COUNTY GOVERNMENT OF KITUI

THE COUNTY ASSEMBLY

THIRD ASSEMBLY – SECOND SESSION– 2023

PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE

REPORT

ON STUDY TOUR TO THE UNITED ARAB EMIRATES ON EXAMINATION OF PUBLIC EXPENDITURE

(19TH TO 26TH FEBRUARY, 2023)

CLERK'S CHAMBERS,

ASSEMBLY BUILDINGS,

KITUI **MARCH, 2023**

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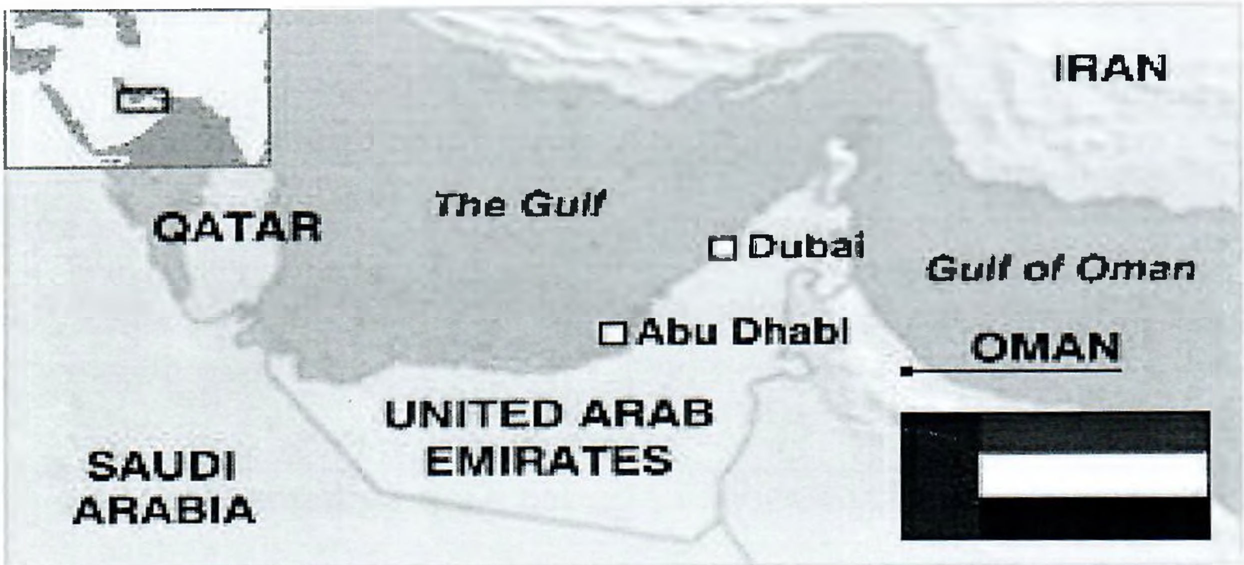
LIST OF ACRONYMS/ABREVIATIONS

1	FNC	Federal National council
2	GCC	Gulf Cooperation Council
3	CPIAC	County Public Investments and Accounts Committee
4	SCA	Security and Commodities Authority
5	SMEs	Small and Medium Enterprises
6	ESAMI	Eastern and Southern African Management Institute
7	UAE	United Arab Emirates
8	MFIs	Micro Finance Institutions
9	GRE	Government Related Entities
10	COB	Controller of Budget
11	CIDP	County Integrated Development Plan
12	ADP	Annual Development Plan
13	DIFC	Dubai International Finance Centre
14	AED	Arab Emirati Dirham
15	M & E	Monitoring & Evaluation
16	WASH	Water, Sanitation & Hygiene
17	VAT	Value Added Tax

UNITED ARAB EMIRATES- COUNTRY PROFILE



Mr Speaker Sir,

The United Arab Emirates-the sovereign constitutional monarchy is a federation of seven emirates consisting of Abu Dhabi (which serves as the capital), Dubai (the economic hub of the UAE and global city), Ajman, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain. Crime rates are particularly low in Dubai as the laws are strict and there are severe punishments for people who break them.

Abu Dhabi is the wealthiest emirate in the UAE. In fact, it is one of the richest cities in the world because of its oil resources. In terms of land area, Ajman is the smallest emirate in the UAE.

Though traditionally conservative, the UAE is one of the most liberal countries in the Gulf, with other cultures and beliefs generally tolerated.

Political Participation

The UAE does not conduct elections at the executive level, and, as such, citizens do not have the right to change their government. Instead, each of the seven individual emirates is ruled by a hereditary family with the leader chosen from among the tribe's family members. The rulers are supreme in their decision-making power, and as such, there are no restrictions on their ability to govern. The Supreme Federal Council, the highest federal authority, is comprised of the rulers of the seven emirates and chooses the president of the country. Elections are held at the legislative level of the Federal National Council (FNC). The FNC's powers are limited, with its official mandate being to deliberate over certain aspects of legislation.

Acknowledgments

Mr Speaker Sir,

The committee is obliged to different institutions and individuals for the support and cooperation they provided which made the tour successful. These include the Ministries of Devolution and Immigration for approving the study tour and ensuring timely processing of travel documents respectively.
The County Assembly Speaker Hon. Kelvin Kinengo Katisya and the Clerk of Assembly are acknowledged for approving and facilitating the study tour.
Sharing the credit is the Eastern and Southern African Management Institute (ESAMI), an intergovernmental regional management development centre, for their tireless efforts in training the team.
The Consulate General of the Republic of Kenya in Dubai, Ambassador Peter Musembi Mwendwa and the entire Embassy staff for the warm welcome extended to the assembly team when they paid courtesy to His Excellency the Ambassador.
Last but not least, much thanks go to all the participants for the zeal they expressed for learning and the staff of Hilton Hotel, in Deira city, Dubai which served as the venue for lectures, for their hospitality, without which the efforts would not have borne any fruits.

The team will forever remain grateful to the several Kenyan individuals sojourning and working in both Dubai and Sharjah, who came to the aid of the assembly delegation, on short notice, at the eleventh hour and ensured that the team got some bearable accommodation and transportation means as most hotels and apartments were fully booked due to the then prevailing Gulf Food Exhibition that witnessed the whole world converge in Dubai.

The Assembly delegation deeply appreciates the time and effort dedicated to organizing and delivering a series of highly focused, relevant, and useful lecture sessions. The committee further would like to thank in particular, the ESAMI Lecturer, Ms Esther Mbugua, for sharing her expertise on scrutinizing public expenditure.

PREFACE

Mr Speaker Sir,

On behalf of the Members of the Public Investments and Accounts Committee (PIAC) and the entire delegation, I beg, pursuant to provisions of Standing Order 179(6), to move the adoption of the Report on the study tour to the United Arab Emirates (UAE), on scrutinizing public expenditure, undertaken from 19th to 26th February, 2023.

The study tour was held to look at the experience of the confederations and other countries, in terms of making competent decisions on examining public expenditure and good governance. The main purpose of the visit was to develop practical lessons that the committee could apply to improve performance of its work and execution of its mandate as amplified in the Constitution of Kenya 2010 and the County Assembly Standing Orders.

Committee responsibility and function

The committee is established pursuant to the provisions of Standing Order No. 185, which mandates it to, inter alia : -

- Examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit".
- examination of the reports, accounts and workings of the county public investments;
- 'Examination, in the context of the autonomy and efficiency of the county public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices.

Composition of the delegation

The delegation included the following;

S/No.	Name	Designation
1	Hon. Jeremiah Musee Mutua	Chairperson
2	Hon. Malinga Munyao	Member
3	Hon Kyalo Kimuli	Member
4	Hon. Zacchaeus Ivutha Syengo	Member
5	Hon. Fridah Maua Mutinda	Member
6	Hon. Alex Mutambu Nganga	Member
7	Mr. Jacob Kyalo Kimanzi	Support staff

Study tour objectives

Mr Speaker Sir,

The key objectives of the study tour were to provide Members of the delegation and support staff with the knowledge required to function optimally and perform their work more efficiently and effectively.

It is in that regard that the County Assembly organized training sessions for the delegation in Dubai.
The study tour was held to look at the experience of the confederations and other countries in terms of making competent decisions on investments and ensuring good governance by way of critically scrutinizing public expenditure. The main purpose of the training was to develop practical lessons that the committee, and the assembly as a whole, could apply to improve performance of its work, in terms of oversight, legislation and representation.

There were good reasons for the choice of the United Arab Emirates. The combination of a liberalized trade policy, macroeconomic stability and a well-developed financial sector were a solid proof of that.

UAE's sound economic foundation has further allowed the leadership to lay out clear social development objectives that include bringing about a world-class education system, a knowledge-based economy, and a strong sense of national pride and identity.

For Kenya to be able to attain the success story of the UAE, it must take tremendous steps in combating the already soaring public expenditure with a view to enhancing quality development.

Vision 2030 will only bear dividends for Kenyans if the infrastructure projects identified in the blueprint are fully implemented.

There is need for Kenya to learn from several other nations who have faced similar situations, on the following:

1) Public accountability systems and oversight functions in United Arab Emirates
2) The role of the public accounts committees in enhancing accountability in the government and in its investments/corporations
3) Records management and Internal controls
4) Effective legislation on the fight against embezzlement of public resources in Dubai, UAE.

The delegation benefitted by way of:

- Acquiring relevant knowledge, skills, experiences and exposure to enable them perform to the maximum with the help of the knowledge acquired.
- Deepening their knowledge about how Public Accounts Committees in other jurisdictions work and what – in the Members' views– are the critical factors which affect the committee's performance.
- Overall interaction that would help the Committee to effectively and efficiently conduct oversight, ensure maximum accountability, gear all its efforts towards ensuring proper scrutiny / examination of public expenditure with a view to enhancing ethical governance within the County Government of Kitui.

Profile of the key resource person - Ms Esther Mbugua

Esther Mbugua

ACADEMIC / PROFESSIONAL QUALIFICATIONS

- University of Nairobi and graduated in a Bachelor of Commerce (Accounting option) degree in 1981
- CPA(K) in 1988
- United States International University (Africa) and graduated in a Masters in Business Administration (MBA) in Strategic Management in 2003
- Dale Carnegie (Nairobi) for a course Leadership Training for Managers in 2003

- Other on-the job training including
- Leadership Development
- Personal Effectiveness
- Business Simulation
- Various Team Building workshops

TRAINING EXPERIENCE

- **July 2007 to dec 2020 Strathmore University School of Management and of Commerce**

OTHER ENGAGEMENTS

- A Trainer for Kenya Industrial Research Institute (KIRDI) Business incubation program
- A Judge at the Kenya's National Business Plan Competition

Some of the learning questions on Local and Foreign Investment Review included;

1. What, in general terms, are the government's policies and practices regarding examination of public expenditure?
2. What are the main laws that directly or indirectly regulate public expenditure and or government spending?
3. Are there specific sectors over which the authorities have a power to oversee and prevent foreign investment or sectors that are the subject of special scrutiny?
4. How does good governance compliance improve oversight on use of public finances in the United Arab Emirates?
5. Success factors, main obstacles and lessons learned in the path towards institutionalization, including the role of the state and how this compares to the Kenyan situation.

Historical background

Mr Speaker Sir,

The United Arab Emirates, a sovereign constitutional monarchy is a federation of seven emirates consisting of Abu Dhabi (which serves as the capital), Dubai (the economic hub of the UAE and global city), Ajman, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain. Crime rate is particularly low in Dubai as the laws are strict and there are severe punishments for people who break them.

Though traditionally conservative, the UAE is one of the most liberal countries in the Gulf, with other cultures and beliefs generally tolerated.

Despite getting established on 2nd December 1971, eight years after Kenya had already got its independence in 1963 from the British, Dubai went ahead to chart its path and turned its fortunes from a tiny entity to an international metropolis with one of the busiest airport in the world and the 26th nation in the world with highest per capita real incomes.

The United Arab Emirates' Dubai, has been working to wean its economy from overreliance on oil. Kenya should learn lessons from oil exporting countries and embrace the importance of maintaining a diversified economy.

Dubai, just like Kenya, also has a Vision 2030 plan. The UAE government has not only anchored its vision 2030 beyond physical infrastructure but has incorporated technology at the heart of its development strategy.

Besides the Vision 2030, the UAE city is also planning for 2071 in a period it sees itself to have developed into the global hub. Dubai has since opened what it calls Area 2071, a centre where the Emirate assembled innovators and creative minds to imagine how their world would look like in 2071 and come up with solutions for the future generations. The centre tries to imagine how the world will look like in 2071 and how it will fit itself into that space.

The success story of the United Arab Emirates triggers questions about why and how Kenya has been left behind in the post-colonial development race.

COMMITTEE FINDINGS

Mr Speaker Sir,

The delegation that toured United Arab Emirates, Dubai in between February 19th to 26th, 2023 came up with the following findings:

1.DEFINITION OF PUBLIC OFFICIAL IN DUBAI

Mr Speaker Sir,

This is as stipulated in Article 5 of the Penal Code which provides:

"Shall be considered a public official under this Law any person employed at a federal level or a local level in any legislative, executive, administrative or judicial role, whether appointed to elected:

1. Anyone charged to do the works of the main authority and the people in the ministries and governmental departments
2. Members of the armed forces
3. Employees in security authorities
4. Members of the judicial authority, heads of legislative councils, advisory councils and municipalities council and their members
5. Any person delegated by a public authority to perform a specific job within the limits of the assigned job
6. Chairmen, directors and managers and all employees of public authorities and public corporations and companies totally or partially owned by a federal or a local government
7. Chairmen, directors and managers and all employees in public associations and establishments with public benefits

Shall also be considered, under this Law, as entrusted with a public service, any individual who does not belong to any of the categories mentioned in the preceding clauses and who performs a job relating to public service by virtue of a mandate given to him by a public officer who is authorized to do so according to the laws and regulations, provided that said individual shall be considered as a public officer only within the limits of the job assigned to him."

There are no political parties in the UAE and public officials are appointed by either the government itself or by the rulers of each emirate (as the case may be).

2.THE PROCESS OF FINANCIAL AUDIT IN DUBAI

Mr Speaker Sir,

This is a type of objective evaluation of a government's / company's financial statement reports and reporting processes. The primary focus of financial auditing is to assure the public, investors, regulators, directors and the managers that the financial statements are complete and accurate. This auditing process provides assurance only, it is not a guarantee.
With the usage of different audit procedures i.e. observations or interviews, the auditors will determine if the financial records are reported properly or not. If all the controls or processes are accurate then the auditors in Dubai will conclude that the financial statements are accurate. Still, there can be a chance of error or mistake.

Process of financial audit in Dubai entails:

Step 1: Planning

The auditing requires proper planning for the process to succeed. It includes the amount of audit needed. This depends on the number and size of the departments to be audited. The planning process will also involve the understanding of the organization, mandate, the businesses related to it and the tasks and procedures performed in it. The auditor will plan about the way in which the audit process will be completed, ratio analysis or the documentation process. Based on this planning, the auditor will identify the time limit required for the completion of this process.

Step 2: Financial audit tests

Whenever an auditor is going to start the auditing process, he will get an understanding of the organization by applying different audit tests. He will also review the invoices that are associated with all the expenses, to clarify that the expenses are classified correctly and the suppliers actually exist. The type of audit test which is to be applied to a specific organization will be identified in the planning process.

Step 3: Account analysis

In the account analysis process, the auditor will check all the details of the account and its accordance with the information present in the documents. The auditor will document the reasons behind the changes in the accounts since the last audit. The required research and information gathering will also be done by the auditor to justify those changes.

Step 4: Preparation of audit report

After the testing and the analysis procedure, the auditor will prepare an opinion report. This report will contain all the information about the entity, the tests that are being used and the details of financial statements. It will also contain the weaknesses in the internal control processes or any issues which still need elaboration. The report will be submitted to the higher authorities after completion.

The whole process of financial auditing depends on the nature and departments in the organization. After the completion of the report, the auditor from top auditing firms in Dubai, UAE is responsible for getting the signatures of the management on the reported information and financial statements.

3. DUBAI AND OTHER EMIRATES LEAD GOVERNMENT EXPENDITURE

Mr Speaker Sir,

The UAE operates the most decentralised system of government finances in the world. Under the fiscal model, the national government pays for federal infrastructure, including major roads passing through multiple emirates, as well as spending on social services such as health, education and housing, with emirate-level authorities responsible for nearly all other outlays. As such, the federal government accounts for only 11.5% of total public spending in the country, with most expenditure undertaken by the individual emirates. About three-quarters of federal government revenue is derived from the national authorities' own revenue streams, with the remainder contributed by Abu Dhabi and Dubai in agreed amounts.

Budget

The Dubai government plans its annual budgets around a medium-term fiscal framework incorporating a variety of three-year targets. The framework generally seeks to limit annual deficits to a maximum of 3% of GDP and government debt to no more than 30% of GDP – targets that the authorities have been comfortably meeting.

The government has a number of options for financing the deficit. Local banks are already large lenders to the emirate, as well as to government-related entities (GREs), though such exposures may need to be reduced under new concentrated lending rules. The federal and emirate-level governments have also issued bonds in the past, preferring to tap international markets to avoid crowding out local private sector borrowing. In February 2017 international press reported that the Dubai government was considering issuing foreign debt for the year, and the authorities decided to generate $500m by selling ten-year bonds in mid-2017. The sale of other bonds could be used to finance deficits exceeding this.

Revenues

Public revenues for the emirates keep on climbing on annual basis since 2017. For instance, in the year 2018, a 12% revenue increase on 2017 dominated by fees, such as those levied on corporations, housing fees, visa fees and traffic fines was witnessed. According to government figures, non-tax revenues represented 71%, while tax revenues represented 21% of the total estimate. Additionally, oil income was projected at 6% and returns on government investments at 2%.

The authorities have been moving to grow certain revenue streams in recent years. Steps to accomplish this have included a fee imposed on passengers at the emirate's airports since 2015, a new levy on hotel stays and increased parking fees. In April 2017 Dubai Police increased the amounts of various traffic fines, with several doubling and the penalty for using a phone while driving quadrupling. The new measures were accompanied by a sharpening of other penalties, such as having black points on one's licence and driving bans of various lengths for some types of offences.

Government Debt

With the Dubai authorities having registered a balanced budget for the four years leading up to 2017, government debt remains low. Since 2010 the authorities and government entities were able to replace short-term maturities with long-term profiles, which had a soothing effect on the liquidity position of the entities. That changed the repayment schedule for debts, but not the debt-to-GDP ratio. However, government figures do not fully demonstrate the extent of public sector debt, as some GREs have large loans on their books that are not recorded as part of the central government total. The IMF estimated the value of such GRE debt at 60% of GDP in 2016. Additionally, under a reclassification initiative, which was undertaken in early 2017, some federal government spending now takes place outside the central budget via public entities that operate their own budgets. When all such GRE liabilities are taken into account – including those with less than 50% ownership by the government – public debt stands at around 117% of GDP, according to the IMF. The situation is further complicated by the fact that the government is also one of the main lenders to some GREs.

A New Tax

The authorities have a new revenue stream to underpin continued investment, in the form of a consumption tax. UAE, just like most GCC countries have long been known for their low or non-existent levels of tax, facilitated by high oil revenues that obviate the need for governments to raise funds through fiscal measures. This has now changed, with the UAE and other Gulf countries having introduced value-added tax (VAT) on non-essential consumer items on January 1, 2018, at a rate of 5%.

In late August 2017 the UAE issued a new law describing how the tax would be applied in the country, with executive regulations providing further details published through the end of the year. This announcement followed the establishment of a federal tax authority in March. The tax was not be applied to essential items such as food staples, pharmaceuticals, residential rent, the first sale of new properties, school fees, hospitalization costs, and a number of other products and services, including local transport and life insurance.

Companies with sales of taxable goods or services (taxable supplies) and taxable imports in excess of $102,000 are obliged to register for VAT; those with taxable supplies between $51,000 and $102,000 have the choice of registering but are not required to do so.

It remains to be seen how such revenue will be shared among different levels of government.

This system should have a particularly positive impact on Dubai's fiscal situation, given its large retail sector.

4. BUSINESS CULTURE IN THE UAE

The local government encourages investment and startups in many ways, therefore it is comparatively easy for foreigners to do business in UAE. It is quite easy to set up a company and, coupled with the fact that the government now offers long-term visas for investment, business in the UAE is booming.

In 2017, there were 131,000 registered businesses in the UAE. When you combine this with the fact that 80% of residents are foreign-born, it becomes clear that there is plenty of scope for foreign investment in the UAE.

Further, the UAE announced in 2019 that it was allowing 100% foreign ownership in 122 economic activities across 13 sectors. Most notably, these include growth sectors such as renewable energy, logistics, hospitality, food services, and manufacturing. Despite this, it is important to note that each Emirate can impose its own restrictions.

If you are thinking about setting up a business in the UAE, there are several things to consider. To begin with, look at what sectors are popular. You will also want to see what services are missing or what goods people are looking for. At the moment, the automotive and aerospace industries are doing well, as is oil and gas. Similarly, there is scope for growth in food and beverage, as well as marketing and advertising.

View of Dubai Internet City inside a Free Zone

The best part of starting a business in the UAE is Free Zones. These are unique areas that are popular with foreign investors. This is because they offer 0% corporation and personal tax, along with 100% foreign ownership and import and export tax exemptions.

A comparative study with other jurisdictions

For the past 15 years the international community has assumed that by strengthening legislative capacity, legislatures are better equipped to:

i. Oversee government activity and spending,
ii. Keep governments accountable, to secure good governance

iii. Prevent corruption and create the conditions for sustainable economic development.

Research has revealed that:

Oversight activity does not always have a significant or directly positive impact on good governance. However, good governance is indeed a function of oversight effectiveness. Researchers have also argued that the size of a country may have a profound effect on its institutional configuration. Expectations about the proper stewardship and accountability for public money go back many centuries.

Generations of politicians and public officials have recognized the significance of:

- ➢The proper handling of public funds
- ➢The need to combat fraud and corruption
- ➢The importance of getting the most from tax revenue.

Such themes have been at the heart of jurisdictions and have featured in many Parliamentary debates.

1. The UK

- ➢Created 165 years ago.
- ➢Over time, the role of the Committee has changed in line with the needs of the day
- ➢For example, widening the type of subjects considered from purely financial matters to
  broader concerns about the effectiveness of public programmes
- ➢In recent responses to one of the committee's reports, the UK government acknowledges,

That the Committee has helped the Government to secure financial savings, raise the standards of public services and improve the quality of delivery.

- ➢The Committee has continued to this day to examine the use the Government makes of public money.
- ➢The Chair of the committee is always drawn from the main opposition party.
- ➢ This practice has since been replicated in virtually all Commonwealth countries and many non-Commonwealth countries.
- ➢PAC members are elected by the Parliament every year from amongst its members according to the principle of proportional representation

2. India

The **Public Accounts Committee (PAC)** has recently completed its 100 years. PAC may be redesignated as **Public Accounts and Audit Committee** given the fact that audit review is also its core function.

The PAC is one of the three **Financial Parliamentary committees,** with the **Estimates Committee** and the **Committee on Public Undertakings** being the other two.

Functions

PAC examines the annual audit reports of the **Comptroller and Auditor General of India (CAG)**, which are tabled before the Parliament by the President.

The CAG is empowered to submit three audit reports to the President, namely:

- ➢audit report on appropriation accounts,
- ➢audit report on finance accounts and
- ➢audit report on public undertakings

The committee probes into the public expenditure not merely from legal and procedural point of view but to discover:

i.Technical irregularities point of view of economy, prudence, wisdom and propriety

ii.To bring out the cases of corruption, waste, loss, extravagance, inefficiency and nugatory expenses.

Issues:

PAC in India is not able to enforce the accountability of the government to the people in true sense because:

i. Lack of Enforcement powers
ii. It does postmortem work
iii. It is an advisory body
iv. No Broader Powers to examine policy
v. Weakening of Parliamentary System Government

3. Ghana

The Article 103 of the 1992 constitution of Ghana mandates the Parliament of Ghana to set up standing committees and other committees that they deem fit to help them discharge their duties

As part of its mandate, the Committee is to exercise a supervisory function over the Executive on public expenditure on behalf of Parliament

Also, to ensure that monies withdrawn from the consolidated and other public funds are appropriately accounted for.

In performing this function, the committee is to review the Auditor General's report and make recommendations that will prevent future occurrences in the report.

A study by the Parliamentary center in 2009, revealed that that the work of PAC had:

- ➢Ensured some recoveries,
- ➢Brought about some form of transparency in Ghana's public financial management.

However, a number of challenges that have hindered the work of the PAC include:

- ➢The late submission of Audit reports
- ➢A dysfunctional follow up regime
- ➢The extreme partisanship of the members of the committee,
- ➢The inadequate of technical support to analyze audit reports.

The study recommends that for the PAC to play its role effectively in ensuring an efficient public financial management:

- ➢They will need to collaborate with other accountability agencies
- ➢A reduction of politicization of audit findings,
- ➢Strengthen the follow ups on the implementation of their recommendations.

4.East and Southern Africa

Research reveals that PACs in these two regions are:

- ➢Bigger
- ➢Have more staff members
- ➢Are more likely to be chaired by opposition Members of Parliament than they have in other countries and regions.

Furthermore, the data show that Eastern and Southern African PACs are more active than their counterparts elsewhere.

I addition, most of the PACs in the region have a fairly wide set of powers. The only two countries that could possibly benefit from having a broader mandate are Seychelles and Uganda.

The PAC in Seychelles is significantly below the regional average in terms of accounts and operations powers.

In Uganda because of the division of labor across the various committees — has a fairly narrow set of powers in terms of right of access. This weakness is coupled with the fact that the PAC from Uganda has access to very few witnesses.

Ironically, the case of Tanzania has shown that broad powers vested in PACs should be continuously put under scrutiny to prevent them from fueling corruption.

However, the effectiveness of these committees is undermined by:

a. Lack of political will
b. Limits to the range of powers that they enjoy
c. The dearth of quality technical support from parliamentary staff

In summation, some PACs need:

i. More quality staff
ii. Some need to have greater opposition representation
iii. Some need a broader mandate
iv. iv. Others need to be more active
v. Some like the PAC in Tanzania need to be scrutinized more to prevent them from covering up corruption.
vi. On the other hand, there is an urgent need for follow-ups to reports produced by PACs in the region.

COMMITTEE OBSERVATIONS

Mr Speaker Sir,

Drawing from the above findings, the committee makes the following observations;

(i) **UAE has very low perception on corruption. Part of this success is attributed to the zero-tolerance attitude taken on the vice and the legal penalties applied to those who contravene the laws.**
(ii) **The rapid economic development over the last few decades has exerted enormous pressure on development of highly secured technology networks in the state.**
(iii) **Poor institutional governance, an atmosphere of impunity to the rule of law, low morale and inefficiency –contributes immensely to an environment that enable corruption to thrive and reach devastating levels in Kenya.**
(iv) **The importance of cultivating appropriate ethical governance, social norms and values are vital in checking public expenditure and further curbing corruption as manifested by the experience of UAE. This makes the behavior of those in positions of leadership in government, business, civil society, education and at home, crucial in instilling the right values and basics of ethical conduct.**

(v) Proper budgetary processes are a must in UAE. Unlike here in Kenya, cosmetic budgets are discouraged as the same is believed to breed corruption which is a malady at the heart of many problems today. It traps the poorest in the most desperate poverty as corrupt government officials syphon off funds and prevent hard-working people from getting the revenues and benefits of growth that are rightfully theirs.

(vi) One acknowledged cause of corruption in Kenya is poor governance, which is evidenced by failure of institutions and a lack of capacity to manage society by a framework of social, judicial, political and economic checks and balances.

(vii) There is need for the basic institutions of good ethical governance in Kenya to be strengthened, particularly the office of controller of budget (COB), judiciary, EACC, DCI, DPP, PPOA and so on which are the guardians of laws and integrity.

(viii) To effectively root out poor budgeting tendencies at both national and county levels , Kenya needs to have strong oversight institutions, including legislatures, law enforcement agencies, independent media and a vibrant civil society. When institutions vested with the task of curbing malpractices are weak, corruption spirals out of control with horrendous consequences for ordinary people and for justice and equality more generally.

(ix) The Kenyan public bears a large share of responsibility for insisting on honesty and integrity in government budgeting process, hence the urgent need for the National Assembly and the County Assembly seriously look into the enactment of laws that ensure proper and meaningful budgeting at all levels.

COMMITTEE RECOMMENDATIONS

Mr Speaker Sir,

Based on the committee findings and observations of the study tour, the committee makes the following recommendations:

1. **Strengthening the credibility of county budgets.** A review of the timing, steps and deliverables in the budget planning and preparation process is necessary to improve the timeliness and quality of budget documents being produced, and to better link medium-term objectives to annual targets and

expenditure outlays. These are preconditions for medium term and programmatic budgeting to take hold at county level.

2. **Clarifying legislative and procedural gaps.** These notably include sectoral policies providing the framework for service delivery, and county-level civil service human resource management guidelines. The latter will rationalise personnel needs and ensure that personnel emoluments in the recurrent budget are kept within affordable limits.

3. **Strengthening consultation and collaborative planning and drafting processes for key deliverables in the county budget planning and preparation process.** This notably includes support to develop realistic CIDPs that include clear timelines and costings for priority projects that can usefully feed into ADPs, so that ADPs can be used as an effective tool for annual planning and defining priorities.

4. **Improving programme-based budgeting. County Executive Committees need to catch up to national ministries in developing programme-based budgets with clear narratives and targets for budget lines.** Programme-based budgets need to be introduced in the next few budget cycles to ensure accountable and aspirational service delivery expenditure and to avoid counties preparing incremental budgets. Specifically, if counties are to improve on gender equality, budgeting, and monitoring gender issues then additional training and funds will need to be targeted in this area.

5. **Enhancing local revenue collection and administration.** Counties need a better understanding of taxable formal and informal activity to improve tax revenue forecasts, and of how to increase tax compliance and reduce leakages. Non-tax revenues need to be identified for counties with high informal sector activity. Further revenues generated in addition to concessional transfers from the national government should be allocated to benefit accountability and execution of development budgets in underfunded sectors. It may be the case that the national government has greater economies of scale in levying some taxes than county governments, which would require revenue-sharing agreements to be rethought.

6. **Increasing the coverage of IFMIS. 'Blind spots' in the IFMIS at county level need to be filled, including the recording of expenditures financed by local revenues.** A roadmap for integrating sources of development

10. **Capacity building and training on IFMIS.** The limited number of staff trained and authorized to operate IFMIS is causing bottlenecks in budgeting and procurement.

11. **Implement county-specific M&E into the budget cycle.** M&E is a central part of the budget cycle and is missing at the county level. Most counties stated they required training in M&E and funding for staffing.

12. **Increased county and development partner collaboration.** Counties should replicate the national MOH resource tracking tool they hope to introduce to the national MOH planning and budgeting process. Peer learning could be an efficient training method and add consistency through the country in terms of external funding protocols; the end goal being to align county needs with donor funding to fill financing gaps for priority areas.

13. Joint planning or coordination between sector institutions is required. Currently the planning processes for the County governments, WSPs, WSBs and the MoWI are not linked. Given the structure of the water sector it is essential that these institutions consult one another during their planning processes and align investments to maximize impact.

The principles to observe in the use of supplementary budgets are as follows.

1. It is better to acknowledge expenditures in supplementary budgets than resort to "off-budget" transactions, to using suspense accounts and so on; the basic concept that the parliament should approve all expenditures must be regarded as sacrosanct.
2. That said, it is the responsibility of ministries of finance to exhort line ministries and spending agencies to live within the budget resources allocated to them - the "hard" budget constraint; that means not giving supplementaries too readily but encouraging the switching of resources from lower-priority expenditures to provide for expenditures above budget provision elsewhere, wherever possible during the fiscal year.
3. Financial regulations, backed by actual practices, must stick to the basic concept that supplementaries cannot be assumed. Spending above provision without an agreed drawing on a contingency reserve, virement, or a specific supplementary for that item is an illegal act that should be subject to disciplinary action.

expenditure, such as e-ProMIS, into the IFMIS needs to be developed. This will allow for more complete tracking of public expenditures and support accountability efforts by civil society, media and county assemblies.

7. **Developing capabilities and systems for gender-disaggregated reporting, monitoring and evaluation.** The introduction of IFMIS needs to be complemented by systems and practices that allow county governments to track progress on development projects, the promotion of gender equality and delivery of basic services, in both urbanized and non-urbanized areas. Notably, gender- and location-disaggregated data should be made available for civil society, media and county assemblies to exercise oversight of public funds and make PFM more responsive to citizens' needs. Capacity-building efforts should prioritise counties that were not previously provincial headquarters, and whose CECM-F members did not previously occupy Treasury or other related positions.

8. **Facilitating counties' efforts for gender-responsive budgeting.** Counties need specific support and guidance to help target and promote gender equality, including through basic service budgets and projects. Existing gender-responsive budgeting guidelines need to be adapted specifically for the county level, and gender focal points need to be trained on the guidelines. The NGEC can support by developing a tool for setting gender-based targets in time for the next CIDP process. Civil society organizations need to work closely with National Treasury, NGEC and other gender relevant institutions to integrate gender responsiveness into budget guidelines, and support ministries and county governments to integrate and track progress on gender sensitive budgeting.

9. **Evaluation of improving national to county-level transfers – particularly the health-specific conditional grants.** In the minimal scenario, the system needs to have new regulations or procedures to follow if the National Treasury has limited cashflow. Increased communication from national to county health sectors on what proportion of the scheduled payment will be made, or when they can expect the delayed payment would benefit the counties' ability to manage projects and payment of salaries, etc. At best, the National Treasury, MOH and counties need to come together to identify ways to ensure that core financing is received by counties in a timely fashion, e.g. to pay salaries.

4. Supplementaries should be approved only at fixed times of the year. The best practice is once at the end of (or in some systems immediately after) the financial year in question, where the expenditures have been legally financed from a contingency reserve in the meantime. In other systems, twice-a-year use of supplementaries is followed; the more frequent use (more than twice a year) of supplementaries is again an indication of a poorly prepared budget and inadequate budget execution.

CONCLUSION

The committee believes that once the above recommendations on proper scrutiny of public expenditure are implemented, they will enhance accountability, effectiveness, transparency, efficiency, prudent management of resources and yield better service delivery in the county, in the immediate future.

Mr Speaker Sir,

Honourable Members, this Report reflects the unanimous view of the Committee and by extension the County Assembly delegation that visited Dubai in the United Arab Emirates on 19-2-2023 to 26-2-2023 . I therefore move that the recommendations contained herein be adopted by the House.

Hon. Jeremiah Musee Mutua
Chairman / Head of PIAC delegation

ADOPTION OF THE REPORT.

We, Members of the Public Investments and Accounts Committee/ Assembly Delegation have, pursuant to Standing Order 179, adopted this report and hereby affix our signatures to affirm our approval and confirm its accuracy, validity and authenticity:-

S/No	Members	Signature
1	Hon. Jeremiah Musee Mutua	
2	Hon. Malinga Munyao	
3	Hon. Kyalo Kimuli	
4	Hon. Zacchaeus Ivutha Syengo	
5	Hon. Fridah Maua Mutinda	
6	Hon. Alex Mutambu Nganga	