



KENYA SCHOOL OF GOVERNMENT

SENIOR MANAGEMENT COURSE



BUDGET PROCESS

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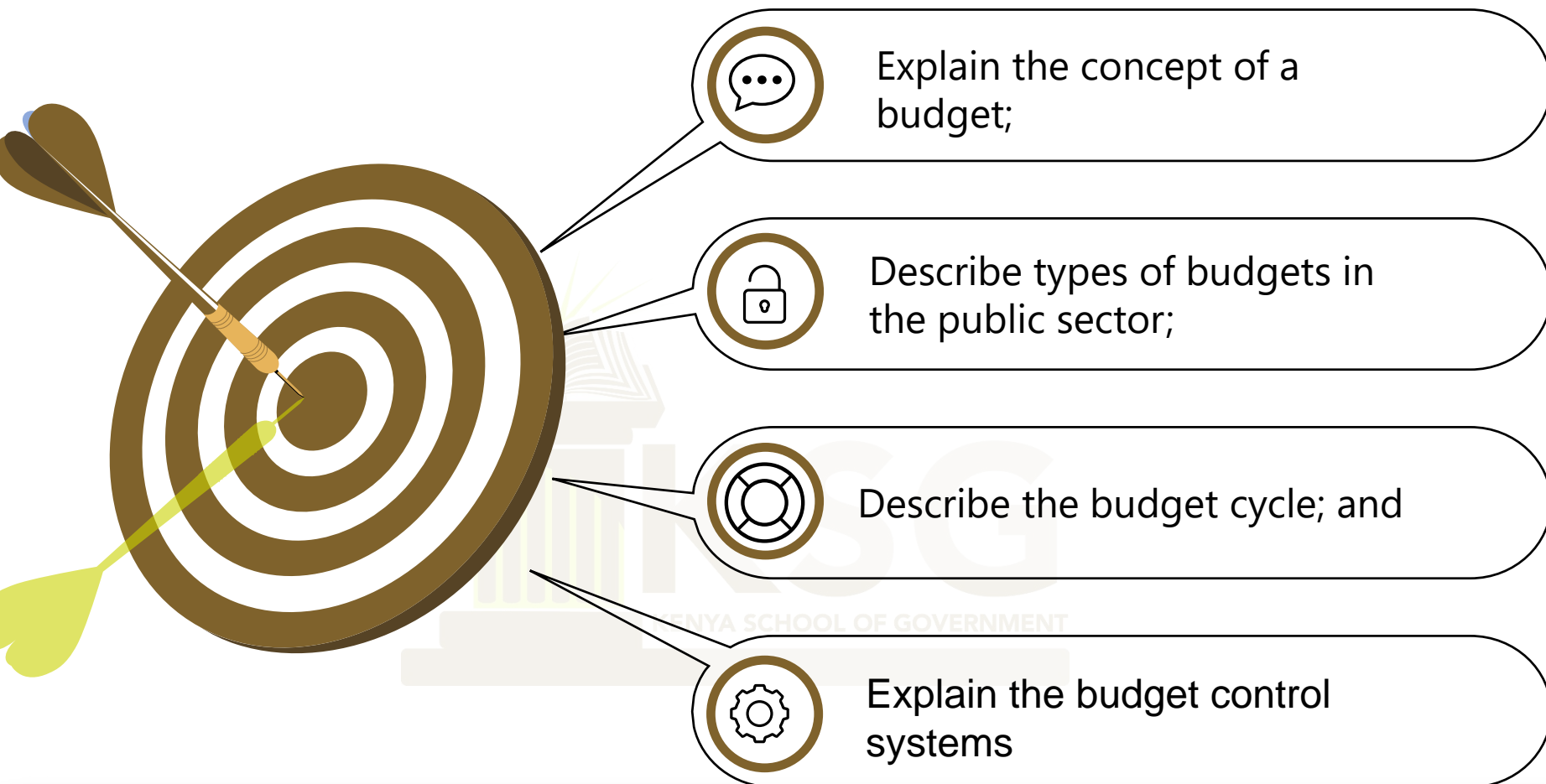
Session Outline

Session Objectives

- Definition of a budget
- Importance of budgeting
- Budget Cycle
- Budget formulation process
- Public Expenditure & Management control
- Levels of Expenditure Control
- Expenditure Control Techniques/Instruments
- Conclusion

Objectives

By the end of this unit, you should be able to:

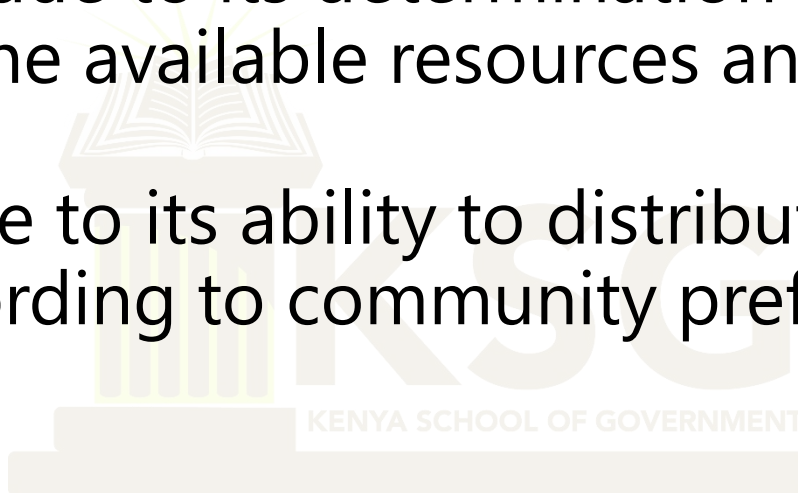


What is a budget?

- Financial plan of expenditures and revenues expressed in quantitative/monetary terms, covering a specific period of time, usually one year.
- It is a managerial tool driven by strategy, goals and objectives. ***A financial roadmap/Plan***
- A Government budget may be considered as:
 - Planning, Economic, Political and Social Document.

Government Budget as Multi-Faceted Document

- **Economic:** due to its allocation of scarce resources
- **Planning:** due to its act of drawing future activities in advance of time (forecasting).
- **Political:** due to its determination of who gets how much of the available resources and when.
- **Social:** due to its ability to distribute benefits and costs according to community preferences.



Why Budgeting is important

1. Minimizing uncertainty

→ Attempting to make the future more predictable by identifying and determining what is required, how much of it is available when it is available.

2. Policy Direction

→ As a plan the budget indicates a specific policy direction for a specific period of time which requires approval by say the Treasury or Parliament or the top management in case of private organizations

3. Resource allocation

→ The budget determines how limited resources are to be divided among the competing alternatives within an organization.

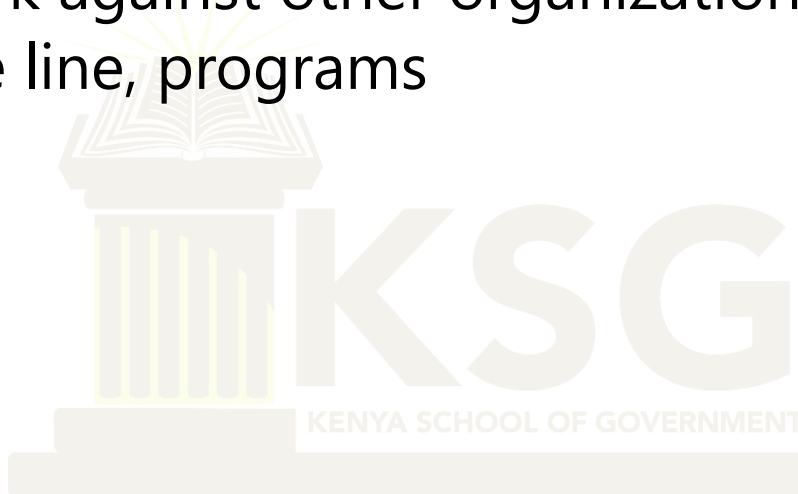
Why Budgeting is important cont.

4. Accountability instrument

- provides a basis for budgetary control

5. Performance evaluation

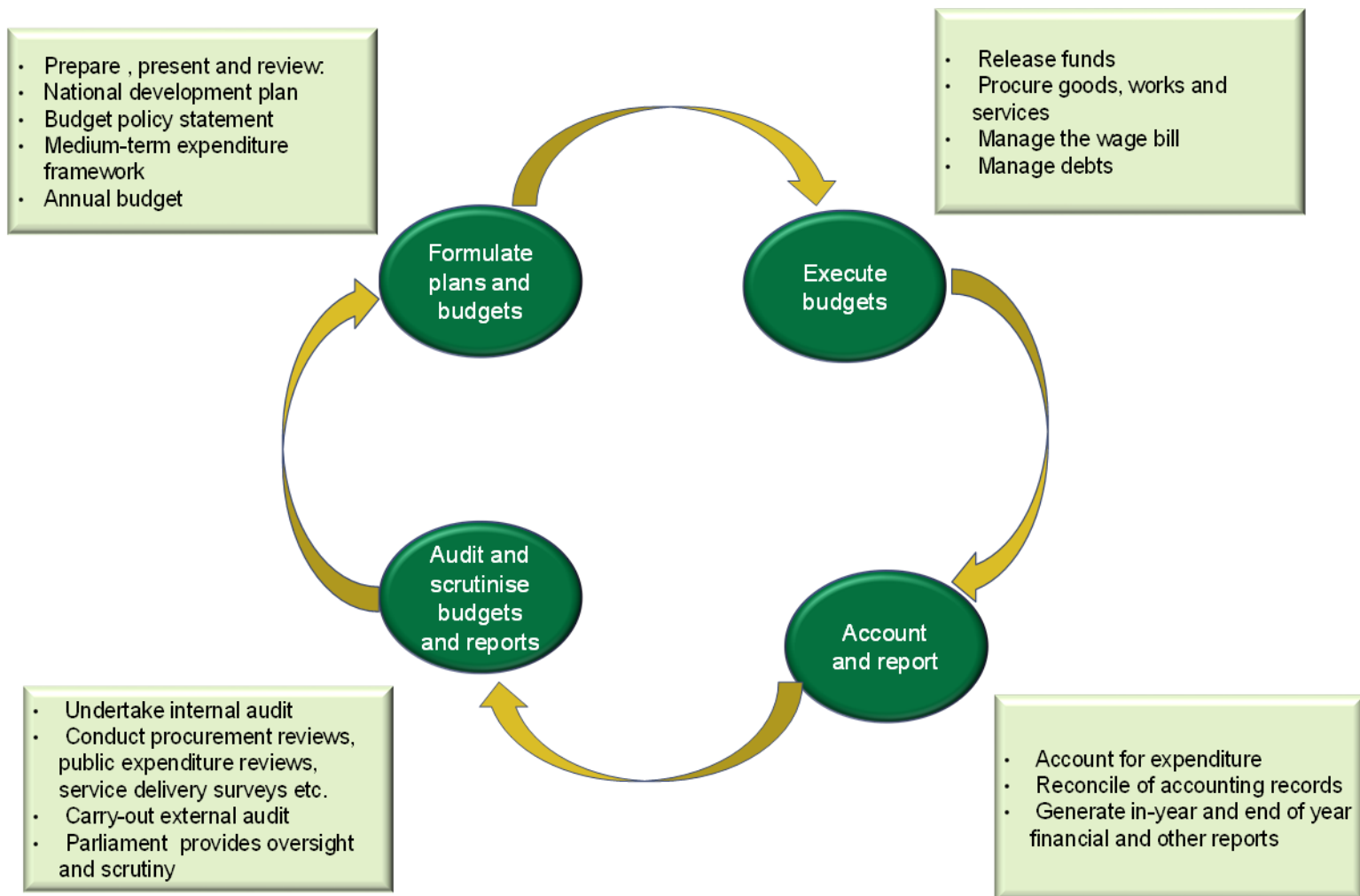
- versus budget
- versus prior month, quarter, year
- benchmark against other organizations
- by service line, programs



Government Budget

- The government annual budget is a key public policy document setting out government intentions for raising revenue and using resources during the year
- A Government Budget is divided into two:
 - i. *Recurrent Vote:*
 - Resources are directed towards achieving short- term operational goals of the organization or expenditures that recur e.g. Personal Emoluments, Transport operating expenses etc.
 - ii. *Development Vote:*
 - Resources are directed towards proposed expenditures for new or large projects and normally require special financing

Budget Cycle



Main Steps in Budget Formulation for NG

Step One: The CS Treasury issues a circular to all National Government entities setting out guidelines on the budget process to be followed not later than 30th august every year.

Step Two: The CS Treasury shall with the approval of the cabinet make public pronouncement of the budget policy highlights and revenue raising measures for the National Government.

Step Three: The CS Treasury within reasonable time should submit to the cabinet for approval the budget estimates, and other documents supporting the budget and the draft bills required to implement the national budget.

Step Four: The CS Treasury shall submit to the National Assembly by 30th April the budget estimates excluding those for Parliament and the Judiciary. The chief registrar of the Judiciary and the accounting officer for the Parliamentary Service Commission submit their budget estimates on the same date

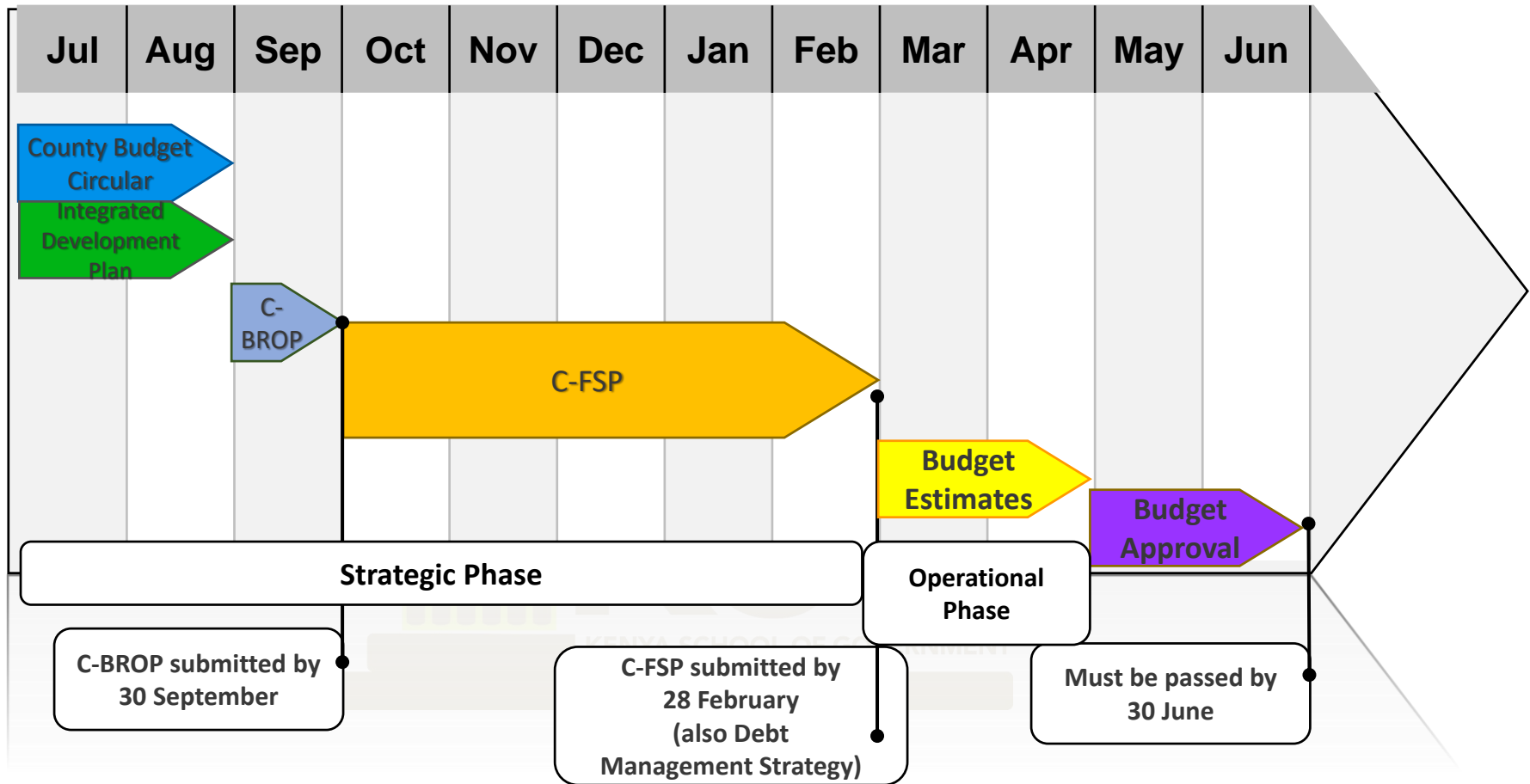
Step Five: The CS Treasury should submit to the National Assembly not later than 15th May any comments of the National Treasury on the budget proposed by the Parliamentary Service Commission and the chief registrar for the Judiciary

Step Six: After the approval of the budget estimates by the National Assembly, the CS Treasury shall prepare and submit an appropriation bill of the approved estimate to the National Assembly

Step Seven: Not later than twenty one days after the National Assembly has approved the budget estimates, the National Treasury shall consolidate publish and publicize the budget estimates

Step Eight: Not later than ninety days after passing the appropriation bill, the National Assembly shall consider and approve the Finance bill with or without amendments

Budget Calendar- County Budget Preparation



Budget Execution

- After legislative appropriation of expenditures, there are 6 main stages in budget execution:

1.The Authorization stage-ministries and departments are authorized to spend money consistent with the legal appropriations;

2.The Commitment stage-Future obligation(liability) to pay is incurred;

3.The verification stage:-signifies that goods have been delivered fully or partially according to the contract, or the service has been rendered and the bill has been received;

4.Payment authorization or payment order stage;

5.Payment stage;

6.Accounting

Expenditure Control



- Refers to techniques that are utilized at selected stages of budgeting for the review of programs and their financial implication and for ensuring compliance.
- Expenditure is subject to great limitations, constraints and controls

Expenditure Control

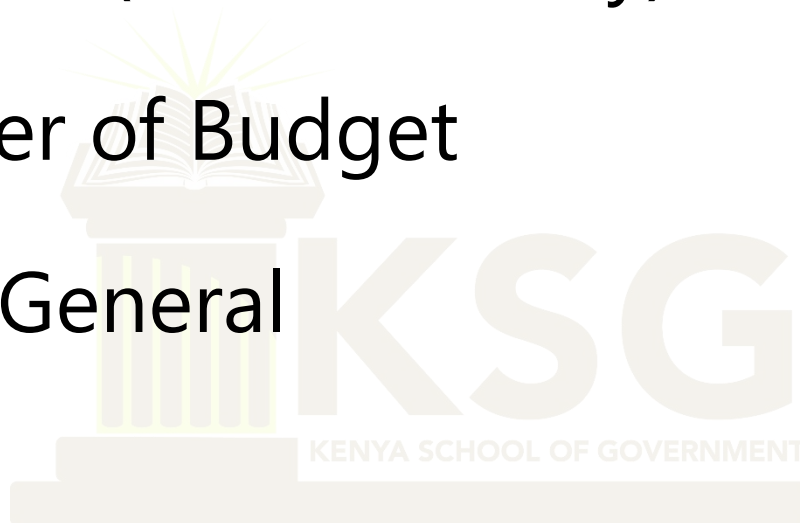
Public Expenditure Control and Management Efforts manifest in the following Activities:

- Budgeting–Budget preparation
- Requisition and Expenditure.
- Borrowing, lending and on-lending.
- Accountability – Preparation of books of accounts, audit/ examination of accounts.



Levels of Expenditure Control

- Executive Control
- Legislative (Parliamentary) Control
- Controller of Budget
- Auditor General



(i) Executive Control

- Exercised through the National Treasury in conjunction with Ministries/departments within Government machinery.
 - _ The Treasury
 - _ Has the authority to manage, supervise, control and direct all matters related to the financial affairs of Kenya)
 - _ The Accounting Officer
 - Ensure accuracy and realistic estimates;
 - Ensure propriety and accountability.

(ii) Legislative (Parliamentary) Control

- Authority for raising revenue and their appropriation for purposes of the Government of Kenya is vested with the Parliament and exercised through the following committees
 - The parliamentary Budget Committee
 - The Public Investment Committee
 - The Public Accounts Committee

(iii) Controller of Budget

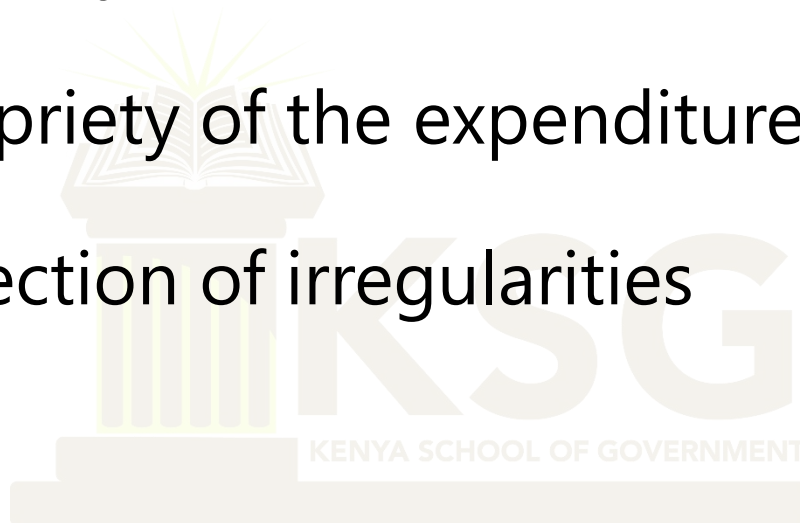
- Authority for expenditure;
 - Authorizes withdrawals from the consolidated Fund
 - Controls issues in and out of the Consolidated Fund



(iv) Auditor General

Audit:

- Accuracy of the accounts;
- Propriety of the expenditure and
- Detection of irregularities

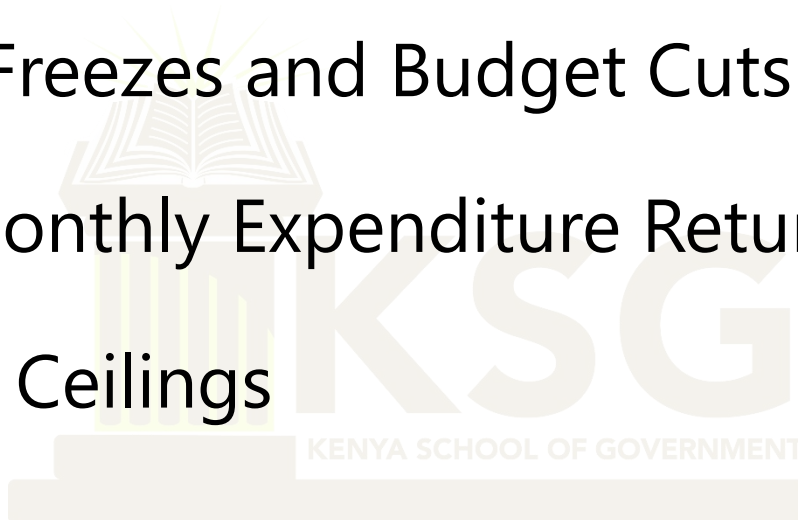


Why Expenditure Control?

- To secure the "right balance" of Government Expenditure
 - Stabilization; Stimulation of Economy and Equity
- To ensure efficiency
 - Allocative and operational
- Ensure Effectiveness
- To guard against waste
- To prevent fraud, corruption and unauthorized expenditure

Expenditure Control Techniques/Instruments

- Line-Item Appropriations
- Complement (Position) Control
- Ceilings, Freezes and Budget Cuts
- Use of Monthly Expenditure Returns
- Quarterly Ceilings



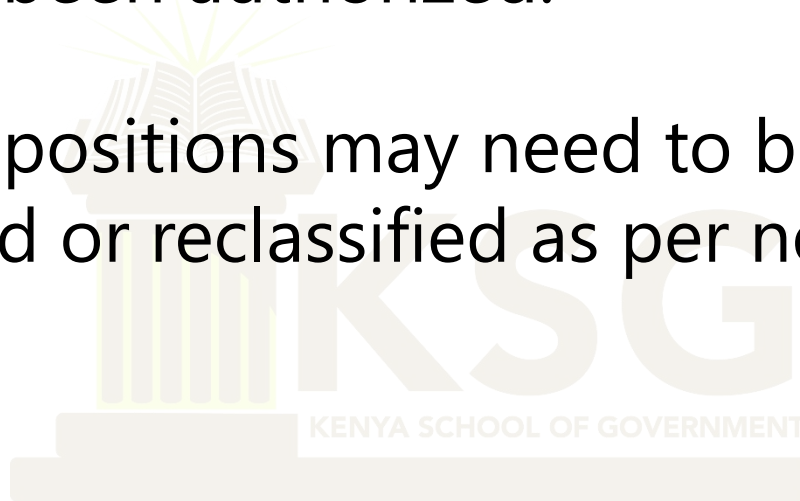
(i) Line-Item Appropriations

- Basic control device which confines discretion over spending within very narrow and specific bounds (i.e. at item level).
- Ministries/departments may only spend for those "objects of expenditure" approved in the budget.

ii) Complement (Position) Control

Element of budget control intended to make certain that all new personnel are hired only for positions which have been authorized.

- Some positions may need to be abolished, created or reclassified as per need.



(iii) Ceilings, Freezes and Budget Cuts

- Ceilings (cash limits)
 - Arbitrary limit on expenditures for some or all purposes.
- Freezes
 - Prohibition on further spending for some or all purposes
- Budget Cuts
 - Reduction of an already approved budget as a means of austerity measure

(iv) Use of Monthly Expenditure Returns

- Regular financial Information is supplied to the Treasury at certain period to show the trend of expenditure in line Ministries/departments etc

(v) Quarterly Ceilings

- Provides the limit of resources (i.e. exchequer releases) available for a Ministry and hence the allowable expenditure limit in the relevant quarter

Conclusion

"In as much as the government has established regulation in the use and application of government money, resources and property, the biggest regulator is the "INTEGRITY" of its officers."



References

1. Constitution of Kenya, 2010
2. Public Sector Financial Management Act of 2012
3. Public Finance Management (National Government) Regulations 2015
4. Public Finance Management (County Governments) Regulations 2015

The End

Thank You

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