PARLIAMENT OF KENYA

PARLIAMENTARY SERVICE COMMISSION

GUIDE TO EFFECTIVE OVERSIGHT AND SCRUTINY OF BUDGETS, ECONOMIC POLICIES AND RELATED DOCUMENTS:

A SOURCE BOOK FOR LEGISLATORS AND FISCAL ANALYSTS

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Foreword

The Kenyan Parliament performs three core functions, namely law-making, representation, and oversight. Its authority is derived from the Constitution of Kenya, 2010. While Parliament and county assemblies have the constitutionally enshrined powers to keep the Executive at both levels accountable for its actions and policies, including its management of public financial resources, the challenge is to use this mandate to effectively ensure that the Executive adheres to prudent public financial management principles such as maintaining aggregate fiscal discipline and ensuring that public resources are used equitably, efficiently, effectively, and accountably. Indeed, the public financial management architecture has changed, with the Legislature being given a pivotal role in matters of budget oversight, from budget preparation, approval, execution, and reporting.

The purpose of this guide, developed by the Parliamentary Budget Office (PBO) with close consultation with the Fiscal Analyst Forum (Kenyan Chapter), is to provide a guide and source material for the strengthening of the Legislature in the performance of its mandate in public financial management. It provides a comprehensive account of the legal framework underpinning the budget and other statutory documents. In addition, it also details the budget process, both at the national and county level, with specific emphasis on the role of the Legislature. Other areas covered include analysis of bills, analysis of expenditure estimates, and the format of reports by the Budget and Appropriations Committee.

Equally, issues concerning the role of independent budget units across the levels of government have been extensively covered. Lastly, the role of the Legislature in monitoring and evaluation as well as the role of investigatory committees (Public Accounts Committee and Public Investments Committee) has been comprehensively explained. The guide closes with a definition of key terms that are commonly used.
It is also important to note that the guide serves as a framework for the design of future capacity building interventions initiated by the Kenyan Parliament for both members and staff.

It is my hope that members and staff of the Kenyan Parliament and county assemblies will employ the handbook as an essential aid in the performance of the Legislature's mandate in public financial management.

Mr Michael Sialai
Clerk of the National Assembly
Parliament of Kenya

Acknowledgement

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OVERSIGHT AND LEGISLATIVE ROLE OF PARLIAMENT ON ECONOMIC AND BUDGETARY MATTERS

1.1 Introduction: Overview

In August 2010 Kenya enacted a new Constitution that ushered in new public financial management architecture. It deviated significantly from the post-independence Constitution in which the power of the purse was vested in the presidency,moving to a pure presidential system with budget-making power vested in the Legislature. It also changed from an overcentralized system to devolved governance. The spirit and intent of the new Constitution was to promote sound public financial management characterized by openness and accountability, with public participation in the process of raising, allocating, and accounting for public resources. In addition, it strengthened fairness and fiscal parity in resource sharing and allocation between the national and county levels of government and across the three arms of government. Specifically, Article 201 enshrines the following core principles that guide all aspects of public finance:

a) Openness and accountability, including public participation in financial matters.
b) The public finance system shall promote an equitable society, and in particular:
i. The burden of taxation shall be shared fairly.
   ii. Revenue raised nationally shall be shared equitably among national and county governments.
   iii. Expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas.
c) The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations.
d) Public money shall be used in a prudent and responsible way.
e) Financial management shall be responsible and fiscal reporting shall be clear.

In addition, the Constitution created 47 counties, each with a county assembly that has fiscal responsibilities while providing checks and balances by linking the budget process at the county level to the decisions and operations of institutions at the national level. At the national level, institutions with great impact on fiscal operations include Parliament, the National Treasury, the Controller of Budget, the Commission on Revenue Allocation, and the Auditor General.

To operationalize the new public finance architecture in Chapter 12 of, and consistent with the Constitution, several pieces of legislation have been enacted since 2010, when the new Constitution was promulgated. These include the Public Finance Management Act, the County Governments Act, and the Intergovernmental Relations Act. In addition, new public financial institutions were created. These changes triggered reforms in public financial management that have gathered speed, especially in budget preparation, execution, and oversight, which have taken new dimensions. Though efforts have been made to develop standard systems of legislative budget scrutiny, there is still a need to create adequate capacity, especially within the legislatures, both at the national and the county levels, hence the need for this sourcebook.

This source book is for legislators and fiscal analysts, in both levels of government -national and county - to enable them to understand the budget process and key elements of public financial management. It should help them in the scrutiny, review,and approval of budgets, financial documents, bills, and various documents that come before the Legislature.

1.2 Legal framework underpinning the budget and other statutory documents

Kenya's public financial management is embedded in Chapter 12ofthe Constitution, which integrates various aspects such as planning and prioritization,resources sharing, steps in budget preparation and approval, execution, in-year reporting, accounting, and audit. In addition, the Constitution establishes key public financial management institutions and outlines their functions and responsibilities, powers concerning mobilization, allocation, and use of public resources. These institutions include Parliament, which comprises the National Assembly and the Senate, county assemblies, the National Treasury, the Controller of Budget, the Commission on Revenue Allocation, and the Auditor General.

To operationalize public finance management provisions in the Constitution, various laws have been enacted spanning annual budget legislations and public finance management legislations. The following are the key pieces of legislation that underpin the management of public finance in Kenya:

(a) Public Financial Management Act 2012 (PFMAct): This is the basic law in public financial management that gives effect to the chapter of the Constitution on the management of public resources. It establishes key institutions such as the Parliamentary Budget Office, the National Treasury,and the county treasury. The law also outlines the budget process, setting specific timelines to be observed in both levels of government,national and county.
(b) Annual Division of Revenue Act (DoRA): This is a key annual legislation that shares nationally collected revenues between the national and the county governments, i.e. vertical sharing. It is enacted every year by both Houses of Parliament.
(c) The County Allocation of Revenue Act (CARA): This is enacted after the DoRA to share the county portion of national revenue among the 47 counties. It is the law that gives effect to the horizontal distribution of revenues. The importance of DoRA and CARA is to give effect to equity in distribution of nationally raised revenues, as provided for in the Constitution. DoRA deals with vertical sharing while CARA addresses horizontal allocation based on a pre-agreed formula.

(d) Appropriation laws: The annual Appropriation Acts and Supplementary Appropriation Acts give legal authority for access or withdrawal of approved resources from the National Exchequer and the County Revenue Fund (CRF) to finance approved expenditure in both levels of government. Without these legislations public entities would not have access to any resources from the Consolidated Fund or CRF. According to the Constitution, every year, after approval of the annual estimates, an Appropriation Bill is introduced in the National Assembly for approval and assent by the President for the national government, and in the case of counties, for assent by the governors. In addition, there is the Equalization Appropriation Bill that authorizes allocations of funds from the Equalization Fund for marginalized areas, in line with the Constitution. It is enacted annually.

(e) The Controller of Budget Act, 2016: This Act, among other things, requires the Controller of Budget (CoB) to ensure prudent and efficient use of public funds,authorizes withdrawal of funds from the Consolidated Fund and other public funds and the County Revenue Fund and other county public funds,monitors and evaluates budget implementation, makes reports and recommendations to both levels of government in consultation with both the national and county treasuries and the Public Sector Accounting Standards Board (PSASP),reviews the format for requisition and approval of funds from public funds,enforces budgetary ceilings based on what is approved by both legislatures,and performs any other function assigned by an Act of Parliament.

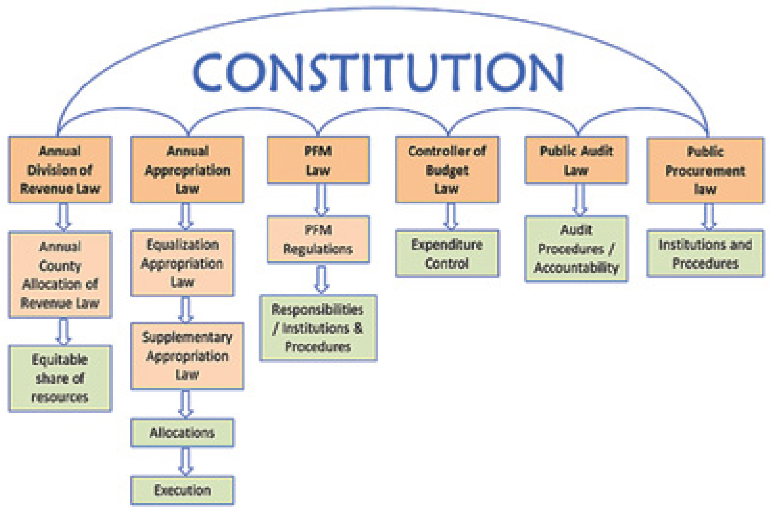
For CoB to perform these functions effectively, both the Cabinet secretary (CS)in charge of finance and the county executive committee (CEC)member in charge of finance are required to send CoB copies of their budget estimates. In addition, the county CEC Finance must submit copies of the County Fiscal Strategy Paper (CFSPs) to CoB, which are used to monitor the budget, from approval to execution.

(f) Public Audit Act, 2015: This law gives effect to constitutional provisions on the audit and accountability of public resources. It provides the procedure and timelines for accounting for public resources.

(g) Public Procurement and Asset Disposal Act, 2015:This law underpins the overall government procurement of public goods and services in both levels of government,national and county.

Members of the two legislatures need to have good knowledge of and the importance of these legislations, their roles in each, and where they fit. This will enable them to know what is expected of them and when.

PUBLIC EXPENDITURE MANAGEMENT IN KENYA:
THE LEGAL FRAMEWORK



1.3 Spending and use of public money or funds

1.3.1 Appointment of Accounting Officers

Persons in charge of spending public money must be duly authorized and appointed, in writing, as accounting officers. Article 226 of the Constitution requires every public entity, at the national and county government level, to have a designated accounting officer. Similarly, Sections 67 and 148 of the PFM Act require:

a) The CS Finance to appoint accounting officers for every national entity.

b) CEC member for finance (CEC Finance) to appoint accounting officers for every county entity.

These provisions apply to every public entity except where a law provides otherwise.

1.3.2 Functions and responsibilities of accounting officers

The accounting officers are responsible for the management and accounting of public funds and are accountable to the national assembly or county assembly. In he performance of their functions and responsibilities, accounting officers can delegate to their officers and authorize them, in writing, to spend public funds in form of Authority to Incur Expenditure(AIE), (often referred to as AIE holders).

However, accountability remains with the accounting officers, who are obliged to:

(a) Promote and enforce transparency, effective management, and accountability in the use of public funds.

(b) Ensure accounting standards are applied.

(c) Implement financial policies in public finance.

(d) Ensure proper management, control, and accounting for public funds to promote efficient and effective use of public resources.

(e) Prepare annual estimates of expenditure for their entities.

(f) Be the custodians of the assets of the entity, as provided in the Constitution and other legislation.

(g) Monitor the management of public resources and financial performance.

(h) Make quarterly reports to the National Assembly or county assembly on budget implementation.

(i) Make any other action consistent with the Constitution and the PFM Act.

The accounting officers are in charge of implementing government policies and budgets. Consequently, legislators should have adequate understanding of their functions and how they perform them.

2 THE BUDGET PROCESS: NATIONAL AND COUNTY LEVEL

2.1 Introduction

A good budget system requires coordination such that all its parts function seamlessly and effectively. Such a system should be anchored on a mechanism in which decisions on resource mobilization and funding priorities are supported by effective cash management and allocations all the way to accounting for funds used and reporting on results achieved. Attainment of these elements has been the main drive behind continued development of reforms to the budgeting process.

Kenya has continually reformed the budgeting process, moving from the one-year input-based budgets to multi-year budgeting that is inclusive and consultative. In 1999 the government adopted the Medium Term Expenditure Framework (MTEF). This is a three-year financial rolling plan that includes the annual budget in the first year and indicative or projections for the next two financial years. The key principle of this process is the fact that it endeavors to link allocation of resources to the national development agenda, with specified priorities and outputs. Consequently, the budget process has moved away from accounting for the use of resources and delivery of goods and services to achievement of clearly stated outputs and outcomes, as outlined in a national or county agenda such as Vision 2030, development plans, poverty reduction strategy papers,and sectoral strategies and plans.

Under the MTEF process, the emphasis is on a bottom-up approach in which the beneficiaries are consulted well in advance to identify their needs and priorities. These needs are costed and sequenced for budgeting within the resource constraints, for funding purposes. The funds are forecasted through a top-down process, which ensures targets are realistic and achievable. It also provides for regular evaluations through such instruments as annual public expenditure reviews and expenditure tracking surveys.

The county governments are equally guided by the recent reforms in public finance management. Consequently, their budget process follows the same procedure as the national level, with minor adjustments or customization to fit their needs and situations. For example, while the national level does a lot of forecasting of key macro-economic variables, the counties do it in a limited manner or scale.

The Kenya budget process is designed tolink the budget to the national economic and political agenda as well as the national plan, review, and presentation of the budget to the Legislature for approval. This involves several activities thatmay come simultaneously but in a complementary way. The main elements of the budget process at the national level are described below.

2.2 Budget process at the national level

2.2.1Macro target setting and estimation of overall resource envelope

This is the first stage and is based on the medium-term plans that the governments uses to implement the Vision 2030 or any other long-term strategy that will guide the country's planning and economic agenda. This is a top-down process that involves setting of macroeconomic targets such as projected economic growth, desired inflation rate, level of money supply, projected interest rates, sustainable levels of public borrowing, balance of payments, and other macro aggregates,including realizable revenues and sustainable levels of expenditure.

Under the MTEF these targets are set by a group of experts commonly referred to as the Macro Working Group. This group has membership from key departments in the National Treasury, Ministry of Devolution and Planning, Central Bank of Kenya (CBK), Kenya Revenue Authority (KRA), and Kenya Institute of Policy Research and Analysis (KIPPRA). The group works in consultation with other relevant organizations, uses in-house macro-economic models for forecasting, and draws up a framework for the medium term. The exercise takes place during the month of September each year and culminates in the preparation of the Budget Review and Outlook Paper (BROP), which is submitted by 30thSeptember to the Cabinet for approval. It is then submitted to Parliament within seven days and in any case not later than 21st October each year
The BROP provides a detailed analysis of budget implementation for the previous fiscal year. It gives details of key successes and challenges and projects the medium-term macro framework that includes estimation of total expected revenues for the three years and indicative sectoral expenditure ceilings. Based on past performance and projected resource envelope, it gives indicative sectoral ceilings that form the basis of sector resource contestation. These projections include possible revenue receipts and indicative sharing between the national and the county governments. At the national level, the macro framework sets out key variable targets for the medium term, which include overall expenditure ceilings, inflation target, and both fiscal and monetary policies to be pursued during this period to achieve the desired results.

However, it is important to appreciate that, to a large extent, delivering the national agenda through the budget depends on how well the budget is linked to national priorities, efficient allocation of resources, and how well it is executed or implemented. The macro-economic framework, therefore, is based on the agreed national goals as set out in sessional and strategic papers such as the medium-term development plan, which is consistent with long-term strategies such as Vision 2030.

2.2.2 Review of sectoral priorities

The MTEF supports a two-pronged approach: a top-down process that includes macro target setting and estimation of overall receipts -or the resource envelope - and a bottom-up process -the sectoral working groups through which all ministries participate in and prioritize their activities that are used to bid for resources or budget allocations. The ministerial and sectoral activities should be based on prioritized citizen needs.

At national level, this stage commences as soon as the National Treasury issues the budget circular to ministries, which, under section 36 of the PFM Act, should be out by 30th August. This circular gives the budget format, timelines for budget preparation, procedures for review of ministerial budgets and projection of revenues and expenditures, key policy areas and issues to focus on,and procedures for public participation in sectoral reviews,which come soon after the launch of sector working groups.

The sector working groups are organized on the basis of related activities such that ministries are grouped together depending on how their functions and operations relate. This is critical to enhancing synergy among departments. Each year,the National Treasury reviews the composition of these groups and, based on their mandates, assigns them to relevant sector groups.

All ministries are required to participate in their respective sector groups which review their priorities to ensure they are consistent with the strategic national objectives as set out in various government policy documents such as medium-term plans, Vision 2030, sector sessional papers,and any other relevant document. These groups prepare sector reports that inform budget preparation.

As part of annual budget preparation, each ministry is required to carry out a ministerial public expenditure review (MPER). This includes an evaluation of the performance of the previous financial year, which sets the basis on which ministries project their requirements for the next fiscal year and the medium term. This means that, while contesting for resources in sector working groups, performance during the previous financial year is taken into account.

The sectoral reports are expected to include costed priority programs together with a three-year financial plan and criteria for allocation of resources among competing needs. These sectoral reports are then discussed in public hearings where the government expects to receive inputs from the public. Thereafter, the reports are firmed up and submitted to the National Treasury.

The submission of the sectoral reports marks the beginning of the preparation of the Budget Policy Statement (BPS), which contains the firmed macro framework, including projected resource envelopeor total expected funds for the next fiscal year and indicative resource receipts for the next two years. The framework forms the basis for the vertical sharing of national resources (between the national and the county governments) and the ministerial ceilings. The BPS also lays out the government's overall fiscal and monetary policies to be implemented in the medium term. The BPS is presented to the Cabinet for approval before submission to Parliament, latest by 15th February each year. Parliament has 14days to review and approve the Budget Policy Statement.

The National Assembly Standing Orders require the departmental committees to deliberate upon the BPS according to their specific mandates and make recommendations to the Budget and Appropriations Committee. The committee considers and scrutinizes the proposals in the Budget Policy Statement, which should include the following:

(a) Whether the proposals are consistent with the approved policy and priorities in the approved plan.
(b) Whether they are sustainable, both on revenue and expenditure.
(c) Whether they address past legislative resolutions on public finance.
(d) Any other aspect of interest.

The committee tables a report to the National Assembly containing its recommendations on the BPS. The National Assembly's approval of the report by the Budget and Appropriations Committee (BAC) on the BPS will indicate the House's approval of the proposals, including projected revenue, total expenditure, and the ceilings by vote for the national government, the Judiciary, and Parliament.

The National Treasury is required to take into account the resolutions of Parliament on BPS when preparing the final budget for the fiscal year. Indeed, the ceiling for development expenditure and personnel spending in the national government budget shall be approved by Parliament and be binding for the next two budget years. If the National Treasury does not take into account all the resolutions, it should include a statement explaining any deviation from the Budget Policy Statement.

2.2.3. Approval of division of revenue between the national and county governments

The division of revenue between the two levels of government commences soon after the approval of the report of the Budget and Appropriations Committee on the BPS by the National Assembly. The process of dividing national revenue is guided by the provisions of the Constitution - Article 202 - and the prevailing macro-economic environment. Once DoRB is approved,the County Allocation of Revenue Bill is developed to share the resources among the47 counties in accordance with the formula for sharing revenue among counties already approved by Parliament(horizontal equity).

In accordance with the National Assembly Standing Orders, the Division of Revenue Bill should be introduced in the National Assembly not later than 10thMarch and the House has 10days to approve it. On introduction, the bill should be accompanied bya memorandum explaining:

- Details of the proposals in the bill.
- How the sharing relates to the criteria detailed in Article 203.
- Any significant deviations from CRA recommendations.

After the approval of DoRB by the National Assembly, the bill is referred to the Senate, which has 10 days to consider and approve it.

Ideally, since both Houses will, by this time, have already approved the BPS, which includes details of proposed sharing of revenue between the two levels of government, if DoRB is consistent with the amounts in the BPS, there should be limited disputes. However, should the Senate wish to make changes, it should forwards its approved version of the DoRB back to the National Assembly for its concurrence. Should the National Assembly not agree with the Senate's version, then the bill goes through a mediation process whereby an agreed version is developed through consultation and consensus.

The County Allocation of Revenue Bill(CARB) is introduced in the Senate within seven days of enacting the DoRB. It should be accompanied by a memorandum explaining the revenue allocation in the bill, how the proposals relate to the criteria set out in Article 203, and a summary of any significant deviations from the CRA's recommendations. After approval of the CARB by the Senate, the bill is referred to the National Assembly, which has 10days to consider and approve it. It then forwards the approved CARB bill to the Senate for its concurrence.

If the two Houses of Parliament do not agree on the contents of the CARB, the bill will be referred to a mediation committee, which is required to agree on a version of the bill to be introduced to both Houses for approval. Should there be no agreement within 30days,the bill will be deemed to have been negatived. In such a case, the initial house where the bill started may consider publishing the bill again.

2.3 The role of the Senate in the budget process

The principle function of the Senate, according to Article 96 (3), is to protect the interests of the counties and their governments, and in particular to determine allocation of revenue among counties. In addition, the Senate also exercises oversight over national revenue allocated to county governments. Besides, Section 8(1) of the PFM Act mandates a committee of the Senate responsible for financial matters to review the basis of allocating revenue among the counties, consider any other bill dealing with county financial matters,and review the CARA and the DoRB in line with section 218(1)(b) of the Constitution at least two months before the end of the financial year. The committee also monitors adherence by the Senate to the principles of public finance and fiscal responsibility(both of which apply to the two levels of government). The role of the Senate with respect to public finance management (and the budget process)is provided in Annex V.

2.4 Preparation of national budget estimates

The preparation of the national budget estimates commences as soon as the ministries, departments,and agencies (MDAs) receive their ceilings from the report of the BAC report on the BPS. At this stage, the budget is limited, on one hand by the overall ceilings set in the BPS and on the other by on-going commitments, i.e. any incomplete projects or works requiring resources These should form the first charge on the budgetary resources available to a sector or ministry.

When the draft budget estimate is ready, it is submitted to the National Treasury for review and approval. The draft budget should include details of both recurrent and development expenditures. The National Treasury reviews the estimates to ensure the MDAs have observed the macro level ceilings, provided for on-going commitments, and whether they have conformed to sectoral and national priorities, for example core poverty activities. Where MDAs have not conformed to laid down modalities, their budget proposals are either rejected or reviewed before approval. Once this process is completed, the draft budget estimates are submitted to the Cabinet for approval not later than 15thApril. With the Cabinet's approval, the National Treasury consolidates the estimates based on programs and itemized for printing and subsequent submission to the National Assembly for approval not later than 30th April every fiscal year. Similarly, the Parliamentary Service Commission and the Judiciary independently present their estimates of expenditure to the National Assembly by 30th April each fiscal year. Until the budget estimates are approved by the National Assembly, they remain proposals without any legal authority.

2.5 Budget Approval

Once received, the estimates are tabled in the National Assembly and automatically referred to departmental committees for review in accordance with their respective mandates. Thereafter, the committees prepare and submit their recommendations to the Budget and Appropriations Committee within 21 days. The BAC reviews the overall budget estimates, taking into account the recommendations of the departmental committees, the content of BPS,the views of the public, and the views of the Cabinet secretary for the National Treasury. It then prepares its report and recommendations, which are tabled in the National Assembly for consideration and approval.

The recommendations of the Budget and Appropriations Committee are two-pronged because they cover both policy and financial aspects. Financial recommendations are usually in the form of amendments that should be pursuant to section 39(3) of the PFM Act. This means that, consistent with the approved BPS, a proposed increase in expenditure for a vote or item must be balanced by a reduction of allocation in another. A proposed reduction in expenditure can be used to reduce the deficit. In a typical congressional setting, the House turns itself into a committee of supply to consider the BAC report on the estimates. The House is required to approve the budget by are current expenditure and development vote and program.

After the National Assembly approves the report by the BAC on the budget estimates, (granting supply resolutions), an Appropriation Bill is introduced to the House by the BAC in accordance with National Assembly Standing Orders. The bill is debated and once approved it is sent to the president for assent and becomes the Appropriations Act for the fiscal year. The president issues the presidential warrant on annual estimates to the National Treasury to allow issuance of funds from the Consolidated Fund for the total net recurrent and development provisions, as approved in the Appropriation Bill, including what has already been approved in the Vote on Account. This warrant must be out by the beginning of the financial year, that is the first day of July, and is followed by transmission of the treasury warrant on annual estimates to the ministries, departments, and agencies so that they can start budget execution.

2.5.1 Vote on Account

If the Appropriation Act has not been assented to or is not likely to be assented to by 30th June, Article 222 of the Constitution allows the National Assembly to approve a Vote on Account, which authorizes the National Treasury to withdraw, from the Consolidated Fund, not more than fifty percent (50%) of the total amount included in the estimates of expenditure tabled in the National Assembly. The speaker of the National Assembly conveys the authority to the CS Finance within seven days. The National Assembly Standing Orders stipulate that a motion seeking a Vote on Account shall be put down on a day before 26th June.

2.5.2 Approval of Finance Bill

On the revenue side, preparation of the legislative proposals for the Finance Bill starts around January/February, when the National Treasury invites various stakeholders, including KRA, CBK, and private sector operators to submit proposals on taxation, finance, and other economic matters for consideration by the Cabinet secretary. The stakeholders submit proposals, seek and get audience to discuss them with a technical Treasury team that summarizes the proposals for consideration by the Cabinet secretary. If approved, a technical team that includes officers from the Office of the Attorney General and the Department of Justice consolidates them into a legislative proposal to form a key part of the annual budget.

Before finalizing the proposals, the CS Finance consults with his/her counterparts from East African Community (the Common Market) member states, especially with regard to issues on import duties to agree on a common position. Thereafter the Cabinet secretary National Treasury finalizes the proposals and the Finance Bill for submission to Parliament. The key objectives of a Finance Bill include:

i) A review of tax rates depending on the government's tax policy intentions.
ii) Amendment of tax laws to improve tax administration or clarify their application.
iii) Amendment to other laws to introduce fees or charges.
iv) Amendments to laws that deal with economic and financial aspects that have implications on government revenue.

The bill is prepared as a result of consultation between the National Treasury and technical officers from the Attorney General's Chamber, who advise on he legal and constitutional implications. The draft bill is submitted to the National Assembly during the presentation of the budget highlights and pronouncement of revenue-raising measures by the Cabinet secretary. This is done on or before 15th June every year. The Cabinet secretary for the National Treasury then submits to the National Assembly legislative proposals for consideration and approval with or without amendments.

Following the submission of the legislative proposals to the National Assembly by the Cabinet secretary, the chairperson of the Departmental Committee on Finance, Planning and Trade introduces the Finance Bill together with related changes to the National Assembly. The committee is expected to scrutinize the proposal and consult on its content and the realism of the envisaged revenue collection. The committee also receives presentations from the public and key stakeholders on the tax proposals in the bill.

According to the PFM Act, the Finance Bill should be approved by the National Assembly not later than 90days after approving the Appropriation Bill to ensure the macro-fiscal framework in the approved BPS is maintained. Any recommendations by the relevant committee is required to:

(a) Ensure the total revenue raised is consistent with approved fiscal framework and the Division of Revenue Act.
(b) Take into consideration the tax principles of equity, certainty, and ease of collection.
(c) Consider the impact of proposed changes on the composition of tax revenue with reference to both direct and indirect taxes.
(d) Consider domestic, regional, and international tax trends.
(e) Consider the impacts on development, investment, employment, and economic growth.

(f) Take into consideration the recommendations of the CS Finance.
(g) Take into account Kenya's obligations on agreements signed and ratified, including those of the EAC Treasury.
(h) The committee to include the recommendations by the CS Finance in its submission to Parliament.

On approval, the Finance Bill is submitted to the president for assent.

2.6 The supplementary budget

The supplementary budget is provided for under Article 223 of the Constitution, which allows the government, during the course of the financial year, to request the National Assembly to appropriate funds for a variety of reasons, including the need to:

a. Meet additional costs (when appropriated amount is inadequate).
b. Finance emerging needs for which no amount was appropriated in the approved budget.
c. Adjust budget allocations when additional revenue is realized.
d. Re-allocate budgeted funds that cannot be spent for approved purposes due to unavoidable circumstances.
e. Reduce allocations when revenue collection falls short of target.
f. When money has been withdrawn from the Contingencies Fund to finance emergencies.

The preparation of the supplementary budget is triggered by a Treasury circular, which is issued to ministries, departments, and agencies (MDAs) giving the guidelines they are required to observe. The supplementary budget allows MDAs to regularize any re-allocations or virements (e.g. transfers within votes and sub-votes) that may have been made in the course of the year to meet urgent and unexpected expenditures. Such reallocations are legally allowed provided the National Treasury has given approval and they do not exceed 10% of the approved budget. When the budget contains only re-allocations and does not require additional funding, it is referred to as the revised budget since the total expenditure remains the same as approved.

The ministries submit this budget to the National Treasury, which reviews the submissions based on the performance of the revenues and other resources as well as any changes in policy. There may be times when major adjustments are made to the budget, for example, when there is a national or natural calamity such as drought. The National Treasury then finalizes the estimates and submits them to the National Assembly for consideration and approval.

The detailed supplementary estimates laid before the National Assembly are for additional expenditures only. In addition, the estimates only show those areas that are affected by the changes. Article 223 stipulates that the National Assembly's approval should be sought within two months after the first withdrawal for the expenditure has been made or if it is not sitting, the approval should be sought within two weeks when it next sits.

Ideally, these estimates should be submitted to the National Assembly early enough to ensure that the affected activities are adjusted, either downwards or upwards, in time to allow adequate time for implementation. A late approval (after April) creates problems, sometimes leading to delays in implementation of some activities resulting in low absorption of voted funds. This is especially the case for capital expenditures, which may need to go through the procurement process.

2.7 Implementation Stage

2.7.1 Cashflow management

The implementation of the budget is largely an Executive function, with the National Assembly only playing an oversight role. The National Treasury plays a leading role in ensuring that funds are released according to the laid down rules and regulations of financial management. Exchequer limits are established for individual ministries and issued for the first six months and operate on a monthly basis. A National Treasury circular communicates these limits at the beginning of the financial year but these can be revised based on revenue inflows and expenditure patterns in the course of the year.

Implementation of the annual budget starts from 1st July every year and is subject to clear legal provisions which include:

- All withdrawals from the Consolidated Fund must be approved by the Controller of Budget (COB).
- Before approval, the COB ensures that the withdrawal is legal and that the purpose for which it is sought is consistent with the authority of Parliament.
- If it does not meet this criterion, the COB rejects the request.

The Controller of Budget (CoB)is established by the Constitution under Article 228 to oversee the implementation of the budgets of both the national and county governments. In addition to the function of authorizing withdrawals, the office also promotes transparency and accountability by ensuring that funds are released only for budgeted activities and thus any unauthorized activity is not funded.

Besides, the CoB monitors budget implementation by analyzing expenditures, release of funds,and where and how money is used,and prepares statutory reports every fourth month based on the monthly returns filed by the government and its entities. These reports highlight various aspects that include the following:

(a) Level of absorption of public funds (recurrent and development).
(b) Utilization of funds according to budgets and work plans.

(c) Information on any suspected misappropriation of public funds.
(d) Any signs of mismanagement will be picked up and forwarded to the Auditor General and other investigating entities for further investigation.

Besides CoB reports, MDAs are required to prepare and submit regular budget execution reports, as prescribed in the PFM Act and regulations, to the National Treasury by the 15th day after the end of the quarter. The reports include financial and non-financial aspects, e.g how much money has been released and the purpose, program, or item, how much money has been used (absorption), and performance, e.g. how the ministry or budget entity is achieving the target outputs. The National Treasury should review the reports, consolidate them,and submit them to the National Assembly within 45 days after the end of each quarter. The Legislature uses both departmental and CoB reports to monitor and oversight budget execution to ensure money is well spent, according to the approved budget.

The Kenya Revenue Authority (KRA) collects most of the revenue on behalf of the national government, from the main taxes, income tax, VAT, import duties, and exercise duties. However, some line ministries also collect revenue and send it to the Exchequer. The same applies to all revenue receivers and collectors who are required to submit regular reports to the National Treasury. In some cases, MDAs collect and use what they collect as Appropriations in Aid (A-i-A), which means they collect and spend, provided the amount was included and approved as part of the appropriations. In such cases the revenue may be collected from the sale of goods and user charges on services they provide,for example money collected by the Ministry of Lands as charges paid for property searches, money collected in form of visa fees by the Ministry of Foreign Affairs, the Registrar of Titles collects stamp duties and registration fees when people sell and buy real estate, receipts by the National Treasury in the form of dividends from state-owned corporations. Sometimes development partners can disburse funds directly to particular MDAs as foreign A-i-A. These funds are mainly used for development purposes if they are part of a debt.

The National Treasury has set up various systems to ensure smooth flow of resources to line ministries. In this regard, it has adopted and implemented a cash management system such that as soon as the budget is laid before Parliament, all MDAs are requested to prepare and submit their cashflow plans, which are based on the work plans for the implementation of all their programs for the whole year. The National Treasury reviews the cashflow plans and, based on inflow of revenues to the Exchequer, and taking into account the seasonality of revenue flows together with other resources (e.g. proceeds from domestic borrowing and external finances), consolidates ministerial cashflow plans and sends the report to CoB.

Exchequer limits are established for individual ministries and issued for the first six months and operate on a monthly basis. A National Treasury circular communicates these limits at the beginning of the financial year but this can be revised based on revenue inflows and expenditure patterns in the course of the year.

Ministries issue Authority to Incur Expenditure (AIEs) to their heads of department based on the limits issued by the National Treasury and availability of resources. Once cashflow is approved, Exchequer releases are credited directly to the MDA's account with the Central Bank of Kenya.

All expenditures are managed through the Integrated Financial Management Information System(IFMIS) and all transactions are recorded as they take place. Expenditure returns and other records can be produced from time to time from the IFMIS system. Besides the IFMIS, sections 83 and 84 of the PFM Act require MDAs to provide to the National Treasury financial and non-financial information for onward transmission to the legislature and this forms the basis for the preparation of the Quarterly Economic and Budget Review (QEBR).

2.8 Evaluation and audit stage

The evaluation and audit process begins at the end of each financial year when accounting officers are required to prepare financial statements for their respective national government entities and submit them to the National Treasury. The Kenya Revenue Authority and receivers of revenue prepare and present to the National Treasury statements of the revenue received and collected during the financial year.
Pursuant to section 80 of the PFM Act, at the end of each financial year, the National Treasury shall prepare, for the national government, clear and comprehensible annual financial statements that consolidate the statements prepared by all national government entities, in accordance with formats prescribed by the Accounting Standards Board. The statements include the following details:
(a) Amount of money paid into and out of the National Exchequer or Consolidated Fund.
(b) Summary of statements prepared by accounting officers.
(c) Statements prepared by receivers of revenue.
(d) Details of money paid out of the Exchequer that is authorized by legislation, but not part of appropriations.
(e) Statement of outstanding national debt by the end of the financial year.
(f) Details of tax waivers.

These statements are submitted to the Auditor General with a copy to the Controller of Budget and the Commission on Revenue Allocation not later than four months after the end of the financial year.

The Auditor-General is required to prepare an audit report on the funds of the national government within six months after the end of the financial year. These reports are known as the Annual Appropriations Accounts, which are considered by the Public Accounts Committee (PAC) of the National Assembly.

The PAC scrutinizes the audit reports, collects evidence with regard to the extent to which MDAs have utilized public money, whether in a lawful and effective way, and prepares its reports. While reviewing the appropriations accounts, the PAC may summon any accounting officer or any person who may have been involved in suspected financial impropriety to appear before it. The recommendations of the PAC are debated in the House and any resolutions made are forwarded to the Executive for implementation. The National Treasury is required to coordinate implementation of parliamentary recommendations and report back.

THE COUNTY BUDGET PROCESS

3

The county budget process mirrors the national one and consists of several activities, some of which may run simultaneously. Some aspects are different, though they are interlinked to the national budget. The design of the budget cycle is expected to provide a seamless flow, from preparation, approval, and execution to audit. As defined in section 125 of the PFM Act, the county process includes the following:

3.1 Key steps in budget preparation

3.2 Establishment of the overall resource envelope and linking the budget to the overall county agenda

This is the first step in the budget process,which involves estimation of total resources likely to be available to a county. This assessment is made to determine the available resources based on key indicators and trends of resource inflows from all sources, including transfers from the national government,the county's own resources, and donor support. Pursuant to Section 117 of the PFM Act, it is important for all county governments to align their budgets to the national strategic objectives in the Budget Policy Statement.

The process starts as soon as the county treasury issues guidelines on the MTEF process in a circular, not later than30thAugust. The county executive committee member responsible for planning shall, not later than 1st September in each year, submit the Annual Development Plan (ADP) to the county assembly for approval, with copies to the Commission on Revenue Allocation and the National Treasury.

As soon as it is practically possible, the county assembly should consider and approve the ADP since, under section 104 of the County Governments Act 2012, "no public funds shall be appropriated outside a plan developed by the county executive committee and approved by the county assembly".

Based on the priorities detailed in the approved ADP,the county treasury starts the preparation of the County Budget Review and Outlook Paper (CBROP), which analyzes budget performance for the previous year, comparing actual performance against budget, what worked well, what did not, and the reasons. Based on the past year's performance and existing economic and financial factors, the CBROP forecasts what is expected over the next three years. It is the initial MTEF document that enables county departments to engage in the MTEF budget-making process. Specifically, the CBROP communicates the county government's budget policy to important stakeholders such as the private sector, civil society, and development partners. The CBROP:

- Informs early budgetary decisions regarding fiscal policy and likely available resources, thereby providing a platform for a sound subsequent budget process.
- Links ongoing fiscal and budget policy to medium-term development objectives and strategies.
- Sets off the strategic allocation process by providing indicative sector ceilings within which individual spending ministries, departments, and agencies will bid for resources.
- Sets the tone for the medium-term budget preparation process.

The CBROP provides an opportunity for the CEC to engage on budget strategies as well as brief the county assembly, with its submission not later than 30th September, on the budget process and economic status of the county. Its preparation is spearheaded by the county treasury, in consultation with other departments of the county government. The county treasury leads the estimation of the county resource envelope, with overview of economic activities in a county. To make the process of determination of the resource envelop credible, it is helpful for the country treasury to form a consultative group with membership from the county treasury, the department of economic planning,and any other relevant think tanks on resource forecasting and economic issues.

3.3 Review of sector priorities

As is the case at the national level, county departments form sector working groups (SWGs), which bring togethersectors that are complementary or related, depending on their mandates and functions. The purpose of SWGs, which are led by county accounting officers, is to create forums for making trade-offs based on resource constraints, that is, receipts compared to the array of expenditure needs. The sector groups are expected to agree on sectoral objectives and priorities that are linked to the approved county development plan and aligned to the national economic policy. They also agree on outputs and targets for the sector in the medium term, including having a process of estimating resource requirements for the sectors and eventually linking available resources to the critical priorities of the sector (commonly referred to as sector resource sharing process).

For resource bidding and allocation, the starting point should be the cost of on-going programs and projects, which should be funded first before additional commitments are considered. This process culminates in public participation (hearings)so as to engage the public on its priorities.

Thereafter the CEC finalizes preparation of the county fiscal strategy paper (CFSP) for submission to the Cabinet and then to the county assembly for approval, not later than28th February. In preparing the CFSP, the CEC Finance is required to ensure that it is aligned to BPS and:

(a) Specifies strategic priorities and policy goals.

(b) Gives details of expected total resource from own revenues, transfers, and borrowing.

When reviewing the CFSP, the county assembly needs to ensure that it is consistent with the approved strategic plan and agreed priorities, which should be reflected in proposed ceilings set for MDAs. If it is not consistent, the county assembly should pass appropriate resolutions and refer the CFSP to the CEC Finance. The CEC Finance is required to consider the resolutions and make the necessary changes. Once approved, the CFSP binds all future budget decisions, which means the approved fiscal framework, both on total expenditure and total revenue, must be respected in subsequent decisions. For this reason, the county assembly should pay attention to the consideration of the CFSP.

3.3.1 Preparation of budget estimates

Preparation of budget estimates should commence as soon as the county treasury issues the departmental ceilings, which should be consistent with the budget committee report on the CFSP approved by the county assembly. County government entities, or agencies when required, shall adjust their estimates to comply with the approved CFSP, finalize, and submit their estimates forthe financial year (N) and projections for the next two years, (N+I), (N+2) and (N+3) by10th April, and submit them to the CEC Finance. The county treasury reviews and scrutinizes departmental budget estimates to ensure they are compliant with the CFSP ceilings and any other guidelines and instructions issued. The county treasury consolidates the estimates and submits them to the Cabinet for approval before their submission to the county assembly for review and approval.

3.3.2 Budget approval

Once the estimates are tabled in the county assembly,they are automatically committed to departmental committees. These committees review and make recommendations to the budget committee within 21 days. Thereafter the budget committee conducts overall review of the budget, taking into account the recommendations of the sectoral committees, in line with the CFSP,constitutional,and legal requirement,which include public consultations on the proposals. The committee should also consult the county treasury on any proposed changes before submitting the report and recommendations to the county assembly.

The county assembly debates the report and makes resolutions in line with the recommendations of the budget committee. The county assembly may amend the budget but it has to ensure that any changes it makes are in line with the resolutions of the assembly on the CFSP. Just as at the national level, the approved budget and appropriations committee report shall serve as supply resolutions and:

- Any proposed increase of resource allocation in one department should have a corresponding decrease in another item, department, or program.
- A reduction in an item may be used to reduce the deficit.

  Indeed, at the point of approving the budget and appropriations committee report, the house shall turn itself into a committee of the whole house.

After the county assembly has approved the estimates,the chairperson of the budget and appropriations committee introduces an appropriations bill in the assembly, which on approval is forwarded to the governor for assent. The approved appropriations bill constitutes a legal instrument that authorizes the withdrawal of funds from the County Revenue Fund (CRF).

3.3.3 Vote on Account

In case the appropriations bill is not assented to or is unlikely to be assented to by the end of the financial year, that is 30thJune,the county assembly should approve a Vote on Account that authorizes withdrawal of not more than 50% of the annual estimates submitted to the county assembly by the county treasury pending the enactment of the appropriations law. The speaker of the county assembly shall, within seven days, communicate the authorization.

After the appropriation bill is assented to or the Vote on Account is approved, it is forwarded to the governor for assent. The governor issues a warrant to the county treasury to allow issuance of funds from the CRF(for the total net recurrent and development provisions) or the amount approved in the Vote on Account by the county assembly. The governor's warrant must be out by the beginning of the financial year, i.e. 1st July, and is followed by transmission of the treasury warrant to all the departments and budget entities of the county. Just like at the national level, should the estimates not be approved and there is no vote on account, all county government functions will shut down.

3.3.4 Approval of finance bill

Preparation of legislative proposals in the finance bill start around January/February, when the county treasury invites key stakeholders and the public to make proposals on taxes. The submissions may be subjected to consultations with the authors before the county treasury consolidates the proposals for consideration by the CEC Finance. The approved submissions form part of the legislative proposals.

When finalized, the legislative proposals are discussed by the county cabinet and made ready for submission to the county assembly. The CEC Finance appears before the county assembly and makes public pronouncement on the county revenue policy and highlights the proposed revenue raising measures for the fiscal year. This should be done before 30th June,and then submitted to the county assembly together with a draft finance bill.

The chairperson of the departmental committee on finance introduces the bill to the county assembly. The proposals are subjected to scrutiny by the committee, which invites stakeholders and interested groups to present their views on the various tax measures proposed by the county treasury.
During the review, the committee is expected to assess the tax implications, e.g. fairness and ensure they are consistent with CFSP. The committee may propose amendments to the finance bill, provided the proposed changes are not outside the fiscal framework approved in the CFSP. This is critical in order to ensure the amount of revenue raised together with transfers and other receipts can finance the commitments approved in the annual estimates and ensure total expenditure does not exceed total revenue, as required under the principles of fiscal responsibility (PFM Act section 107).The finance bill should be approved by the county assembly not later than 90days after approving the appropriations bill(PFM Act section 133). However, during the review, it is important for the assembly to appreciate that under Article 210(1), no tax or other revenue raising measures should be imposed unless it is provided for in the legislation.

The finance act for any given year gives legal authority to implement the approved revenue or tax-raising measures. The act may also give the county government legal authority to change tax laws to meet other economic policy needs, e.g. give incentives to investors. Once approved, the finance act remains in force unless amended and does not expire at the end of financial year, as the appropriations act does.

3.3.5 The Supplementary budget

Pursuant to section 135 of the PFM Act, a county government may spend money that has not been appropriated if:

i. The amount appropriated for a purpose, under the county appropriation act, is insufficient.
ii. A need has arisen for which no amount has been appropriated by the act.
iii. Money has been withdrawn from the county government's emergency fund.

Specifically, the county government may seek additional resources for the following reasons:

a. To finance additional costs (when the budget is inadequate).
b. To fund emerging needs for which no amount was appropriated in the budget.
c. To adjust the budget when additional revenue is realized.
d. To reallocate budgeted funds that cannot be spent due to unavoidable circumstances.
e. To reduce expenditure when revenue collection falls short of target.
f. When money has been withdrawn from the Contingencies Fund.

The county government submits a supplementary budget to the county assembly in support of the additional expenditure sought. As part of the justification,the county treasury is required to explain how the additional expenditure relates to the fiscal responsibility principles and financial objectives. It is important to note that approval by the county assembly to spend money, through the supplementary budget, should be sought within two months after the first withdrawal of the money. If the county assembly is not sitting during the two months of additional expenditure, the approval should be sought within 14days when it next sits.

However, in any financial year, county government entities may not spend more than 10 percent of the amount appropriated by the county assembly in a financial year without the approval of the county assembly. If there are special circumstances requiring spending a higher percentage, the county treasury must seek prior approval from the county assembly.

3.3.6 Implementation stage

In accordance with section 127 of the PFM Act 2012, county accounting officers are required to prepare and submit to the county treasury annual cash flow plans, which form the basis for subsequent requisition of funds from the county treasury for budget implementation during the financial year. To prepare the cash flow projection, accounting officers should be guided by the departmental annual work plans and procurement plans. In addition, the accounting officers are under obligation to implement the budget in accordance with the approval given through the annual appropriations except where amendment is made through the supplementary budget. As part of budget implementation, county budget entities or departments are required to prepare cash flow projections based on annual development and procurement plan. The county Treasury compares the projections to inflow of revenues from all sources, including own revenue, transfers from the national government, and any other source, and based on expected inflow of all cash receipts, the county treasury sets monthly cash flow limits. These limits are communicated through a circular to all departments in the county government. The county treasury submits a county cash flow projection to CoB, by15th June, with copies to the Intergovernmental Budget and Economic Council and the National Treasury. Requisition for funds from CRF through the CoB is based on these limits. This means a wrong cashflow projection leads to inappropriate cash release, which will have negative effects on budget implementation.

The release of funds from CRF to county departments is based on the authority granted by the CoB through the county treasury. No public officer should spend or commit funds unless authorized, in writing, by an accounting officer by means of Authority to Incur Expenditure (AIE). AIE is issued at the beginning of the financial year and is based on the approved budget.

3.3.7 Reporting

As they implement the budget, accounting officers are required, not later than the 10th day after the end of each month, to submit monthly budgetary reports, in the prescribed format, for the preceding month to the county treasury with copies to the Controller of Budget and the Auditor General. These reports should not only comply with the prescribed format but also with the chart of accounts, which requires all public finance transactions to use common codes across all the public sector. This is necessary to capture and record data for comparison purposes.

Besides the monthly reports, accounting officers are required to prepare and submit to the county treasury quarterly financial and non-financial or performance reports, within 14days of quarter end. Similar reports are also required from all county receivers of revenue and managers of county public funds. The county treasury, within one month, consolidates the departmental reports and submits the report to the county assembly with copies to CoB, National Treasury, and CRA. It also publishes and publicizes the report.

The quarterly reports are used to monitor budget implementation covering both finance and performance, and also for accountability purposes. From these reports, the CoB prepares a four-monthly report on county budget implementation and submits it to Parliament (National Assembly and Senate), county assemblies,and the two executives, national and county. The reports are also published and publicized. In the report, the CoB scrutinizes expenditure and highlights(see regulations):

1) Whether the expenditure complies with the approval and law, e.g. whether revenue collected is spent before it is deposited into County Revenue Fund, which, if it happens, is illegal.
2) How the budget execution compares with the approval.
3) The amounts spent on recurrent and development, showing absorption rates etc.
4) The amount spent on personnel, wages, and emoluments.

4

ROLE OF THE LEGISLATURE IN THE BUDGET PROCESS: PROTECTING THE PUBLIC PURSE

The budget is arguably the most important policy tool of any country and specifies the government's financial plan, with details of projected revenues and expenditures and how these link to national development priorities. The budget provides a comprehensive statement of the economic and political aspirations of a nation and county. It is a roadmap through which the country can aspire to achieve meaningful economic development.

The Kenyan Legislature, especially Parliament, has made significant strides in exercising budgetary oversight over the past decade. It wields significant power in influencing the final outcome of the national budget, from macro target-setting and determination of the resource envelope to finalizing of the annual budget estimates, implementation, and audit.

This has, however, not always been the case. As recently as the early 2000s, the Kenyan Parliament played a minimal role in the formulation, implementation, and audit of the budget. Budget-making was for the most part, under the exclusive control of the Executive through Treasury and the Ministry of Finance,which maintained a firm monopoly on the budget, only presenting it to the Legislature a few hours before the minister read his budget speech and tabled voluminous and complex budget documents in the House.

Even though the repealed Constitution gave Parliament powers to exercise oversight over public finances, it was, in fact, a major stumbling block to its oversight role over the budget as most of its provisions gave a lot of power to the presidency. For instance, section 48(a) (iii) of the Constitution provided that except upon the recommendation of the president signified by a minister, the National Assembly shall not proceed on any money bill. This clause vested the "power of the purse" in the Executive through the president, making it difficult for Parliament to practice effective budget oversight. The new constitutional dispensation has significantly altered the public finance landscape of this country. It is important to underscore that although the principles of governance enshrined in the Constitution borrow from the American model, Chapter 12 of the Constitution seems to have borrowed largely from the South African public financial management architecture.

Chapter 12 of the Constitution,on public finance,has provided the legal framework on intergovernmental and county fiscal relations in terms of resource mobilization and allocation. Article 221(1) of the Constitution provides that the Cabinet secretary shall submit the budget estimates to Parliament at least two months before the end of each financial year. Article 221(4) gives Parliament the mandate to review the budget estimates through the Budget and Appropriations Committee and make its own recommendations before it can approve the budget. Article 221(6) further provides that after approving the budget estimates for all three arms of government, they shall be included in an Appropriation Bill that shall be passed by the National Assembly, thereby authorizing withdrawal of funds from the Consolidated Fund.

These provisions have effectively shifted the role of Parliament from a "budget-approving" legislature to a budget-making one. Further, sections38 and 39 of the PFM Act provide that the Cabinet secretary shall submit to the National Assembly budget documents in respect of each financial year and the National Assembly shall consider the estimates. Section 39(3) empowers the National Assembly to alter the budget estimates provided that, after approving the Budget Policy Statement (BPS), an increase in expenditure is balanced by a reduction elsewhere.

How has Parliament exercised its bipartisan role in budget formulation and oversight? From the budget formulation point of view, it important to point out that the Public Finance Management Act has put in sufficient mechanisms to ensure Parliament plays its rightful role in the process while at the same time safeguarding the public purse from abuse by political interests. During the budget formulation stage, the National Assembly is required to approve the BPS, which provides the broad policy priorities that the government seeks to undertake within a financial year. In addition, the report arising from the BPS is also supposed to detail the ceilings for the three arms of government, namely, the Executive, the Legislature, and the Judiciary.

Thus, once the BPS report is approved, the National Assembly cannot influence further changes, including any change on its own budget. This ensures that Parliament is able to allocate resources within the set macro-fiscal framework. It is also important to note that the budget estimates that will be submitted later in the cycle must adhere to the policies and fiscal responsibility principles set out in the report of the Budget and Appropriations Committee on the BPS. Overall, the PFM Act 2012 has inbuilt mechanisms of making sure that Parliament participates in budget formulation in a bipartisan manner.

These provisions are largely replicated for the county governments,with the power of the purse vested in the county assembly. In this regard, it is important to note that neither the national nor county Executive is part of budget discussions in the Legislature. It is solely the legislators who decide, but on the basis of clear constitutional and legal principles to minimize risk of abuse.

Framework for early involvement in the budgeting process by the Legislature

PREPARATION STAGE:
Issuing of budget calendar/guidelines, sector working group hearings, preparation, and submission of Budget Review Outlook Paper (BROP), preparation of Buget Policy Statement (BPS)

APPROVAL STAGE:
Submission and approval of: BPS, Division of Revenue Bill (DoRB), County Allocation of Revenue Bill (CARB), annual estimates, Annual Appropriation Bill, Finance Bill

IMPLEMENTATION STAGE:
Assenting to the Annual Appropriation Bill, printing of the annual approved estimates, preparation and submission of quarterly reports on budget implementation from the Contoller of Budget (CoB) and Treasury, consideration of any supplementary estimates that are submitted

AUDIT AND CONTROL STAGE:
Preparation and submission of audit reports

National Assembly involvement in the budget process

1. Planning Stage

Treasury circular is released.
Budget and Appropriations Committee (BAC) invited for the launch of sector working group.
BROP submitted to the House and referred to BAC (the document is for noting). Provides critical information on past year, informs subsequent decisions.

1. BPS

Submitted to National Assembly (NA) by 15th February.
Referred to BAC and departmental committees (DCs) for them to review according to their respective mandate (all the committees hold consultations with the respective MDAs).
BAC receives submission from DCs.
BAC holds consultations with the Cabinet secretary National Treasury.
BAC compiles a report and tables it in the House within 14 days after submission.
House approves the BPS report with or without amendments.

2. REVENUE BILLS

The Division of Revenue Bill (DoRB) introduced in the House by BAC after BPS approval.
The publishedDoRB goes through the normal legislative process of enactment.
Once DoRB is approved by the National Assembly, it is sent as a message to the Senate for concurrence.
If the Senate agrees on the message, the bill is referred to the NA for submission to the president for assent.
If the Senate rejects the message, the bill is referred to the mediation committee (appointed by the speakers of both Houses), which is set to come up with a mediated version.
Once the mediated version of the DoRB is approved, it is sent to the president for assent.
The County Allocation of Revenue Bill (CARB) is introduced in the Senate and the process is the same as for DORB.

3. ANNUAL ESTIMATES AND RELATED DOCUMENTS

Submitted to the National Assembly by 30th April.
Referred to BAC and departmental committees (DCs) for review according to their respective mandates (all the committees hold consultations with the respective MDAs).
BAC receives submissions from DCs within 21 days.
BAC conducts public hearings on the estimates.
BAC holds consultations with the Cabinet secretary National Treasury.
BAC compiles a report and tables it in the House for approval of the annual estimates report with or without amendments.
Budget highlights by the Cabinet secretary before the BAC and submission of revenueraising bills (Finance Bill and related bills)
Finance and related bills are referred to the relevant departmental committee dealing with taxation issues.
Appropriation Bill is introduced and goes through the normal legislative process of enactment.
Appropriation Bill assented to on or before 30th June. If not approved, need for Vote on Account.

4.1 Budget preparation and approval: Role of BAC and departmental committees

Parliamentary committees, sometimes called commissions or councils, are units of organization within the Legislature that allow groups of legislators to review policy proposals or bills more closely than would be possible by the entire chamber. Specifically, they provide the opportunity for more detailed scrutiny, investigations, and discussions before the findings and outcomes of these committees are presented as reports and recommendations to the broader group for debate and conclusion. The roles of the committees vary from jurisdiction to jurisdiction, depending on the governing system, strength, and organization of political parties, available resources, capacity of individual members, and other socio-political factors.

In current Legislatures the bulk of the work, in terms of review and scrutiny of policies and budgets, takes place in committees. Every Legislature, therefore,establishes specialized committees which can be grouped into three categories, namely (i) specialized committee on budgets and finance (ii) investigatory committee: the Public Accounts Committee and the Public Investment Committee,and (iii) departmental committees.

In some countries there exist two different committees, one dealing with finance-related issues, with specific focus on taxation and tax measures as well as policy issues related to ministries, departments,and agencies (MDAs) within the realm of finance and planning. Then there is a Budget and Appropriations Committee whose main role is to review and scrutinize the overall budget as well as all money bills.

In Kenya the Budget and Appropriations Committee is established under the PFM Act with the following functions:

a) Discuss and review the Budget Policy Statement, the budget estimates, and make recommendations to the National Assembly.
b) Provide general direction on budgetary matters.
c) Monitor all budgetary matters falling within the competence of the National Assembly under this act and report on those matters to the National Assembly.
d) Monitor adherence by Parliament, the Judiciary, and the national Executive and its entities, how they comply with the principles of public finance and others set out in the Constitution, and the fiscal responsibility principles in the PFM Act.
e) Review the Division of Revenue Bill and ensure that it reflects the principles under articles 187(2)(a), 201 and 203 of the Constitution.
f) Examine financial statements and other documents submitted to the National Assembly and make recommendations to the assembly for improving the management of Kenya's public finances.
g) Make recommendations to the National Assembly on "money bills", taking into account the views of the Cabinet secretary.
h) Introduce the Appropriations Bill in the National Assembly.
i) Perform any other responsibility conferred to the committee by standing orders.

4.2 Enhancing oversight, monitoring and evaluation (theroleof the Public Accounts Committees and Public Investments Committees

Parliamentary budget oversight is not a one-time event but a continuous process that includes in-year reports as well as end-year audit and evaluation to ensure there is accountability. The Public Accounts Committee (PAC) and the Public Investments Committee (PIC) are two standing parliamentary committees whose roles are to respond to issues on accountability of governments. They are normally classified as investigative committees as they scrutinize and report to the Legislature on the spending by the government and public entities. They use both in-year and end-year budget implementation reports to ensure the Legislature provides checks and balances in the use of public resources.

4.3 Processing of money bills

The Legislature has three main functions, namely: i) legislation,ii) representation (acting on behalf of citizen/voters),and iii) oversight. In performing these functions the business before the Legislature comes in the form of motions, bills, and questions. These instruments are processed according to the standing orders of each House and in both levels of the Legislature. The procedures are, in turn, guided by the provisions of the Constitution and the relevant laws. In particular, Article 114,which provides a definition of a money bill,is a critical step for scrutiny of bills prior to publication and the first reading.

What is the wisdom behind Article 114 of the Constitution? The article is designed to regulate bills which may have significant effect on the macroeconomic framework, expenditure, taxation and charges, borrowing, guarantees, and the overall economy. Determination of whether a legislative proposal is a money bill or not usually entails evaluation of the provisions of the bill in relation to the provisions of Article 114(3), particularly on whether the bill contains provisions on taxes, variation of expenditure, investment, appropriation, receipt or issue of public funds, and public debt and guarantees and related matters. The Division of Revenue Bill and County Allocation of Revenue Bill are not money bills. Equally, bills that deal with taxes or money raised by counties are not considered as money bills.

Procedurally, with the advice of the clerk of the National Assembly, and following analysis of the bill by the Parliamentary Budget Office, the speaker may determine that a proposed legislation is a money bill or not, in accordance with Standing Order 114. If it is a money bill, the speaker refers it to the Budget Appropriations Committee, which considers the financial and economic implications of the bill with the assistance of the analysis from the Parliamentary Budget Office. In addition, the committee receives views from the Cabinet secretary, National Treasury. After its deliberations the committee recommends to the speaker and the House how the bill should proceed. Typically, the committee may recommend to the speaker that the bill proceed as drafted, be published with amendments, or the committee may reject the bill altogether.

The same procedure is replicated at the county assembly, where a fiscal analyst is required to advise the speaker of a county on whether the proposal is a moneybill or not. See Annex III on the money bill determination process.

4.4 Role of fiscal analysts

The vast majority of democratic constitutions require appropriations and taxation measures to be approved by the Legislature (the representatives of voters) in order to become effective. This is consistent with the principle of no taxation without representation.

Article 114 on"money bills" moved the financial veto from the Executive to the speaker of the National Assembly but with consultation of the Cabinet secretary in charge of finance and the relevant committee of Parliament. This provision solidified the role of a specialized committee on budget and a specialized technical team to support the added financial responsibility of the Legislature. The Budget and Appropriations Committee and the Parliamentary Budget Office were established under the Fiscal Management Act of 2009 and later entrenched in the PFM Act, 2012(following the repeal of the Fiscal Management Act of 2009).

4.5 The Parliamentary Budget Office

The Parliamentary Budget Office (PBO) is a non-partisan professional office in Parliament whose function is to provide professional non-partisan advice, conduct objective analysis in respect of the budget, finance, and the economy. The PBO was established against a backdrop of weak legislative performance and lack of effective scrutiny and oversight over the budget process. While the Executive had the assistance of a team of technocrats to assist it in drafting the budget, it was too complex for the Legislature to adequately understand and scrutinize it. Thus for a long time, Parliament played a minimal visible role in the formulation, implementation, and audit and oversight of the budget. Budget making was, for the most part, under the exclusive control of the Treasury and the Ministry of Finance officials. As a result, the budget was presented to the legislature only a few hours before the minister read his budget speech and tabled voluminous and complex documents in the House. Parliament did not have the capacity to analyze the policy documents and its involvement remained largely a formality, a "rubber stamp" to the Executive's budget, which it did not really comprehend. The PBO was, therefore, established to address this weakness.

Initially, the PBO was established through a resolution of Parliament in 2007 as a department under the Directorate of Research and Information Services in the Parliamentary Service Commission and formally known as Office of Fiscal Analysis. The enactment of the Fiscal Management Act in 2009, section (3) established the budget office as a statutory organ under the Parliamentary Service Commission. The Public Finance Management Act, 2012 repealed the Fiscal Management Act but gave provisions for the PBO to continue as an office in the Parliamentary Service Commission.

The vision of the Parliamentary Budget Office is to be a leading center for non-partisan economic and budgeting advice for effective legislative decision-making and oversight. Its strategic objective is to strengthen the capacity of members in their oversight role over public financial management. The PBO is committed to upholding the following core values:(i) professionalism, (ii) impartiality, (iii) objectivity, (iv) confidentiality, (v) integrity,(vi) teamwork.

The roles and functions of PBO are derived from the Public Finance Management Act of 2012. More specifically, section 10 of the act provides that PBO shall:

i. Provide professional services in respect of budget, finance, and economic information to the committees of Parliament.
ii. Prepare reports on budgetary projections and economic forecasts and make proposals to the committees of Parliament responsible for budgetary matters.
iii. Prepare analyses of specific issues, including financial risks posed by government policies and activities to guide Parliament.
iv. Consider budget proposals and economic trends and make recommendations to the relevant committees of Parliament with respect to those proposals and trends.
v. Establish and foster relationships with the National Treasury, county treasuries,and other national and international organizations with an interest in budgetary and socio-economic matters it considers appropriate for the efficient and effective performance of its functions.
vi. Subject to Article 35 of the Constitution, ensure that all reports and other documents produced by the Parliamentary Budget Office are prepared, published, and publicized not later than 14days after production.

vii. Report to the relevant committees of Parliamentary bill that is submitted to Parliament that has an economic and financial impact, making reference to the fiscal responsibility principles and financial objectives set out in the relevant budget policy statement.

viii. Propose, where necessary, alternative fiscal framework in respect of any financial year.

There are three divisions under the Parliamentary Budget Office Directorate:

a) Macroeconomic Analysis and Statistics Division: This division deals primarily with macroeconomic forecasting, analysis of macroeconomic policies, and preparing reports on budgetary projections and economic forecasts. It analyses the benefits and risks of government policies and, when necessary, proposes alternative scenarios for various macroeconomic variables in respect of any financial year. The division is charged with the production of a budget options paper, a document that is aimed at informing the Legislature and the public on the current state of the economy and possible options of intervention through the annual and medium-term budget proposals. In addition, the division also provides secretariat to the Budget and Appropriations Committee of the National Assembly. The division runs the Parliamentary Budget Office Macroeconomic Model (PBOM) and other analytical models.

b) Tax Analysis and Inter-Fiscal Relations Division: This division focuses mostly on revenue or tax policy, financing, bill analysis and costing, and devolution matters. Its primary roles are to carry out revenue projections, provide guidance in policy analysis of revenue measures proposed in the budget, assess government policy options relating to mobilization of resources, and carry out budget and economic analysis and research on specific areas of tax and revenue analysis. The division evaluates draft bills to help certify whether they are money bills, in accordance with Article 114. The division also undertakes follow-up analysis of the financial and economic implications of draft money bills and subsequently briefs the Budget and Appropriations Committee upon referral of money bills for its scrutiny. In addition, the division deals with the financial matters of counties and the devolved governments.

c) Expenditure Analysis and Costing Division: This division focuses mostly on the analysis of government expenditure and the study of budget proposals and trends. Its primary roles are to carry out budget analysis, assess the government's policy options relating to allocation and utilization of resources, and track government expenditure.

In the course of undertaking its mandate, the PBO prepares the following outputs:

- Provision of professional advice to the committees of the Senate and the National Assembly on budget, finance, and economic matters.
- Preparation of macro-economic forecasts.
- Preparation and publication of budget options.
- Preparation of revenue forecasts and revenue enhancement options.
- Preparation and publication of the parliamentarians' budget watch.
- Analysis of money bills and preparation of reports on bills with economic and financial impact.
- Analysis of the Budget Policy Statement for Parliament.
- Analysis of the Division of Revenue Bill and County Allocation of Revenue Bill for Parliament.
- Analysis of the Finance Bill and other tax and budget-related bills for Parliament.
- Analysis of the annual budget for Parliament.
- Monitoring of government expenditure and implementation of the annual budget.
- Undertaking relevant researches on thematic and emerging issues.

The PBO also works closely with other PFM key institutions such as the National Treasury, the Controller of Budget, the Kenya Revenue Authority, and the Commission on Revenue Allocation, relevant ministries, departments, and agencies (MDAs) including some civil society organizations with relevant work on budget and economy matters.

The role of fiscal analysts in county assemblies

Fiscal analysts are professional staff employed by county assemblies to support legislators in the analysis and scrutiny of county budgets and attendant documents of the budget. The role of fiscal analysts includes:

- Preparation of baseline spending levels.
- Detailed budget analysis for the Legislature.
- Costing of various proposals by the Executive.
- Advisory to the Legislature on budget matters.
- Link with the Executive and other think tanks.

Enforcing Accountability

Both the Constitution and the PFM Act require public officers to be fully accountable in the use of public resources. In case of breaches against measures provided in the law, action can be taken against the organization or individuals responsible such that:

(a) Under articles225 and 226, sanctions can be imposed as follows:

- Subject to legislation, Article 225 provides for stoppage of transfers to a state organ by the CS Finance if there is serious or persistent breaches of measures prescribed in legislation, provided-
  - o The stoppage will not exceed 50% of funds due to a county government for up to 60 days.
  - o Stoppage to be immediate but lapse after 30 days - but Parliament may approve if a resolution is passed by both Houses.

- o Parliament may renew stoppage for 60 days at a time.
- o Parliamentary approval subject to recommendations of CoB.
- o The affected public entity is given an opportunity to answer the allegations.

b) Under Article 226(5) if a holder of a public office, including a political office, directs or approves use of public funds contrary to law or instruction, that person is liable for any loss that occurs, and shall compensate the government, whether the person remains holder of the office or has left.

d) Under PFM Act, sections 79 and 162, every public officer is individually under obligation to comply with the Constitution and the PFM Act and should:

i. Comply with the provisions of the PFM Act as they are applicable to the officer.

ii. Ensure public resources under officer's responsibility,

- Are used lawfully and as authorized.
- Are used efficiently, effectively, economically, and transparently

iii. Within officer's area of responsibility,

- Ensure adequate arrangements are made for proper use, custody, safeguarding and maintenance of public property.
- Use best efforts to prevent any damage being done on county financial interests.

These provisions are expanded by Part VII of the PFM Act on enforcement, giving the Legislature,at both levels of government, unlimited powers to hold public officers accountable on all aspects of public sector management, especially on finance. All that the Legislature needs is capacity to identify when breaches occur, which can be done by accessing up-to-date accurate information and technical support from such sources as the Parliamentary Budget Office and fiscal analysts.

ANNEX 1

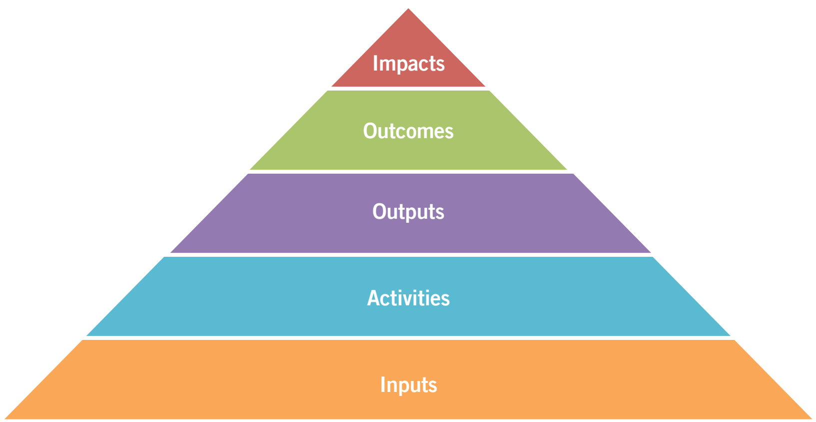
FRAMEWORK OF ANALYSIS OF SECTORAL REPORTS, ANNUAL EXPENDITURES AND SUPPLEMENTARY ESTIMATES

1. Introduction

Program-based budgeting was introduced in fiscal year 2014/15for the national government and 2015/16 for county governments. The objective behind this is to ensure resource allocation is based on expected results or outputs and outcomes. The Legislature, therefore,needs capacity to scrutinize program-based budgets to establish whether and how resources requested relate to specific outputs that will lead to target results or outcomes as provided in the national agenda which is found in various policy documents and strategic plans and papers such as Vision 2030 and the county integrated plans. The framework described below should guide the in-depth analysis of sectoral reports, budget policy statements, and the annual budget estimates, including supplementary estimates.

2. Critical concepts in the analysis of expenditure under program-based budgeting

The basic goal in the program-based budgeting approach is that key decisions are guided or take into account the targeted results and outcomes to be achieved by the expenditure allocations. Thus, financial inputs are linked to a set of activities or programs with certain expected outputs that lead to target outcomes. The outputs should be monitored and measurable in this context. Thus budget proposals should include information on each of the planned outcomes, outputs and inputs. The following figure illustrates that the inputs should be linked to certain activities, outputs, outcomes, and impacts. Understanding this relationship is critical for the analysis of the various budget proposals.



Impacts: The long-term effects of government interventions, what is expected to change.

Outcomes: Represents changes to target communities or citizens occasioned by government interventions or the effectiveness of these interventions.

Outputs: These are the public goods and services produced or delivered.

Activities: A set of processes used to produce goods and services.

Inputs: What is used to produce the goods and services. In budgetary terms, they are the items of expenditure, e.g. finance, human labour, equipment.

Typically, analysis of program-based budget proposals requires background information of the program and sector, trends on expenditure, financing and absorption rates, and past performance information. Clearly, the program and sector should be linked to the overall growth and development agenda such as the Vision 2030 and medium-term plan of the national government or the county integrated development plan of a given county. Equally, assessment of efficiency of use of public resources is critical in order to inform new allocations. For example, a well performing program with limited audit questions could get enhanced allocations. All the analysis is equally done within hard budget constraints, given the limited resources and competing needs. The analysis may incorporate some of the issues below.

2.1 The role of the sector in overall growth strategy

i. This part seeks to answer why a given sector is important in achieving the overall growth strategy of the country or a county. This requires an analysis of the contribution of the sector to the overall economic growth of the country or county or overall change in public service delivery. Thus, it is important to review existing studies on sectoral contribution of the sector.

ii. What is the sector's contribution to GDP (directly or indirectly), say over the past five years? This part requires a review and analysis of the data on the sector's performance over the years.

2.2 Linking sector priorities to the overall national agenda

(i) Under this section an evaluation should be done in terms of identifying the sectoral vision and mission. This involves the review of past sectoral reports to establish whether, in the past three to five years, the same vision has been stated and how this ties with Vision 2030, the medium-term plan, or county development plans.

(ii) Further, the analysis should include the sector priorities in the past five years and the medium term with necessary comparisons of the priorities over the years.

(iii) Since the country is still guided by Vision 2030 or the relevant county development plan, there should be comparisons between the long-term plan and the sector's priorities in the budget policy statement, and in the case of county governments, the CFSP. Analysis of results in the previous sector report versus the targeted results for the medium term need to be compared with the policies in the BPS and other county plans and any other strategic paper.

2.3 Budgeting for Results: Predictability and efficiency

i. This entails analysis of the targets of previous financial years and the proposed targets for the medium term with a view to identifying any planning gaps. For example, consideration should be made on understanding how programs and respective targets have evolved over the years.

ii. The analysis should include review of audit and fiscal prudence queries raised by the Auditor General, issues raised by the Controller of Budget in the implementation reports, and any issues raised by other stakeholders, including the Legislature and how those issues have been addressed. The review and approval of new allocations should be guided by past performance and how such issues have been addressed in order to enhance prudent allocation of public resources.

iii. Financial evaluation of programs and departments or ministries with a view to identifying the level of efficiency and effectiveness is important.

iv. Finally, a review of the sector, program, or departmental challenges and opportunities should be highlighted in order to give insight on necessary policy interventions to improve efficiency and prudence in the use of public resources.

2.4 Hard budget constraints

Hard budget constraints require policy makers and legislators to take into account the need to use scarce resources on priority programs. Analysis here should include review of resource needs versus available resources, centrality of the program to the mandate and plan of the implementing agency or the government as a whole, and efficiency gains that could be made by merging programs, among other factors. Suggestions should then be made on the ranking of programs on the basis of priority, with recommendations on how the chosen programs should be funded within the available budget allocation. Expenditure review, including reallocations, increases, and decreases of expenditure should be possible with that type of analysis.

ANNEX 2

FRAMEWORK FOR ANALYSIS OF LEGISLATIVE PROPOSALS AND COSTING OF BILLS

The flow chart below provides the step-by-step procedure of money determination and how this impacts the legislative process.

A. Determination of whether or not a legislative proposal is a "money bill".

Introduction of the legislative proposal/ draft bill

A
Receipt of the legislative proposal in the PBO

A. The legislative proposal is received in PBO for "Money Bill" certification.

B
Classification of the draft bill into sector

B. Which sector does the legislative proposal relate to?

C
Subjecting the legislative proposal/draft bill to the provisions of Article 114 of the Constitution of Kenya2010.

C. Check whether the following conditions are met:

i. Does the draft bill provide for any form of taxes?

ii. Does it propose new charges, variation, or repeal of existing charge on a public fund in relation to payout to any person or institution?

iii. Does the legislative proposal provide for appropriation, receipt, custody, or allocation of public resources to any person or institution?

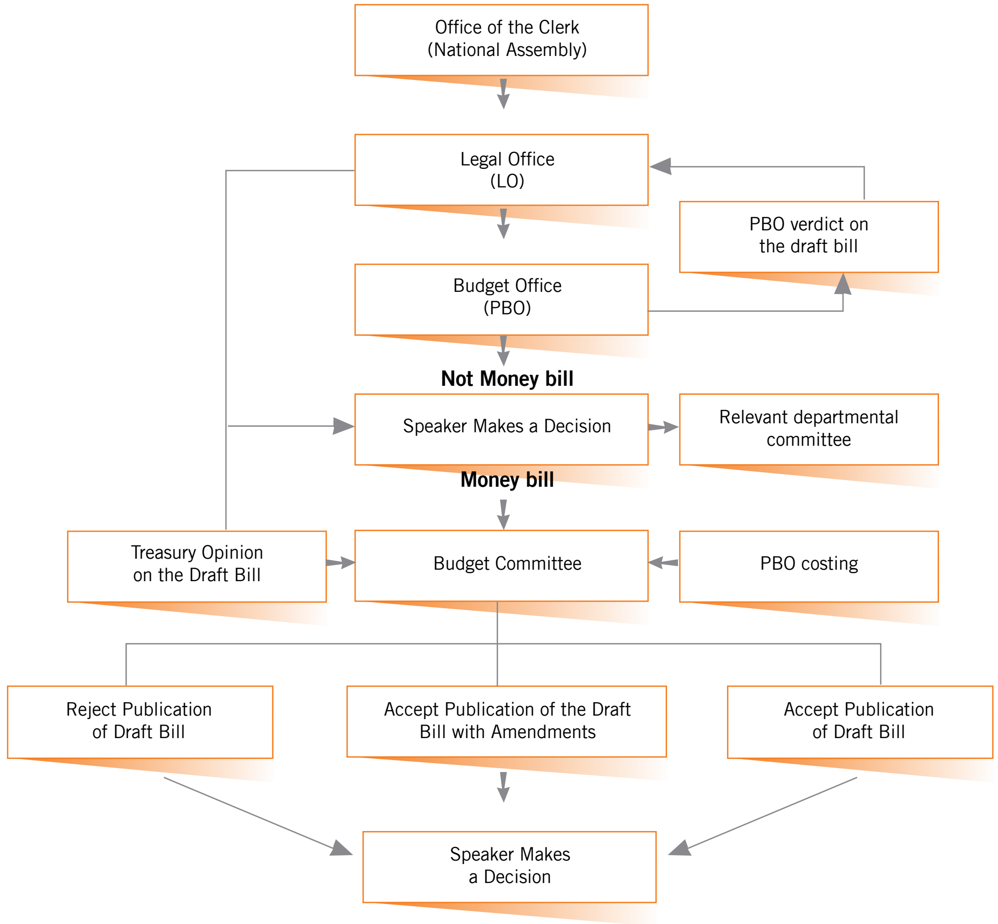
iv. Does the proposal include suggestions for investment or issuance of public resources to any person or institution?

v. Does it include provisions for guaranteeing, raising, or repayment of loans, or matters incidental to any of the conditions listed above?

D
If the answer to any of these questions at C is YES, then the legislative proposal is a draft money bill.

E
If all these questions at C are NEGATIVE, then the draft bill proceeds in accordance to the House Standing Orders. A sectoral review of the impact may also be done.

F
The financial and economic implication of the legislative proposal is assessed. The opinion of the National Treasury is also sought.



ANNEX 3

THE CHART OF ACCOUNTS/GFS IN SUMMARY

Introduction to chart of accounts

The design of a chart of accounts normally depends on:

- The reporting requirements.
- Data analysis and reporting compatibility of the accounting software on which it is based.

To meet the identified reporting requirements, the accounting software will have a strong data analysis capability and a flexible report generator. Based on the reporting requirements and operations of a government entity, the account code will have segments as outlined below.

The principle codes will be classified as follows with the detailed chart of accounts normally posted on the Treasury website:

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code	Description
Category	Chapter	S-chapter	Item	Sub-Item		
1 digit	1 digit	1 digit	2 digits	2 digits	7 digits	
1	0	0	00	00	1000000	REVENUES
1	1	0	00	00	1100000	TAX REVENUES
1	1	1	00	00	1110000	Taxes on Income, Profits and Capital Gains
1	1	2	0	00	112000	Taxes on Payroll and Workforce
1	1	3	00	00	1130000	Taxes on Property
1	1	4	00	00	1140000	Taxes on Goods and Services
1	1	5	00	00	1150000	Taxes on International Trade and Transactions
1	1	6	00	00	1160000	Other Taxes (not elsewhere classified)
1	3	0	00	00	1300000	GRANTS
1	3	1	00	00	1310000	Grants from Foreign Governments
1	3	2	00	00	1320000	Grants from International Organizations
1	3	3	00	00	1330000	Grants from other levels of Governments
1	4	0	00	00	1400000	OTHER REVENUE
1	4	1	00	00	1410000	Property Income
1	4	2	00	00	1420000	Sales of Goods and Services
1	4	3	00	00	1430000	Fines, Penalties and Forfeitures
1	4	4	00	00	1440000	Voluntary Transfers other than Grants
1	4	5	00	00	1450000	Other Receipts Not Elsewhere Classified
1	9	0	00	00	1900000	OTHER REVENUES
1	9	9	0	00	199000	System Required Revenue

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code	Description
Category	Chapter	S-chapter	Item	Sub-Item		
1 digit	1 digit	1 digit	2 digits	2 digits	7 digits	
2	0	0	00	00	2000000	EXPENSES (CURRENT EXPENDITURE)
2	1	0	00	00	2100000	COMPENSATION OF EMPLOYEES
2	2	0	00	00	2200000	USE OF GOODS AND SERVICES
2	3	0	00	00	2300000	CONSUMPTION OF FIXED CAPITAL
2	4	0	00	00	2400000	INTEREST PAYMENTS
2	6	0	00	00	2600000	GRANTS
2	7	0	00	00	2700000	SOCIAL BENEFITS
2	8	0	00	00	2800000	OTHER EXPENSES
2	8	1	00	00	2810000	Budget Contingency Reserve
2	9	0	00	00	2900000	OTHER EXPENSES
3	0	0	00	00	3000000	INVESTMENT IN NON- FINANCIAL ASSETS
3	1	0	00	00	3100000	ACQUISITION OF NON- FINANCIAL ASSETS
3	5	0	00	00	3500000	RECEIPT FROM SALE OF NON FINANCIAL ASSETS
3	5	1	00	00	3510000	Receipts from the Sale of Fixed Assets
4	0	0	00	00	4000000	TRANSACTIONS IN FINANCIAL ASSETS
4	1	0	00	00	4100000	Acquisition Of Financial Assets
4	5	0	00	00	4500000	DISPOSAL OF FINANCIAL ASSETS
4	6	1	00	00	4610000	Returns of Equity Holdings
5	0	0	00	00	5000000	TRANSACTIONS IN FINANCIAL LIABILITIES
5	1	0	00	00	5100000	INCURRENCE OF FINANCIAL LIABILILITIES
5	1	1	00	00	5110000	Domestic Borrowing
5	1	2	00	00	5120000	Currency and Deposits, Accounts Payable, Clearing Transfers and Other Liabilities
5	1	2	01	00	5120100	Foreign Borrowing - Drawdowns Through Exchequer
5	5	0	00	00	5500000	SETTLEMENT OF FINANCIAL LIABILITIES
5	5	1	00	00	5510000	Repayments on Borrowings from Domestic
5	5	2	00	00	5520000	Principal Repayments on Guaranteed Debt Taken over by Government

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code	Description
Category	Chapter	S-chapter	Item	Sub-Item		
1 digit	1 digit	1 digit	2 digits	2 digits	7 digits	
5	6	1	00	00	5610000	Repayments on Borrowings from Other Domestic Creditors
5	6	2	01	00	5620100	Repayments on Borrowings from Other Domestic Creditors - Public Enterprises
6	0	0	00	00	6000000	6 ASSETS
6	1	0	00	00	6100000	61 FIXED ASSETS
6	2	0	00	00	6200000	62 INVENTORIES
6	3	0	00	00	6300000	63 VALUABLES
6	4	0	00	00	6400000	64 N - PRODUCED ASSETS
6	5	0	00	00	6500000	65 BANK ACCOUNTS
6	5	1	00	00	6510000	651 Special Accounts
6	5	2	00	00	6520000	652 Treasury Bank Accounts
6	5	3	00	00	6530000	653 Recurrent Bank Accounts
6	5	4	00	00	6540000	654 Development Bank Accounts
6	5	5	00	00	6550000	655 Deposit Bank Account
6	5	6	00	00	6560000	656 District - Development Bank Ac
6	5	7	00	00	6570000	657 Project Specific Bank Accounts
6	5	8	00	00	6580000	658 Cash in Hand
6	5	9	00	00	6590000	659 Foreign Currency and Foreign D
6	6	0	00	00	6600000	6600000 INVESTMENTS (ACCRUAL USE)
6	6	1	00	00	6610000	661 Securities other than shares
6	6	2	00	00	6620000	662 Lending and On lending
6	6	3	00	00	6630000	663 Equity Participation
6	7	0	00	00	6700000	67 ACCOUNTS RECEIVABLE
6	7	1	00	00	6710000	671 Domestic Debtors & Advances
6	7	2	00	00	6720000	672 Debtors & Advances - Govt Owned
6	7	3	00	00	6730000	673 Foreign Debtors & Advances
6	7	4	00	00	6740000	674 Other Debtors & Pre-payments
6	7	6	00	00	6760000	676 Government Imprests
6	7	7	00	00	6770000	677 Agency Accounts
6	7	8	00	00	6780000	678 Suspense & Clearance Account
6	7	9	00	00	6790000	679 Other Current Assets (System r
7	0	0	00	00	7000000	7 LIABILITIES

Level 1	Level 2	Level 3	Level 4	Level 5	Full Code	Description
Category	Chapter	S-chapter	Item	Sub-Item		
1 digit	1 digit	1 digit	2 digits	2 digits	7 digits	
7	1	0	00	00	7100000	71 LONG TERM LIABILITIES
7	1	1	00	00	7110000	711 SECURITIES
7	2	0	00	00	7200000	72 CURRENCY (OVERDRAFTS)
7	3	0	00	00	7300000	73 CURRENT LIABILITIES
7	3	1	00	00	7310000	731 Deposits
7	3	2	00	00	7320000	732 Other Liabilities
7	3	3	00	00	7330000	733 Other General Liabilities
7	3	5	00	00	7350000	735 Revolving Funds
7	3	8	00	00	7380000	738 Withholding Taxes
7	3	9	00	00	7390000	739 System Required Liabilities A/
9	0	0	00	00	9000000	9 ACCUMULATED SURPLUS/DEFICIT
9	9	0	00	00	9900000	99 RESERVES

ANNEX 4

THE BUDGET CALENDAR

The Integrated MTEF budget calendar

The proposed calendar takes into consideration the constitutional requirement on:

- Submission dates for budget estimates and division of revenue bills.
- Principles of public finance on public participation.
- Key players and their role in the budget process.

Abbreviations:

BEC-Budget and Economic Council. BEF-Budget and Economic Forum. BPS-Budget Policy Statement. BROP-Budget Review and Outlook Paper. CFSP-County Fiscal Strategy Paper. COB-Controller of Budget. CRA-Commission on Revenue Allocation. MTP-Medium Term Plan. MWG-Macro Working Group. SWG-Sector Working Group.

Activity	Deadline		Institution Responsible
Issue Budget Guidelines: To Include	National Government	County Government	National Treasury/ County Treasury
Updated sector composition, budget calendar, and key milestones	End July	End July	
Preliminary resource allocation based on MTEF allocations	End August	End August	Institution Responsible for Planning
Strategic Planning	Mid-August	Mid-August	Ministry of Planning
Progress report on implementation of Vision 2030 MTP (2008-12)	End August	By September 1st	Line Ministries
Expenditure Review Update of strategic plans based on new mandate Preparation of annual plans	By September 1st End October	End August End October	
Formulation of Macro-fiscal Framework			National Treasury(MWG, CRA, BEC,BEF)/County Treasury
Draft BROP Update macro fiscal framework Estimation of resource envelope(indicative) Determination of policy priorities Consultations with CRA (including Equalization Fund) Resource allocation to national and county governments, sectors, Judiciary and Parliament	Mid-August	Mid-August	MWG
Stakeholders' consultation	End August	End August	National/County Treasury
Update BROP based on stakeholders' comments	Mid-September	Mid-September	MWG
Circulate to BEC and BEF members	Mid-September	Mid-September	National/County Treasury

Activity	Deadline		Institution Responsible
	National Government	County Government	National Treasury/ County Treasury
BEC /BEF Meeting	End September	End September	National/County Treasury
Submission to National/County Executive	Mid-October	Mid-October	Cabinet/County secretary for Finance
Approval by National/ County Executive	End October	End October	
Development of budget proposals	Mid December	Mid December	SWG
Launch of sector working group	Mid-August	Mid-August	National/County Treasury
Preparation of MTEF budget proposals	Mid-October	Mid-October	Line ministries
Public Participation	End October	End October	SWG
Draft sector reports	Mid-November	Mid-November	SWG
Submit to Treasury	Mid-December	Mid-December	SWG Chairman
Review of proposals	Mid-December	Mid-December	National/County Treasury
Development and approval of BPS/CFSP, Division of Revenue Bill (DORB) and County Allocation of Revenue Bill(CARB)	Mid-February	Mid-February	National Treasury(MWG, CRA, BEC,BEF)/County Treasury
Recommendations on division and allocation of revenue based on audited revenue and Equalization Fund	Mid-January	Mid-January	CRA
Draft BPS/DORB/CARB (to include Equalization Fund)	Mid-January	Mid-January	MWG
Updating macro fiscal framework Sharing of resources			
Circulate draft BPS to BEC and BEF	Mid-January	Mid-January	National Treasury
BEC/BEF meeting	End January	End January	National/County Treasury
Update BPS to incorporate councils' comments	End January	End January	MWG
Develop Division of Revenue and County Allocation of Revenue Bills	End January	End January	National Treasury
Consultations with CRA	Mid-February	Mid-February	National/County treasury
Submission of BPS to Parliament and CFSP to county assembly for approval	End January	End January	National/County treasury
Approval by Parliament/county assembly	Mid-February	Mid-February	Parliament/County assembly
Preparation and approval of programme budgets	End June	End June	Line ministries, National and County treasury, National and County assembly
Issue guidelines	Mid Feb	Mid-February	National/County treasury
Submission to treasuries(and to National Assembly for Judiciary and Parliament budgets)	Mid-March	Mid-March	Line ministries/county departments

Activity	Deadline		Institution Responsible
Consolidation	Mid-April	Mid-April	National/County treasury
Submission of budget estimates to national assembly and county assembly for approval	30th April	30th April	Cabinet/County cabinet secretary for finance
Submit views on the budgets for Judiciary and Parliament to National Assembly	15th May	15th May	National Treasury
Public hearing	Mid-May	Mid-May	Relevant committee of Parliament
Review by relevant committee of Parliament	End May	End May	Relevant committee of Parliament
Committee of supply	End June	End June	Relevant committee of Parliament
Consolidation of national government budget	End June	End June	National Treasury
Appropriation Bill and Finance Bill passed	End June Within 90 days of passing of Appropriation Bill	End June Within 90 days of passing of County Appropriation Bill	National/County assembly
Vote on account	End June	End June	National/County assembly
Budget implementation	Continuous	Continuous	COB, National Treasury and County treasury
Submission of reports on budget implementation to COB	15th day of each quarter	15th day of each quarter	Line ministries
Submission of reports on budget implementation to National/County assembly	45th day of each quarter	45th day of each quarter	COB
Submit supplementary budget for approval by National/county assembly	February or two months after spending	February or two months after spending	National/County treasury
Accounting and audit	March	March	National/County treasury, Auditor General
Submit final accounts to Treasury and Auditor General	September	September	Line ministries
Submit consolidated annual accounts to Auditor General	October	October	National/County treasury
Submit audited accounts to National / County assembly	December	December	Auditor General
Review audit reports by National /County assembly	March	March	National/County assembly

County Budget Calendar: Key Budget Document

Budget Documents	Date of issue/ Submitted	Relevant Legislation	Functions/Purpose
Annual budget circular • Sets out guidelines to be followed by county government entities in preparation of annual county budget	30th August	PFMA, 2012 Section 128	Annual budget call circular • Initiates annual budget process • Gives guidelines and timelines
Medium-term County Integrated Development Plan(CIDP)	1st September	Constitution of Kenya, Article 220(2) County Government Act, Part XI, Section108 PFMA, 2012 Section 126	Legally required to give: • Economic priorities • Financial priorities Guides budgeting No public money spent outside CIDP
County Budget Review Outlook Paper (CBROP)	30th September	PFMA, 2012 Section 118	Assessment of previous year's performance • Project economic outlook into medium-term
• Division of Revenue Bill(DORB) • County Allocation of Revenue Bill (CARB)	Two months before end of financial year	Constitution of Kenya, Article 218	i)Sharing revenue raised nationally among national and county levels ii) Sharing among counties in accordance with resolution in force as per provisions of Article 217
County Fiscal Strategy Paper (CFSP)	28th February	PFMA, 2012 Section 117	Overview of economic and financial environment • Sets priorities • Guides annual budget preparation
Debt management strategy	28th February	PFMA, 2012 Section 123	Review debt position • Sets guide for further borrowing
i) Budget estimates ii) Revenue estimates	30th April	PFMA, 2012 Section 129	Details of estimates • Revenue, all sources • Expenditure – Recurrent – Development
Annual cash-flow projections	Not later than 15th June	PFMA, 2012 Section 127	To guide cash releases by COB for budget execution
i) Appropriations Bill/ Act ii) Vote on Account	By 30th June	PFMA, 2012 Section 131 Constitution of Kenya, Article 222 PFMA, Section 134	Budget approval giving legal authority to spend Preliminary budget approval if AppropriationsBill not enacted
Finance Bill/Act	Within 90 days of approving Appropriations Bill	PFM Act Section 133	– Proposes revenue raising measures – On approval, gives power to tax

County Budget Calendar: Key Budget Document (cont.)

Budget Documents	Date of issue/ Submitted	Relevant Legislation	Functions/Purpose
Supplementary estimates	During the financial year	Constitution of Kenya, Article 223	Necessary when there is: • Inadequate provision to meet voted expenditure • Reallocation • Additional requirements • Emergencies
Budget circular by CS, National Treasury, to all national governmententities setting out guidelines to be followed on the budget process	Not later than the 30th August, each year	PFM Act section 135 PFMA, Sections 35(1) &(2) and 36(2)	Process starts with integrated development plan, which includes both long-term and medium-term planning, • Review and determination of financial and economic policies and priorities at national level over the medium term. • Preparation of the overall estimates in the form set out in the BPS of national government revenues and expenditures. • Adoption of BPS by Parliament and preparation of budget estimates for national government.
County Budget Review and Outlook Paper (CBROP)	By 30th September, each year	PFMA,2012, Section 26(1)	Update on actual economic and fiscal performance for previous year compared to budget appropriation for that year. The update on macro-economic and financial forecasts carriessufficient information to show changes in the most recent BPS and how financial performance for previous year might have affected compliance with fiscal responsibility principles or the financial objectives in the latest BPS
Budget Policy Statement	15th February, each year	PFMA 2012, Section 25(2)	Submission of BPS to Cabinet for approval
Debt management strategy	On or before 15th February, each year	PFMA, 2012 Section, 33(1)	CS, National Treasury submits to Parliament a statement setting out the debt management strategy of national government over the medium term, showing actual liability and potential liability in respect of loans and guarantees and how it plans to deal with them
Budget estimates of national government entities, excluding those for Parliament and Judiciary	30th April, each year	PFMA, Section 37(2)	Budget estimates and other documents necessary to support implementation of national government budget submitted to National Assembly. They exclude those of Parliament and Judiciary

County Budget Calendar: Key Budget Document (cont.)

Budget Documents	Date of issue/ Submitted	Relevant Legislation	Functions/Purpose
1. Budget estimates for Parliamentary Service Commission	30th April, each year	PFMA, 2012, Section 37(3)	Accounting officer, Parliamentary Service Commission, submits to National Assembly budget estimates for Parliament, including proposed appropriations, with copies to National Treasury
2.Budget estimates for the Judiciary	30th April, each year	PFMA, 2012, Section 37(4)	The Chief Registrar Judiciary submits to National Assembly budget estimates for Judiciary, including proposed appropriations, with copies to National Treasury Note: In both institutions, i.e 1&2, accounting officer, PSC and Chief Registrar, Judiciary must: (i) Ensure members of the public are given an opportunity to participate in the preparation process, and, (ii) Make and publish rules to be complied with by those who wish to participate in the preparation process
Comments of CS, National Treasury on budgets of PSC and Judiciary	Not later than15th May, each year	PFMA,2012, Section 37(6)	CS, National Treasury submits comments on the budgets proposed by accounting officer, PSC, and Chief Registrar Judiciary to NationalAssembly
Appropriations Bill and other bills except Finance Bill	Upon approval of budget estimates by National Assembly, each year	PFMA, 2012 Section 37(9)	National Assembly considers budget estimates of national government entities including those of Parliament and Judiciary with a view to approving them with or without amendments in time for approval of Appropriations Bill and other bills to pave the way for the law to implement budget to be assented by 30th June, each year, except the Finance Bill. Details of other budget documents to accompany budget estimates before approval of the Appropriations Bill are specified in PFMA, 2012, Section 38.
Finance Bill	Not later than 90days after passing the Appropriations Bill	PFMA,2012, Section 41	National Assembly shall consider and pass the Finance Bill with or without amendments. Budget policy highlights and revenue raising measures and other requirements which are pertinent before approval of the Finance Bill for national government entities are enumerated in PFMA, 2012 Section 40. National Assembly also takes into account provisions of Section 114 of the Constitution.

Source: The Constitution of Kenya, 2010 and Public Finance Management Act, 2012

Glossary of Budget Terms

These terms are commonly used in public finance, especially in the budget process and policy documents. It is critical for legislators to understand what they mean in order to understand their application in public financial management and particularly in legislative oversight.

A

Absorption rate

As a measure of budget implementation, the absorption rate is the proportion of budgeted resources used or utilized during the budget period. It can be expressed as a percentage of the resources in both the recurrent and development budget, or the proportion of resources utilized out of the voted or appropriated resources in the budget.

Accountable documents

These are important documents such as those used for the release and receipt of public funds and goods. They are made accountable to reduce risks of abuse and are, therefore, subject to strict control procedures to avoid their getting into the wrong hands and being misused. They include: cheque books, local purchase orders (LPOs), authority to incur expenditure (AIEs) receipt books and imprest warrant forms.

Accounting officer

This is a senior public officer in a ministry or department, appointed, in writing, by the Treasury (national or county)to be responsible for the management of and accounting for funds and service delivery in respect of money voted to the ministry or department by Parliament or county assembly. Accounting officers are appointed in accordance with part II section 3 (1) of the Interpretations and General Provisions Act (Cap.2) revised Edition 1983 (1970) which provides, inter alia that, "an accounting officer means a person appointed by the Treasury and charged with the duty of accounting service in respect of which moneys that have been appropriated by Parliament or any person to whom issues are made from the exchequer account".

Appropriation

The legal authority or right granted to the Executive by the Legislature or Parliament or county assembly to withdraw and spend public funds for specified purposes. The authority is often for a specified period of time, usually a year. This authority is given through approval by the Legislature of budget estimates as specified under various votes. Any balances of unspent money or funds, by the end of the financial year, must be surrendered back to the Consolidated Fund or County Revenue Fund, as the case may be. In plural, appropriations refer to public funds that have been allocated to various government agencies/entities or ministries as approved by Parliament or county assembly.

Appropriations Bill and Act

An Appropriations Bill is a legal proposal or request seeking legal authority by the Executive to spend money or funds after Parliament or county assembly approves the printed or supplementary estimates. It is a requirement that the minister or CS or CEC for finance submit a draft bill seeking authority to draw funds from the Consolidated Fund or CRF to finance various activities. This bill,once approved by the National Assembly or county assembly and assented by the president or the governor,becomes an Act of Parliament or county assembly.

Appropriation Account

An account showing details of how funds appropriated or allocated to a ministry or government department by Parliament or county assembly have been used or spent. It shows distribution of total funds along the expenditure programmes or items in the printed estimates. This account is audited by the Controller and Auditor General.

Appropriations in Aid (A-in-A)

Recurrent (A-in-A)

Appropriations in Aid are funds generated or collected by a ministry, department, or spending unit in the course of delivering services, which are applied or spent, by the ministry or department, to finance an approved expenditure before transfer to the Treasury. They may be funds collected by departments/ministries as user charges for specific services and goods provided to the public through levying of user charges. These funds must be reflected in the budget and approved by the Legislature, both as an inflow (revenue) and an outflow or expenditure. Any excess or over collection of such amount must be surrendered to the Exchequer unless prior authority for their expenditure is sought and granted. Under collection of A-in-A results in a reduction of the resources available for respective expenditure. For examples A-in-A are:

(i) Receipts from administrative fees and charges collected by a ministry, registration of land, business names and marks etc.
(ii) Receipts from the sale of bonded vehicles and transport equipment by various ministries.
(iii) Receipts from sale of goods and services e.g. ministry of health, sale of goods by prisons department, payment for visas and passports by Immigration Department.

Development A-in-A

These are funds collected locally on account of services rendered or goods sold and applied directly to finance the development budget in a particular ministry or department. Some of the recent examples include:

(i) Funds paid into central government budget from the rest of the public sector.
(ii) Receipts from charges for goods and services provided by a ministry.

Appropriations in Aid from donor funds

These are funds from development partners/donors that are disbursed directly to particular ministries or departments. They are also referred to as development aid in kind. Examples of this include technical assistance, commodity aid including purchase of vehicles and other equipment, and food aid. In such cases the financier pays directly for the purpose. Indeed the best way to describe it is that the funds do not pass through the government system of Exchequer. Such funds will be reflected in the budget book as:

(i) Grants from foreign governments –direct payments.
(ii) Foreign borrowing –direct payments.

Authority to incur expenditure (AIE)
This is written authority or permission granted by the accounting officer of a line ministry to heads of department, district or county heads, or heads of spending units to enable them to spend money allocated for activities under them.

B

Balance of Payments (BOP)
This is the record of transactions between the residents of a particular country like Kenya and the rest of the world. Each transaction is recorded in accordance with the double entry bookkeeping principle, which implies that values on both sides of the balance of payments should always be equal.

When the value of transactions in favour of a country's residents, (inflows) exceeds the value of transactions to the rest of the world(outflows), then the country is said to have a balance of payments surplus and when the value of transactions in favour of a country's residents (inflows) is less than the value of transactions to the rest of the world, the country is said to have a balance of payments deficit.

Transactions in the balance of payments account can be classified into two categories: current and capital accounts. The current account refers to those transactions with a settlement period of less than one year while the capital account refers to those transactions with a settlement period of more than one year. The transactions in the current account cover items such as goods and services while those in the capital account are mainly financial transactions such as loans and foreign investments. In a developing country such as Kenya, the current account is usually in deficit and needs to be financed by a surplus in the capital account, which is obtained through external borrowing and foreign investment over and above external capital repayments.

Balanced budget
This refers to a situation where total expenditure is equal to total revenues. It is a budgeting concept based on the principle that an organization, in this case the government, should live within its means.

Budget ceiling
This is total expenditure limit set for a budget sector, ministry, or department based on total available resources or the resource envelope, as it is called in the Kenyan budget process. Currently, budget ceilings are set for each sector. The sector groups meet, discuss their programmes, and agree on resource sharing. Based on agreed distribution, Treasury issues a budget circular requiring ministries to prepare the ministerial budgets ensuring each ministry complies with the set limits (the ministerial ceiling).

Budget highlights
The statement or address of the Cabinet secretary, National Treasury, to the Legislature outlines the main features of government estimates of expenditure, revenues raising measures, and policies related to the budget and the economy. The statement highlights policies that guide resource allocation and mobilization,macroeconomic environment, economic performance, challenges and opportunities, regional and global environment, together with some comparative analysis of performance.

Budget
A financial plan with details of expected revenues and expenditures for a specified or accounting period, say one fiscal year. It specifies programmes, activities, outputs, and outcomes to be carried out during a specific period. In the case of the government, it outlines sources of finance and how the amount raised is to be used or shared among competing public needs.

Budget deficit
The amount of total expenditure that is in excess of total revenue receipts during a specific budget period, say a fiscal or financial year. When a deficit occurs, the government has two choices: either to cut or reduce expenditures to the same level as revenue, or to borrow and bridge the gap.

Budget documents
These are documents that are laid before the Legislature as part of budget proposals. At the national level, they include the Finance Bill, printed estimates, the financial statement, and the statistical annex, estimates of revenue loans and grants, and subsidiary legislation, that is, any legal notices issued to give effect to proposed policy and tax rate changes. They may also include bills amending specific money and finance statutes or laws, the Banking Act, or licensing and regulatory laws that have implications on the budget.

Budget process
Refers to various activities, procedures, and interactions with the key actors that lead to preparation, approval, execution, and reporting on budget implementation and how the players interact with one another. It encompasses procedures for setting the agenda, selection and prioritization of priorities, consultations with stakeholders, preparation of

budget documents, presentation and justification to Parliament, legislative approval to actual implementation of projects and programmes to accounting and reporting.

Budget surplus

This is the amount of total revenue that exceeds total expenditure during a budget period, say, a fiscal year.

Budget reserve

This is an item of expenditure under the new classification of the government budget which denotes an item where funds are voted to cover any emergencies or shortfalls in other items of expenditure. This item is only reflected under the National Treasury or county treasury budget.

Budget transparency

Budget transparency provides comprehensive, reliable, timely, and user-friendly information to all the players and stakeholders. Such information helps promote accountability on the part of policy makers, legislators, and budget implementers. It also promotes confidence of both taxpayers and consumers of public goods and services. The benefits of budget transparency include more informed debate on issues leading to clarity of decisions and helps the legislature understand better the needs of the citizens. It also leads to more effective monitoring and evaluation, which enhances accountability and leads to better results and outcomes.

Budget Review Outlook Paper (BROP)

This is a budget document prepared by the National Treasury which provides a review of budget execution for the previous financial year, including how ministries or departments performed. Based on past performance the BROP proposes tentative sector ceilings and indicative ceilings for individual line ministries. In addition, it uses various macroeconomic and financial indicators, such as projections of the exchange rate, economic growth, revenues, and inflation to project expected performance over the medium term. This report is normally published in December or January and circulated to line ministries and key players. It is an important document that informs decision-making for the next financial year.

At county level, this document is referred to as the County Budget Review and Outlook Paper (CBROP) and details a review of how the budget was implemented, the same as at the national level, and identifies challenges and opportunities. It also forecasts the expected performance based on what happened in the previous fiscal year and gives indicative ceilings over the medium term.

Budget Policy Statement (BPS)

The paper is prepared by the CS Finance to provide an update of the available revenue resources or the resource envelope. It also provides the fiscal framework for the government budget for the next financial year and the medium term. In addition, based on past performance, it sets firm ministerial ceilings and outlines the key strategic objectives of the government. Once approved by Parliament, BPS binds future decisions on the budget.

At county level, the equivalent is the County Fiscal Strategy Paper (CFSP), which provides firm budget figures, including projected performance in the next financial year and over the medium term. It also includes the total expected revenues, or the resource envelope, firm departmental ceilings together with the key strategic objectives and focus. Like the national level, once the county assembly approves the CFSP, it binds future decisions on the budget.

C

Capital expenditures or development budget/outlays

Expenditures incurred for investments or acquisition of capital goods and services so as to increase the productive capacity of the economy and which generate direct benefits beyond the fiscal year. These include expenditures on physical infrastructure and government-owned or controlled corporations and their subsidiaries, and investments in public utilities.

Capital revenue

Proceeds from the sale of fixed or capital assets such as land, buildings, machinery, stocks and intangibles, including receipts of unrequited transfers for capital purposes from non-governmental sources. Ideally, proceeds of sale of fixed assets should be used to create other assets or to pay debt.

Capital markets

This refers to a market for securities used to raise long-term money or funds by both the government and private businesses. For example, the Treasury bonds which are sold for periods of more than10years and corporate bonds. The Nairobi Stock Exchange is a capital market and is used to raise funds, both by private corporations and the government, for long-term investment by selling securities such as Treasury bonds and corporate bonds.

Cash budget

A budget based on cash receipts and payments comprising aggregate revenues, borrowings, and disbursements. It reflects the actual deposits and withdrawals of cash by government agencies that also account to the Treasury on a cash basis.

Current operating expenses

These represent the amount budgeted for running costs or consumption. For example, purchase of goods and services for the conduct of normal day-to-day government operations within the budget year. They include goods and services that will be used or consumed during the budget year such as payment for utilities, rents, travel, and fuel.

Current surplus
This refers to a situation where ordinary revenue exceeds recurrent expenditure, net of interest payments and public debt.

Commitment(s)
In the budget context, these are the on-going obligations, projects, and programs that need to be continued to completion. In some cases, there will be legal and contractual undertakings that bind the parties. To ensure these are not interrupted, ministries are required to ensure these on-going obligations are provided for or funded first before they take on new expenditure commitments.

Commitment fee
A fee charged by a lender, usually a bank or any lending institution, to compensate the lender for setting aside funds for a loan. With regard to the government budget, commitment fee includes a charge that is levied on the government in respect of outstanding undrawn balances. This is common with multilateral donors, who charge a fee to compensate for the interest that the borrower would have paid if all the money was fully utilized or was made available to another borrower.

Commodity codes or customs codes
These are standard universally dedicated objective numerical references developed by the World Customs Organization to classify commodities, goods, and items of trade for ease of reference by all member countries. They help to ensure that tradable goods and commodities are easily identifiable and grouped together worldwide to simplify international trade. Both the numerical references and physical descriptions are standardized on all goods and commodities to ensure internationally agreed conventions on trade are observed, enforced, and comparable. For example, vegetable products are classified under Chapter 6, with cut flowers falling under code no.0603.10.10, which is used all over the world. While the code descriptions are universal, the applicable duty rates of the goods differ according to country or regional policies. The codes are also used to trace the movement of goods across country borders.

Consolidated Fund
These are a combination of accounts into which all public funds are paid and retained until the Legislature or Parliament decides on their application. It is established under Article 206 of the Constitution and comprises all accounts that form the Exchequer account where all revenues, all grants and loan proceeds are credited. These accounts are maintained at the Central Bank of Kenya and no moneys should be withdrawn from the Consolidated Fund except as authorized by:

(i) The Constitution of Kenya (Consolidated Fund Services).
(ii) A specific Act of Parliament (excluding the Appropriations Act).
(iii) The Appropriations Act (passed annually by Parliament).
(iv) Vote on Account.

County Revenue Fund
This is a combination of accounts into which all county public funds are paid and retained until the county assembly decides on their application. It is established under Article 207 of the Constitution and is the account into which shall be paid all money raised or received by or on behalf of the county government, except money reasonably excluded by an Act of Parliament. Money may be withdrawn from the County Revenue Fund only:

a) As a charge against the Revenue Fund that is provided for by an Act of Parliament.
b) By county assembly.
c) As authorised by an appropriation by legislation of the county.

Consolidated Fund Services
These are services which the Constitution allows to be charged directly to the Consolidated Fund. In particular, charges on public debt under Article 214, which authorizes direct funding, the cost of which is charged directly to the Consolidated Fund. This means that these expenditures can only be adjusted by a change in the provisions of the law or a review of the contractual obligations related to them. These are commonly referred to as Consolidated Fund Services and comprise expenditure in respect of the following:

(i) Pension and gratuities for public officers.
(ii) Public debt servicing charges or commission charges.
(iii) Remuneration for constitutional offices.
(iv) Payment for debt service.

Contingency or emergency
Refers to amount of money (which is a small percentage of the budget) set aside to finance or fund unforeseen expenditures that might arise during the financial year, e.g. humanitarian emergencies. This includes commitments that cannot be avoided or delayed.

Contingencies Fund, also referred to as the Civil Contingencies Fund (CCF)
This is a fund which is provided for under Article 208 of the Constitution for which Parliament approves provisions (setting aside some money to finance unforeseen and unpredictable expenditures which may occur during the fiscal year and which were not budgeted for but which must be incurred in the public interest before a supplementary budget is prepared for approval by Parliament. It is established in the National Treasury under supervision of CS Finance. Any advances made from the CCF must be reimbursed before the end of the financial year and no expenditure should remain as a permanent charge against the CCF. The money spent under this fund must be included in the supplementary estimates for approval by Parliament, which must satisfy itself that the funds were used for an urgent, unexpected, and unpredictable emergency.

Contingent liabilities
These represent financial obligations which may arise due to occurrence of specific conditions such as default on a loan guaranteed by the national government to a county government or a parastatal.

Convertible currencies
This refers to those foreign currencies which, because of their reputation, are easily exchangeable and acceptable in the international financial markets mainly because of the stability of underlying economies. Examples include the US dollar, the British pound, the Japanese yen, the Swiss franc, and the euro.

D

Debt service
The amount of money paid for a loan, repayments of the principal, interest payments, commitment fees, and other charges on foreign and domestic debt owed by the government or on guaranteed loans.

Disposable income
This refers to earnings/income available to an individual for own use. From a macroeconomic perspective, real household net disposable income is defined as the sum of household final consumption expenditure and savings, minus the change in net equity of households in pension funds.

Deficit
This refers to shortfall or deficiency of revenues over expenditures of an organization, i.e. the amount by which expenditure exceeds revenue. There are several levels at which deficit can be measured, which are as follows:

(i) Deficit on a cash basis,which refers to the situation where the measure is on actual cash receipts of revenues versus actual cash expenditures.

(ii) Deficit on a commitment basis: Refers to a situation where the actual revenue is compared to total actual expenditures plus total unpaid financial obligations i.e. commitments which have yet to be paid.

(iii) Deficit including grants. This is a measure of the deficit where grants from other countries are included in the total resources and thus the deficit is after application of grants.

(iv) Deficit excluding grants: This refers to shortfall when grants are excluded from the total resources.

Development expenditure
Refers to expenditure used to acquire new assets such as construction of roads and bridges, water installations, building of new public facilities such as hospitals and schools. It also refers to money spent on investment in public enterprises and private-commercial enterprises.

Disbursement
This may refer to the transfer of funds from the Consolidated Fund to the spending units or the transfer of donor loan proceeds from the donors' accounts to the government's accounts.

Discretionary expenditures
These are expenditures that are subject to appropriation as opposed to expenditures mandated by the Constitution or the law. For example, expenditures on wages and salaries, operations, and maintenance are discretionary. They can be adjusted upwards and downwards depending on the government's short-term and long-term availability of revenue.

E

Earmarked funds
These are funds or money set aside to finance specifically and legally identified or pre-determined purposes. When transferred from the Treasury, whether national or county, they must be used for specified purposes and cannot be used for any other purpose unless the enabling law is amended to allow other uses. The law requires such revenues be put aside and be used for designated activities. Examples of earmarked funds include the Equalization Fund and the Constituency Development Fund (CDF). Such funds are accounted for separately from the other government general revenues. Any outstanding balances of revenues in such funds are not surrendered to Treasury at the end of the fiscal year but are retained for use in the subsequent period.

Excess vote
This occurs when expenditure on a vote exceeds or is more than the provisions in the budget, revised and supplementary estimates, as approved by Parliament, and authorized in appropriation acts. In parliamentary terms it constitutes irregular/unauthorized expenditure, except where ministries or agencies are authorized, provided they do not spend more than 10% of approved appropriations.

Economic governance
This deals with the manner of economic management by those in charge of public affairs in the national government, county governments, and other public institutions. When economic affairs are well managed for the benefit of the public good, there is good economic governance. When there is abuse of office and mismanagement of public resources, there is bad economic governance.

Exchange reserves - also called foreign exchange reserves
Exchange reserves, also called foreign exchange reserves,represent a positive balance of the sum total of all receipts from outside the country less all payments to the outside world. On the receipts side, we add value of exports, tourist receipts, money sent by

those who live outside Kenya, money coming for new investments etc, and deduct what Kenyans, including the government, pay for imports, money paid to outsiders for education, goods and other services, remittances by foreigners living in Kenya. What remains is our foreign exchange reserves. If it is negative or very small, our currency comes under pressure to devalue. However, if the reserves are more and increasing, the currency comes under pressure to appreciate.

Exchange rate
The exchange rate is the unit price of a foreign currency in terms of the local currency, how much of a unit of other currencies the Kenya shilling can buy. For example, if the current exchange rate for one US dollar in terms of the Kenya shilling is 100.00, it means that is the price of that currency or the exchange rate. Since the market for foreign exchange in Kenya is liberalized, the prices of foreign currencies are determined by market forces of supply and demand, such that the exchange rates may vary from day to day, depending on how much of a currency people in Kenya want on that day.

Exchequer
Traditionally, the Exchequer was that part of the National Treasury responsible for collection and custody of government revenue. In some cases, the word is still used interchangeably with the word Treasury. Presently, it also refers to a bank account maintained for the government at the Central Bank of Kenya from where all withdrawals and deposits in the name of the government are managed.

External public debt
This refers to contractual financial obligations owed by the government to external lenders, persons, and governments(outside the country). The debt may be owed to other government, bilateral, or multilateral agencies such as World Bank, International Monetary Fund, African Development Bank, or from private sources such as international commercial banks. The government can also borrow from international capital markets by floating of bonds in convertible currencies or through supplier credits.

External budget support
Funds provided by development partners, whether loans or grants, which are channelled through the national government budget. In other words, the availed funds are pooled together with the locally raised revenues and budgeted together.

Extra budget funds
These are public funds or money which is raised and kept in a separate fund or account to finance specified purpose and, therefore, not deposited in the Consolidated Fund or available for other purposes. Although the enabling appropriation law is passed by the Legislature, e.g. Parliament, utilization of such funds is not subject to annual detailed legislative review. Examples include funds collected under the Rural Electrification Programme and Sugar Development Levy. These funds also fall under the category of earmarked revenues. Such funds can also be charged to the general revenues and

kept aside. However, their budgets are attached as an annex of the respective ministry budget and submitted to the Legislature. In addition, they must be audited by the Auditor General and reports tabled before PIC.

Excise duties
These are duties levied on consumption of specified goods and services, mainly those considered as luxuries such as cigarettes, alcohol, telephone airtime, high value motor vehicles, jewellery. They are charged to raise revenues but are sometimes used in an attempt to control consumption of such goods, which are considered non-essential or harmful and may also have additional social costs or negative impacts on consumers. Such goods include alcoholic drinks, tobacco, and high fuel consuming passenger cars.

F

Finance Bill
This is a draft law or bill that seeks to amend money or tax laws,change existing provisions, and increase or reduce tax rates. It is presented to the Legislature, Parliament, or county assembly for consideration and approval to give legal effect to proposed changes. If not approved, the proposals automatically expire. Pending approval of the tax rate changes proposed in the bill, the CS Finance publishes a temporary enforcement measure through the Provisional Collection of Duties and Taxes Legal Order, which enables the government to start collecting the proposed taxes and duties immediately. Once approved, the measures remain in force until there is an amendment; they do not expire at the end of a fiscal year, as applies to appropriations. Normally, there is only one Finance Bill in a fiscal year. However, in case of unavoidable circumstances,the government can introduce another one (Second Finance Bill).

Financing
Means by which a government provides financial resources to cover a budget deficit or allocate financial resources arising from a budget surplus.

Financial market(s)
This market brings together capital markets or market for long-term securities such as listed company shares, bonds, and money markets, which provide short-term money or finance e.g. overdrafts and interest-earning deposits. They also include insurance services and the foreign exchange market.

Financing gap (budget deficit)
This is the excess of government expenditure over estimated revenue receipts. It means the government will need to find resources from other sources to fund the excess and close the gap. The choices available to get money to bridge the gap include borrowing from domestic or external sources, alternatively borrowing or support from development partners. If the gap is small and represents a temporary situation, the government can

request for an overdraft from the Central Bank. However, under the PFM Act, (principles of fiscal responsibility, sections 15 and 107), short-term public debt is restricted to a maximum of 5% of latest audited revenue receipts, which should only be used for management of cash flow.

Fiscal year or financial year

This refers to the period of 12months covering the annual government budget cycle. In Kenya, the fiscal year starts on 1st July and ends on 30th June the following year. The Legislature, Parliament, and county assemblies approve the Budget for one fiscal year and any unspent balances of budgeted or appropriated funds must be surrendered to Treasury on 30th June, the day the authority to spend expires. However, the authority to tax together with the approved tax rates remain in force until and unless they are amended or removed in another Finance Act.

Fiscal policy

Refers to government policy document that gives direction on the adjustments the government may or will make to influence the direction of the economy through management and changes in government expenditure, taxes, public debt, and regulatory regime. The main instruments of fiscal policy are adjustments in government spending levels, (including debt) and tax rates. Changes in the level, timing, and composition of debt, tax rates, and government spending can impact on aggregate demand and the level of economic activity, the pattern of resource allocation, and the distribution of income. For example, when the government increases its domestic borrowing it reduces access to credit by private businesses and households. Similarly, when it increases taxation, this means taxpayers have less to spend on personal consumption.

Financial statement

Budgetary document presented by the Finance minister (CS Finance) or CEC Finance, when presenting the budget proposals that shows the expected movement in the Exchequer account for the current financial year, forecast for the coming year, and a summary of the revenue proposals in the Finance Bill. This is submitted to Parliament together with other budget documents.

Foreign exchange

This refers to earnings or stock of value held in foreign currency as opposed to local currency.

Foreign currency

Foreign currency refers to other countries' monetary instruments of exchange when applied to the domestic economy as an instrument of payment or transaction. Examples of foreign currencies are US dollar, British pound, the euro,and the Japanese yen, the Uganda or Tanzania shilling, and the South African rand.

G

Government budget

A government budget is a financial and operational plan for a given period, normally one year showing:(i) how money or such resources will be raised, (ii) how money is allocated i.e. where to be applied, and (iii) goods and services that will be provided, by whom or which agency. Given the many competing needs that exist at any one time, a budget should represent funding for the high priority needs of the citizens.

Government debt

The total funds borrowed by the government, from both domestic or local and foreign sources. Internal or domestic debt is regulated by the Internal Loans Act Cap 420, which specifies that such borrowing should be in Kenya currency while external loans are regulated by the External Loans and Credit Act, Cap.422, which requires the National Assembly to fix a maximum external debt limit.

Government securities

These are debt instruments or securities issued by the government to raise public debt. They include Treasury bonds and bills and other debt instruments the government uses to raise funds or borrowings to finance the budget deficit. Sometimes such instruments are used to influence economic behaviour or activities, e.g. Treasury bills may be issued to reduce money supply in the local economy to mitigate inflationary pressure.

Guaranteed loan(s)

In the case of the national government, a guaranteed loan or debt is likely to be for borrowing by a county government or a public enterprise (parastatal),in which case the Treasury, with the approval of Parliament, has given the lender an undertaking that if the borrower, referred to as primary debtor, fails to pay, the Treasury will step in to pay the amount on default.

Grants

On the expenditure side of the government budget, grants represent money or money worth that the government gives, without expecting repayment or services, to lower levels of government, public institutions, or individuals. They constitute a free gift that does not create any obligation on the recipient. These are mainly given in the public interest to public organizations such as universities or non-government charitable organizations, which provide basic social services e.g. faith-based hospitals and training institutions that provide services which supplement government efforts.

On the receipts side, any level of the government may receive grants from development partner's e.g. multi-lateral organizations, countries, or other agencies. These are free gifts, although the donor may give conditions on how and where the money will be used and the target beneficiaries.

Gross domestic product (GDP)
GDP refers to the total monetary value of all final goods and services produced within a country in a given period of time (say a calendar year). It is also considered as the sum of all the value added at every stage of production (the intermediate stages) of all final goods and services produced within a country, in a given period of time, without regard as to whether the producer was a national or not.

I

Import
Means to bring or cause goods to be brought into the country.

Import Declaration Form (IDF)
The IDF is a customs document opened by an importer to record the intention to import goods, specified therein, into the country. In it, the importer gives details of the goods, their value, and source country. However, at the time it is filed, it only signifies the importer intentions and not a firm commitment. In most cases an IDF fee is charged as a percentage of the value of goods being imported.

Imprest
With regard to public finance, an imprest represents money given, temporarily, to a public officer to finance specified official activities e.g. when travelling out of their station on duty, to pay for travel expenses, accommodation, and out-of-pocket expenses. On return, the officer is expected to account for the money spent within a specified period of time, provide receipts for the amount spent, and refund any balance. The money may also be given for a temporary period or it may be for office running expenses such as entertainment, in which case it can be a standing imprest that will be for a specified period.

Imprest account
A fund or account established at a fixed amount and maintained at that level by periodic replenishments of the sums disbursed.

Income tax:
(i) Assessment of tax

An assessment is the computation of the amount of tax a person is required to pay based on the amount of income the payer earns, for example, income tax payable by a liable person. This can be done on the basis of a tax return submitted by the taxpayer or a period of business operations, as is the case with self-assessment for taxpayers who receive rental income. However, if the commissioner of income tax has reason to doubt the return submitted to him/her, he/she can use the available information to estimate the amount payable and issue an estimated assessment.

(ii) Self-Assessment

Every person liable to tax is required to complete his/her total income return, calculate the total tax payable, and pay to the commissioner within a stipulated period, e.g. three months of the end of the year. This assessment by the taxpayers is what is called self-assessment.

(iii) Additional Assessment

This is an assessment on a taxable person who has already been assessed to tax that may arise on account of receipt of additional income. It may also occur where the commissioner gets information which demonstrates that the taxpayer had underpaid tax or understated the amount payable. In such a situation, the commissioner issues an additional assessment to charge the omitted income.

Inflation
This is a term used to describe a sustained general increase in the prices of goods and services in a country or a measure in change in prices of goods and services over a period of time.

Inflation rate
This is a measure of change in the general price level of goods and services over a period of time e.g. monthly, quarterly, or annually. The most common measure of the inflation rate is the change in the Consumer Price Index over a period of time.

Intergovernmental transfers
These are transactions which involve transfer of funds (money from national government to lower levels, e.g. as was the case with the Local Authority Transfer Fund (LATF) from Treasury to local authorities, transfer of equitable share of funds and Equalization Fund to county governments. Such transfers may be required by law or may be discretionary and based on needs. The design of transfers is of critical importance for efficiency and equity of service delivery and fiscal health of sub-national governments.

Interest and fees
Amounts paid to creditors based on the terms and conditions set in a loan agreement or debt instrument. These represent the cost of borrowing and are part of budget expenditures.

L

Liability
This means debt or financial obligation on the government which may arise once a debt is acquired or due to omission to pay on time for goods and services delivered. It may also arise as a result of default on a guaranteed loan, in which case it is called contingent liability. It is the amount owed and payable or will need to be settled.

Line ministries

Ministries other than the Ministry of Finance which are charged with the responsibility to implement the budget and planned activities related to a particular sector or sub-sector. Each of the line ministries presents budget proposals, both recurrent and development, for consideration to the Ministry of Finance and ultimately by the Legislature, Parliament, or county assembly.

M

Medium Term Expenditure Framework (MTEF)

This is a multi-year budgeting framework or strategy which, in Kenya, is based on a three-year rolling plan. It is a modern ideal tool of budgeting that seeks to translate and link government policies and plans into an expenditure program to deliver target outputs and outcomes within a coherent multi-year macro framework. It is especially important because it provides a measure of financial predictability, i.e. budget entities know what to expect.

Ministerial budget committees (MBCs)

These are committees established by accounting officers in line ministries to coordinate budget preparations. Each ministry's committee coordinates the preparation of its budgetary proposals. It receives and evaluates proposals from various departments and spending units and consolidates them for onward submission to Treasury.

Monetary policy

This refers to the interventions by the government, through the Central Bank of Kenya, to influence money supply, credit availability, and bank interest rates to achieve high, stable, and sustainable economic growth. Such interventions are designed to change the supply and demand for money as well as interest rates so as to influence the economic behaviour of various players or actors towards a particular direction.

Macroeconomic policies

These are government interventions designed to affect the performance of the economy as a whole. They seek to influence the overall economic activities and financial behaviour of key economic actors. Among the instruments used are government expenditure, taxation, and public debt and money supply.

Macroeconomic environment

This is the underlying general economic situation in which the economy operates within the country, region, and the world, which influences the performance of individual country economies. Some of the factors that influence the operating environment are policies on prices, interest rates, and the exchange rate. Others include the regulatory regime, efficiency and effectiveness of government services, especially security and judicial systems.

Sustainable Development Goals (MDGs)

The Sustainable Development Goals (SDGs), officially known as "Transforming our World: The 2030 Agenda for Sustainable Development", are a set of 17 "Global Goals" with 169 targets. Spearheaded by the United Nations through a deliberative process involving its 193 member states as well as global civil society groups, the goals are contained in paragraph 54 of United Nations Resolution A/RES/70/1 of 25 September 2015.

N

Net domestic borrowing

This is the net change, reduction or increase, of money borrowed within the country, which is measured by deducting from the total borrowing the amount repaid during a specified period, say, a financial year.

Non-discretionary/mandatory expenses

These are expenditures which are mandated by the Constitution or an Act of Parliament and which constitute a direct charge on the Consolidated Fund. They include debt service payments (both principal and interest), pensions, and salaries and wages for constitutional officers. These expenses are generally referred to as Consolidated Fund Services (CFS) and are included in the annual budget as a first charge. Since they are mandatory and predetermined, expenditure relating to them may not be adjusted upwards or downwards without the review of the statutory regulation or a policy change. An increase in this cluster of expenditures reduces flexibility in the budget process.

Non-tax revenue

These are revenue receipts from sources other than compulsory tax and levies. They include dividends from public enterprises, user fees and charges collected from consumers of public goods and services, interest, loan repayments from sub-national units of government and public enterprises, court fines, and rents from public buildings.

Office of the Controller of Budget and Auditor General

These are two key constitutional bodies that play critical roles in public finance. They operate under specific laws, namely, The Controller of Budget Act 2016 and The Kenya National Audit Office (KENAO).

j) The Controller of Budget (CoB)

The main functions of CoB are:

- Oversees implementation of the budget at both levels, national and county, by authorizing withdrawal of money from public funds.
- Authorize withdrawal when satisfied requisition is lawful.
- Prepare and submit budget implantation reports to:
    - o Parliament (National Assembly and county assembly).

- o County assemblies.
- o National and county government executives.
- Publish and publicize the reports.

These reports are key instruments of legislative monitoring and scrutiny of budget implementation. The reports continue to highlight how the budget has been executed, challenges, and omissions, and makes recommendations where action is necessary.

ii) The Auditor General

The main functions of the Auditor General are:

1) Audit national and county governments:
   i) Accounts of all public funds and authorities of national and county governments.
   ii) Accounts of Judiciary, all courts.
   iii) Accounts of constitutional commissions and independent offices.
   iv) Accounts of Legislature, National Assembly, Senate, and county assembly.
   v) Accounts of political parties funded from public funds.
   vi) Public debt, both levels.
   vii) Accounts of any entity required by legislation.
2) Audit any entity funded from public funds.
3) Prepare audit reports to confirm whether money used lawfully and effectively.
4) Submit the audit reports to Parliament and specific county assemblies.
5) Within three months of submission of the report, Parliament and county assembly to debate and consider the report and take appropriate action.

The Auditor General reports provide a key source of information and data for the Legislature's role of oversight and accountability.

Ordinary revenue

This comprises receipts from taxes, income taxes (pay-as-you-earn, corporation tax, withholding tax,import/customs duties,value added tax,and excise duties) as opposed to receipts from borrowings, grants, or charges such as court fines. Moneys from such sources are generally referred to as tax revenues i.e. revenue that contributes a major source of government finance.

P

Parliamentary oversight committees

These are parliamentary select committees established to keep the government accountable to its promises and policy commitments made during budget debate and implementation. They are also expected to ensure public resources are used legally, efficiently, and effectively for the benefit of the citizens. They are the Public Accounts Committee (PAC) and the Public Investments Committee (PIC).Whereas PAC scrutinizes the annual accounts and audit reports from the Controller and Auditor General, PIC examines the accounts of all public bodies and institutions, together with other statutory corporations, as reported by the Kenya National Audit Office (KENAO)

Pay as you earn (PAYE)

This is a system of collecting income tax from employees which requires employers to deduct tax from employee emoluments and remit the money, immediately, to the Commissioner of Domestic Taxes. It is designed to ensure tax liabilities are not accumulated to a point where employees may find it difficult to pay. It also helps to improve cash flow to the Exchequer.

Pending bills or expenditure arrears

These are accumulated and unpaid expenditures which remain unpaid on the due date. Their accumulation signifies prolonged delays in the government meeting its financial obligations to suppliers and creditors.

Presidential warrant (general warrant)

This is the authority issued by the president after Parliament passes or approves the Appropriations Bill, which on assent becomes the Appropriations Act. It authorizes the Cabinet secretary, National Treasury, to issue money from the Consolidated Fund for ministries and departments to spend. It authorizes government expenditures to be charged to the Consolidated Fund provided the amount is for the approved purpose and amount released does not exceed the approved appropriations. On receipt of this warrant, the Treasury issues its own Treasury warrant authorizing accounting officers to spend funds in their approved budgets. With this warrant, budget entities can apply for release of funds.

At county level, the governor's warrant is issued after the county assembly approves the Appropriations Bill. On receipt, the county treasury issues a treasury warrant to departments and other budget entities so that they can start requisitioning funds to implement the approved budget.

Principal loan

The amount of debt before adding interest and other charges, or the amount borrowed.

Printed estimates

These are budget proposals prepared by the Treasury (Ministry or CS Finance) in consultation with the line ministries and submitted to Parliament or county assembly for consideration and approval,by 30th April.

Policy priorities

In public expenditure,these are programs and policies which are ranked first for funding purposes based on citizen preferences. Priorities comprise the activities and services which citizens place high in importance. It is expected that the citizens, through public participation, should identify and rank their needs so that the government can fund them based on available resources.

Provisional Collection of Taxes and Duties Act

This is the law which the minister or CS Finance invokes to commence collection of duties and taxes proposed in the Finance Bill pending their approval by Parliament. If the proposals are not approved by end of December they automatically lapse. But if approved, they remain effective from the day imposed until they are amended through a Finance Act.

Provisional collection of taxes order

This is a legal notice (regulations) issued under the Provisional Collection of Taxes and Duties Act, Cap 415, and published on budget day to commence collection of duties and taxes presented to Parliament for consideration and approval. It enables the minister to start collecting taxes and duties immediately they are published and announced pending consideration and approval by the Legislature.

Public Accounts Committee

This is a legislative committee, Parliament or county assembly, which examines the Auditor General's audit reports on the accounts of government ministries and county government, law courts, and Parliamentary Service Commission. In so doing, it may interview those in charge of the management and custody of public resources and property. In the course of its scrutiny, it can invite and interview any person who has knowledge on matters and recommend to Parliament or county assembly what action it should take.

Public Investments Committee

The Public Investments Committee is responsible for the examination of audit reports on public investments. The functions of the committee shall be to examine:

- Reports and accounts of public investments.
- Reports, if any, of the Auditor General on the public investments.
- In the context of the autonomy and efficiency, whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.

Public debt

Public debt is the amount of money borrowed by the government to finance public projects and programmes. The borrowing is triggered by budget deficits or excess of expenditure over revenues. Public debt can be split into domestic (money borrowed within the country) and external (funds borrowed from outside Kenya). Domestic debt comprises mainly Treasury bonds and bills, but there are also debts originating from suppliers' credit which occur when the government takes delivery of goods and services but spreads the payment over several years.

Public sector

The public sector comprises the central and county governments, their agencies, and organizations together with State-owned enterprises.

R

Re-allocations

Budget reallocations or virements involve modifications or adjustments in the budget to public spending patterns that may be occasioned by circumstances which occur in an organization requiring money allocated to one sub-vote or item to be moved and spent on another one. They may also be occasioned by external circumstances e.g. a project may be delayed due to problems in the procurement process, especially when there is an appeal against tender awards, which means money set aside for the target purpose cannot be spent, or other reasons.

Recurrent expenditure

These are budget provisions set aside to finance government operations –such as compensation to employees (salaries, wages, transport expenses, repairs, and maintenance). It consists of two categories: non-discretionary and discretionary expenditures. The non-discretionary types are the mandatory expenditures such as payments of interest on loans, wages, and allowances for constitutional offices and discretionary expenditures are those ministerial recurrent expenditures that are not mandatory.

Reimbursement

Amount received as a payment of the cost of work or service performed, or of other expenditures made for or on behalf of another governmental unit or department. Reimbursements represent the recovery of expenditure undertaken by a government department on behalf of another body. Reimbursements are available for expenditure in accordance with the budgeted amount (scheduled in an appropriation). At national government level, the most common cases of reimbursements are those related to donor-funded costs, where the government spends its money first, and then files claims with the donor.

Restricted goods

Under the Customs Act, this means any goods whose exportation, importation, or transportation through Kenya is prohibited unless specific customs conditions are met.

Revenue

Revenue is what is received or receivable as government income, mainly from taxes.

Revised estimates

These are estimates prepared to effect reallocation and adjustments on the approved expenditure. The adjustments are made within votes while the actual printed estimates approved by the Legislature remain the same. The exercise mainly involves moving funds from areas that experience slow spending or have stalled to those that are moving faster. This spirit is already embedded in the Budget Policy Statement. Once approved, the PFM Act requires that the agreed fiscal framework remains unchanged, but there can be reallocation. Thus the Legislature can change the budget provided an increase in one vote or item is balanced by a reduction in another item.

Revenue deficit

A revenue deficit occurs when disbursements or outflow are more or exceed revenue inflows or revenue receipts fall short of target. To ensure smooth budget execution requires putting in place adequate control measures. Ideally all expenditure on the revenue account should be met from receipts on the account so that the two balance. Failing to balance outflows with inflows can trigger the need to borrow.

S

Schedules to the Finance Bill

These schedules give detailed information of the changes proposed in the budget. For example, a list of technical changes in the EA Customs Management Act, changes in commodity codes and applicable duty rates, changes in rates of excise duty, changes in VAT showing shifts in zero-rated or exempt goods. It is the schedules to the bills and acts on tax laws which give full details of applicable duty and tax rates together with other operational matters.

Smuggling

This means importation or exportation of goods without complying with the necessary legal authority and procedures. It also means illegal transportation of prohibited or restricted goods, contrary to customs regulations.

State corporations/public enterprises

A State-owned corporation or enterprise, which is also called a parastatal or a public enterprise, is a commercial organization which is either wholly owned by the government or the government has majority ownership. Examples are the Kenya Ports Authority (KPA), Kenya Airports Authority (KAA), Agricultural Finance Corporation, (AFC), and Kenya Power and Lighting Company Ltd. Some of the corporations, such as KPA and AFC, may have some social or development functions, but have to operate profitably.

Statistical annex

This is a table of figures and summary descriptions that is provided for information to legislators i.e. MPs, senators, MCAs, and the public. It gives key indicators on the economy, the government budget, the national debt, and international trade.

Special accounts

These are accounts recording transactions of an "exceptional"character that are made outside the normal procedures for expenditure approval and recording. Many refer to temporary accounts (such as advances), or to transactions whose authority is questionable, or to the accounts of formal extra-budgetary funds or "below the-line"accounts.

Subsidy

Normally, this is a benefit or payment in which the amount paid or the value of the benefit availed to the target beneficiary exceeds the cost paid by the government. This is mainly done when the government wishes to support economic activities which have social benefits and where the price paid to the operator may not give adequate compensation, a practice which is common in the case of agricultural loans, basic inputs such as fertilizer, semen, and in some countries' agricultural exports.

Supplementary estimates

These are expenditure estimates for money spent by the government where the amount appropriated for any purpose under the Appropriations Act for a given financial year is insufficient, or for expenditure to meet a need for which there was no amount appropriated in the act, or for money withdrawn from the Contingencies Fund. The supplementary estimates may not exceed 10% of the sum appropriated by the Legislature for that financial year unless approval had been sought under special circumstances to spend a higher percentage. Supplementary estimates comprise additional estimates by spending agencies to cover shortfalls in voted provisions for various activities. Supplementary estimates may also include reallocations and adjustments within and between votes.

T

Tax credits

A tax credit arises when a taxpayer has paid some of the tax liability through the withholding tax system such as pay as you earn (PAYE) from employment which is deducted from the final assessment. In case of an employee, at the end of the year the total earnings from employment plus other incomes are added together, and from the total tax assessed PAYE is deducted so that the taxpayer pays only the balance. If he/she has no other income when PAYE is deducted, there will be no balance to pay.

Tax rebates

Certain sectors are eligible for rebates on a portion of the VAT paid on inputs. For example, there are rebates for organizations that operate in export processing zones (EPZs) manufacturing export commodities, exporters of normally manufactured commodities with proof that they supplied their commodities outside Kenya, and public hospitals. To the extent that these sectors make taxable sales, they can claim input tax credits to recover the tax they paid on inputs to these sales. Where they provide tax-exempt services, however, they are eligible to receive rebates for only a portion of the VAT paid on their inputs to these services. These rebates ensure that these institutions do not bear a greater tax burden on their purchases under the VAT than they would under the manufacturers' sales tax, which the VAT replaced. Other examples of tax rebates include those for charities and substantially government-funded non-profit organizations.

Taxes
Taxes are statutory/compulsory payments which are levied with the approval of Parliament or county assembly to finance government operations and national development. These are what the government collects and utilizes to fund its operations. Tax is the main source of government revenue in Kenya and can be classified broadly into direct taxes or indirect taxes.

Direct taxes
These are compulsory levies charged where the taxpayer is assessed and given a bill to pay, e.g. personal income tax, corporation tax, stamp duties. This means the taxpayer makes a payment being aware he/she is paying a tax.

Indirect taxes
Also called consumption taxes are those that are normally charged as part of the selling or consumer price. In most cases, consumers may not know that the price charged includes taxes. Examples of indirect taxes include import duties, such that a person buying a suit or a dress does not know the price includes import duties, excise duties, and value added tax. A person enjoying a beer does not necessarily know the price paid includes these taxes. The same applies to a driver fuelling his car.

Tax exemption
Tax exemption is a waiver of responsibility to pay tax. In principle, a tax waiver should only be granted in the public interest, but only when provided for in tax law. Tax exemption may be given to a person or category of persons such as older citizens,persons with disability, charitable organizations,or a category of basic goods (medical drugs and certain basic foods are not subject to VAT).

Tax expenditure
Tax expenditure represents the amount of revenue lost due to granting of exemption, waiver, or other fiscal incentives and privileges. For example, tax exemptions are given to charities, pension deductions, an investor is given investment deductions on capital expenditure equipment and buildings, tax write offs. The tax revenue cost when the government exercises such discretions is what constitutes tax expenditures.

Tax refund
Repayment of money which has been wrongly collected or paid as duty or tax. This may arise when an employee contributes to a pension scheme so that at the end of the calendar year, when qualifying pension contribution is deducted from the salary, taxable income will be much less and therefore the employee may be entitled to a refund of part of the money paid as PAYE over the year.

Tax Remission or exemption
Waiver of duty or tax payable so that it is no longer payable.

Transfers (intergovernmental transfers)
These are remittances of money or tangible assets from the government to an individual e.g. transfers to elderly persons, an organization, or another level of government, for which the government making the transfer does not:

(a) Receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction.
(b) Expect to be repaid in the future, as would be expected in a loan.
(c) Expect a direct financial return, as would be expected in an investment.

An example of a transfer is money sent to counties for maternity fees by the national government.

Tax return
A tax return is a detailed document required to be submitted by taxpayers, say under the Income Tax and VAT acts. In case of income tax, it shows the full name of the taxpayer, details of sources of income, total income, and tax payable. It also shows details of tax which was subject to withhold tax and copies of certificates of tax withheld together with a signed declaration that the return gives full and true details.
Under the VAT Act, the return is a document that gives total value of VATable supplies (goods and services) and tax payable according to rate of tax, amount of total output tax, and details of input tax, if any, deducted or claimed. Failing to submit a tax return is an offence under both the Income Tax and VAT acts.

Transit
Means movement of goods, through Kenya to another country, a practice which is particularly common in Kenya, which borders several land-locked countries.

Treasury bills
These are short-term debt instruments issued by the Central Bank on behalf of the government to raise money from the domestic market. In Kenya Treasury bills are issued for 91 days and 182 days. However, in some countries they are issued for up to one year. Their repayment is guaranteed and their interest rate is pegged on prevailing market forces. Because of the short maturity period, the volume and interest rate the Treasury bills offer is used by local financial and money markets as a signal for government appetite for credit. Therefore, Treasury bills have a significant influence on interest rates.

Treasury bonds
These are long-term government debt instruments or securities that are freely traded in local money and financial markets. They are used to raise debt money for periods ranging from one year to longer periods that can stretch to beyond 10 years.

Tax invoice:
This is a principal document under the VAT Act that every registered person who sells or supplies taxable goods or services is required to issue to the buyer. It should as a minimum include the name and PIN or registration number of the seller, name and address of the purchaser, quantity, description, and value of what is supplied, tax rate, and the amount of tax charged, the date, and whether it is a cash or credit sale.

Types of loans
Program loan(s)
This is a policy-based loan which does not finance a project in a sector but is based on a package of economic reforms. The proceeds of the loan will finance the general budget while the policy focus may be on improving the financial sector regulatory regime, improving investment environment e.g. removing trade restrictions, imports and exports.

(i) Project loan
This is money borrowed to finance a specific project such as building a road, water project, or agriculture. Funds borrowed are used specifically for pre-identified projects and release of funds may be based on achieving specified physical structures.

(ii) Bilateral loan
This is a loan contract between Kenya and another country.

(iii) Multilateral loan
This is money borrowed from international financial institutions owned by several countries. For example, money borrowed from the Bretton Wood Institutions i.e. IMF and World Bank, African Development Bank, and the European Union.

U

Uncustomed goods
Means goods from external sources, including transit goods, imported or diverted into the country without complying with the necessary customs regulations and procedures.

V

Value added tax (VAT):
This is a consumption tax on goods and services along the channels of commerce. VAT is paid by all those who consume or trade in taxable goods and services (taxable supplies) irrespective of level of income. Currently the VAT has two rates, the positive rate of 16% and a zero rate. Zero-rated goods and services are those that are not supposed to bear any VAT burden. There are also exempt goods which carry the burden of input tax. Zero-rated goods are;

- Not subject to tax on sale.
- Entitled to refund of any input tax paid to facilitate production or supply.

Among zero-rated goods and services are prescription drugs and basic health services, whether medical, surgery, dental. Other zero-rated goods and services include exports, basic unprocessed foods, drugs, and books and education materials. Both zero-rating and exemption are designed to mitigate against the negative effects of VAT, particularly on low-income groups.

VAT: Input tax
Means tax paid on goods and services that are used as input for production of taxable supplies (of goods or services). Input tax is paid on raw materials, spares, or services used to produce taxable goods and services. It includes tax paid on importation of taxable goods and services such as textile rolls used to make clothes, diesel used to generate power that runs a factory. Such tax is deducted from the tax charged on what is produced.

VAT: Output Tax
Means tax paid or payable on goods or services produced by a supplier. It is called output tax to distinguish it from tax paid by the producer or supplier on inputs such as materials and services used to produce taxable goods or supplies. Where input tax was paid, and the supplier sells and charges tax on his/her final goods, such supplier is entitled to deduct the input tax on raw materials and remit the balance to the commissioner. This is necessary to avoid double taxation, which leads to high cost of goods and services.

VAT: Exempt supplies
These are supplies of goods or services that are not subject to output tax. However, they may be subject to input tax, for example, basic foods such as maize meal, barley, and rice, which are all exempt from VAT. However, some of the inputs, such as packaging materials, professional services, branding services, which are also used by producers of taxable goods, may be subject to tax. Where this principle applies, producers of tax-exempt goods do not qualify for a refund, which means any input tax paid forms part of the price.

Vote
The total amount appropriated for an agency by the Legislature, Parliament,or county assembly, in the annual Appropriations Act.

Vote on Account
This is a provisional authorization or approval granted by the Legislature, Parliament, or

county assembly to the government when the budget is not approved or unlikely to be approved by 30th June. The Vote on Account authorizes the government to use up to 50% of funds in the printed estimates tabled before the House, pending the approval of the Appropriations Bill. This is necessary to avoid the government shutting down from 1StJuly due to lack of funding. It helps the government to continue providing public services during the period of budget deliberations.

Vote Book

A vote book is a record of all financial transactions in a ministry detailing how funds are used and the balances available from each of the budget heads. Each page in the vote book represents an item in the printed estimates

W

Withholding tax

Tax deducted and paid to a tax authority by the person making the payment, for example PAYE deducted by an employer and paid to KRA, 5% tax deducted from dividends payable to a shareholder, tax deducted from interest paid on bank deposits,tax on income paid to a no-resident person. The types of taxes and the rates applicable are specified in the respective tax laws. Under income tax, withholding tax applies to interest payments, rents collected by real estate agents, when amount paid is below a specified limit, dividends and a large number of payments to non-resident persons, where it is used to safeguard revenues. Under VAT law, there are also instances when specified persons registered with tax authorities are authorized to withhold taxes and pay the amount to the commissioner.

Z

Zero-rated supplies

These are normally basic supplies of goods and services thatare not subject to VAT on sale. In addition, any VAT paid on inputs to produce such supplies is refundable, which means zero-rated goods should not bear any VAT, therefore, the VAT rate of tax is zero. Among the zero-rated goods are exports, seeds, and prescription drugs. Any input tax paid to facilitate the production or supply of these items is refundable.

PARLIAMENT OF KENYA

PARLIAMENTARY SERVICE COMMISSION

GUIDE TO EFFECTIVE OVERSIGHT AND SCRUTINY OF BUDGETS, ECONOMIC POLICIES AND RELATED DOCUMENTS:

A SOURCE BOOK FOR LEGISLATORS AND FISCAL ANALYSTS