FINANCIAL ACCOUNTING, RECORDING AND REPORTING MODULE

PARTICIPANT BOOK

MINISTRY OF DEVOLUTION AND PLANNING | NATIONAL TREASURY | KENYA SCHOOL OF GOVERNMENT

Public Financial Management

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FOREWORD

The Fourth Schedule of the Constitution of Kenya assigns the National Government the function of capacity building of counties. This mandate of the National Government has also been recognised and elaborated in the National Government Capacity Building Framework for County Governments. With regard to county public finance management (PFM) capacity building, this responsibility has been placed on the National Treasury.

In order to effectively deliver on its mandate of building the capacity of county governments in PFM, the National Treasury developed a County PFM Training Curriculum and has in partnership with development partners embarked on the development of a number of County PFM Training Modules. The National Treasury intends to rollout training on PFM and make these modules accessible to all county governments.

In this respect, the National Treasury will partner with the Kenya School of Government (KSG) to rollout the training of County State and public officers using the County PFM Modules as the primary training toolkit. These modules, besides standardizing the County PFM Training, will also ensure that those trained will also have reference material for use in their day-to-day operations.

At the outset, training will be delivered by a pool of staff drawn from the National Treasury. In the medium and long-term, the National Treasury, in partnership with the Kenya School of Government will identify and train a pool of professionals, through scheduled training of trainers. This pool of professionals will then conduct future training of county PFM staff. For this purpose, each module includes a 'Training of Trainers' guide in addition, to the participants guide.

This Financial Accounting Recording and Reporting module is among the first to be developed and is specifically designed to equip the county officials with the necessary skills and information, to help improve and strengthen their capacity in the preparation of county financial reports. The module will be used to train officials drawn from the county executives as well as county legislatures and emphasizes the use of participatory and practical approaches to learning.

I have no doubt that this county PFM Training module will help to strengthen the capacity of county governments in public finance management and contribute towards enhancing prudent, accountable and transparent management of public resources.

Henry K. Rotich,
Cabinet Secretary
National Treasury

ACKNOWLEDGEMENTS

This Financial Accounting Recording and Reporting module has been developed through the concerted effort of various institutions and professionals. We wish to express our gratitude to all those persons and institutions that contributed towards the development of this manual.

In particular, I wish to acknowledge the role of the Accountant Generals Department and the newly created Intergovernmental Fiscal Relations Department of the National Treasury in coordinating and providing technical guidance in the development of this Module.

~~Much thanks to the Kenya School of Government (KSG) who provided~~ quality control during the development of the module and for their commitment to include the Financial Accounting Recording and Reporting module as the main toolkit for county PFM training ~~at the Kenya School of Government.~~

We are equally grateful to development partners through the Kenya Accountable Devolution Programme for their support towards the development of this module. Special thanks to the pool of experts from the World Bank who worked ~~tireless~~ to ensure successful delivery of this module.

Dr. Kamau Thugge, EBS
Principal Secretary
National Treasury

ABBREVIATIONS

AGD	Accountant General's Department
A-I-A	Appropriations-in-Aid
AIE	Authority to Incur Expenditure
CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CGE	County Government Entity
CoB	Controller of Budget
COFOG	Classification of the Functions of Government
CoK	Constitution of Kenya
ECD	Early Childhood Development
GFSM 2001	Government Financial Statistics Manual 2001
GoK	Government of the Republic of Kenya
ICT	Information, Communication and Technology
IFMIS	Integrated Financial Management Information System
IPSAS	International Public Sector Accounting Standard
KENNAO	Kenya National Audit Office
LAIFORM	Local Authority Integrated Financial Operations Management System
PFM	Public Financial Management
PSB	Public Service Board
PV	Payment Voucher
SCoA	Standard Chart of Accounts
SNA	System of National Accounts
SoFPe	Statement of Financial Performance
SoFPo	Statement of Financial Position
TSA	Treasury Single Account
VfM	Value for Money

1.0 OBJECTIVES AND SCOPE OF THIS COURSE

Strengthening public financial management (PFM) in counties is one of the Government of Kenya's (GoK's) key drivers of improved governance. To this end,this course seeks to ensure that each county government optimises the administration and use of resources by adhering to the following main principles and framework laid out in:

- Section 201 of the Constitution of Kenya 2010 with respect to public finance. Principles include: openness and accountable; equity; prudence and responsible use of resources; and responsible financial management;
- Section 107 of the PFM Act of 2012 on fiscal responsibility. In particular, the Act specifies the need to: (1) ensure that recurrent expenditure does not exceed total revenue; (2) allocate 30% of the budget to development expenditure over the medium-term; (3) maintain expenditure on wages and benefits within set cap; (4) ensure that all borrowings are used to finance development expenditure; (5) maintain sustainable debt levels; (6) ensure tax rates and bases are predictable; and (7) practice fiscal prudence.

Accounting, recording and reporting activities are at the core of PFM. To this end, a comprehensive training curriculum has been developed for delivery to core PFM personnel in counties. The curriculum is to be delivered in eight sessions as shown in **Table 1**. It is intended to cover the following core accounting functions:

- The maintenance of records on revenue collected as well as spending authorisations at the appropriation and funds-release (warrant) levels;
- Recording of all transactions when they take place, applying the requisite controls, posting them to the relevant account and maintaining a list of transactions and associated data for control and audit;
- Maintaining ledger accounts to monitor and control actual expenditure and receipts against budget and warrant controls;
- Reporting on a monthly, quarterly and annual basis.

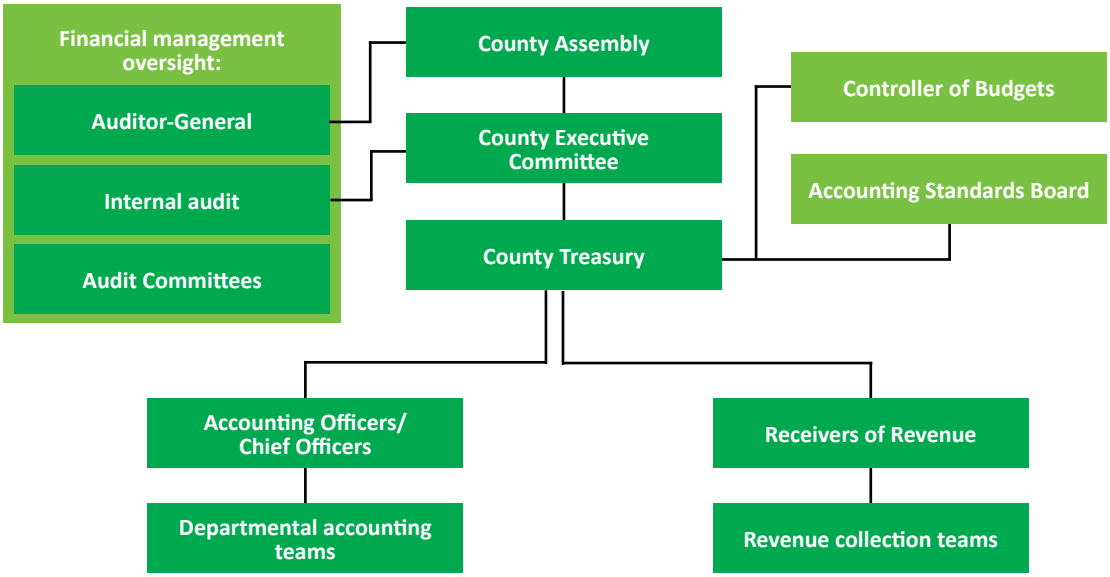
TABLE 1: STRUCTURE OF THE TRAINING

Session	Title	Objective
1	Institutional arrangements for PFM	To clarify roles and responsibilities of the various stakeholders
2	Accounting policies,documents and systems	To underscore the importance of: accounting policies and systems in enhancing the accuracy, completeness, relevance and reliability of county government's financial statements; and safeguarding accountable documents
3	Accounting for revenue	To ensure that participants understand the four main revenue sources
4	Cash flow forecasting	To promote an understanding of the principles of funds optimisation and sufficient liquidity
5	Accounting for expenditure	To enable participants to manage county resources economically, efficiently and effectively
6	Management and control of assets and liabilities	To ensure consistent procedures for accounting, management and control of assets and liabilities
7	Reporting requirements	To present internal and external reporting and information requirements
8	Auditing arrangements and County Assembly oversight	To create awareness about the purpose and scope of internal and external audits, and County Assembly oversight

1.1 Session 1: Institutional arrangements for PFM

The session, to be delivered using a PowerPoint presentation, will cover the institutional arrangements for PFM as specified in the Constitution of Kenya (CoK) of 2010, PFM Act of 2012 and County Government Act of 2012, and accompanying regulations and circulars. The institutional framework is illustrated in **Figure 1**.

FIGURE 1: OVERALL INSTITUTIONAL ARRANGEMENTS



The session will also cover the specific roles as summarised in **Table 2**. It will also be beneficial to ensure that participants appreciate that Chief Officers appointed by the County Executive Member (CECM) responsible for Finance are Accounting Officers, and as such are accountable to the County Assembly for moneys appropriated to their respective institutions.

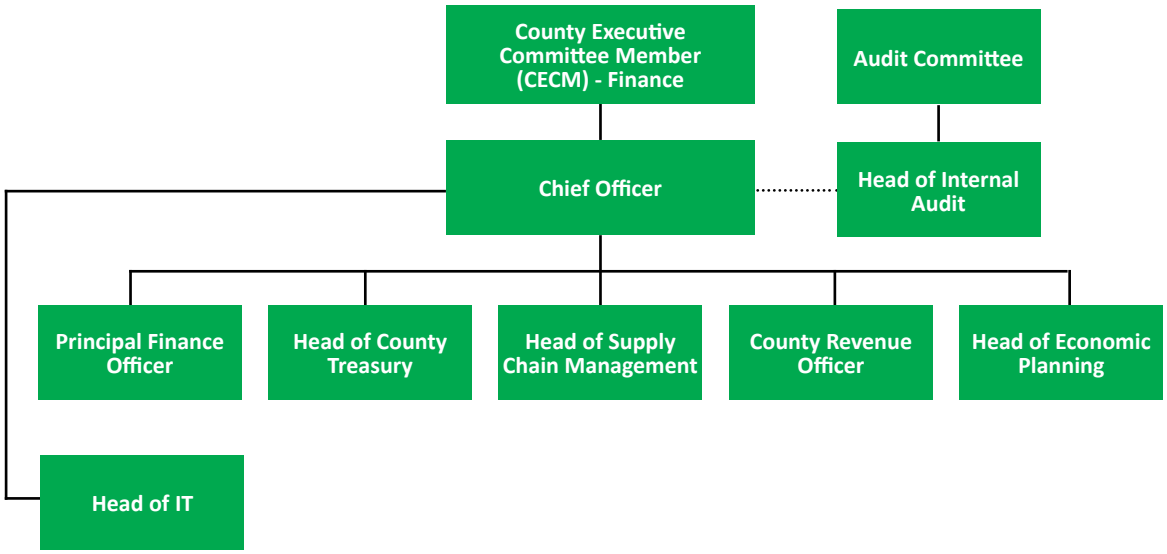
TABLE 2: ROLES AND RESPONSIBILITIES – A SUMMARY

Institution / officer	Roles and responsibilities
County Assembly	In addition to approving budgets, expenditure and loans, the Country Assembly maintains oversight with respect to public finances
County Executive Committee	Chaired by the Governor the committee reviews and approves budgets before submission to the County Assembly, enforces the principles and framework of public finance laid out in the Constitution and enforces fiscal responsibility
County Treasury	The County Treasury headed by a County Executive member for finance has overall responsibility for: resource mobilisation; management of the County Revenue and Emergency Funds; budget preparation, coordination and review; budget implementation; debt management; cash management; fixed assets and inventory; compliance with accounting standards; reporting; and capacity building
Controller of Budget (COB)	Oversees the implementation of budgets of both national and county governments. COB therefore monitors use of funds in-year and reports to Parliament

Accounting Officers	Accounting Officers are designated by the County Executive member responsible for finance. They must adhere to the PFM Act of 2012 and accompanying regulations, safeguard assets, ensure that all expenditure is duly authorised,furnish books of accounts and supporting documents and account for all appropriated moneys (see Annex A for a detailed description).
Receivers of Revenue	Receivers of revenue are designated by the County Executive member responsible for finance. They receive and account for revenues, and have powers to authorise public officers in the county to collect revenue. The County Executive member responsible for finance may appoint Kenya Revenue Authority as a collector of revenue (see Annex A for a detailed description).
Internal audit	Provides assurance on the internal control environment.
Auditor-General	Audits the financial statements, and may undertake Value for Money (VfM) audits.

As the County Treasury plays a pivotal role in guiding economic and fiscal management, including, accounting, recording and reporting, its organisational arrangements will also be presented (see **Figure 2**). What is more, most if not all of the functions in the County Treasury are replicated in other county government departments and institutions.

FIGURE 2: ORGANISATIONAL STRUCTURE OF THE COUNTY TREASURY



1.2 SESSION 2: ACCOUNTING POLICIES, DOCUMENTS AND SYSTEMS

The second session focuses on accounting policies, accountable documents and systems. Participants will be introduced to key concepts, standards, processes and structures through a PowerPoint presentation. Thereafter, they will: be taken through a sample set of accounting policies that form part of a county government entity's (CGE's) financial statements; and receive a demonstration of the Integrated Financial Management Information System (IFMIS).

1.2.1 Accounting policies

The selection of county governments' accounting policies is guided by International Public Sector Accounting Standard (IPSAS) 3: 'Accounting Policies, Changes in Accounting Estimates and Errors'. IPSAS 3 defines accounting policies as specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements. They should:

- Support relevant decision-making needs of users of the financial statements;
- Be reliable, enabling various financial statements to be fairly presented;
- Be applied consistently for similar transactions, other events and conditions.

A template to support the preparation of accounting policies is to be developed. The template essentially covers the following areas: ~~(1)~~ statement of compliance; ~~(2)~~ reporting entity; ~~(3)~~ presentation of financial statements; ~~(4)~~ revenue; ~~(5)~~ expenditure; ~~(6)~~ assets; ~~(7)~~ liabilities; ~~(8)~~ changes in net assets; ~~(9)~~ related party transactions; ~~(10)~~ key management personnel; ~~(11)~~ public/private partnerships.

1.2.2 Accountable documents

Accountable documents are forms and documents which when completed, may be exchanged or negotiated for money, goods or services. They include: local purchase orders, payment vouchers; petty cash vouchers; credit notes; receipts; inventory records; and blank cheques. Such documents must be securely stored and issued in consecutive sequence of serial numbers. Each county government department should maintain a register of accountable documents to record: the date they were received; the first and last serial number;the date they were issued; and the name and signature of the officer whom they were issued to.

Used accountable documents must be maintained for the periods specified in the county governments' PFM Regulations. Any damaged or spoilt accountable documents should be cancelled and a note made in the register. Lost accountable documents should be reported in writing to the Accounting Officer. The report should contain an explanation of how the loss occurred, and any remedial actions taken.

1.2.3 Books of account

Accountable documents are used as source documents for posting transactions to each county government department's subsidiary and primary books of account. All transactions involving a receipt or payment are recorded in the department's cash book, which is both a primary and subsidiary book of account. The corresponding double entries are posted to the relevant ledger accounts (e.g. sales and purchase ledgers).

The vote book is used to record and monitor a department's commitments[1], expenditure and remaining fund allocations. It should be reconciled on a quarterly basis to warrants issued by the County Treasury.

1.2.4 Standard chart of accounts (SCOA)

County Governments use the SCOA developed by the National Treasury. SCOA which comprises eight segments and 45 digits (see **Figure 4**), aims to:

- Ensure consistency between budget allocations and IFMIS codes;
- Ensure uniformity in accounting practice throughout government;
- Facilitate performance accounting by aggregation of costs on the basis of cost centres, programmes and functions of government;
- Address the financial reporting requirements of the users of the general purpose financial statements, in accordance with International Standards;
- Facilitate benchmarking of government's performance with similar governments, as SCOA is consistent with structures used elsewhere;
- Facilitate the integration of recurrent and development activities.

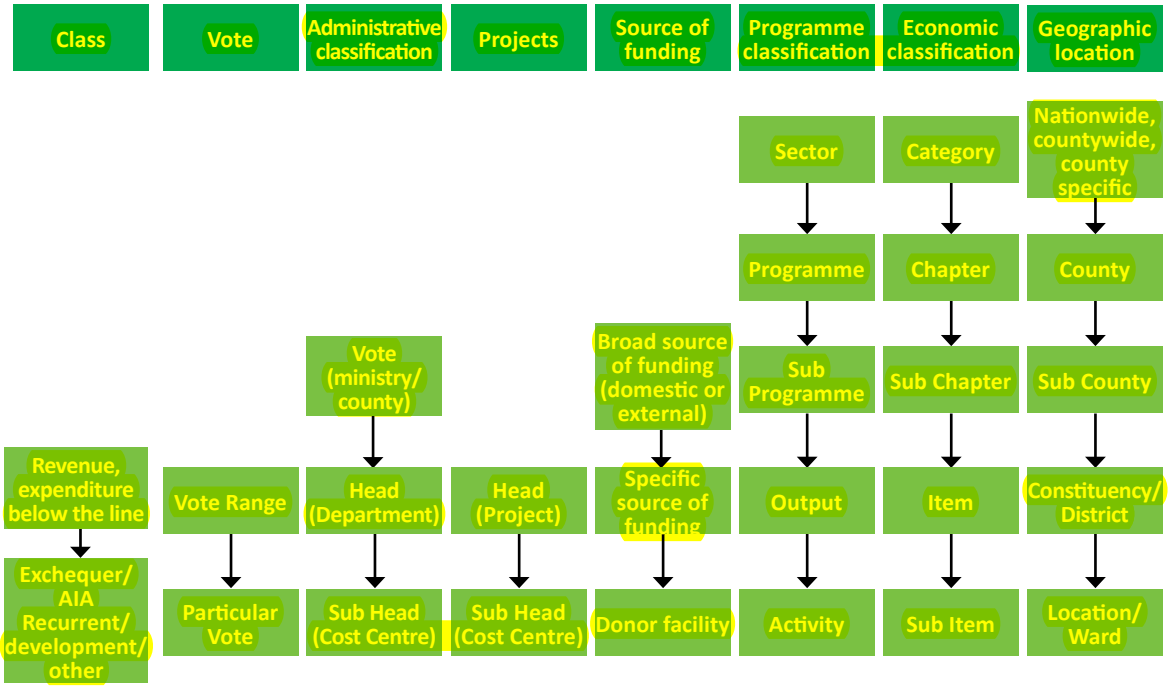
[1] *A commitment is an obligation to make future payments at the order stage/after contract.*

1.2.5 IFMIS

In order to facilitate management and control, information is an imperative. In the absence of this vital information, county government leaders/management will almost certainly make uninformed decisions on policy choices and programmes to be pursued, and cannot hold accountable those responsible for implementation of programmes. Both these limitations have the potential to undermine a county government's fiduciary responsibilities. Against this backdrop, county governments are expected to run the (see illustration in **Figure 3**). An IFMS normally comprises several customisable applications linked by a mutual set of development tools and standard features (e.g. graphics, drill-down capabilities, reporting, document routing). An IFMIS facilitates:

- Comprehensive, timely accurate and detailed capture and storage of all revenue, expenditure, asset and liability transactions;
- Enhanced management of budgets, through both profiling of budgets and, where appropriate, the adoption of fully integrated commitment accounting;
- Improved control of development projects, through flexible project based reporting linked to the control of disbursements;
- Effective control of the use of suspense accounts (advances and deposits), through automated checking of code validity, authorisation levels and funds availability;
- Timely, complete, accurate and reliable financial reporting, tailored to the needs of all users of financial information, at all levels;
- The detection and prevention of fraud and corruption through the ready availability of secure and up to date financial information and the compulsory authorisation of transactions;
- Full use of the features offered by modern, secure computerised systems, such as data capture and electronic funds transmission.

FIGURE 4: SCOA STRUCTURE



Source: GoK, 2012[2]

[2] *GoK (2012) Standard Chart of Accounts (SCOA) Manual. Nairobi: Ministry of Finance.*

At the moment, IFMIS operates with limited automatic interfaces. Manual and automated interfaces offer a connection between various applications. For example, many county governments currently use the Local Authority Integrated Financial Management System (LAIFOM) to capture own revenue transactions, and the Integrated Personnel and Payroll Database (IPPD) for human resource management and to maintain county government employment and the wage bill at agreed levels. There is also the electronic payment system, G-pay, operated by GoK and the Central Bank of Kenya (CBK), which uses the Real Time Gross

Settlement System. However, in many county governments, with the exception of G-pay, these systems do not have automated interfaces with IFMIS. As county governments develop their information systems strategies, it will be necessary to review the functionality of the three systems against medium-term operational needs. This review should cover an assessment of: ~~(1)~~ the role of existing Information, Communication and Technology (ICT) systems in supporting operations; ~~(2)~~ how human resources are managed in ICT as well as the skills and attitudes of users; and ~~(3)~~ the functionality provided by application systems, highlighting any deficiencies that exist. This assessment will enable county governments to chart options for way forward —including how their features could be enhanced or whether systems need to be replaced. The ICT strategy should also specify the: ~~(1)~~ application architecture capturing key software requirements; ~~(2)~~ integration architecture indicating touch-points/ interfaces addressing the internal integration between applications and external integration with other GoK institutions/the public; and ~~(3)~~ infrastructure architecture required including networks and network based services, servers and storage, security etc.

1.3 SESSION 3: ACCOUNTING FOR REVENUE

This session, which will be delivered by way of a PowerPoint presentation and group work discussions, centres on county governments' four main sources of revenue: exchequer releases; funds from development partners; own revenues; and borrowings.

County governments operate the following accounts at CBK: County Revenue Fund; and County Government Operational Account. They also maintain accounts for revenue collections, operations and imprests with commercial banks.

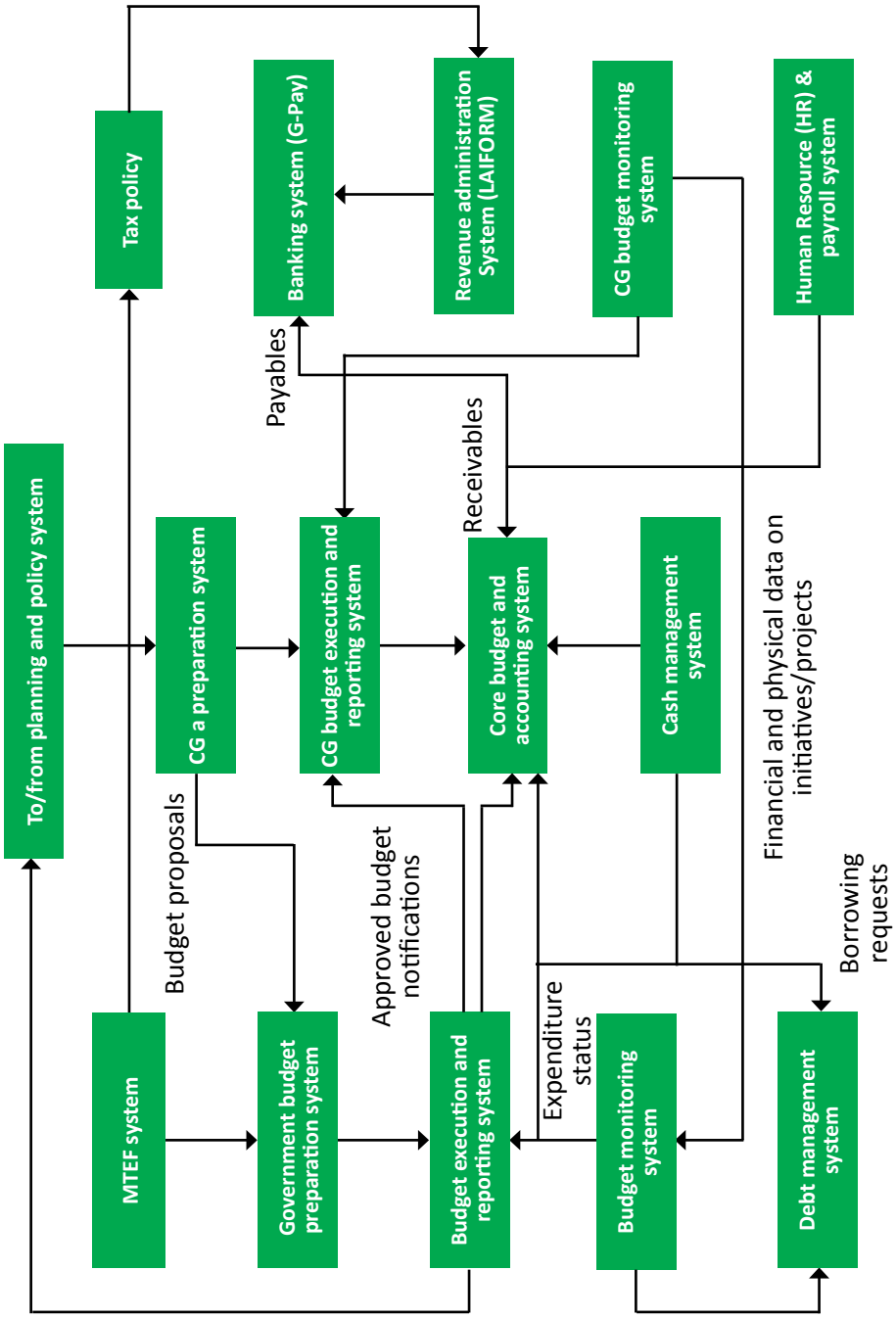
1.3.1 Exchequer releases

The estimates of each county should be within the ceiling determined by the formula for sharing national revenue which is determined on the basis of: population (45%); basic equal share (25%); poverty (20%); area (8%); and fiscal responsibility (2%). Furthermore, the Commission for Revenue allocation has identified a list of marginalised counties[3] who receive an additional 0.5% of all revenue raised by national government. The minimum amount of funds released to county governments by national government, is determined by computing 15% of the revenue collection amount in the audited accounts of the previous year (as per Section 203 of the Constitution).

Estimates are authorised by the County Assembly and assented by the Governor. Approved estimates form part of the annual Appropriations Act. The Office of the CoB authorises the withdrawal of funds from the County Revenue Fund on receipt of a grant of credit from the County Treasury. Each Governor must then issue a Governor's warrant to the CECM for Finance. The Governor's warrant gives the CECM for finance authority to withdraw funds from the County Revenue Fund (Exchequer account). Thereafter:

[3] *Marginalised counties are defined as those which have: widespread poverty and insecurity; food insecurity; water scarcity for human and livestock use; impassible roads and hostile terrain; makeshift medical facilities; and/or lack of access to the national electricity grid.*

FIGURE 3: A SCHEMA OF AN IFMIS



- The budget is broken down into the various SCOA classifications;
- The amounts appropriated are apportioned over time in a cash flow projection;
- The County Treasury communicates spending limits to various departments via warrants;
- The County Treasury transfers appropriated funds to a treasury single account or the relevant department accounts[4] from the County Revenue Fund (Exchequer Account) on receipt of a quarterly cash disbursement schedule prepared by each Accounting Officer;
- If a county government department deems it necessary to switch budgetary line items (vire), the guidance on virements set out in section 154(2) of the PFM Act should be followed. The approval of the relevant CECM must be obtained, and virements reflected in a supplementary budget. However, excessive use of virements and supplementary budgets can indicate poor budget discipline;
- Where additional services must be delivered or emergency funds needed, the relevant county government department must prepare a supplementary budget for sign-off by the relevant CECM, and thereafter approval by the County Assembly, the County Treasury may make additional transfers;
- Appropriations are made on an annual basis, and therefore Accounting Officers must ensure that any unspent funds at the year-end (30 June), are transferred back to the County Revenue Fund. A statement of refund should be prepared for each transfer.

Section 134 of the PFM Act provides for exchequer releases when there is a delay in passing the Appropriations Act. In particular, the County Assembly can authorise the CECM for finance to withdraw funds from the County Revenue Fund by issuing a provisional warrant amounting to a maximum of half of the total budget estimate. Under this scenario, the CECM for finance issues the County Treasury with a general warrant.

~~1.3.2~~ Funds from development partners

County governments are also eligible to receive funds from development partners in the form of grants. Typically grants are earmarked for specific projects and programmes that are aligned with national priorities and county government plans. Each grant is likely to have specific conditions attached (as specified in a bilateral agreement or memorandum of understanding) to it in the form of performance benchmarks and/or the need to operate a dedicated project/programme account and/or specific reporting requirements. County governments should aim to channel such funding through the County Revenue Fund. This would enable the County Treasury to invest idle balances in interest-bearing accounts.

Nevertheless, where a county government department receives direct funding from a development partner as opposed to disbursements through the county revenue fund, such amounts are referred to as Appropriations-in-Aid (A-I-A). Gross appropriations are amounts authorised to be spent on a program. Net appropriations are the amounts that can be withdrawn from the relevant bank account.

[4] *Under a single treasury account system, departmental accounts would be 'virtual' and reflected as such on the IFMIS.*

~~1.3.3~~ Own revenues

Counties own revenues are generated from property rates, entertainment taxes, levies, user fees and charges as per Article 209(3) of COK 2010. User fees and charges should be clearly linked to services delivered and should be reasonable. The COK is also explicit that any additional taxes must be approved by Parliament, and that they do not prejudice "national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour" Article 209(5).Also, Article 201 of the Act requires that the imposition or variation of a tax must be authorised by law. Some county governments have already drawn up bills or passed finance/ tax laws, without public participation. This issue is under review.

The County Treasury may allow the institutions that collect own revenues to use amounts received as A-I-A. Where such an arrangement is not in place, revenues collected must be banked in agreed commercial bank accounts for onward transfer to the County Revenue Fund. The Head of the County Treasury should ensure that amounts deposited in commercial banks are transferred to the County Treasury at least once a week.

For all these tax and non-tax revenue assignments, there is need to institutionalise four elements to enable efficient and effective administration: ~~(1)~~ identification/registration; ~~(2)~~ billing/filing; ~~(3)~~ declaration; and ~~(4)~~ payment/performance. These elements are underpinned by the following good practices (see example in **Table 3**):

- Processes and procedures are fair and transparent, and widely disseminated;
- Billing and collection procedures are robust;
- County government encourages compliance;
- County government has a strong enforCECMent function.

The session will also cover the internal control environment with respect to own revenues. In particular:

- Segregation of duties with respect to the authorisation, recording and custodian functions;
- The need for regular (daily) processing of cash receipts and accounts receivables;
- The importance of regular (daily) deposits of funds;
- Account reconciliations;
- Use of automated systems;
- Physical security procedures;
- The case for regular internal audits;
- The need for management and internal audit action to address suspicious transactions and/or fraud.

1.3.4 Borrowings

Article 212 of the COK allows county governments to borrow funds on the conditions that they are: ~~(1)~~ guaranteed by the national government; ~~(2)~~ approved by the County Assembly. Amounts borrowed should only be used to meet development expenditure such as infrastructure. A range of lending instruments are likely to be used including external and domestic loans, securities and bonds. On the domestic front, the Capital Market Authority intends to address devolution funding needs in collaboration with county governments so that by the end of 2023 they are "are able to meet 30% of their financing needs through capital markets".[5]

[5] *Capital Markets Authority (2013) Capital Market Master Plan: A Vision 2030 Flagship Project 2014-2023. CMA.*

TABLE 3: PRINCIPLES APPLIED TO THE SINGLE BUSINESS PERMIT (SBP) IN NAIROBI CITY COUNTY

Session	Details
Processes and procedures are fair and transparent, and widely disseminated	This permit is obtained from Nairobi City County. It is issued to businesses that operate within the jurisdiction of Nairobi City County. The charges depend on the type of business being operated. For different kind of businesses, get the codes by viewing or downloading on the current Fees and Charges at *http://www.nairobi.go.ke/images/pdf/new_fees_and_charges.pdf*. The license is paid annually. For new businesses, application fee of Ksh. 200/= is paid and thereafter, the face value of the permit is charged annually if one renews his/her permit between 1st September current year and 31st March the following year for which the license relates.
Billing and collection procedures are robust	A client who intends to apply for a new SBP or to renew an existing one is required to obtain **BR–1 form** from Ward office. Once the relevant officers has reviewed the application, a bill/invoice is raised. This can be paid at the cash office where the taxpayer receives and invoice, and subsequently a signed and stamped permit. Taxpayers can authenticate payments by texting receipt numbers. There are plans to enable payment of SBP via M-pesa.
County Government encourages compliance	The SBP obtained ensures smooth running of businesses without interruption. It is a requirement for loan from the bank. It is a requirement for tender in government institutions. It is a requirement for those applying for a liquor license. It is a requirement for any trader who operates M-pesa transactions from Safaricom. It is a requirement for application of visas by Embassies for business people.
County Government has a strong enforCECMent function	Any payment made from 1st April every year by businesses with existing accounts attracts a penalty of 3% per month compounded from the due date.

Source: http://www.nairobi.go.ke/index.php?option=com_content&view=article&id=165&Itemid=296

~~1.4~~ SESSION 4: CASH FLOW FORECASTING

The session will be delivered using a PowerPoint presentation. Participants will also be given an opportunity to prepare a cash flow forecast in Excel. The scope of the session includes the following themes:

- Definition of cash flow forecasting—used to predict weekly and monthly cash flows primarily to manage liquidity so that a county government can meet its financial obligations, and aid investment decisions;
- The characteristics of a robust forecast—to inform management about how much cash is available, when and for how long;
- Budgets, procurement plans, actual expenditure and receipts, and accounts receivables and payables—to be the primary inputs in cash flow forecasts;
- Preparing, updating and using cash flow forecasts—a cash flow forecasting worksheet will be shared with participants, and used to work through a practical example

~~1.5~~ SESSION 5: ACCOUNTING FOR EXPENDITURE

This session covers accounting for expenditure during budget execution. It will be delivered using a PowerPoint presentation, an IFMIS demonstration and group work to confirm understanding of the session. The key areas that constitute this session are elaborated on below.

Each CGE incurs recurrent and development expenditure throughout the year. Recurrent expenditures are incurred by CGEs in their day to day operations and include for example: compensation to employees; payments for goods and services; direct charges; and interest on capital assets. Capital or development expenditures are made to acquire tangible capital assets and software and other intangible assets. However, in practice, capital expenditures are associated with development outcomes, which are not necessarily identified with tangible assets. So for example, some expenditures in education such as teachers' salaries and exercise books may not be identified with clearly tangible assets, but are associated with outcomes such as better informed and knowledgeable and productive population. Therefore, such expenditures sometimes find their way into the development budget, especially when they are funded by development partners.

~~1.5.1~~ Personnel expenditure

The appointment of all county officers must be approved by the respective county Public Service Board (PSB), established under section 45 of the County Government Act of 2012. Approval letters received by county departments form the basis on which to open individual personal files. Each personal file should contain an 'Application for Employment Form' and certificates and testimonials. Each county government department is responsible for populating the IPPD with the information contained in these documents, issuing each appointee with a unique payroll number from the system, and providing the appointee with a letter of appointment (with a reference to the PSB's letter of approval). All personal and payroll details are reflected in each employee's IPPD data sheet. Increments on salary points are automatically effected on IPPD. Whilst the employee is in service, it is his/her responsibility to communicate any changed circumstances (e.g. resulting from marriage, the birth of children or the attainment of additional qualifications) to his/her employer in writing.

The salaries, allowances and/or arrears of CGE staff are processed on the IPPD at every month end. The salaries section within the county is responsible for generating the payroll by bank product (i.e. each employee's name, payroll number, bank, branch, account number and amount), and a bank payroll reconciliation by bank and branch. This information is provided to the IFMIS operators in both hard and soft copy. Salaries are paid directly into staff bank accounts. Each employee can access his/her payroll details through the web-enabled Government Human Resource Information System. Those in supervisory positions within a county government department, are responsible for notifying the salaries section of any: promotions; and stoppages in salary payments as a result of a staff member's death, absence without leave, dismissal or retirement.

Where a county government has concerns about the integrity of its payroll, a common intervention is to conduct a headcount and verification exercise. It involves: comparing the county government's physical headcount with staff lists generated from IPPD; and obtaining documents to prove that staff appointments are regular—including letters of appointment and promotion, payslips, education certificates, testimonials and letters from each employee's immediate supervisor. Head counts can be costly, and therefore should be justified and provided for in budget estimates.

~~1.5.2~~ *Expenditure on goods, works and services*

CGEs process requests for expenditure throughout the year. The process entails the following:

- Once a need for goods/services is identified, raising a purchase requisition on IFMIS or manually;
- Generating a purchase order for goods / contract for works, bulk purchases and services in adherence with public procurement regulations. The purchase order must be signed by an officer with authority to incur expenditure (AIE)—an AIE holder;
- Committing expenditure (if the good/service to be procured is planned for/justified), and subject to availability of funds;
- Accepting the goods or services delivered if they meet specifications/terms and conditions in the purchase order/ contract;
- Matching the supplier invoice with supporting documentation (e.g. purchase order, goods received note, certificate of completion of works)—this signifies payment authorisation;
- Raising a payment voucher (PV). The IFMIS only generates a PV if funds have been committed;
- Authorising PVs and drawing up cheques or effecting an electronic transfer;
- Reconciling bank statements to the cash book on a monthly basis;
- Returning unspent balances to the County Revenue Fund on 30 June every year.

Accounting Officers must ensure that there is clear segregation of duties amongst their staff. Priority should be accorded to the following areas:

- Withdrawals and deposits of cash;
- Approving purchases/payments and issuing cheques;
- Management and payment of salaries, stores etc.;
- Reviewing/receiving bank statements and reconciling bank statements with cashbooks.

~~1.5.3~~ *Expenditure outside IFMIS*

It is a common practice for county governments to issue standing imprests to their departments and institutions such as hospitals. The process commences when the requesting institution submits an Imprest Warrant. Thereafter, subject to budget and funds availability, the County Treasury transfers funds from the County Revenue Fund to the relevant institution's imprest account. The relevant institution incurs approved expenditure, and accounts for expenditure in a manually maintained cash book and retains supporting documentation such as invoices and payment vouchers which are used to prepare journals to post transactions on IFMIS.

~~1.5.4~~ *Transfers to grant-aided institutions*

The County Treasury makes monthly transfers on behalf of its various departments to grant-aided institutions such as county health facilities, village polytechnics and home craft centres. Such transfers take the form of conditional and unconditional grants. The transfer is initiated when the county department's Finance Officer issues an AIE to the relevant grant-aided institution in the form of a letter. For those departments on IFMIS, the transfer is effected when amounts are moved from the departmental to the grant-aided institution budget holder's account. Transfers and subsidies are recognised as an expense when the final authorisation for payment is effected on the system.

~~1.5.5~~ *Monitoring expenditure*

CGEs are responsible for collecting and analysing data on budget activities. The primary aims of budget monitoring are to: ascertain whether budget objectives have been or are likely to be met; and take remedial action to improve performance. In addition to the internal monitoring function, the COB is mandated by law to monitor county governments' recurrent and development expenditures against budget, by reviewing periodic reports (see Session 6), and through physical verification of sample projects and programmes.

~~1.6~~ SESSION 6: MANAGING AND CONTROLLING ASSETS AND LIABILITIES

This session aims to enable CGEs to better manage their assets and liabilities. In addition to a PowerPoint presentation, participants will gain hands on experience in the management of a fixed assets register in Excel. The remainder of this section sets out the key areas to be covered.

~~1.6.1~~ *Financial assets*

A financial asset is defined as a county government's cash asset or contractual right to receive cash/ another financial asset resulting from the sale of goods/provision of services/prepayments or an equity instrument. Financial assets include amounts held in county government bank accounts, cash at hand, short-term (up to three month investments) and receivables—and are recognised at fair value when realised. Forecast transactions and guarantees are not financial assets.

It is important for county governments to cost effectively managing cash flows and balances to ensure that all obligations are met in a timely fashion, and that idle balances are invested by the CBK. To this end, it is recommended practice to integrate county government accounts into a treasury single account (TSA). "A TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources".[6]

Receivables include minor unappropriated advances, suspense and clearing accounts and trade and staff debtors. The extent to which receivables can be collected is assessed every [three] months, and the necessary provisions made.

Staff debtors commonly arise from unretired imprests. County government staff can apply for imprests to meet travel, accommodation and workshop/seminar expenses. The process is as follows:

- Applications are approved by warrant holders;
- The required funds are committed on IFMIS against the approved budget;
- Funds are issued and imprest holders are recorded as debtors on IFMIS (Dr Staff Debtor X and Cr Cash X);
- On completion of their activities, imprest holders should account within 48 hours for amounts advanced in full. All imprests should be retired at the financial year end (Dr Relevant expense account/Cash X and Cr Staff Debtor X);
- Amounts outstanding may be recovered from salaries or other emoluments (Dr Staff Salary Account X and Cr Staff Debtor X).

[6] *Pattanayak, S. and Fainboim, I. (2010) Treasury Single Account: Concept, Design and Implementation Issues. IMF. WP/10/143.*

~~1.6.2~~ *Inventory*

Each CGE should hold consumable stock for use in operations in stores. All consumable stocks, which are expensed on purchase (Dr Consumables X and Cr Cash X), must be recorded on bin cards and in store ledgers. Storekeepers ensure that items in stores tally with details recorded in ledgers. Before a storekeeper issues consumable stock, he/she must receive a stores requisition form duly approved by an authorised officer. In the event of a loss of consumable stock item, the storekeeper should prepare and submit a report to the Head of Department/Accounting Officer. All stores are subject to an annual stock-take.

~~1.6.3~~ *Fixed assets*

~~1.6.3.1~~ *Definition of fixed assets*

Fixed assets constitute property, plant and other equipment held for more than one accounting period for use by a CGE in the delivery of services and for administrative purposes. Accounting for fixed assets is guided by standards of generally accepted accounting practice. In this regard, a CGE should apply the criteria shown in **Figure 5** to identify fixed assets.

Tangible capital assets are non-monetary (financial) assets having physical substance that are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets. They also: have useful economic lives extending beyond the accounting period; are used on a continuing basis; and are not for resale in the ordinary course of operations.

Intangible capital assets are identifiable non-monetary (financial) assets without physical substance that: represent recognisable rights to future economic benefits; may be purchased or internally generated; can be sold or acquired separately from other assets (e.g. patents, databases and concessions); and are sometimes incorporated within a physical asset such as knowledge contained in a book or software written on a CD.

~~1.6.3.2~~ *Managing the fixed assets register*

It is imperative for every CGE to safeguard and maintain its assets as a means for ensuring that they are properly acquired, utilised and disposed. To this end, every CGE must maintain a fixed assets register (see **Annex B: B3**). All new acquisitions should be recorded in the register. To facilitate the process of populating the register with assets acquired in the past, each CGE should locate and record the particulars of each fixed assets. All moveable fixed assets (e.g. furniture and equipment), should be tagged with bar codes to facilitate their identification. Each bar code should be unique. The location and condition of each asset should be confirmed annually through a physical inspection.

If an item of property, plant or equipment satisfies the criteria presented in Figure 5, its value is recorded and reported at cost. The cost price is equivalent to the acquisition price as well as attributable costs including but not limited to initial delivery, import duties, installation and professional fees. Where the cost cannot be determined accurately, the asset is stated at a nominal value unless the fair value can be reliably estimated (**see Figure 6**).

All proposals to dispose of assets should be made to Accounting Officers through the relevant CGE Disposal Committee. Each Accounting Officer must communicate his/her decision in writing. Authorised disposals are strictly carried out in accordance with regulations. The fixed assets register must be updated once the transaction is complete.

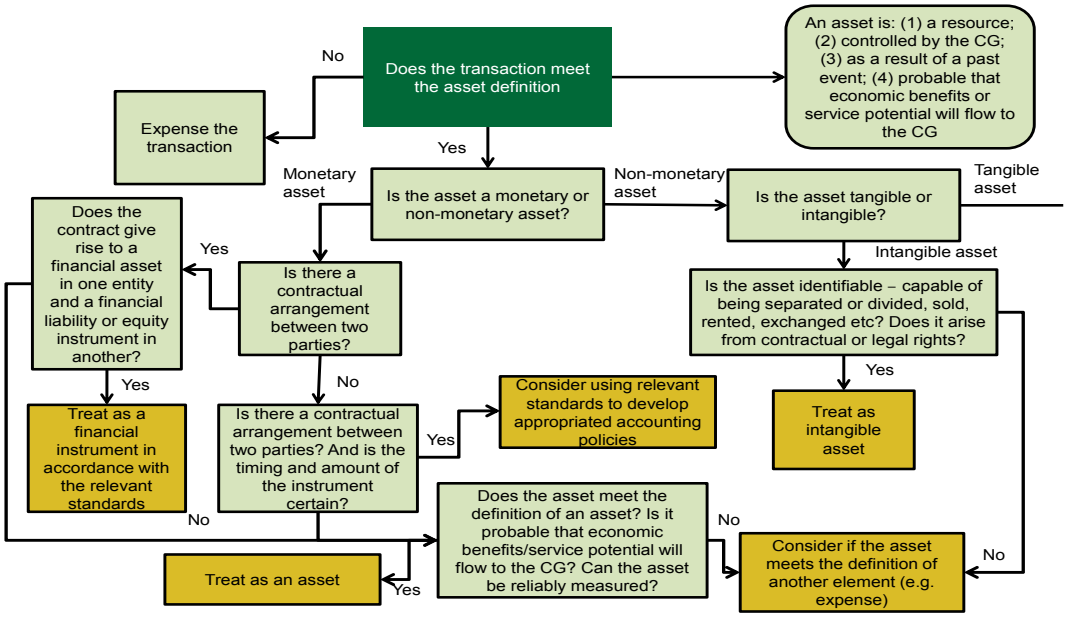
As CGEs use a modified cash basis of accounting, fixed assets are not incorporated in their statements of financial position. Rather they are disclosed in the notes to the accounts. The note should report the following:

- Opening balance (last fiscal year's closing balance);
- Additions for the year;
- Disposals during the year;
- Closing balance.

1.6.4 Financial liabilities

A financial liability is defined as a county government's obligation to pay cash or another financial asset. A financial liability arises when a county government department receives goods/services that are invoiced but not paid for or receives advance payments (e.g. for fixed assets) or has not paid payroll costs/ its tax obligations. Financial liabilities are recorded at market value when they become payable. Forecast transactions and guarantees are not financial assets.

FIGURE 4: SCOA STRUCTURE



Source: Adopted from Republic of South Africa, GRAP Implementation Guide for Municipalities

1.6.5 Contingent liabilities

Most county governments inherited pending billings from various suppliers and contractors. It is therefore suggested that the CECM for Finance appoints a committee to quantify contingent liabilities,[7] by reviewing schedules of payables (see **Annex B: B1**) for an agreed period and authorising the list of suppliers to be paid. Thereafter:

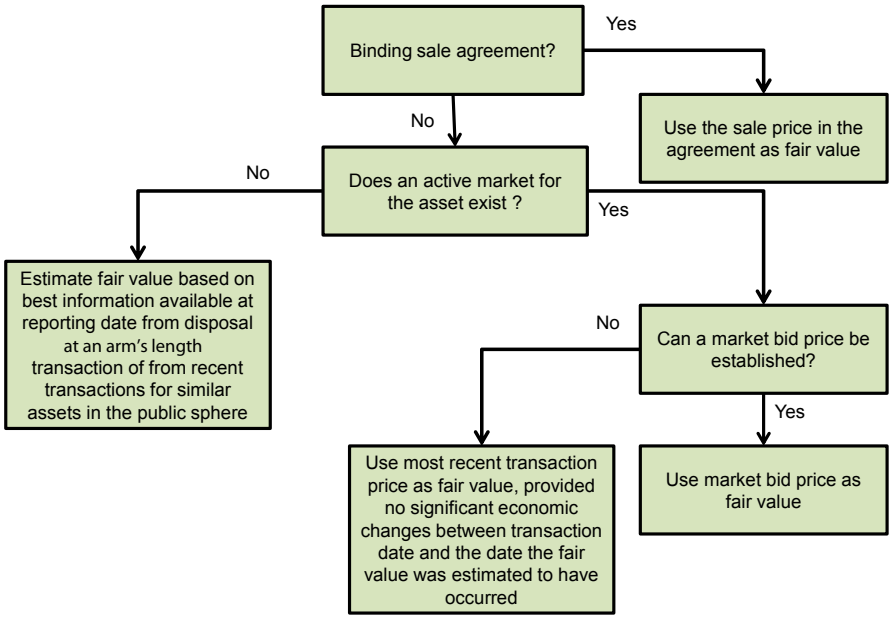
- The Kenya National Audit Office (KENAO) should be requested to audit pending bills to give assurance on their authenticity. When recognised the liability should be recorded as follows: Dr Expense account and Cr Payables account X;
- An assigned officer in the County Treasury should draw up a schedule for payment to be included in following years' budget estimates and/or issue market-negotiable titles;
- On payment of any outstanding debt, the following entries should be posted on IFMIS: Dr Payables account X; and Cr Cash X.

[7] *A contingent liability is an obligation arising from past events, and is not recognised by the CGE as the amount owed is not known. See IPSAS 19 for more details.*

1.6.6 Borrowings

Long-term debts are not recorded in a county government department's balance sheet. However, every county government must prepare a statement of debt guaranteed by National Government. To this end, each County Treasury should maintain a record for each debt which contains: the purpose of the debt; the original guaranteed capital amount; opening balances; draw-downs during the year; repayments cancelled/ reduced/ released during the year; revaluations; closing balances; guaranteed interest for year; and any realised losses which are not recoverable.

FIGURE 6: DECISION TREE TO GUIDE THE IDENTIFICATION OF A FIXED ASSET



1.7 SESSION 7: REPORTING REQUIREMENTS

Articles 122, 124, 158, 163, 164 and 166 of the PFM Act of 2012 specify both quarterly and annual reporting requirements. It is also recommended that to facilitate stewardship, CGEs generate monthly management reports particularly on appropriations. This session covers the characteristics of quarterly and annual reporting. It will be facilitated via a presentation and the review of worked examples.

1.7.1 Budget execution reports

Each county government department must produce a budget execution report in the form of appropriation accounts on a monthly and quarterly basis. The appropriation account is essentially a budget against actual expenditure comparison statement which applies the same format, terminology, and classifications (e.g. economic and programme) as the budget estimates (appropriated amounts). Appropriation accounts provide a useful basis for monitoring and controlling expenditure. Every accounting officer is responsible for ensuring that monthly and quarterly appropriation accounts are submitted to the County Treasury with 15 days of the month and quarter end.

1.7.2 Financial reports in-year

In addition to the budget execution reports described above, the PFM Act of 2012, specifies a number of reports to be produced at the end of every quarter. The format of these reports is prescribed by the Public Sector Accounting Standards Board. **Table 6** lists the reports required and presents a reporting schedule.

TABLE 6: QUARTERLY REPORTING SCHEDULE

Report name	Institution responsible for preparation	Submission to	Deadline for submission
Debt stock (PFM Act Section 122)	County Treasury	County Assembly	7 days after each quarter end
Revenue statement (PFM Act Section 158(3))	Receiver of Revenue	County Treasury and Commission on Revenue Allocation (CRA)	15 days after each quarter end
Quarterly report of CGE (PFM Act Section 166 (1), (2) and (3))	Accounting Officer	County Treasury	15 days after each quarter end
Consolidated quarterly report (PFM Act Section 166)	County Treasury	County Assembly and Commissioner of Budget	1 month after each quarter end
Additional reports (PFM Act Section 124)	County Treasury	County Assembly	Within 14 days of request

PFM Act- section 166- Quarterly report must be published and publicised.

1.7.3 Annual reports

Annual financial statements need to be compliant with standards prescribed by the Public Sector Accounting Standards Board. Nonetheless it is important that financial statements satisfy the requirements of the PFM Act. **Table 7** sets out the reporting timetable.

TABLE 7: ANNUAL REPORTING SCHEDULE

Report name	Institution responsible for preparation	Submission to	Deadline for submission
Debt stock (PFM Act Section 123 (2a))	County Treasury	County Assembly, CRA and Intergovernmental Budget Economic Council	28 February each year
Revenue statement (PFM Act Section 165)	Receiver of Revenue	County Treasury and CRA	4 months after each year end
Annual report of CGE (PFM Act Section 163 (1) and (2))	Accounting Officer	County Treasury and KENAO	3 months after each year end
Consolidated annual report (PFM Act Section 163)	County Treasury	County Assembly, Commissioner of Budget and KENAO	4 months after each year end

See PFM Act-sections 123(3) and 163(3)- debt stock and consolidated reports should be published and publicized

What makes a Good Report?

- Information is factual, accurate, specific and relevant.
- Information is presented in a simple and user-friendly way-for instance, there should be a logical flow of information.

Other important characteristics:

- Understandable-keep financial statements simple
- Relevant-provide sufficient information to enable users to evaluate past, present or future events and identify past anomalies
- Materiality-ensuring that there are no material omissions or misstatements.
- Reliability-information provide in the financial statements is accurate.

1.8 SESSION 8: AUDITING ARRANGEMENTS AND COUNTY ASSEMBLY OVERSIGHT

This session is intended to promote awareness about auditing and oversight arrangements. As such it will consist of a short presentation, and question and answer session on the role of internal auditors, KENAO and County Assembly Committees. It is proposed that the Chief Internal Auditor and Auditor General or their representative attend this session to present their roles and field any questions.

1.8.1 Internal audit

In summary, each county government's internal auditors have an important role to play. In particular, they report on the:

- Adequacy and effectiveness of the CGE's internal control system;
- Adequacy and effectiveness of the entity's risk management;
- Adequacy and effectiveness of governance processes;
- Likely causes of any weaknesses observed, implications and agreed remedies.

1.8.2 Audit Committees

An Audit Committee is generally independent of the management team, and on the whole consists of external appointees with skills, knowledge and experience in financial management, governance, assurance, risk management and the public sector. Each county government department's Audit Committee plays a key role in ensuring that it is well governed and adheres to both international and national accounting and auditing standards. In this regard, a well-functioning Audit Committee assists management in discharging its accountability responsibilities which are to: safeguard assets; operate adequate systems and controls; and prepare statutory fiscal reports. It typically meets on a quarterly basis. These responsibilities should be articulated in Terms of Reference drawn up by each Accounting Officer. Each Audit Committee should use its Terms of Reference to draw up an annual work plan and timetable for meetings. The Audit Committee should liaise with management, internal auditors and external auditors.

1.8.3 External audits

KENAO has responsibility under law to undertake external audits in accordance with the International Standards on Auditing. This office:

- Gives a disclaimer, adverse, qualified or unqualified opinion;
- Draws the attention of users to matters that relate to his/her responsibilities in the audit of the financial statements;
- Draws the attention of users of financial statements to findings that if not attended to in future may form a part of the audit opinion;
- Highlights any special investigations undertaken during the year and their outcome.

KENAO also issues a management letter to each county government department. A management letter highlights internal control and operational weaknesses identified during the audit, and recommends remedial actions. The management team in each county government department is given an opportunity to comment on every finding, including whether or not it concurs and any further actions to be taken.

1.8.4 County Assembly Accounts and Investment Committee

The County Assembly Accounts and Investment Committee has responsibility for examining county government accounts, particularly those reporting on appropriations granted by the County Assembly to meet public expenditure. It also follows up on reports issued by KENAO.

It is good practice for each CGE to maintain a record of how if at all they have tackled audit queries. A template for such a record is presented in **Table 8**, and should be reported to the County Assembly Accounts and Investment Committee on request or on a periodic basis.

TABLE 8: A SAMPLE RECORD ON TREATMENT OF AUDIT QUERIES

Date of audit report	Issue	Recommendations	Management's resolution	Implementation progress

Annex A: Letter of designation – Accounting Officer and Receiver of Revenue

REPUBLIC OF KENYA

THE …… TREASURY

Telegraphic Address: 22921
FINANCE-NAIROBI
Fax No.: 310833
Telephone: 252299
When replying please quote

THE TREASURY
P.O. Box 30007-00100
NAIROBI
KENYA

REF: ……

17th July, 2013

Dr. / Mr. / Mrs. / Ms. ……
Chief Officer
County Health Department
P.O. Box ……
KITUI.

LETTER OF DESIGNATION
ACCOUNTING OFFICER

1. In accordance with the powers conferred on the County Executive Committee Member for Finance by Section 148 of the Public Finance Management (PFM) Act, 2012 you are hereby designated the Accounting Officer for Vote …… for the financial year **2013/2014**.

2. Pursuant to Section 149 (1)of the PFM Act, 2012, as the Accounting Officer you shall be accountable to the County Assembly for ensuring that the resources of your **County …….. Department / entity** are used in a way that is:-

   (a) lawful and authorized; and,

   (b) effective, efficient, economical and transparent.

3. Your attention is further drawn to Section 149 (2) of the PFM Act, 2012 that provides, in carrying out your responsibilities under Section 149 (1) of PFM Act, 2012 you shall do the following:

   (a) ensure that all expenditure made by the **County …….. Department / entity** complies with Section 149 (1) of the PFM Act, 2012:

(b) ensure that financial and accounting records kept by your **County …….. Department / entity** complies with the PFM Act, 2012;

(c) ensure that all financial and accounting records kept by your **County …….. Department / entity** in any form, including in electronic form are adequately protected and backed-up;

(d) ensure that all contracts entered into by the **County …….. Department / entity** are lawful and are complied with;

(e) ensure that all applicable accounting and financial controls, systems, standards, laws and procedures are followed when procuring or disposing of goods and services and that, in the case of goods, adequate arrangements are made for their custody, safeguarding and maintenance;

(f) bring any matter to the attention of the County Executive Committee Member responsible for your **County …….. Department / entity**, if in your opinion, a decision or policy or proposed decision or policy of the **County …….. Department / entity** may result in resources being used in a way that is contrary to Section 149 (1) of PFM Act, 2012.

(g) prepare a strategic plan for your **County …….. Department / entity** in conformity with the medium term fiscal framework and fiscal policy objectives of the County Government;

(h) prepare estimates of expenditure and revenues of your **County …….. Department / entity** in conformity with the strategic plan referred to in paragraph (g);

(i) submit the estimates of your **County …….. Department / entity** which is not a state corporation to the County Executive Committee Member for Finance;

(j) submit the estimates of a **public entity** which is a state corporation to the Cabinet Secretary responsible for your **County …….. Department / entity** who, after approving it, shall forward it to the County Executive Committee Member for Finance.

(k) prepare annual financial statements for each financial year within three months after the end of the financial year, and submit them to the Auditor-General for audit, and forward a copy to the County Treasury, National Treasury and the Controller of Budget;

(l) take appropriate measures to resolve any issues arising from audit which may remain outstanding;

(m) provide information to the relevant authority on any fraud, losses, or any violation of Section 149 (1) of the PFM Act, 2012 and an explanation for the actions taken to prevent a similar problem in the future;

(n) provide the County Treasury, National Treasury and any other office, where relevant, with any information it may require to fulfill its functions under the Public Finance Management Act, 2012; and

(o) carry out such other functions as may be specified by the County Executive Committee Member for Finance.

4. In addition, Section 149 (3) of the Public Finance Management Act, 2012 requires that if the concerns referred to in Section 149 (2)(f) are not adequately addressed by your County Executive Committee Member, as the Accounting Officer, you shall bring those concerns to the attention of County Assembly.

5. Further, in your responsibilities as the Accounting Officer, you should take into account the following:-

   a) As the Accounting Officer you will sign the Financial Statements, and thereby make yourself responsible for their correctness. As the Accounting Officer, both County Assembly and the County Treasury will regard you as primarily responsible for the balance in the custody of your **County …….. Department / entity** or Accounting Unit although you yourself may hold no part of it. It should be emphasized that the responsibility for the proper conduct of financial business cannot be delegated to a subordinate officer.

   b) The Constitution and the Public Finance Management Act, 2012 stresses your personal responsibility as the Accounting Officer for the conduct of financial business. Your most obvious duty is to ensure that the public funds entrusted to your care are properly safeguarded. As an Accounting Officer you must comply with the financial provisions contained in the Constitution, the PFM Act, 2012, various laws, regulations, financial instructions and circulars issued by the County Treasury from time to time. In this as in other matters of a technical nature, you will naturally have the advice of appropriate officers. The precise arrangements to be made will depend upon the circumstances of the Department, but they should invariably include, without regard to personal considerations, independent and effective checks of cash balances in the hands of any officer, and effective management of revenues and expenditures including proper administration of the monthly payroll applicable to your **County …….. Department / entity.**

   c) It is your duty as the Accounting Officer to ensure that the funds entrusted to you are applied only for the purposes intended by County Assembly. You must satisfy yourself, for instance, that any payments made by your **County…….. Department / entity** are both within the ambit of the Vote and also covered by specific statutory authority where necessary; and that Parliamentary or County approval has been sought, by way of Supplementary Estimate or otherwise, in all cases where it is appropriate to do so. It will be your responsibility to maintain an effective, efficient and transparent system of financial management and internal control. That this has been done is implicit in your signature on the financial statements. As the Accounting Officer you must ensure proper management and control of commitments and expenditure. It should be emphasized that goods and services are ordered/procured, or LPOs/LSOs are issued only when there are sufficient balances in your Vote. Goods or services ordered must be paid for within the commercially accepted time and as much as possible payments should be made immediately after delivery. It must be emphasized that there should be no build up of arrears (pending bills).

   d) Pursuant to Section 152 of the PFM Act, 2012, as the accounting officer, you shall be responsible for the management of your **County …….. Department's / entity's** assets and liabilities and to manage these assets in a way that ensures that the County government achieves value for money in acquiring, using and disposing of those assets. You may dispose of these assets only in accordance with the **Public**

Procurement and Disposal Act and Article 227 of the Constitution and shall ensure that the proceeds from all assets disposed are deposited into a bank account of the **County …….. Department / entity.** You shall not loan or transfer assets to any person or organization or permit any person or organization to use these assets for purposes other than carrying out the functions of your **County …….. Department / entity**, except in accordance with the **Public Procurement and Disposal Act and Article 227 of the Constitution**.

e) As the accounting officer, you may reallocate funds from the authorized use but may not reallocate funds where they are appropriated for transfer to another county government entity or person; where appropriated for capital expenditure, except to defray other capital expenditure; from wages to non-wages expenditure; and where the transfer of funds may result in contravention of fiscal responsibility principles, in accordance with Section 154 of the PFM Act, 2012.

As the accounting officer for the **County …….. Department / entity**, other than a county corporation, you may reallocate funds between programmes in the budget for a financial year if there are provisions in the budget of a programme which are unlikely to be utilized or a request for the reallocation has been made to the County Treasury explaining the reasons for the reallocation and the County Treasury has approved the request. The total sum of all reallocations made to or from a programme shall not exceed ten per cent of the total expenditure approved for that programme for the financial year.

f) You should ensure that cash advances are issued only for official purposes in accordance with Section 152 of the PFM Act, 2012 and the amount issued should not be excessive and must be used for the intended purpose. In case of a temporary imprest, it must be surrendered within 48 hours after the job is done and a standing imprest must be surrendered at the end of each financial year. Cash advances returns should be given to you monthly and any officer who fails to account for any cash advance in full, the unaccounted amount shall become a debt owed to the government by the officer and the debt shall attract interest at the prescribed rate in the regulations. The debt and interest shall be recovered from any salary or other amounts owed by the County government to the officer in total. No new cash advance should be issued until the previous cash advance taken has been accounted for in full. In any case public officers should be discouraged from taking imprest except only when it is necessary to do so.

g) Regulations, management and accounting of development partners' funds are clearly elaborated in Sections 138 and 139 of the Public Finance Management Act, 2012. As the Accounting Officer you must ensure that donor funds both as revenue and Appropriation -in -Aid (A.I.A) are captured in your records and properly accounted for. Expenditure under A.I.A items must be followed up with the development partners and captured in your accounts within the financial year in which they relate. Before transferring any funds to any organization or authority within or outside the county government you must obtain a written assurance from the organization/authority that an effective, efficient and transparent management and internal control systems are in place. As an Accounting Officer of a **County …….. Department / entity** who is transferring a conditional grant to a county government entity in accordance with an Act of Parliament or county legislation you shall be responsible for ensuring that transfers to all county government

entities are deposited only into the relevant bank accounts of county government. In addition, you will be responsible for monitoring and reporting on expenditure and non-financial performance information on programmes funded by conditional grants in accordance with the relevant Act of Parliament or county legislation and the agreed applicable intergovernmental fiscal frameworks as well as compliance with those frameworks.

h) You are accountable to the County Assembly for the formal regularity and propriety, in the sense described above, of all the expenditure out of the Vote for which you are responsible. Similarly you are expected to ensure that adequate machinery exists for the due collection and bringing to account, whether as Appropriations in Aid or as Extra Exchequer Receipts, of all receipts of any kind connected with the Vote under your control.

i) If any questions are raised concerning the propriety of a particular payment, the County Assembly may seek the view of the County Treasury; and they will normally wish to know whether the County Treasury has been consulted. On all technical matters affecting the financial management, and any matters touching the propriety and regularity of the transactions, the County Treasury Officers are available to be consulted. As an Accounting Officer you should, therefore, regard it as part of your responsibility to ensure that before your **County …….. Department / entity** enters into any transactions, the regularity of which may be called to question, the advice of the County Treasury shall be sought. However, this will not absolve you from your formal responsibility as the Accounting Officer, and you should therefore also make sure that any issue of sufficient importance to call in question that responsibility should be brought to your personal attention, even though the advice of the County Treasury may already have been obtained.

j) The above paragraphs set out your duties and responsibilities as an Accounting Officer in regard to Accounting for the regularity for expenditure from your Vote and the avoidance of misappropriation, losses and wasteful expenditure in the strict sense, matters which are capable of formal definition. It should be emphasized that any dereliction of duty in this respect may lead to a recommendation by the County Assembly that expenditure already incurred should be disallowed and you may be liable for any loss arising from that use and you shall make good the loss, whether you remain the holder of the office or not, pursuant to Article 226(5) of the Constitution.

As the Accounting Officer, if you commit an act of financial misconduct willfully or negligently, you will be liable for surcharge for losses caused to the government including being convicted to a term of imprisonment not exceeding five (5) years or to a fine not exceeding ten (10) million shillings or to both pursuant to section 199 of the PFM Act, 2012 or other disciplinary actions as may be preferred against you which will include recommendation for demotion, retirement or dismissal from the Public Service.

k) As explained in paragraph (b) above, on technical matters you will naturally have the advice of appropriate officers. You should however note that it will be your responsibility to take effective and appropriate disciplinary steps against any public officer in the service of your **County …….. Department / entity** that contravenes or fails to comply with the Constitution, the PFM Act, 2012, various

laws, Regulations and the County Treasury instructions in accordance with Section 156 of the PFM Act, 2012. These should include any officer who commits an act which undermines the financial management and internal control systems of the **County …….. Department / entity** and or permits an unauthorized, irregular and wasteful expenditure.

l) The Auditor-General will no doubt bring to the notice of the County Assembly any cases of apparent waste and extravagant administration; pursuant to Article 229(6) of the Constitution and the County Assembly will expect you to satisfy them that the policy approved by County Assembly has been carried out with due regard to the economy, and to furnish them with explanations of any examples to the contrary to which their attention has been drawn in line with Section 149 (3) of the PFM Act, 2012. In this regard when the affairs of your Vote are under discussion by the County Assembly you will be required to appear in person to answer their questions. County Assembly may raise matters of policy and draw your attention to the existence of wasteful expenditure whenever they occur and you as the Accounting Officer must be prepared to answer any queries raised by County Assembly.

m) A further matter concerns the relationship between you and the County Treasury. Attention has already been drawn to the role of the County Treasury in advising upon technical matters of accounting, and on more general questions of regularity and propriety. It only remains to add, without prejudice to your personal responsibility as the Accounting Officer of a **County …….. Department / entity** for the efficient conduct of your own administration, that the County Treasury may often be able, by reason of its central coordinating position, to give helpful advice in the exercise of that responsibility in its widest aspects. It is indeed, an essential part of the present-day conception of Government organization that there should be the closest contact and co-operation at all levels between **County …….. Department / entity** and the County Treasury. As the Accounting Officer, you are therefore encouraged, and should encourage your own subordinates, to make the fullest use of this right to consultation.

6. The National Treasury is in the process of preparing regulations in order to conform to the requirements of the PFM Act, 2012. Until such a time, the Public Finance Management Regulations will be approved by Parliament and Gazetted by the Cabinet Secretary to the National Treasury, the existing Government Financial Regulations and Procedures will therefore continue to apply in accordance with the Second Schedule of the PFM Act, 2012. You are therefore, kindly requested to familiarize yourself with Chapter 12 of the Constitution, PFM Act, 2012 and the Government Financial Regulations and Procedures.

Please acknowledge receipt of this letter, by sending to me a formal acceptance in writing of your designation as an Accounting Officer with the responsibilities described herewith.

Name ……..

REPUBLIC OF KENYA

THE …… TREASURY

Telegraphic Address: 22921
FINANCE-NAIROBI
Fax No.: 310833
Telephone: 252299
When replying please quote

THE TREASURY
P.O. Box 30007-00100
NAIROBI
KENYA

REF: ……

17th July, 2013

Dr. / Mr. / Mrs. / Ms. ……
Chief Officer
County Health Department
P.O. Box ……
KITUI.

LETTER OF DESIGNATION
RECEIVER OF REVENUE

1. In accordance with the powers conferred on the County Executive Committee Member for Finance by Section 157 of the Public Finance Management (PFM) Act, 2012, you are hereby designated Receiver of County Government Revenue under Article 209(3) and (4) of the Constitution, for the financial year 2014/2015.

Details of Revenue	**Amounts Kshs.**
……..	…….

2. As Receiver of Revenue, you are responsible to the County Executive Committee Member for Finance for the collection of revenue for which you are responsible and shall be separately accounted for in accordance with Article 207(1) and 209 (3) and (4) of the Constitution.

3. As a guide your responsibility will cover all the following stages:

   i) Ascertaining the existence of liabilities and ensuring that correct figures are levied;

   ii) Establishing written records of sums due;

   iii) Taking proper steps to secure payment.

4. To help you discharge your responsibility where the necessary work cannot be done within your County **Government / County …….. Department** under Section 158 (1) of the PFM Act, 2012, as Receiver of Revenue, you may authorize a public officer employed by county government or any of its entities to be a collector of revenue for your **County Government / County …….. Department.** If you make such an appointment you will be responsible for ensuring that whatever work is entrusted to the Collector is covered by proper instructions laying down the procedures to be followed.

5. Pursuant to Section 158 (3) of the PFM Act, 2012, you shall provide quarterly Revenue Statements on or before tenth day after end of each quarter, prepare and submit a revenue statement to the County Treasury with copies to the National Treasury and Commission on Revenue Allocation.

6. As Receiver of Revenue, you must therefore be fully informed of arrears of revenue outstanding from time to time in order that you may ensure that proper action for recovery is taken. You should accordingly obtain adequate details of arrears of revenue and must be included in the revenue statements to be submitted annually to the Auditor General under the Public Audit Act, 2003.

7. All revenue received, other than authorized Appropriations-in-Aid shall be paid to the credit of the County Exchequer Account weekly or in such a manner as the County Treasury may direct.

Please acknowledge receipt of this letter.

Yours

Name…….

COUNTY EXECUTIVE COMMITTEE MEMBER FOR FINANCE

CC: Mr. Edward R. O. Ouko
Auditor General
Kenya National Audit Office
P. O. Box 30084
NAIROBI

Mrs. Agnes Nangira Odhiambo
Controller of Budget
Bima House
NAIROBI

Mr. Micah Cheserem
Chairman
Commission on Revenue Allocation
NAIROBI

ANNEX B: PROPOSED TEMPLATES (UNDER DEVELOPMENT)

B1: Statement of Revenue and Expenditure current year[8]

Operating Revenue	Notes	Current year	Previous year
Tax revenue	1	xxx	xxx
Fees, fines, penalties and licenses	2	xxx	xxx
Transfers from Treasury	3	xxx	xxx
Transfer from other Government entities	4	xxx	xxx
Grants	5		
Other revenue	6		
Total operating revenue		xxx	xxx
Capital receipts			
Proceeds from sale of Capital items	7	xxx	xxx
Loan and borrowings			
Proceeds from borrowings	8	xxx	xxx
TOTAL REVENUES (A)		xxx	xxx
Expenses			
Compensation of employees	9	xxx	xxx
Purchase of goods and services	10	xxx	xxx
Transfer to other entities	11	xxx	xxx
Grant and other payments	12	xxx	xxx
Social assistance	13	xxx	xxx
Finance costs	14	xxx	xxx
Other expenses	15	xxx	xxx
Total operating expenses		xxx	xxx
Capital payments			
Capital expenditure	16	xxx	xxx
Repayment of borrowings			
Loan interest repayments	17	xxx	xxx
TOTAL EXPENSES (B)		xxx	xxx
Surplus/ deficit for the period (C = A – B)		xxx	xxx

[8] *Notes to be developed.*

B2: Statement of Financial Assets and Liabilities[9]

Financial assets	Notes	Current year	Previous year
Bank balances	18	xxx	xxx
Cash balances	19	xxx	xxx
Account receivable and advances	20	xxx	xxx
Total financial assets		xxx	xxx
Less: Financial liabilities			
Accounts payables	21	(xxx)	(xxx)
NET FINANCIAL ASSETS		**xxx**	**xxx**
Representing:			
Accumulated surplus (deficit) from previous years	22	xxx	xxx
Net surplus/ (Deficit) for current year		xxx	xxx
Prior year adjustments	23	xxx	xxx
Total closing balances		**xxx**	**xxx**

B3: A simple fixed assets register

Bar code	Description	Social code	Location	Date of purchase	Purchase price	Condition	Disposal date	Disposal price

[9] *Notes to be developed.*

ANNEX C: LIST OF REFERENCE MATERIALS NEEDED

1. The Constitution of Kenya 2010
2. Public Finance Management Act of 2012 and accompanying regulations
3. The County Government Act 2012
4. The County Governments Public Finance Management Transition Act of 2013
5. Government of Kenya – Standard Chart of Accounts Manual (2012)
6. Public Service Commission of Kenya – County Public Service Human Resource Manual (2013)
7. A fixed assets register in Excel
8. Sample annual reports from similar institutions elsewhere

This *Public Financial Management/Financial Accounting, Recording and Reporting Module* Participant Book was developed as part of the Government of Kenya's (GoK), National Capacity Building Framework (NCBF). The NCBF provides a mechanism for facilitating and coordinating capacity building initiatives and provides a basis for monitoring and evaluating capacity development for devolution.

Through the NCBF and GoK strategies such as the Public Finance Management Reform Strategy 2013-2018, national and county governments, development partners and other stakeholders will align and guide capacity building efforts to leverage on ongoing capacity building initiatives as well as mobilizing new resources around the devolution agenda.

It is through this framework county staff will upgrade their skills and competencies to perform their responsibilities adequately to enhance service delivery, build structures and systems to promote and ensure sustainable social economic development and enhance capacities of management of financial and human resources, county institutions, community and stakeholders participation.