



Institute of Policy Analysis and Research
Box 45843 00100 GPO
Nairobi
Norfolk Towers, 2nd Floor

FOR IMMEDIATE RELEASE

**PRESS RELEASE: INTEGRITY IN DOUBT IN THE NATIONAL
BUDGETING PROCESS, 9TH JANUARY 2009.**

Weak integrity mechanisms exist in the national budgeting process. This is according to a study conducted by the Institute of Policy Analysis and Research (IPAR) assessing the integrity mechanisms in National Budgeting in Kenya.

The study conducted in the last six months in the Ministry of Finance, Kenya National Audit Office (KENAO) and Kenya National Audit Commission (KNAC) reveals that integrity mechanisms in national budgeting in Kenya are weak. There are significant weaknesses in the national accounting system. Continuous occurrence of errors in bookkeeping, poor accounting records and lack of adequate analysis of various below-the-line accounts are some of the poor practices observed that depict high-level audit risk (inherent, control and detection risks). Despite the Internal Audit Manual of 2005 clearly spelling out the standards, they are either not strictly adhered to or their utilisation has not been fully realised. The continuous occurrence of audit risk implies that the Ministry of Finance is not effectively handling misconduct, corruption, and maladministration of public finances. The Ministry lacks standards for reporting and presenting accounts. Finally, there are weak and inadequate controls over the utilisation of imprests observed in a number of ministries and departments particularly during 2005/2006.

Long delays in submitting accounts reports to the Controller and Auditor General (CAG) continue to undermine accountability as most government officials associated with the loss of public money never get to account for the money. The CAG has continuously been unable to provide meaningful opinion on several financial statements due to unexplained discrepancies, omitted expenditure accounts, and lack of documentation and explanations to support some of the figures appearing in the financial statement. The extent to which the government's financial statement accurately and fairly reflects the government's financial position is therefore suspect. The term "fair" as used by the CAG in certification of government accounts is misleading. This term does not determine the degree of error or inaccuracy, as it describes neither "good nor bad". "Fair" is a neutral term. Serious financial scams are revealed during special audits, a clear indication that annual audits are routine exercises that are not adding value to the budgeting process. Thus, both financial and compliance audits are suspect. The CAG has not produced value for money audits that show whether the government spends less, spends well, and / or spends wisely. The Kenya National Audit Office (KENAO) does not follow up on monitoring the impact of its audit reports and does not get feed back from Parliament, the public and, the media. Given that the President without wider consultation appoints the CAG, his/her immunity and independence are weak. Finally, there is a weak system of checks and balances for KENAO as there is no adequate mechanism in place to audit KENAO.

Further, it was established that public and parliamentary scrutiny of the budget is weak as Kenyan legislators are inadequately prepared to scrutinise the national budget and have little or no budgetary effect as the draft national budget is tabled by the Minister for Finance and generally approved without considered changes. External oversight of the national budget is limited by Kenya's political system and the inadequate technical capacity of the civil society to analyse the national budget.

Recommendations

The study recommends the following measures to help improve integrity in national budgeting in Kenya:

- There is need for internal auditors to strictly adhere to and utilise the Internal Audit Manual of 2005 and if necessary review the manual in light of

developments in international accounting standards. Parliament and civil society organisations should spearhead public demand to optimise its operationalisation, thus ensuring full accountability of the executive. This calls for training of both parliamentarians and civil society to enable them to effectively scrutinise the national budget.

- The Ministry of Finance should account for the glaring weaknesses in the internal national auditing process and reports. The Ministry should conduct training needs assessment of internal auditors and improve their capacity in handling national accounts as this is likely to minimise errors and other observed weaknesses.
- The Ministry of Finance should ensure timely submission of audit reports by adhering to the provisions of the Public Finance Management Act, 1999. This calls for departments and ministries to produce their financial statements in time to enable the CAG to meet deadlines. Any delays should be a serious issue to be taken up by Parliament.
- The CAG should produce value for money audits that show whether the government spends less, spends well, and/ or spends wisely, as this is also likely to limit opportunities for corruption and maladministration of public finances. The value for money audits will reveal whether the Government is meeting the three Es: economy, efficiency, and effectiveness.
- There is need to change Kenya's governance system through both political and fiscal devolution as this is likely to make legislators become more involved in providing better budget oversight function as well as create informed interest in national budgeting within the civil society and improve transparency, accountability and participation in national budgeting. The centralised system of government, which we have today, restricts wider consultation on national budgeting matters. The competence (especially capacity to understand and analyse budget items) of members of parliament constrains informed debate on national budgeting. Decentralised budget functions will involve wider stakeholders in the national budgeting process.
- Establish special courts of public accounts that are independent and with security of tenure. The primary function should be to combat corruption, deal with those responsible for delays in submission of internal audit reports or the

- diversion of public monies, and fraud in the management of public resources. These courts should have powers to prosecute the culprit.
- There is need for the Ministry of Finance to ensure that it provides information and data to the CAG to support auditor's strong, clear, and defensible arguments to support shrewd audit opinion.
 - Both the CAG and the KENAO staff require security of tenure to protect independence of audit reports to ensure unjustified removal by the legislature or by executive does not occur as lack of tenure is a threat to the integrity of the audit opinion. To this end, there is need to limit and prohibit non-vetted executive selection of auditors to conduct special audits.
 - The Government should restrain itself from acting as if it is the principal client. Instead, it should pass appropriate audit laws that protect the terms and conditions of the KENAO personnel. The principal client is the electorate, who should be actively involved in the entire process of national budgeting. This calls for availability of budget information to help in making appropriate decisions and forming objective assessment of the budget proposals.
 - Through the appropriate parliamentary committee, the legislature should vet names of three qualified professionals to occupy the Office of the CAG for consideration and/or approval by the President. The Kenya National Audit Commission (KENAC) should be abolished and its functions ceded to Parliament.
 - The KENAO should be obligated to an audit like all other government departments and agencies.

The Institute of Policy Analysis and Research (IPAR) is a non-partisan, not-for-profit organization, mandated to conduct social science policy research and training. IPAR shares its policy results, whose objective is the improvement of human welfare, with the Government, its development partners, private sector and civil society.

A copy of the study is available at our offices at Norfolk Towers, Block F, 2nd Floor any weekday between 8am - 4:30pm. For clarification and interviews with the authors of the study, contact G. Nzou on 0721 154 876 or grace@ipar.or.ke

-ENDS-