3: Information on resources received by education SDUs is good; • 8.4: Evaluations are annual, the emphasis more on efficiency than effectiveness.
PI-9: Public access to key fiscal information	B	Annual external audit reports are published more than 12 months after the end-of the FY.
Pillar III. Management of assets and liabilities		
PI-10: Fiscal risk reporting.	D -10.1: D*	• 10.1: Finalized AFS submitted to OAG by SCs are several months late;

INDICATOR	SCORE	JUSTIFICATION
(M2)	-10.2: D -10.3: D*	• 10.2: AFS prepared by Counties are not full AFS and are late; • 10.3: Little analysis of risks posed by implicit contingent liabilities (loans incurred by SCs that are not guaranteed by GoK, and public pension liabilities).
PI-11: Public Investment management (M2)	C+ -11.1: D* - 11.2: A -11. 3:C -11.4: C	• 11.1: Formal project appraisal methodology not yet used by GoK; • 11.2: Cabinet is the key entity that decides on new development projects; • 11.3: Future recurrent costs generated by capital projects tend not to be included in the total costing of new projects; • 11.4: Annual monitoring takes place, but not yet a standard set of rules for this.
PI-12: Public Asset Management (M2)	D**12.1: C* *-12.2: -* *12.3: D*	• 12.1: GoK's financial assets are recorded in the AFS prepared by NT. These may not be completely accurate, as noted in the OAG annual reports and the /Annual Financial Statement (AFS) prepared by NT; • 12.2: As noted in the AFS and in OAG reports, not all MDAs maintain fixed asset registers and the accuracy of the registers that do exist is open to question; • 12.3: The PPADA (2015) provides for transparency of asset disposal. In practice minimal information is available to the public.
PI-13: Debt Management (M2)	B+ -13.1 C -13.2 A -13.3 A	• 13.1: The debt reconciliation errors noted in the OAG report for FY 2014/15 appear to have continued; • 13.2: PFMA is the primary legislation governing debt management. The Cabinet Secretary for Treasury is the sole authority for approving new debt and debt guarantees; • 13.3: The Debt Management Office in NT prepares high quality Medium Term Debt Management Strategies.
Pillar IV. Policy-based fiscal strategy and budgeting		
PI-14: Macroeconomic & Fiscal Forecasting (M2)	A -14.1 A - 14.2 A - 14.3 B	• 14.1: The BPS contains forecasts of key macro-economic variables; • 14.2: The BPS contains macro-fiscal forecasts and underlying assumptions; • 14.3: NT conducts fiscal sensitivity analysis for internal use and documents the results in the annual BPS.
PI-15: Fiscal Strategy (M2)	B -15.1: C -15.2: A -15.3: B	• 15.1: The fiscal impact of new revenue/expenditure measures tend not to take into account the recurrent expenditures generated by new capital projects; • 15.2: The current fiscal strategy is contained in the annual BPS; • 15.3: Non-consolidated information on outcomes is contained in various documents (e.g. BPS, Annual Public Expenditure Review).
PI.16: Medium Term Perspective on Expenditure Budgeting (M2)	B+ -16.1: A -16.2: A -16.3: B -16.4: C	• 16.1: PFMA (2012) requires an MT perspective. The BPS incorporates this. Starting FY 2014/15, programme budgets show expenditure according to administrative, program and economic classification; • 16.2: The Parliament-approved BPS, contains ceilings per programme for each MDA for the forthcoming budget year and projections for the next 2 years;

INDICATOR	SCORE	JUSTIFICATION
		• 16.3: The MTP 2 is used by sectors to plan and budget for program spending. Each sub-program is costed according to economic classification for each year. Costing tends not to fully contain the recurrent costs generated by completed capital projects; • 16.4: The BPS provides some explanation of differences between the budget and the previous year's estimates but in general terms only. Strengthening the accuracy of revenue and expenditure forecasts would strengthen the predictability of medium term budget forecasts.
PI.17: Budget Preparation Process (M2)	A -17.1: A -17.2: A -17.3: A	• 17.1: The budget calendar is clear and allows sufficient time to prepare budgets; • 17.2: The budget circular is clear in its guidance for budget preparation. • 17.3; The draft budgets for FYs 2013/14-15/16 were received by Parliament 2 months before the end of the FY, consistent with PFMA (2012).
PI-18: Legislative Scrutiny of Budget (M2)	A -18.1: A -18.2: A -18 .3: A -18.4: A	• 18.1- Parliament's scrutiny covers all areas indicated in the BPS; • 18.2: Parliament's procedures for reviewing draft budgets are thorough, guided by its Standing Orders; • 18.3: Parliament approved the draft budget before the end of the FY for the 3 latest FYs, as required by PFMA (2012); • 18.4: 1-2 Supplementary Appropriations Acts each year adjust the spending programmes of a number of MDAs. The rules are followed, but the number of adjustments is large.
Pillar V. Predictability and control in budget execution		
PI-19: Revenue Administration (M2)	D+ -19.1: C -19.2: C -19.3: C -19.4: D	• 19.1: Tax legislation has been streamlined (Tax Procedures Act). KRA website contains up-to-date tax guides. KRA continues to operate a comprehensive taxpayer education system. Most of the modules of iTax are now operational, making it easier for taxpayers to obtain information and submit returns. The independent Tax Appeal Administration Tribunal (TAT) was established in 2013, but appears not to be functioning, many appeals inefficiently going to the court system as a result; • 19.2: KRA's strengthening of its risk management is on-going for both Domestic Tax Department (Risk Management Framework derived from its Compliance Risk Management Strategic Plan) and Customs Border Control Department (Risk Management Unit, Post Clearance Audit Unit, and replacement of its mainly manual control system by a fully electronic one); • 19.3: KRA's implementation of its Compliance Improvement Plan (based on 19.2) is still in its early stages. The audit module in iTax was established only recently, The de-centralised nature of the tax audit system complicates the collation of information on planned and actual audit activities; • 19.4: The stock of tax and customs debts at the end of FY 2015/16 was 17% of total revenue collection. 46% represents interest and penalties. and 86% of debt is older than a year, mostly recorded in

INDICATOR	SCORE	JUSTIFICATION
		the Legacy system. The data held in this are not completely accurate.
PI-20: Revenue Accounting (M1)	D+ - 20.1: A -20.2: B -20.3: D*	• 20.1: NT receives monthly revenue data by revenue type from the 11 revenue collection agencies. KRA collects 95% of revenue. The OCOB prepares detailed reports using information from IFMIS; • 20.2: 85% of KRA revenues are deposited into its accounts in commercial banks. It takes 3 days for the deposits to be deposited into NT's Exchequer account in CBK . Non-KRA revenues collected by MDAs are first paid into their own accounts in CBK and then transferred the same day into NT's account in CBK; • 20.3: As indicated in OAG reports, reconciliation issues may arise in NT itself between revenue statements and cash books, but not so much in terms of collections and transfers to NT. A higher score would require complete reconciliation between assessments and revenue collection reports prepared by NT. This is not done yet, because of the insufficient reliability of pre-2014 revenue arrears data kept in the Legacy system.
PI-21: Predictability of In-year Resource Allocation (M2)	C-21.1: D* -21.2: C -21.3: C -21.4: B	• 21.1: The bulk of GoK cash balances are held in CBK by NT and MDAs with accounts in CBK. Information on these is available immediately. The cash balances of accounts held by primary schools are not routinely consolidated. The small amounts of cash balances held in donor projects accounts in commercial banks are not consolidated; • 21.2: MDAs prepare cash flow forecasts for the year as required by PFMA, but these have little meaning. Instead the budget is executed in two equal quarters for the first half of the year, following which a supplementary budget is prepared; • 21.3: Most recurrent expenditure can only be committed for payment a month ahead. Capital expenditures can be committed for payment up to six months ahead. Expenditures on commonly used items can be committed for payment up to 12 months ahead; • 21.4: The adjustments take place through one or two supplementary budgets a year. The number of adjustments is large. The Supplementary Estimates document explicitly lists the adjustments.
PI-22: Expenditure Arrears (M1)	C+ -22.1: B -22.2: C	• 22.1: Pending payments were 2.3% and 3.8% of total GoK expenditures at the end of FYs 2014/15 and 2015/16 respectively. The main reason for the sharp increase in FY 2015/16 was revenue shortfalls leading to delays in Exchequer releases and expenditure cutbacks even after commitments had been made; • 22.2: Monthly reporting of pending payments started in early FY 2016/17 as one of the agreements with IMF under its current support programme. Coverage of MDAs was partial at first, later becoming fully comprehensive, with reports issued about 2 months after the month being reported on.
PI-23: Payroll Control (M1)	B -23.1: B -23.2: B	• 23.1: The approved staff list, personnel database, and payroll are not fully integrated yet, but changes in the personnel database are entered into IPPD, leading directly to changes in the payroll. Prior to

INDICATOR	SCORE	JUSTIFICATION
	-23.3: B -23.4: B	running the new payroll, it is checked against the previous payroll and any changes made to it; • 23.2: Personnel records and payroll are updated at least every two months. and require a few small retroactive adjustments. • 23.3: Authority to change records and payroll is restricted. Changes generate an audit trail, which can be checked.-The integrity of data is high but not yet fully achieved. The OAG report for FY 2014/15 identified some control weaknesses; • 23.4: Partial payroll audits covering all MDAs were conducted in two of the last three FYs. The audit for 2015 included a head count, making the audit fully comprehensive.
PI-24: Procurement (M2)	A *-24.1:* A *-24.2:* A *-24.3: B* *-24.4:* A	• 24.1: The PPADA requires all government procurement entities, including SAGAs, SCs and Counties, to regularly report procurement information to PRRA. Accordingly, PPRA developed and a large comprehensive procurement database that includes procurement method, number and value of procurements by type of agency; • 24.2: The total value of contracts awarded through open competition (including restricted tendering) during FY 2015/16 was close to 100% of the total value of contracts; • 24.3: All of the six key procurement information elements are met; • 24.4: The procurement complaint system meets all six criteria.
PI-25: Internal Controls on Non-Salary Expenditure (M2)	B+ -25.1: A -25.2: C -25.3: A	• 25.1: The concept of segregation of duties has been embedded in Kenya's PFM system for a long time. The replacement of manual systems by IT systems (IFMIS) has reinforced the concept; • 25.2: Expenditure commitment controls are in place consistent with approved budgets, but they are based on actual cash availability for much of recurrent expenditure rather than projected cash availability. -Controls on capital expenditure items and commonly used recurrent expenditure items are based on projected cash availability; • *25.3:* The 2012 PFMA and 2015 PFM Regulations have strengthened the clarity of payments rules and procedures. -The re-engineered IFMIS and its coverage of all central government MDAs (except defence and national security) has made it very difficult for payments to be made in non-compliance with rules and procedures.
PI-26: Internal Audit (M1)	D+ -26.1: A -26.2: A -26.3: A -26.4: D*	• *26.1*: Internal audit is operational for all central government MDAs, as was the case at the time of the 2012 PEFA assessment; • 26.2: Internal audits are risk-based, focusing on the main PFM systems. Audits are conducted according to international audit standards, also the case at the time of the 2012 PEFA assessment; • 26.3: IADs of MDAs have been required to report quarterly to IAG and the senior management of their MDAs on the implementation of their annual audit plans. According to IAG, they have been implementing all their plans and reporting accordingly;

INDICATOR	SCORE	JUSTIFICATION
		• 26.4: As per PFMA & its FRs, IADs are no longer required to report to IAG on the extent that the management of auditees responds to the recommendations contained in audit reports.
Pillar VI. Accounting and reporting.		
PI-27: Financial Data Integrity (M2)	C -27.1: B -27.2: D -27.3: D -27.4: B	• 27.1: Bank account reconciliation is still done mainly outside IFMIS as the auto bank -reconciliation is not yet fully functional..- All reconciliation statements are prepared monthly. The deadline is the middle of the month. This may be missed but virtually all statements are submitted by the end of the month. The bulk of statements are submitted on time; • 27.2: Suspense accounts are reconciled monthly. They are not all cleared by the end of the FY because of 'old' pre-IFMIS suspense balances that were not transferred to IFMIS and have not been validated; • 27.3: Advance accounts are reconciled monthly but they are not all cleared by the FY-end; • 27.4: The 2015 FR covers such processes. These result in an audit trail, the processes being embedded in IFMIS. Changes to records in IFMIS are restricted and recorded. An Information System unit within the IFMIS Office in NT is responsible for checking the integrity of IFMS, including through the contracting of consultants. The Office has not prepared any reports on this.
PI-28: In-year Budget Reporting (M1)	C+ -28.1: C -28.2: C -28.3: B	• 28.1: The BIRR reports show actual quarterly expenditure by administrative, sector & programme classification for each of the recurrent and development budgets against the original budget, except for the last quarter, which compares to the revised budget only; - Actual expenditures of de-concentrated units financed by advances from HQs are reported on, facilitated by the availability of IFMIS to these units since FY 2014/15; - Part of sector budgets are implemented by SAGAs, financed by transfers from the GoK budget. Actual expenditures may not be reported in time, although SAGAs are supposed to report these every quarter; they are not on IFMIS. • 28.2: Actual external AiA spending reports takes longer to prepare as the information is not captured by IFMIS (funds are kept in commercial bank accounts); - The quarterly BIRRs highlight data issues (AiA spending, spending of transfers to SAGAs, neither captured by IFMIS). But most spending is captured by IFMIS. • 28.3: Exchequer releases into MDA bank accounts and actual expenditure (payments) are reported. Expenditure commitments are not reported, but short- term ones are implied by the exchequer releases.
PI-29: Annual Financial Reports (M1):	C -29.1: C -29.2: C	• 29.1: Annual Financial Statements (AFS) are prepared annually by NT. Actual grants, expenditures and financing are shown in the AFS and are comparable with the approved budget (on a broad

INDICATOR	SCORE	JUSTIFICATION
	-29.3: C	economic classification basis for expenditure). Domestic revenue performance by broad category is not shown. There is no analysis of revenue and expenditure performance, but this is shown in the BROP; • The AFS also include information on financial assets, liabilities except public debt stocks, loan guarantees, cash flow and end-year cash balances. Public debt stock information is prepared separately by PDMO in NT. The tables do not contain full information on non-financial assets; • 29.2: MDAs are required by PFMA to send their AFS to NT by 3 months after the end of the FY. According to OAG, these nominally comply with PFMA, but in practice MDAs tend to revise them. After consolidation, NT sends the AFS to the Auditor General 1 month later; • 29.3: The AFS have been prepared according to IPSAS cash since 2014 and are mainly in compliance with them.
Pillar VII. External scrutiny and audit		
PI-30: External Audit (M1)	D+ - 30.1: B -30.2: D -30.3: D* -30.4: A	• 30.1: Financial accounts of all national government MDAs connected to IFMIS are audited by OAG every year in conformity with ISSAIs.as indicated in the audit reports for FY 2012/13-14/15 (the report for FY 2015/16 has not yet been issued); - National Security institutions are audited periodically, but not annually as they are not connected to IFMIS. • 30.2: MDAs are required to submit their draft AFS to OAG no later than 3 months after the end of the FY. Most comply, but then make revisions, which may continue for several months, This hinders OAG in meeting its constitutional requirement to prepare its audit reports on MDAs no later than 6 months after the end of the previous FY. The reports for the last few years have been submitted more than 12 months after the end of the FY and the report for FY 2015/16 appears not yet to have been submitted to Parliament; • 30.3: Audited MDAs provide a formal response to audit findings through Management Letters to OAG, but it is not necessarily comprehensive & timely. The 2009 Public Audit Act did not provide for this; - The December 2015 Public Audit Act explicitly covers the audit process, including response and follow-up. The Public Sector Accounting Standards Board has prepared a template for this. It is too early to assess its effectiveness. • 30.4: The 2010 Constitution (Article 249) and Section 10 of the December 2015 Public Audit Act (PAA) confirm OAG's independence from the executive branch of GoK.

INDICATOR	SCORE	JUSTIFICATION
PI-31: Legislative scrutiny of audit reports (M2)	D -31.1: D -31.2: D -31.3: D- 31.4: D	• 31.1: At the time of the PEFA assessment field visit, the PAC was still reviewing the audit reports for FYs 2013/14- 2014/15. So far it had taken 21 months and 9 months respectively to review them, over 12 months on average; • 31.2: The PAC conducts hearings for those audited entities that receive OAG audit opinions that are not unqualified (75 out of the 101 opinions on the FY 2013/14 accounts and 82 out of 106 opinions on the FY 2014/15 accounts of the National Government).. The team was unable to meet the PAC and obtain evidence on the actual number of hearings on the audit reports for FYs 2013/14 & 2014/15. The team was informed that the minutes of PAC meetings could be accessed on-line, but this was not the case (the file is too large). But it is undoubtedly the case that hearings are held on most audit reports at least, as was the case at the time of the 2012 PEFA assessment; • 31.3: As noted under PI 31.1, the PAC is still reviewing the audit reports submitted to it for FY 2013/14 and FY 2014/15, and has not yet received the report for FY 2015/16. Thus it is not possible to assess this dimension, which applies to the last three completed FY; • 31.4: Hearings on audit reports are not open to the public but PAC reports are published on the Parliament web site. Reports on FYs 2013/14 & 2014/15 have not yet been completed.

Annex 1b: Summary of change in PFM performance since 2012 PEFA assessment (based on 2016 PEFA Framework) 46

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
Pillar I. Budget reliability			
PI-1: Aggregate expenditure outturn	B	B	*The B score in the 2012 assessment is not directly comparable*, because aggregate expenditure under the 2011 PEFA Framework excluded interest on debt and expenditure financed by donors' funds.
PI-2 Expenditure composition outturn	C+	D+	*Scores are not comparable* due to differences in scope.
PI-3 Revenue outturn	B	B	*Performance unchanged.* Scores are broadly comparable.
Pillar II. Transparency of publicfinances			
PI-4 (PI-5 in 2011 Framework): *Budget Classification*	C	C	*Performance unchanged*. The scoring criterion is comparable, The Standard Chart of Accounts was established.
PI-5 (PI-6 in 2011 Framework): *Budget documentation*	C	D	*Performance unchanged*. The scoring criterion changed, and the scores are not directly comparable. Applying the 2016 PEFA methodology to the 2012 situation would, however, result in a D rating, the issue being the lack of information on actual expenditure in the previous year.
PI-6 (PI-7 in 2011 Framework): *Central Govt. operations outside financial ports.*	D	D	*Performance assessment change is not possible because of insufficient information*. *6.1* Reporting on extra-budgetary agencies has improved due to IFMIS and the establishment of the Controller of the Budget, which prepares the in-year and annual BIRR reports. Reporting on school operations (which are not extra-budgetary) has specifically improved due to the establishment of school audits and the accountability of schools to Boards of Management. Nevertheless, the spending by primary schools of 3rd party grants is

[46] Expanded since third draft (September 2018) to include all indicators and not just those where performance changed.

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
			not transparently reported on. The amounts are not known, hence a D* rating. Spending of donor aid is in principal supposed to be on-budget and captured in BIRR reports and the AFS. PIs 28-29 indicate whether this in fact the case. Aid-from donors outside budgetary channels (both in cash and in-kind) is not reported to GoK by donors. The amounts are unknown, though apparently substantial.
PI-7 (PI-8 in 2011 Framework) : *Transfers to Sub-National Governments*	B	C+	Change in performance is not possible to assess due to the complete change in the sub-national government system
PI-9 (PI-10 in 2011 Framework): *Public access to fiscal information.*	B	B	*Performance has fallen.* The methodology is different, but comparability is possible with regard to timeliness of OAG reports available to the public. It now takes more than one year after the end of the previous FY for the reports to be completed and publicized. At the time of the 2012 assessment, it took less than one year.
Pillar III. Management of assets and liabilities			
PI-10: Fiscal Risk Reporting (PI-9 in 2011 PEFA Framework)	C	D+	*Performance unchanged.* The scoring criteria are more tightly specified in the 2016 Framework.
PI-13: Debt Management (PI-17 (ii) and (iii) under 2011 Framework	B+	B+	*Performance improved, though scores the same.* Reconciliation is still an issue (13.1). Performance under 13.3 has strengthened, with PDMO now conducting its own DSAs.
Pillar IV. Policy-based fiscal strategy and budgeting			
PI-17.3: Timeliness of submission of draft budget to Parliament. (PI 27-iii in 2012 PEFA assessment); & *PI-18.3: Timeliness of approval of draft budget by Parliament* (PI 11 (iii) in 2012 PEFA assessment)	D	A	*Performance improved* due to the draft budget being submitted to Parliament by 30th April each year as required by PFMA. This has enabled the budget to be approved by Parliament by 30th June each year (18.3), which is the end of FY.
Pillar V. Predictability and control in budget execution			
PI-19.1: *Revenue administration, rights &*	B+	C	*Performance improved due to*: • *Strengthened legislation:* (i) 2015 Taxpayer Procedures Act, which

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
obligations for revenue measures (PIs-13.(i)-(iii) in 2011 PEFA Framework).			harmonises the procedures under each tax law; (ii) the 2013 Tax Appeals Tribunal Act, which establishes a Tax Appeals Tribunal, bringing appeals procedures per tax type under one body; (iii) updated and simplified Income and VAT Acts; and (iv) establishment of a separate Excise Tax Act; • *Establishment of a modern, fully integrated tax administration system (iTax)* in place of the old legacy system. Establishment had just started at the time of the 2012 PEFA assessment. Most of its modules are now operational, making it easier for taxpayers to obtain information and facilitated by the large increase in the use of mobile phones with internet access. The score in the 2012 PEFA assessment may have been too high.
PI-19.2 & 19.3: Revenue risk management & revenue audit and investigation (PI-14 (iii) in 2011 Framework)	B	C	*Performance unchanged.* The score in the 2012 assessment was too high. The scoring criteria under the two Frameworks are differently defined, but assessment of performance change is possible through inference.
PI-19.4: Revenue arrears monitoring (PI-15 (i) in 2011 Framework)	D	D	*Performance unchanged.* The definitions are different, but the score is D, whatever the definition.
PI-20.2 *Revenue accountability (PI-15 (ii) on timeliness of deposits of tax revenues into NT account in CBK);*	B	B	*Performance unchanged for PI-20.2.* This is comparable to PI-15 (ii) in 2011 Framework.
PI-20.3. Revenue accountability (PI-15 (iii) in 2011 PEFA Framework) on reconciliation between deposits of tax revenues into NT account in CBK and amounts originally assessed.	A	D	*Performance unchanged for PI-20.3,* which is comparable to PI-15 (iii) in 2011 Framework. The score in the 2012 PEFA assessment was too high and should have been scored C or D

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-21: *Predictability of in-year resource allocation (M2-AV)*	B	C	*Performance fell through 21.2 & 21.3*
PI-*21.1: Consolidation of cash balances (PI-17(ii) in 2011 Framework).*	C	D*	*Performance unchanged:* The 2012 assessment did not fully take into account incomplete information on balances in donor project and primary school bank accounts.
PI-21.2: *Cash forecasting and monitoring (PI-16 (i) in 2011 Framework)* The scores are comparable.	B	C	*Performance fell*. Annual cash flow forecasting is not used as a tool for in-year management of budget execution.
PI-21.3: *Information on commitment ceilings (PI-16 (ii) in 2011 Framework)* The scores are comparable	B	C	*Performance fell* due to the increased uncertainty of predicted cash inflows and expenditure demands
PI-21.4: *Significance of in-year budget adjustments (PI-16 (iii) in 2011 Framework)* The scores are comparable	B	B	*Performance unchanged*.
PI-22*: Expenditure arrears (PI-4 2011 Framework)*	C+	C+	*Performance improved* under 22.2, due to the establishment of an age profile of arrears earlier in FY 2015/16. This was a structural benchmark under Standby Arrangement/Standby Growth Facility with IMF. The scoring criteria are different between the 2011 and 2016 PEFA methodologies. Change is assessed by applying the 2016 PEFA methodology to the situation at the time of the 2012 PEFA assessment.
PI-23*: Payroll control (PI-18 2011 Framework)*	B	B	*Performance unchanged in terms of scores.* It is improving, however, due to the establishment of the Government Human Resource Management Information

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
			System (GHRMIS) in MSPS. MDAs can upload their calculated payroll into this for upload into IFMIS for payment, and check the payroll against the staff establishment list. The score in the 2012 PEFA assessment was too high.
PI-24*: Procurement (PI-19 2011 Framework)*	C	A	*Performance improved.* 1. Use of competitive tendering procedures is now the norm for procurement amounts above the threshold; e-procurement ('procurement to pay'} has been established, though not fully functional yet; 2. Procurement information available to the public has increased in scope; 3. Procurement entities are routinely submitting procurement operational data to the Public Procurement and Regulatory Authority (PPRA), as required by the revised procurement law (December 2015). The 2016 PEFA Framework methodology differs from the 2012 methodology in some respects. The 2016 Framework has been applied to the situation in 2012 in order to assess performance change.
PI-25.2*: Expenditure commitment control procedures exist which provide partial coverage and are partially effective (PI-20 (i) in 2011 Framework)*	C	C	*Performance unchanged.* The methodology is the same as that in the 2011 Framework
PI-25.3*: Controls on non-salary expenditure; Compliance with payments rules & procedures (PI-20 (i) 2011 Framework)*	C	A	*Performance improved*, mainly due to the re-engineering of IFMIS, which was only just beginning at the time of the 2012 PEFA assessment. The methodology for 25.3 is different from that of PI-20 (iii) in the 2011 PEFA Framework, which was much less specifically defined. The 2016 Framework

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
			has therefore been applied to the situation at the time of the 2012 Framework. The overall score then would have been B, relative to the overall B+ score in this assessment.
PI-26.1, 26.2, 26.3: Internal audit coverage, nature & implementation (PI 21 (i), & (ii) in 2011 Framework).	B	A	*Performance improved.* Scores comparable (PI-21 (i) split into PI 26.1 & 26.2)[
PI-26-4: Response to internal audits (PI-21 (iii) 2012 assessment)	C	D*	Performance seems to have improved in terms of follow-up. However, the team was not able to collect the necessary information from the IADs in the MDAs in order to verify this. The IAG has not been collecting the information, because of its apparently diminishing quality assurance role.
Pillar VI. Accounting and reporting			
PI-27: Financial integrity *PI-27.1. Bank account reconciliation (PI 22 (i) 2011 Framework)* *PI-27.4 Financial data integrity processes* *PI-27.2 & 27.3: Suspense & advance accounts*	D D D	B B D	*Performance improved* due to re-engineering of IFMIS, expansion of internet banking (27.1), and establishment of an Information System Office in NT (27.4). *Performance unchanged* (27.2 & 27.3)
PI-28: In-year budget reports (M1) *PI-28.1: Coverage & comparability of reports (PI-24 (i) 2011 Framework)* *PI-28.2: Timing of in-year budget reports (PI-24.(ii), 2011 Framework)*	A C A	C+ B C	*Performance improved* under PI-28.1 and PI 28.3. The fall in score for PI-28.2 does not represent a fall in performance *Performance improved* due to IFMIS re-engineering and establishment of Office of Controller of Budget, which led to an improved quality of quarterly reports. *Comparability issue*: PI-24 (i) includes reports on expenditure commitments in its scope. PI 28.1 excludes these. The improvement Is based on reporting on items other than expenditure commitments

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
PI-28.3: Accuracy of in-year budget performance reports (PI-24 (iii) 2011 Framework)	C	B	*Not a fall in performance*. Reports are prepared quarterly, rather than monthly as before. But reports now include donor-financed and SAGA-financed expenditure, both of which are not captured by IFMIS and which thus take longer to report on. *Performance improved following re-engineering of IFMIS.*
PI-29: Annual Financial Reports (M1) *PI-29.1: Completeness of annual financial reports (PI-25 (i) 2011 Framework)* *PI-29.2: Submission of reports for external audit* *PI-29.3: Accounting standard (PI-25 (iii 2011 Framework))*	D+ D B D	C+ C C B	*Overall performance improved under 29.1 and 29.3.* *Performance improved* due to IFMIS re-engineering. *Performance unchanged*. The time benchmark was changed between the two Frameworks. *Performance improved* due to adoption of IPSAS cash
Pillar VII. External scrutiny and audit			
PI-30: External audit (M1) *PI-30.1 Audit coverage & standards (PI-26 (i) 2011 Framework)* *PI-30.2 Timeliness of submission of audit reports to Parliament (PI-26 (ii) 2011 Framework)* *PI-30.3. Audit follow-up (PI-26 (iii) 2011 Framework)*	D+ C C D	D+ B D: D*	*Overall performance unchanged.* *Performance improved* due to IFMIS expansion *Performance has fallen.* Timeliness has weakened. Insufficient information to score.
PI-31: Legislative oversight (PI-28 2011 Framework)	C+	D	*Performance appears to have weakened* due to increasing delays in the reviewing of audit reports by the Public Accounts Committee. These delay hearings and the

PI	Score 2012 PEFA assessment	Score 2017 PEFA assessment	Explanation
			preparation of recommendations.*(* D ratings for PI 31.1, 31,2, 31.3)
PI-31.4: Transparency of legislative scrutiny of audit reports		C *(new)*	*Performance improved* due to posting of Public Accounts Committee proceedings on Parliamentary website.

Annex 3: Sources of information

- Pi-4 budget classification;
  - Annex to financial standards guidelines list of entries;
  - SCOA - review - version 8 final;
- Pi-5 budget documentation;
  - Budget policy statement;
    - 2014 budget policy statement;
    - 2015 BPS final;
    - 2016 2017 budget statement;
    - 2016 budget policy statement final;
    - 2017-2018 FY draft budget policy statement;
    - 2017 budget policy statement;
    - Budget policy statement 2017;
  - Budget presentation;
    - Development budget 2014-2015 supplementary 1;
    - Development budget 2015-2016;
    - PBB 2016-2017 June;
    - Recurrent budget 2014-2015;
    - Recurrent budget 2015-2016;
    - Revenue and expenditure 2014-2020;
  - Budget summary;
    - Budget summary 2015;
    - Budget summary for the FY 2016-2017 and supporting information;
  - Statistical annex;
    - Statistical annex to the budget speech 2016-2017;
- Pi-7 transfers to sub national governments;
  - County allocation of revenue act no22 of 2016;
  - Legal notice no. 32-33 govt entities;
  - Legal notice no. 34 national govt regulations;
  - Legal notice no. 35 county govt regulations;
- Pi-8 budget performance information
  - Agriculture and rural development;
  - Education sector report;
  - Energy-infrastructure and information- communications technology sector;
  - *NT*: Annual BPS, Annual Budget Statement, SWG MTEF sector submission reports);
  - *Ministry of Devolution & Planning*: Annual Public Expenditure Reviews, Second Medium Term Plan (MTP), Vision 2030, Guidelines for Preparing Performance Contracts Service Delivery Charter, Annual Progress Report on Implementation of Second MTP, Monitoring and Evaluation Framework for Kenya (2015);
  - *Minister of State for Public Service*: Guidelines for Preparing Performance Contracts;
- Pi-9 public access to budget;
  - 2016 - 2017 FY annex of approved budget state corporations submission to NA April 2016;
  - 2016 budget review and outlook paper;
  - 2016 budget statement;
  - Budget calendar – process;
  - Budget summary for the fy 2016-2017 and supporting information (1);
  - Citizen's Guide to the Budget Cover page for state corporation annexes;

- Cs press release on 2016-2017 budget;
- Development budget book 2016-17 volume 1;
- Development budget book 2016-17 volume 2;
- Development budget book 2016-17 volume 3;
- Estimates of revenue to and expenditure from the equalization fund submitted to parliament 29.04.2016 – pdf;
- Program based budget 2016-2017;
- Programme based budget;
- Recurrent budget 2016-17 book volume I;
- Recurrent budget 2016-17 book volume ii;

- Pi-10 fiscal risk;
  - Compliance risk management strategy - lto.doc;
  - Fiscal commitments cl unit;
  - Kenya-county-transparency-June-2016-data.xlsx
  - KRA overall risk management policy and framework (RMPF);
- Pi-11 public investment management;
  - Treasury Circular TC17/ 2015: Guidelines on capital project preparation;
  - Annual report to Parliament on public investments submitted by Cabinet Secretary National Treasury 2015-2016 FY - Treasury Circular no 16 – 2016;
  - Annual reporting to Parliament on public investment by CSNT 2013/2014 FY-1;
  - Annual Programme Performance Reviews (PPR) prepared by Sector Working Groups. These include reviews of progress in implementing capital projects (The PPRs are mainly based on the quarterly reports prepared by MDAs on the extent of implementation of performance contracts signed with the Executive Office of the President. Example of PPR prepared by the Energy, Infrastructure and ICT Sector for FY2017/18-FY 2019/20), and the Performance Contract Progress Report prepared by the Ministry of Transport and Infrastructure for Q3 of FY 2015/16);
  - National priority list of PPP projects;
- PI-12: Public assets management;
  - 12.1. GoKs financial assets as recorded in the Annual Financial Statements (latest, FY 2015/16) prepared by National Treasury;
  - 12.2. Appendix II of the AFS for 2015/16: Summary of the fixed asset registers maintained by MDAs;
- 12.3. Sections 163-166 of the Public Procurement and Asset Disposal Act (PPADA) of 2015.Pi-13: Debt management;
  - PFMA (2012) and PFM Financial Regulations (2015);
  - Annual Kenao reports on annual financial statements prepared by NT (last one for FY 2014/15);
    - Directorate of Public Debt Management structure (NT website);
    - External public debt register 2012;
    - Annual Public Debt Management Report for FY 2015-16 (NT website) August and November 2016 monthly debt bulletins (NT);
    - National Government Loan Guarantees Act (No. 18 of 2011),Medium term debt management strategy 2015 (MTDS);
    - MDTS 013-2016A;
    - MDTS, 2017-18 (published November 2016);
- PI-14-Macroeconomic and fiscal forecasting;
  - Budget documents (annual BPS, BROP, Budget Statements, Budget Summaries);
- PI-15 Fiscal Strategy;
  - As for PI 14;
  - Medium Term Plan;

- Sector Reports prepared annually by Sector Working Groups (SWG);
- Programme Performance Reports contained in annual Programme Budgets;
- Annual Public Expenditure Reviews prepared by Ministry of Devolution and Planning;

- Pi-16 MTEF;
  - Sector reports;
    - Agriculture and rural development sector report MTEF 2017-20;
    - Energy-infrastructure and information- communications technology sector report MTEF;
    - MoE MTEF education sector report 2013-14;
    - MOH Kenya-human resources development strategy-2014-2018;
    - MOH SWG MTEF health sector report;
  - Guidelines for Preparing Strategic Plans (prepared periodically by Ministry of Devolution and Planning);
  - International Budget Partnership (IBP) Analysis of2016/17 National Budget Estimates for FY 2016/17 Budget;
- PI-17 budget preparation process;
  - Budget calendar – process;
  - Guidelines for budget 2016-17;
  - Guidelines for preparation of 2017-2018 - 2019-2020 medium term budget for state corporations - national treasury circular no. 15-2016 dated august 19th 2016;
- Pi-18 parliament scrutiny;
  - Annual reports to parliament on public investments 2015 circular;
  - BAC parliament report on bps 2015;
  - Kenya PFMA 2012 FAQ from International Budget Partnership;
  - MP Budget Watch 2012-13;
  - Parliament Budget Watch 2015-16 –final;
  - Report of the Liaison Committee on BPS 2016;
  - Standing Orders National Assembly;
  - ‘Unpacking the 2017 BPS’, Parliamentary Budget Office
- PI-19 Revenue Administration;
  - KRA structure and background (on KRA website);
  - KRA 6th Corporate P 2015, covering FYs 2015/16-2017/18;
  - Compliance Risk Management Strategy, FY 2013/14;
  - Overall Risk Management Policy and Financing;
  - About KRA (KRA website);
  - Information on appeals cases (e.g. Tornados Carriers);
  - IMF Fiscal Transparency Evaluation, Kenya 2016Income TaxAct 2014 and other tax-related laws (e.g. Tax Procedures Act, Tax Appeals Tribunal Act).
- PI-20 Accounting for revenue;
  - PFMA (20120 and PFM Regulations (2015);
  - Annual KENAO reports (with respect to PI 20.3 on reconciliation);
  - Quarterly Budget Execution Reports (QBER) prepared by NT; also BIRRs prepared by OCOB and quarterly reports prepared by KNBS which include revenue performance.
- PI-21 Predictability of In-year resource allocation;
  - PFMA (2012), PFM Regulations (2015), PPADA;
  - IMF reports on Kenya (latest dated February 2017);
  - “Cash Management Business Management Requirement Mapping Document”, April 2016, showed to team by ASD;
- PI-22: Expenditure arrears;
  - Information provided by NT;

  - Annual Financial Statements, 2015/16, Table 22 on Pending Payments;
  - Sector reports prepared by MDAs as part of annual budget preparation process;
  - Table provided by Accounting Services Department in NT on pending payables situation Table 3.13 in PEFA report) using age profile methodology developed with IMF assistance;
- PI-23: Payroll controls;
  - Information on Integrated Payroll and Personnel Database (IPPD) provided to the team;
  - Documentation provided by Teachers' Service Commission to the team on its operation of IPPD;
- PI-24 procurement;
  - Public Procurement and Asset Disposal Act (2015);
    - Draft Public Procurement and Asset Disposal Regulations (2016);
    - PPRA (previously named PPOA0 Annual reports;
    - Copy of large Excel-based comprehensive procurement database developed by PPRA;
    - Public Procurement Administrative Review Board (PPARB) performance report 2015/16Contract awards by procurement method, published on PPRA website;
    - PPRA circular no. 01.2016. Mandatory reporting requirements by procuring entities;
    - Public_procurement_amendment_regulations_2009;
    - Public_procurement_regulations_2006;
    - Q1 2016-17 contract awards (from PPRA);
    - Reporting templates for procuring entities prepared by PPRA;
- PI-25: Internal controls on non-salary expenditure;
  - 2012 PFMA and 2015 PFM Regulations;
  - Annual Reports of Auditor General;
- PI-26 Internal Audit;
  - PFMA (2012) and PFM Financial Regulations (20150);
  - Internal audit department-work plan and engagement plan 2016-2017;
  - Internal audit procedures manual - vol 1 KRA;
- PI-27: Financial Data Integrity;
  - PFM Financial Regulations (2015);
  - Bank reconciliation statements shown to the team;
- PI-28 Reporting and Accounting;
  - Budget Implementation Review Reports (BIRRs);
    - Annual BIRR FY 2015/16, published August 2016;
    - BIRR, q1 2014-2015;
    - BIRR, q4 2013-2014;
    - BIRR, half year FY 2014 – 2015;
    - BIRR, first quarter 2015-2016;
    - BIRR, half year FY 201516;
    - BIRR, third quarter FY 2015/16;
  - BROP and BPS;
    - Reports 2013, 2014, 2015, 2016;
- PI-29 Annual financial reports;
  - Consolidated financial statements MDAs - FY 2015-2016 2nd March 2017;
  - Consolidated financial statements for development projects - FY 2014-15;
  - Consolidated financial statements for MDAs FY 2014-15;
- Consolidated financial statements for State Corporations and SAGAs - FY 2014-15.PI-30 External Audit;

- Public Audit Act, December 2015;
- Annual audit reports prepared by KENAO: 2012/13 to 2014/15 (main report and Summary report);
- Kenao strategic plan 2015-2018;
- Media handbook of reporting audit findings;

- PI-31 Legislative Scrutiny;
  - - Last published PAC report covers FY 2012/13;
  - - 20th PAC report tabled before Parliament on 3.12.2015.

Annex 4 :Tracking change in performance based on the 2011 version of PEFA

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the budget				
The scoring criterion for each dimension is shown In italics in the fourth column				
PI-1. Aggregate expenditure outturn compared to original approved budget (M1)	B	NR	Interest and donor project/programme expenditure are excluded from the calculations required to assess this dimension Budgeted and actual interest expenditures can be separated out from total budgeted and actual expenditures. Since the establishment of programme budgeting in FY 2013/14, it has not been possible to separate out total budgeted donor project -funded expenditures from total budgeted expenditures, as shown in the annual budgets. Correspondingly, actual donor-project-financed expenditures are not explicitly shown in the annual financial statements prepared by National Treasury.	*Not possible to assess change in performance* for the reasons given in the column to the left.
PI-2. Composition of expenditure outturn to original approved budget (M1)	C+ (i) C (ii) A	NR (i) NR (ii) A	(i) For the same reasons as for PI-1, it is not possible to separate out budgeted and actual donor project financed expenditure for each MDA. (ii) The score remains at A.	*Not possible to assess overall change due to NR for 2 (i)* *(ii) Performance unchanged.* The amounts allocated to the Contingency item in the approved budget and then spent remains very small in relation to total budgeted expenditure.
PI-3. Aggregate revenue outturn compared to original approved budget	B	B	*"Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years"*	*Performance unchanged.* As was the case for the 2012 PEFA assessment, actual performance fell

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			Only domestic revenue performance is assessed. External grants, including those funded through AiA mechanisms (as shown in annual BROPs and BPS) are excluded under the 2011 PEFA Framework. After subtracting external grants from Table 3 in Annex 6, actual domestic revenue performance was -3.2%, -5% and -9.4% in FYs 2013/14, 2014/15 and 2015/16 respectively. This gives a B score.	below budgeted amounts in all three years. This appears to indicate continuing over-optimism in setting revenue targets.
PI-4 Stock and monitoring of expenditure payment arrears *(M1)*	C+	C+		*Overall performance unchanged.*
PI-4 (i) Stock of expenditure payment arrears and a recent change in the stock	C	C	"*The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years.*" The stock of expenditure arrears was more than 2%, but less than 10 percent of total central government expenditures in FYs 2014/15 and 2015/16. Lack of information on unpaid staff payables precluded calculation of the arrears/total expenditure ratio in FY 2013/14, but it was at least 2.3%. The arrears/total expenditure ratio rose to 3.8% in FY 2015/16 from 2.3% in FY 2014/15. The score is therefore C (a B score requires a declining trend).	*Performance unchanged*.
PI-4 (ii) Availability of data for monitoring the stock of expenditure payment arrears	B	B	*Data on the stock of arrears are generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.*	*Performance unchanged*

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			Data on the stock of arrears are generated annually, but may not be complete, due to some expenditure commitments being made by MDAs outside IFMIS. MDAs are required to report these to NT, but they may not, particularly if the commitments were made without budget provision.	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5. Classification of the budget	C	C	*The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.* In principle, performance should have improved. A unified SCoA came into effect in FY 2013/14 covering in detail all budgeting, budget execution, reporting and accounting codes. Programme budgets were established in FY 2013/14 and prepared on a programme/sub-programme and broad (2 digit GFS) economic classification basis under each Vote. The SCOA in principle meets GFS requirement but is only partly used in practice. As required by the 2010 Constitution, the annual budgets should comprise recurrent and development budgets. About 30% of the latter represents recurrent expenditure, thus complicating the preparation of budgets and budget execution reports on a GFS-consistent economic classification basis. Only the Annual Financial Statements show actual recurrent and capital budget expenditures at 3 digit GFS economic classification basis level. They do not show actual programme expenditures by MDA.	*Performance unchanged* The specification in the 2016 PEFA Framework is more or less the same as in the 2011 PEFA Framework.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			Budget documents tend not to fully comply with GFS even at 2 digit level basis.	
PI-6. Comprehensiveness of information included in budget documentation	C	B	*"Recent budget documentation fulfils 5-6 of the 9 information benchmarks"* More information is now provided in the annual Budget Policy Statement under element 3 of the 9 information benchmarks (revised estimates of budget outturns for the current year's budget) and element 9 (fiscal impact of new budget initiatives).	*Performance strengthened.* 6 of the 9 information benchmarks are now met. *No comparability issues:* These two information benchmarks correspond to benchmarks 3 and 10 of the 2016 PEFA Framework, and which were assessed as having being met.
PI-7. Extent of unreported government operations (M1)	D	NS		*Performance assessment change is not possible* because of insufficient information. *The overall score is D under PI-6 in the 2016 PEFA Framework*
PI-7 (i) Level of extra-budgetary expenditure (other than donor-funded projects), which is unreported, i.e. not included in fiscal reports	D	NS	Reporting on extra-budgetary agencies has improved due to IFMIS and the establishment of the Controller of the Budget, which prepares the in-year and annual BIRR reports. Reporting on school operations (which are not extra-budgetary) has specifically improved due to the establishment of school audits and the accountability of schools to Boards of Management. Nevertheless, the spending by primary schools of 3rd party grants is not transparently reported on.	*Performance assessment change is not possible* because of insufficient information This is comparable with D* score (data not available) for PI 6.1 and 6.2) under the 2016 PEFA Framework.
PI-7 (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	D	NS	Spending of donor aid is in principal supposed to be on-budget and captured in BIRR reports and the AFS. Aid-from donors outside budgetary channels (both in cash and in-kind) is not reported to GoK by donors. The amounts are	*Performance assessment change is not possible* because of insufficient information. As with PI 7.1 above, this is comparable with D* score (data not available) for PI

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			unknown, though apparently substantial	6.1 and 6.2) under the 2016 PEFA Framework.
PI-8. Transparency of Inter-governmental fiscal relations (M2)	C+	C		*Assessment of performance change not possible* due to the change in the structure of SNGs that took place after the 2012 PEFA assessment
PI-8.(i): Transparency and objectivity in the horizontal allocation among Sub-national Governments	B	A	*"The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems."*	*Assessment of performance change not possible* due to the change in the structure of SNGs that took place after the 2012 PEFA assessment.
PI-8.(ii): Timeliness and reliable information to Sub-National Governments on their allocations	A	D	*Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.*	For the same reasons as for PI-8 (ii), *assessment of performance change is not possible.*
PI-8. (iii) Extent of consolidation of fiscal data for general government according to sectoral categories	D	D	Consolidation of the fiscal data for GoK and County Governments has not yet been achieved.	For the same reasons as for 8 (ii), *assessment of performance change is not possible.*
PI-9. Oversight of aggregate fiscal risk from other public-sector entities. (M1)	C	D+		*Performance unchanged for PI-9 (i).* *Performance change under P9 (ii) cannot be assessed* due to the complete change in the structure of sub-national governments

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-9. (i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	*Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete* Monitoring is strengthening in response to the provisions of the PFMA (2012). Consolidated annual reports on the financial positions of State Corporations are still not yet being prepared. One reason is the enabling Financial Regulations did not come into force until 2015.	*Performance unchanged.* No comparability issues
PI-9. (ii) Extent of central government monitoring of Sub-National Government's fiscal position	C	D	*No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete.* County Governments are still in the early stages of preparing annual financial statements, mainly due to capacity constraints.. .	*The complete change in the systems of sub-national governments precludes assessment of change in performance.*
PI-10: Public access to key fiscal information	**B**	**A**	"*The government makes available to the public 5-6 of the 6 listed types of information*". Five of the 6 elements as listed in the 2011 Framework have been met: (i), (ii), (iv), (v) and (vi).	*Performance improved.* No comparability issues *Performance fell* under element (iii) on the timeliness of the completion of the audited annual financial statements. It is now taking more than a year before these are being made available to the public. *Performance improved, however*, in the availability of procurement statistics (v) and the availability of information on primary service delivery (vi). The latter is partly because of responsibilities for primary health service delivery

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
				being transferred to Counties.
C BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11. Orderliness and participation in the annual budget process	B	A		*Overall performance improved through improvement under PI 11 (iii) .* No comparability issues
PI-11. (i) Existence of, and adherence to, a fixed budget calendar	B	A	"*A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time*". The calendar and the adherence to it are little changed from the one at the time of t he 2012 PEFA assessment.	*Performance unchanged*. The score should have been A in the 2012 assessment.
PI-11. (ii) Guidance on the preparation of budget submissions	A	A	*"A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs."* The budget preparation Guidelines remain clear and comprehensive.	*Performance unchanged*.
PI-11 (iii) Timely approval of the budget by the Parliament over the last 3 FYs.	D	A	"*The legislature has, during the last three years, approved the budget before the start of the fiscal year*". As required by PFMA (2012) the draft budget has been submitted to Parliament by 30th April in each of the last 3 years. This has enabled the budget to be approved by Parliament by 30th June each year.	*Performance improved*. This compares exactly with the A score for PI-18.3 under the 2016 PEFA Framework.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	B		*Performance improved under 12 (iii) and (iv)* No significant comparability issues (PI 16.1 -16.3 in 2016 Framework).

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-12 (i) Multi-year forecasts & functional allocations	C	C	*"Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis."* Starting in FY 2014/15, budgets have been prepared in programme budget format. For each MDA, the proposed budgets are shown by programme and sub-programme classification, the latter according to economic classification. The budgets include projections for the two following FYs. The linkages between the multi-year estimates and subsequent setting of annual budget ceilings are very limited and any adjustments are not explained.	*Performance unchanged.*
PI-12 (ii) Scope and frequency of debt sustainability analysis	A	A	*"DSA for external and domestic debt is undertaken annually."* The Macro-economics Department and the Public Debt Management Department in NT continue to conduct an annual DSA. They now do this without the help of IMF.	*Performance unchanged.*
PI-12 (iii) Existence of costed sector strategies	C	B	*"Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure."* The rolling 3 year programme-performance budgeting framework is based on the Medium Term Plan (MTP 2) itself based on Vision 2030.MTP 2 (2013-2017) contains aggregated cost information per programme and represents the costed strategic plans for 5 years ahead for each sector.Each sub-programme within a programme is costed.	*Performance improved,* The programme budgeting framework, introduced in 2013/14, and its linkage to MTP2, itself linked to Vision 30, has strengthened performance.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-12 (iv) Linkages between investment budgets and forward expenditure budgets.	D	C	*"Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases".* The future recurrent costs implied by committed investment projects tend still not to be fully taken into account.	Performance improved. The recurrent and development budgets are now prepared together under one Treasury Circular
C(ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities (M2)	B+	B+		*Overall performance improved through strengthening under PI-13 (i).* Comparability with PI 19.1 in 2016 Framework
PI-13 (i) Clarity and comprehensiveness of tax liabilities	B	A	*"Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved".* Legislation strengthened in the following areas: (i) 2015 Taxpayer Procedures Act (TPA), which harmonises the procedures under each tax law; (ii) updated and simplified Income and VAT Acts; and (iii) establishment of a separate Excise Tax Act.	*Performance improved* due to strengthened legislation.
PI1-13 (ii) Taxpayer access to information on tax liabilities and administrative procedures	A	~~A~~	"*Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns".* KRA website continues to contain up-to-date tax guides (e.g. Employers Guide to Pay As You Earn, revised 2017). KRA continues to operate a	*Performance improved* The score in the 2012 PEFA assessment may have been too high.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			comprehensive taxpayer education system, as indicated on KRA's website and information provided by KRA to the team. ITax was in the early stages of being introduced at the time of the 2012 assessment. Most of its modules are now operational, making it easier for taxpayers to obtain information and submit returns. The large increase in the use of mobile phones with internet access has also had a large positive impact.	
PI-13 (iii) Existence and functioning of a tax appeals mechanism.	B	C	*"A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective"*. The 2013 Tax Appeals Tribunal Act established a Tax Appeals Tribunal (TAT) , bringing appeals procedures per tax type under one body. Previously, there were separate appeals bodies for each type of tax. An independent TAT was established under its own Act in 2013. The TAT appears not to be fully functioning yet. Many appeals go to higher court levels, when they could be resolved more efficiently through a functional TAT.	*Performance unchanged.* The TAT appears not be fully functional yet. The score in the 2012 PEFA assessment seems to have been too high.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2)	B	B		*Overall performance unchanged*
PI-14 (i) Controls in the taxpayer registration system	C	C	*"Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are*	*Performance unchanged.* Not in 2016 Framework. Score based on meetings and findings of TADAT study.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			then supplemented by occasional surveys of potential taxpayers." No link has been established yet with the financial sector, required in order to receive a higher score	
PI-14 (ii) Effectiveness of penalties for non-compliance	A	A	*"Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered"*. The system for levying penalties is unchanged. The penalty of 2% interest per month on late/non-payments remains as the most significant deterrent element of the penalty system.	*Performance unchanged* Not in 2016 Framework. Score based on meetings and findings of TADAT study.
PI-14 (iii) Planning and monitoring of tax audit and fraud investigation programs	B	C	"*There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria."* Strengthening of domestic tax customs duty audit is still an on-going process. Since the 2012 PEFA assessment, the Domestic Tax Department (DTD) has prepared a Compliance Risk Management Strategy and a Risk Management and Policy Framework has been put in place. The preparation of a robust risk register, as required by the Strategy, is still on-going. The Audit Unit in the Policy Division of DTD is providing policy direction and guidance. Implementation of risk-based audit plans has been hindered due to the audit module in iTax only recently becoming fully functional, following the migration of data from the Legacy system.	*Performance unchanged.* The B rating in the 2012 assessment appears to have been too high-. -Similar to PIs 19.2 and 19.3 in 2016 PEFA Framework.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			The de-centralised nature of the tax audit system is an issue as it complicates the collation of information on planned and actual audit activities. *The Customs & Border Control Department (CBD)* has a Risk Management Unit and is taking steps to identify and control risks through its Post Clearance Audit (PCA) process. Its recent replacement of its largely manual control system (SIMBA) by a fully automated electronic system (Integrated Customs Management System (ICMS)) will be a big help in this regard.	
PI-15 Effectiveness in collection of tax payments (M1)	D+	D+	The A rating for Dim (iii) in the 2012 assessment is too high, and should have been D. This makes no difference to the overall score.	
PI-15 (i) Collection ratio for gross tax arrears	D	D	*"The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections)"* The stock of total tax and customs revenue arrears at the end of FY 2015/16 amounted to Ksh 206 billion, comprising 17.1% of total revenue owed to KRA. The amount of arrears collected was Ksh 30 billion in FY 2015/16, representing 15% of total arrears. This represents a D score. The TADAT report notes that the quality of arrears data collected prior to FY 2015/16 is highly suspect. This situation started to improve in FY 2015/16 as arrears started to be migrated to iTax from the Legacy system.	*Performance unchanged.* Compares to PI 19.4 in 2016 Framework. This scores D. The specification of the scoring criterion is not exactly the same, but performance is unchanged, whichever way one looks at it.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-15 (ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	B	*"Revenue collections are transferred to the Treasury at least weekly"* KRA agent commercial banks take up to three days to transfer tax collected by tthem to the Exchequer account. An 'A' rating requires daily transfer.of all revenues to the Exchequer account.	*Performance unchanged* Compares exactly with PI 20.2 in 2016 Framework. (score B).
PI-15 (iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	A	D	*"Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay"* The insufficient reliability of pre-2014 (iTax was established in 2014) revenue arrears data and the time it has taken to transfer taxpayer files from the Legacy system to iTax results in a D score. The score of A in the 2012 assessment did not take into account the unreliability of the arrears data and the shortcoming of the Legacy system. The recent TADAT report highlighted these issues.	*Performance unchanged.* The scoring criterion is comparable with PI 20.3 in the 2016 PEFA Framework, which also scores D.
PI-16 Predictability in the availability of funds for commitment of expenditures (M1)	B	**C**		*Overall performance appears to have fallen.*
PI-16 (i) Extent to which cash flows are forecasted and monitored	B	C	*"A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated".* The Financial Regulations require MDAs to prepare a cash flow forecast for the year, broken down into quarterly forecasts, which are	*Performance unchanged.* The 2012 score appears to have been too high. Scoring criterion directly comparable to PI 21.2 in 2016 Framework (score also C)

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			revised and rolled forward each month. This has not been happening in practice. MDAs prepare cash flow forecasts for the year, but instead the budget is executed in two equal quarters for the first half of the year, following which a supplementary budget is prepared.	
PI-16 (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditures	B	C	*"Budgetary units are provided reliable information for one or two months in advance"*. Under the current situation of uncertainty of predicted cash inflows and expenditure demands, most recurrent expenditure can only be committed for payment a month ahead.	*Performance has fallen.* Scoring criterion directly comparable with PI 21.3 in 2016 PEFA Framework (score also C).
PI-16 (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	B	B	*"Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way".* The adjustments take place through one or two supplementary budgets a year. The number of adjustments is large. The document on the 1st Supplementary Estimates for FY 2016/17 explicitly lists the adjustments.	*Performance unchanged.* Scoring criterion closely comparable with PI 21.4 in 2016 PEFA Framework (score also B).
PI-17 Recording and management of cash balances, debts and guarantees (M2)	B	NS		Reflects NS for dim (ii)
PI-17 (i) Quality of debt data recording and reporting	B▲	B	*"Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. (cover debt service, stock and operations) are produced at least annually. Comprehensive management and statistical reports*	*Performance unchanged.* The C score for PI-13.1 under the 2016 Framework reflects the explicit inclusion of government guarantees in the criterion.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			(cover debt service, stock and operations) are produced at least annually".	
PI-17 (ii) Extent of consolidation of the government's cash balances	C	NS	Information on balances on government-held bank accounts held in commercial bank accounts still tend not to be fully reported on to NT. Examples are donor project accounts and the accounts of primary schools, which number in the thousands. As the value of these balances held outside CBK is not known with certainty, it is not possible to score this dimension. The score should also have been NS in the 2012 assessment.	*Performance unchanged* This dimension scores D* under the 2016 PEFA Framework methodology. It would also have been scored D* in the 2012 assessment if the 2016 PEFA Framework had been in place at that time.
PI-17 (iii) Systems for contracting loans and issuance of guarantees	A	A	*"Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity".*	*Performance unchanged.* This dimension is not the same as PI 13.2 in the 2016 Framework. This scored A. in the 2017 assessment.
PI-18: Effectiveness of payroll controls (M1)	B+	B		*Overall performance unchanged.* The scoring criteria under both the 2011 and 2016 Frameworks are directly comparable
PI-18 (i) Degree of integration and reconciliation between personnel records and payroll data	A	B	*"Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data".*	*Performance unchanged*, taking into account that the score should have been B in the 2012 assessment.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			The personnel database, and payroll are not fully integrated yet. Changes in the personnel database are manually entered into IPPD, leading directly to changes in the payroll. Prior to running the new payroll, it is checked against the previous payroll and changes made to it. Full introduction of GHRMIS would enable an A score.	
PI-18 (ii) Timeliness of changes to personnel records and the payroll	B	B	*"Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally".* Updating of personnel records tends to take longer in the cases of terminations, resignations, and removal of retirees.	*Performance unchanged*.
PI-18 (iii) Internal controls over changes to personnel records and the payroll	A	B	*"Authority and basis for changes to personnel records and the payroll are clear."* Authority to change records and payroll is restricted. Changes generate an audit trail which can be checked. The integrity of data is high but not yet fully achieved. The OAG report for FY 2014/15 identified some control weaknesses.	*Performance unchanged.* It is unlikely that performance fell. The score in the 2012 assessment may have been too high.
PI-18 (iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	A	B	*"A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise)."* Partial payroll audits covering all MDAs were conducted yearly in two of the last three FYs.	*Performance unchanged.* The 2012 score appears to have been too high. There is no reference to a comprehensive payroll audit.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			A comprehensive payroll audit has not been conducted either by internal auditors in MDAs or OAG that includes head counts in districts in order to identify ghost workers.	
PI-19 Competition, value for money and controls in procurement (M2)	C+	B+		*Overall performance improved through dimension (ii).*
PI-19 (i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	B	B	*"The legal framework meets four or five of the six listed requirements"* The legal and regulatory framework meets four out of the six PEFA requirements. As with the old law, the PPADA (2015) does not require the publishing of the procurement plans of GoK entities; Criterion (v) is still not fully met. Criterion 1 is now not met. The Regulations accompanying the PPADA (2015) had, as of June 2018, still not been finalized and approved. This does not reduce the score.	*Performance unchanged.* No comparability issues
PI-19 (ii) Use of competitive procurement methods	D	A	*"When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements*:" As indicated in Table 18 in the main text, the total value of contracts awarded through open competition (including restricted tendering) during FY 2015/16 was close to 100% of the total value of contracts.	*Performance improved*. Some comparability issues, but this was because the wording of the scoring criterion in the 2011 Framework made the criterion almost impossible to score. Performance has unambiguously improved.
PI-19 (iii) Public access to complete, reliable and timely	B	B	*"At least three of the four key procurement information elements (government procurement plans, bidding opportunities, contract*	*Performance unchanged.* No comparability issues

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
procurement information			*awards, and data on resolution of procurement complaints) are complete and reliable for government units representing 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means"* Procurement plans are still not made available to the public.	
PI-19 (iv) Existence of an independent administrative procurement complaint system	B	A	*"The procurement complaints system meets all seven criteria"* The B score in the 2012 PEFA was due to criterion (iii) on the non-charging of fees not being met. The PPRA and Kenya Chamber of Commerce indicated during the 2017 assessment that this was not a significant issue.	*Performance unchanged.* *No comparability issues*. The first criterion in the 2012 Framework specifies that a complaints review body should be comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government; This element was met, but was not included in the 2016 Framework.
PI-20 Effectiveness of internal controls for non-salary expenditures (M1)	C	C+		Overall performance improved through dimension (ii)
PI-20 (i) Effectiveness of expenditure commitment controls	C	C	*"Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated"*. Approvals of most recurrent expenditure commitment requests continue to be based on actual beginning of month cash	*Performance unchanged in terms of scores. The establishment of IFMIS is strengthening controls* A comparability issue is that assessment under the 2011 Framework is based in part on actual cash availability, whereas assessment under the 2016 Framework is based on projected cash

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			availability as well as consistency with approved budgets. The establishment of IFMIS has greatly strengthened commitment control. Nevertheless, as noted under PI-16, some MDAs continue to enter into development expenditure commitments outside of IFMIS that are not covered by approved budgets.	availability. The scores are the same under both methods.
PI-20 (ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	C	B	*"Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays".* The PFMA (2012), its supporting Financial Regulations (2015), the establishment of IFMIS and the OCOB since 2012 have all contributed to an improved understanding of internal controls.	*Performance improved.* This dimension is not covered in the 2016 PEFA Framework. Nevertheless, it can be scored according to the 2011 Framework and the information available to the assessment Team in connection with the other dimensions.
PI-20 (iii) Degree of compliance with rules for processing and recording transactions	C	C	*"Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern."* The IIFMIS is now close to being fully established, thus making non-compliance with payments procedures much harder. As noted in the annual Auditor General Reports, non-compliance with other rules and procedures is still an issue.	*Performance unchanged.* PI 25.3 in the 2016 Framework is defined in relation to compliance with payments procedures only, and scores A due to IFMIS.
PI-21 Effectiveness of internal audit (M1)	C+	NS		*It was not possible to assess 21 (iii).*
PI-21 (i) Coverage and quality of the internal audit function	B	A	*"Internal audit is operational for all central government entities, and generally meet professional*	*Performance improved.*

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			standards. It is focused on systemic issues (at least 50% of staff time)". Performance was already good at the time of the 2012 PEFA assessment. The introduction of TeamMate since then, as an audit management tool, has helped to further strengthen the systems focus of audit.	This dimension is disaggregated into two dimensions (26.1 & 26.2) in the 2016 Framework, both scoring A.
PI-21 (ii) Frequency and distribution of reports	B	A	*"Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI"* IADs of MDAs have been required to report quarterly to IAG and the senior management of their MDAs on the implementation of their annual audit plans. They have been implementing all their plans and reporting accordingly,The TeamMate system, introduced after the 2012 assessment, is able to monitor the audit process of each entity relative to the initial work plan.	*Performance improved.* This dimension is similar to PI 26.3 in the 2016 Framework (Score A). The B score in the 2012 assessment partly reflect the internal reports not being routinely sent to the Auditor General. This is not a requirement in the 2016 Framework. The main reason for improvement is the introduction of TeamMate.
PI-21 (iii) Extent of management response to internal audit function.	C	NS	At the time of the PEFA fieldwork in early 2017, the IAG indicated that, under PFMA (2012) it was losing its responsibility to monitor the extent of management response to internal audit reports, Audit Committees being established in MDAs would instead have this responsibility. The team therefore awarded a D* score, as assessment was not possible. At the June 27, 2018 PEFA workshop, the team learned that IAG in fact retained its responsibility. But there was no time for the team to obtain the	*Performance not assessed.* This dimension is comparable to PI 26.4 in the 2016 Framework, which scores a D*. The establishment of TeamMate has probably led to improvement in performance.

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			information required to score the dimension.	
C(iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation (M2)	D	C		Overall performance improved through dimension (i).
PI-22 (i) Regularity of bank reconciliations	D	B	*"Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month"*. - All reconciliation statements are prepared monthly. The deadline is the middle of the month. This may be missed but virtually all statements are submitted by the end of the month.	Performance improved. mainly due to the re-engineering of IFMIS. This has facilitated the quicker and more comprehensive recording of revenues and expenditures in the General Ledger (GL) of IFMIS. The advent of internet banking (T-24 project) has also facilitated more timely reconciliations due to the more timely submission to CBK by commercial banks of MDA transactions. Timely and accurate reconciliation is not perfect yet, as, according to KENAO, MDAs are still using manual methods alongside IFMIS, resulting in errors and delays. The Cash Management module of IFMIS is still in the process of being introduced. Its auto-bank reconciliation sub-module had not yet been established due to technical problems. A comparability issue is that an A rating under the 2011 PEFA Framework required timely reconciliation for all central government bank accounts, whereas under the 2016 Framework, the A rating applies only to all Treasury-managed bank

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
				accounts. The 2012 PEFA assessment indicates, however, that this is not an issue, the main reason for the D being the IFMIS being not yet in place.
PI-22 (ii) Regularity and clearance of suspense accounts and advances	D	D	"*Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently*" - Suspense accounts are reconciled monthly. They are not all cleared by the end of the FY because of 'old' pre-IFMIS suspense balances that were not transferred to IFMIS and have not been validated. - Advance accounts are reconciled monthly but they are not all cleared by the end of the FY. Outstanding imprests are still not all cleared by end-year, though the stock of these fell in FY 2015/16.	*Performance unchanged.* *No comparability issues.* The 2011 PEFA Framework combined clearance of suspenses and advances under one dimension. The 2016 PEFA Framework splits these into 2 dimensions.
PI-23 Availability of information on resources received by service delivery units	D	B	"*Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually.*" Primary health care services have, since 2013, been delivered at County Government level. This indicator covers primary education services only. Strengthened accountability, reporting and controls have, since the 2012 PEFA assessment) enhanced the accuracy of information on resources received by primary schools through the	*Performance improved in relation to primary schools;* primary health services are now delivered at County level. This indicator is the same as PI 8.3 in the 2016 PEFA Framework

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			annual budgets of the State Department of Basic Education (SDBS): expansion of IFMIS, establishment of primary education school Boards of Management, establishment of school audit programmes, and the annual Sector MTEF reports, which include performance reports for sub-sectors, including primary schools. The reports do not include resources received through 3rd parties such as parent groups, but these amounts are presumably very small relative to the amounts received from SDBS.	
PI-24 Quality and timeliness of in-year budget reports (M1)	C+	C+		*Overall performance unchanged. It fell under PI 24.1 and improved under PI 24.3* Scope and performance are directly comparable.
PI-24 (i) Scope of reports in terms of coverage and compatibility with budget estimates	A	C	*" Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both)"*. Since the 2012 PEFA assessment, in-year reporting has been in the form of the quarterly Budget Implementation Review Reports (BIRRs) prepared by OCOB instead of the Quarterly Economic and Budget Review (QEBR) reports prepared by Ministry of Finance. The latter reported expenditures on a commitment basis (in the form of local purchase orders and contracts, as well as on a payments basis), but the BIRRs do not explicitly include these (though implied by the monthly Exchequer Releases to MDAs).	*Performance fell.* The quarterly BIRRs do not include expenditure commitments This dimension is specified differently from PI-28.1 in the 2016 Framework. This does not specify the requirement (for an A or B) to report on expenditure commitments as well as actual expenditures.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			Moreover, expenditures in the last quarter are compared with the revised budget, not the originally approved budget.	
PI-24 (ii) Timeliness of the issue of reports	A	C	*Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter*	*Assessment of performance is problematic.* Reports of actual externally financed AiA and expenditures of SAGAs are not available on IFMIS and so take longer to compile for inclusion into the quarterly BIRRs. These expenditures appear not to have been included in the quarterly reports referred to in the 2012 PEFA assessment.
PI-24 (iii) Quality of information	C	B	"*There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency" usefulness"* The quarterly (BIRRs) highlight data issues (e.g. AiA spending, spending of transfers to SAGAs, neither captured by IFMIS). Most spending is captured by IFMIS. - Exchequer releases into MDA bank accounts and actual expenditure (payments) are reported. Expenditure commitments are not reported, but short term ones are implied by the exchequer releases.	*Performance improved, due to increased coverage and functionality of IFMIS.* No comparability issues.
PI-25 Quality and timeliness of annual financial statements (M1)	D+	D+		*Overall performance is unchanged.* The rating for 25.1 in 2012 PEFA assessment revised to D.
PI-25 (i) Completeness of the financial statements	D	D	*"A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR*	*Performance unchanged.* Notwithstanding progress in establishing the IFMIS, it

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			the financial records are too poor to enable audit.” The team looked at the Consolidated Financial Statements of MDAs for FY 2015/16, Revenues, expenditures, stocks of financial assets, and cash flows are summarized, but end-year public debt financial liabilities are not disclosed, as required by IPSAS cash.	seems that a complete annual financial statement is not yet possible. This scores C under the 2016 Framework, due to the different wording of the scoring criterion.
PI-25 (ii) Timeliness of submissions of the financial statements	B	B	‘*The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year’.* A consolidated statement is required to be submitted for audit within 3 months of the end of the FY. In practice individual MDA statements tend to be sent back for revision. It may take several months before all MDA statements are finalized (8 months in the case of the consolidated accounts for FY 2015/16).	*Performance unchanged.* The criteria are more restrictive under the 2016 Framework. An A score requires submission within 3 months, and a B score submission within 6 months. Thus the score is C under the 2016 Frame work.
PI-25 (iii) Accounting standards used	D	C	‘*Statements are presented in consistent format over time with some disclosure of accounting standards* ‘. The Government has adopted IPSAS cash for the preparation of the consolidated AFS since the 2012 PEFA assessment. The consolidated AFS do not, however, include disclosures of public debt liabilities.	*Performance improved, due to the adoption of IPSAS cash.*
C (iv) External Scrutiny and Audit				
PI-26 Scope, nature and follow-up of external audit (M1)	D+	D+		*Overall performance unchanged.* Improvement under dimension (i) a fall under dim. (ii), and no change under dim. (iii).

Indicator/ Dimension	Score of 2012 assessment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-26 (i) Scope/nature of audit performed (including adherence to auditing standards)	C	B	'"*Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues"*	*Performance improved* due to IFMIS expansion facilitating a higher audit coverage of expenditure. No comparability issues.
PI-26 (ii) Timeliness of submission of audit reports to the Legislature	B	D	'"*Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors)."* The timeliness of the submission of audit reports to the National Assembly seems to have fallen sharply. This seems to be due to MDAs preparing annual financial reports using both manual methods and through IFMIS, leading to KENAO requiring corrections..	*Performance has fallen.* No comparability issues. .
PI-26 (iii) Evidence of follow up on audit recommendations	D	D	*"There is little evidence of response or follow up".* The December 2015 Public Audit Act explicitly covers the audit process, including response and follow-up. The Public Sector Accounting Standards Board has prepared a template for this. It is too early to assess its effectiveness.	*Performance unchanged*. No comparability issues
PI-27 Legislative scrutiny of the annual budget law (M1)	C+	B+		Overall performance unchanged. Scope and performance are directly comparable.
PI-27 (i) Scope of the legislature's scrutiny	A	A	*"The legislature's review covers fiscal policies, medium term fiscal frameworkand medium term priorities as well as details of expenditure and revenue".*	*Performance unchanged.* The scoring criterion is the same as for PI 18.1 in the 2016 Framework.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
PI-27 (ii) Extent to which the legislature's procedures are well established and respected	A	A	*"The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures*." The procedures are little changed from the 2008 Standing Orders.	*Performance unchanged..* The scoring criterion is comparable with that of the 2016 Framework..
PI-27 (iii) Adequacy of time for the legislature to provide a response to budget proposals	A	A	*"The legislature has at least two months to review the budget proposals*" .	*Performance unchanged*. This dimension is comparable to PI-17(iii) in the 2016 Framework.
PI-27 (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	B	"*Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations"* This dimension is comparable to PI-17 (iv) in the 2016 framework. The interpretation is different, however. Under the legislation in effect in place at the time of the 2012 PEFA assessment, prior parliamentary approval via Supplementary Appropriations Acts was required for proposed increases in appropriations. Some of the approvals were *ex post*, hence a C score.	*Performance unchanged.* The new PFMA allows supplementary spending to take place prior to parliamentary approval. In practice, the situation for amending budgets without ex-ante parliamentary approval hasn't changed.
PI-28 Legislative scrutiny of external audit reports (M1)	C+	NS		*Not possible to assess change in performance due to NS under dims.(iii) and (iv).* *Performance fell under PI-28 (i).*
PI-28 (i) Timeliness of examination of audit reports by the legislature (for reports received within the last few years)	C	D	"*Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete*" At the time of the PEFA assessment field visit in February-	*Performance fell* No comparability issues. The scoring criteria are the same for both Frameworks.

Indicator/ Dimension	Score of 2012 assess ment	Score of current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			March 2017, the PAC was still reviewing the audit reports for FYs 2013/14 and 2014/15. So far it had taken 21 months and 9 months respectively to review them, over 12 months on average.	
PI-28 (ii) Extent of hearings on key findings undertaken by the legislature	A	NS	The 2017 PEFA team was not able to meet the PAC and obtain the information on the actual number of hearings so far on the submitted audit reports for FYs 2013/14 and 2014/15. The team was informed that the minutes of PAC meetings could be accessed on-line, but this was not the case.	*Not possible to assess change in performance*
PI-28 (iii) Issuance of recommended actions by the legislature and implementation by the executive	C	NS	As noted under PI 31.1, the PAC is still reviewing the audit reports submitted to it for FY 2013/14 and FY 2014/15, and has not yet received the report for FY 2015/16.	*Not possible to assess change in performance*
Donor Practice Indicators:				
D1: Predictability of Direct Budget Support	D	NA	Direct Budget Support no longer being provided to Kenya	
D2: Financial information provided by donors for budgeting and reporting on project and programme aid	D	NU	**This indicator was not assessed**, as the team was using the 2016 Framework, which does not include donor practice indicators. Even if it had been assessed, there was no reason at the time of the assessment for considering that performance had strengthened.	
D-3: Proportion of aid that is managed by use of national procedures.	D	NU	Unlikely that this has changed.	

Summary Distribution of scores

Table 0.1

	2012	2017	PIs: increased scores	PIs: reduced scores	PIs: unchanged scores	PIs: NR/NS
A	0	2	10, 11			
B & B+	9	8	6, 12, 19, 23, 27		3, 13, 14, 18	
C & C+	13	8	20, 22	16	4, 5, 20, 24	

	2012	2017	PIs: increased scores	PIs: reduced scores	PIs: unchanged scores	PIs: NR/NS
D & D+	6	4			15, 25, 26	
NR & NS	0	6				1, 2, 7, 17, 21, 28
TOTAL	28	28	6, 10, 11, 12, 19, 20, 22, 23, 27 = 9	1	3, 4, 5, 13, 14, 15, 18, 24, 25, 26=10	1, 2, 7, 17, 21, 28=6

Note: Performance assessment change not possible for PI-8 and PI 9(ii) due to change in structure of SNGs.

The main ‘problem’ indicators in terms of continuing low/ decline in scores and negative impact on the three budget outcomes (aggregate fiscal discipline, strategic allocation of resources, efficiency of service delivery) are:

- PI 4 (payments arrears);
- PI-7 (unreported extra-budgetary operations);
- PI-15 (effectiveness of tax collections), PI-16 (in-year predictability of resources availability for budget execution);
- PI-20 (internal controls effectiveness);
- PI-24 (in-year budget execution reports);
- PI-25 (robustness of annual financial statements);
- PI-26 & PI-28 (long delays in follow-up on steps taken by MDAs to resolve issues identified by OAG and then PAC).

Annex 5: Persons Consulted

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Annex 6: Data for PI-1, PI-2 and PI-3

Table 0.1 Data for PI-1 and PI-2, FY 2013/14

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Teachers service commission	166.42	165.62	154.7	10.9	10.9	7.1%
Ministry of Interior and Coordination of National Government	103.78	103.30	96.5	6.8	6.8	7.1%
Ministry of Education, Science and Technology	96.82	86.39	90.0	-3.6	3.6	4.0%
Ministry of Defence	78.12	74.20	72.6	1.6	1.6	2.2%
Ministry of Transport and Infrastructure	65.68	47.85	61.1	-13.2	13.2	21.6%
Ministry of Devolution and Planning	62.87	59.41	58.4	1.0	1.0	1.7%
Ministry of Agriculture livestock and fisheries	40.79	36.82	37.9	-1.1	1.1	2.9%
The national treasury	37.50	32.64	34.9	-2.2	2.2	6.4%
Ministry of Health	34.27	29.71	31.9	-2.2	2.2	6.8%
Ministry of Environment, Water and Natural Resources	29.74	28.80	27.6	1.2	1.2	4.2%
Ministry of Energy and Petroleum	28.54	25.00	26.5	-1.5	1.5	5.8%
Pensions and Gratuities	28.15	27.71	26.2	1.5	1.5	5.9%
Parliamentary service commission	25.05	24.53	23.3	1.2	1.2	5.3%
Ministry of Lands Housing and Urban Development	17.89	11.94	16.6	-4.7	4.7	28.2%
National intelligence services	15.69	15.69	14.6	1.1	1.1	7.6%
Ministry of Labour, Social Security and Services	15.42	12.91	14.3	-1.4	1.4	9.9%
The judiciary	13.91	12.68	12.9	-0.3	0.3	1.9%
Ministry of Foreign Affairs	11.51	11.31	10.7	0.6	0.6	5.7%
The Presidency	6.90	6.66	6.4	0.2	0.2	3.9%
Ministry of Information, Communication and Technology	6.66	6.63	6.2	0.4	0.4	7.1%
21 (= sum of rest)	43.70	44.16	40.6	3.5	3.5	8.7%
Allocated expenditure	929.4	863.9	863.9	0.0	60.4	
Public debt	331.17	227.58	307.8	-80.3	80.3	26.1%
Contingency	5.00	0.00				
Total expenditure	1 265.6	1 091.5				
overall (PI-1) variance						86.2%
composition (PI-2) variance						7.0%
contingency share of budget						0.0%

Sources: Consolidated Financial Statements of MDAs for FYs 2013/14-2015/16, prepared by Accounting Services Department of National Treasury.

Table 0.2 Data for PI-1 and PI-2, 2014/15

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Teachers service commission	169.64	166.05	150.4	15.6	15.6	10.4%
State department for interior	101.47	89.54	90.0	-0.5	0.5	0.5%
Ministry of Defence	78.77	74.59	69.9	4.7	4.7	6.8%
State Department for Planning	71.93	60.11	63.8	-3.7	3.7	5.8%
State Department for Infrastructure	67.65	54.47	60.0	-5.5	5.5	9.2%
The national treasury	59.26	46.51	52.6	-6.0	6.0	11.5%
State department for education	57.95	55.32	51.4	3.9	3.9	7.6%
State Department for Science & Technology	50.30	48.74	44.6	4.1	4.1	9.3%
Ministry of health	42.89	34.04	38.0	-4.0	4.0	10.5%
Ministry of Energy and Petroleum	33.47	26.55	29.7	-3.1	3.1	10.5%
State Department for Agriculture	32.92	27.32	29.2	-1.9	1.9	6.4%
Pensions and Gratuities	32.36	35.08	28.7	6.4	6.4	22.3%
Parliamentary service commission	26.47	23.16	23.5	-0.3	0.3	1.4%
Ministry of of Lands Housing, and Urban Development	25.55	18.07	22.7	-4.6	4.6	20.3%
State Department for Water & Regional Authority	21.13	17.50	18.7	-1.2	1.2	6.7%
Ministry of Labour Social Security and Services	20.37	19.02	18.1	0.9	0.9	5.2%
National intelligence service	19.14	19.14	17.0	2.2	2.2	12.7%
State Department For Coordination of National Government	17.71	17.70	15.7	2.0	2.0	12.7%
State Department for environment & Natural Resource	15.08	13.58	13.4	0.2	0.2	1.5%
Ministry of Foreign Affairs	14.38	12.87	12.7	0.1	0.1	0.9%
21 (= sum of rest)	120.33	97.40	106.7	-9.3	9.3	8.7%
Allocated expenditure	1 078.8	956.7	956.7	0.0	80.4	
Public debt	399.31	416.23	354.1	62.1	62.1	17.5%
Contingency	5.00	4.95				
Total expenditure	1 483.1	1 377.9				
Overall (PI-1) variance						92.9%
Composition (PI-2) variance						8.4%
Contingency share of budget						0.3%

Table 0.3 Data for PI-1 and PI-2, 2015/16

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Teachers service commission	186.37	184.68	177.5	7.2	7.2	4.0%
State Department for Interior	109.25	107.23	104.1	3.2	3.2	3.0%
Ministry of Defence	92.29	92.18	87.9	4.3	4.3	4.9%
The national treasury	86.50	82.40	82.4	0.0	0.0	0.0%
State Department for Planning	71.82	69.92	68.4	1.5	1.5	2.2%
State Department for Education	63.96	60.13	60.9	-0.8	0.8	1.3%
State Department of Infrastructure	59.40	56.56	56.6	0.0	0.0	0.0%
State Department for Science and Technology	52.60	51.02	50.1	0.9	0.9	1.8%
Pensions	51.69	50.86	49.2	1.6	1.6	3.3%
Ministry of Health	46.74	42.17	44.5	-2.4	2.4	5.3%
Ministry of Energy and Petroleum	37.44	35.15	35.7	-0.5	0.5	1.4%
Ministry of Lands, Housing and Urban Development	25.94	22.71	24.7	-2.0	2.0	8.1%
Ministry of Labour, Social Security and Services	24.29	19.78	23.1	-3.4	3.4	14.5%
National intelligence service	21.49	21.48	20.5	1.0	1.0	4.9%
State Department for Agriculture	21.27	19.37	20.3	-0.9	0.9	4.4%
State Department for Water and Regional Authorities	18.84	16.61	17.9	-1.3	1.3	7.4%
State Department for Coordination of National Government	18.19	18.19	17.3	0.9	0.9	5.0%
Ministry of Foreign Affairs	15.57	15.11	14.8	0.3	0.3	1.9%
National assembly	15.46	12.88	14.7	-1.9	1.9	12.6%
The judiciary	14.80	12.78	14.1	-1.3	1.3	9.4%
21 (= sum of rest)	137.26	124.44	130.7	-6.3	6.3	4.8%
Allocated expenditure	1 171.2	1 115.6	1 115.6	0.0	41.5	
Public debt	437.46	421.85	416.7	5.1	5.1	1.2%
Contingency	5.00	5.00				
Total expenditure	1 613.6	1 542.5				
Overall (PI-1) variance						95.6%
Composition (PI-2) variance						3.7%
Contingency share of budget						0.3%

Table 0.4

Summary	for PI-1	for PI-2.1	for PI-2.3
Year	Total exp. Deviation	Composition variance	Contingency share
2013/2014	86.2%	7.0%	0.2%
2014/2015	92.9%	8.4%	
2015/2016	95.6%	3.7%	

Table PI-3.2. Revenue composition performance, FY 2013/14

Economic head	Budget	Actual	Deviation	Absolute deviation	Percent
(a) Ordinary Revenue	918.0	919	0		
Import duty	67 349	67 555	206	206	0,3%
Excise taxes	101 153	102 029	876	876	0,9%
Paye	254 747	249 873	-4 874	4 874	1,9%
Other income tax	196 152	199 717	3 565	3 565	1,8%
VAT local	109 207	107 737	-1 470	1 470	1,3%
VAT imports	121 756	124 893	3 137	3 137	2,6%
Investment revenue	13 741	10 181	-3 560	3 560	25,9%
Traffic revenue	3 490	3 323	-167	167	4,8%
Other	50 374	53 682	3 308	3 308	6,6%
(b) Appropriation in Aid	88 434	55 400	-33 034	33 034	37.35%
(c) External Grants	53 711	26 957	-26 754	26 754	49,8%
Total revenue	1 060 114	1 001 400	- 58 714	80 951	
Overall variance					5.5%
Composition variance					7.6

Table 0.6 PI-3.2. Revenue composition performance, FY 2014/15

Economic head	Budget	Actual	Deviation	Absolute deviation	Percent
(a) Ordinary Revenue	*1070.5*	*1031.8*	*-38.6*	*38.6*	
Import duty	76 748	74 048	-2 700	2 700,0	3,5%
Excise taxes	119 559	115 872	-3 687	3 687,0	3,1%
Paye	284 361	279 796	-4 565	4 565,0	1,6%
Other income tax	248 038	228 785	-19 253	19 253,0	7,8%
Vat local	126 766	127 905	1 139	1 139,0	0,9%
Vat imports	143 286	131 781	-11 505	11 505,0	8,0%
Investment revenue	16 403	14 031	-2 372	2 372,0	14,5%
Traffic revenue	3 010	26 993	23 983	23 983,0	796,8%
Other1	52 344	32 609	-19 735	19 735,0	37,7%
(b) Appropriation in Aid	100 014	75 953	-24 061	24 061,0	24,1%
(c) External Grants	66 395	28 117	-38 278	38 278,0	57,7%
Total revenue	1 236 924	1 135 890	-101 034	151 278,0	
Overall variance					8.2%
Composition variance					12.2%

Table 0.7 PI-3.2. Revenue composition performance, FY 2015/16

Economic head	Budget	Actual	Deviation	Absolute deviation	Percent
(a) Tax & non-tax Revenue	1184.4	1158.2	-25.79	25.79	
Import duty	83 628	79 188	-4 440	4 440,0	5,3%
Excise taxes	137 175	139 540	2 365	2 365,0	1,7%
Paye	309 189	286 166	-23 023	23 023,0	7,4%
Other income tax	268 797	279 834	11 037	11 037,0	4,1%
Vat local	165 758	160 389	-5 369	5 369,0	3,2%
Vat imports	134 267	128 824	-5 443	5 443,0	4,1%
Investment revenue	21 580	19 253	-2 327	2 327,0	10,8%
Traffic revenue	26 141	25 245	-896	896,0	3,4%
Other1	37 833	39 771	1 938	1 938,0	5,1%
(b) Appropriation in Aid	115 544	79 671	-35 873	35 873,0	31,0%
(c) External Grants	65 973	29 598	-36 375	36 375,0	55,1%
Total revenue	1 365 885	1 267 479	-98 406	129 086,0	
Overall variance					7.2%
Composition variance					9.5%