

Module 4 ■ Implementation and Audit

2 HOURS 50 MINUTES

LEARNING OUTCOMES

By the end of this module, you will have:

- Understood the significance of budget implementation reports and audit reports
- Identified and analyzed the key components of a county implementation report
- Discussed and understood key elements of an audit report

Module 4 Session 1: Understanding County Implementation Reports

TASK 4.1 ■ 7 QUESTIONS ABOUT YOUR COUNTY IMPLEMENTATION REPORT

1 HOUR 35 MINUTES

TASK OBJECTIVE

- ❖ UNDERSTANDING BUDGET IMPLEMENTATION BY ASKING RELEVANT QUESTIONS ON COUNTY IMPLEMENTATION REPORTS

RESOURCES NEEDED

- ✓ Baringo County Government Second Quarter 2015/16 Budget Implementation Status Report.

TASK EXPLANATORY NOTES

Alternative one : You have a copy of your own county's implementation report

1. The facilitator will go through Q1- Q3 using the Baringo second quarter budget implementation report then explain what is required to answer Q 4-Q7
2. In groups of two or three you shall answer Q4 to Q7 using your own county implementation report (40Minutes)
3. Note down your answers and any other interesting issues that can help the public/ county assembly in their oversight role.
4. Allow one person in your group to present at least an answer to one of the questions or one interesting issue identified in plenary

Alternative two: you do not have a copy of your own county's implementation report

1. The facilitator will go through Q1- Q3 using the Baringo second quarter implementation report then explain briefly what is required to answer Q 4-Q7
2. In groups of two or three, answer Q4 to Q7 using the Baringo second quarter implementation report (40 minutes)
3. Note down your answers and any other interesting issues that can help the public/ county assembly in their oversight role
4. Allow one person in your group to present at least an answer to one of the questions or one interesting issue identified in plenary

TASK 4.1

(QUESTIONS AND GUIDE)

1. Does the implementation report contain data for the quarter against the same quarter from the previous year?

To assess the performance of revenue and spending, it is important to look at similar periods of time each year. This is because both revenue and spending are seasonal. For example, many counties collect most revenue during the third quarter, and collect less than one quarter of the annual revenue target in the other quarters. So it is important to compare first quarter spending against first quarter from the previous year, rather than to look at 25% of the target for the year. Similarly, due to procurement policies, capital spending is often lower in the first quarter and picks up later in the year. To get a sense of performance, then, it is useful to compare the growth of revenue and spending against the same period from the previous year. The implementation report should contain a table with figures that make it easy to make such a comparison. In the case of quarters 2 to 4, cumulative performance up to that point in the year (for example, half year or annual performance) should be given and compared to the same period in previous years.

2. Does the report contain data on actual revenue and expenditure against targets for the quarter?

Another way to think about performance is to look at revenue and spending against target. Again, as was mentioned above, targets should be sensitive to the seasonal nature of government finances. So you would expect a lower revenue target in Q1 than in Q3. Targets can be a more refined measure of performance than comparison against the previous year, because they are based on current year expectations, which may be different due to changes in the nature of the budget from year to year. But they may also be unrealistic, as targets are sometimes manipulated to make it appear that a government will have more or less revenue than is actually expected. This may make performance look worse (or better) than it really is. Looking at both performance against last year and performance against target is therefore a good way to fully understand performance. Targets should be derived from past experience, an understanding of cash flow, departmental work plans and the overall budget. Often, there are no targets and the reports look only at the annual budget as the target.

3. Do the targets for revenue and expenditure appear to be realistic?

Above, we indicated that sometime targets are not realistic. Assessing how realistic targets are is not always easy for a lay person. However, there are some clues that can be used. First, if there is data on revenue or expenditure growth over time, one can get a sense of how much these things tend to grow from year to year. If revenue tends to grow by 10% per year, a target of 2% or 20% is likely unrealistic. In the absence of data, one must try to use common sense. In most cases, revenue and expenditure growth of between 5-15% is what might be considered normal. In some circumstances, those figures might be high or low. It is hard for any government to sustain figures that are much higher than that; for example, revenue growth might be 25% in a given year, but it is unlikely to be 25% every year. Nevertheless, actual growth will vary based on economic growth, changes in tax policy and other factors and the 5-15% range should only be used in the absence of other data.

Second, if target revenue or expenditure growth for a particular source, ministry or program is very high or low compared with others, we might ask questions about this. So, for example, if revenue in general is expected to grow by 10% but property rates are expected to grow by 30%, we should ask what the basis is for this level of optimism.

4. Is it possible to identify specific sources of revenue that are performing well or poorly and why?

The last question implied that the sources of revenue are broken down so that we can see how individual sources are performing. This is good practice. At a minimum, we would want to see all major sources. Where possible, we would want to see all sources. Performance for each source should also be provided against target and previous year for the same quarter.

Beyond the breakdown, we would want to have narrative explanations for particularly good and particularly poor performance. This should help us to understand why performance is below or above what was expected. For example, if performance is low due to failure to implement certain policies, lack of staff, economic changes, etc., that should be explained.

5. Is it possible to identify specific ministries/departments and programs that are performing well or poorly and why?

Just as for revenue, we expect to see a breakdown to at least the ministry level, and ideally the program level in terms of expenditure against target and compared to the previous year. We also expect a narrative explaining good and poor performance. For example: why is the Ministry of Health performing poorly in terms of spending its budget for medicines? Is this related to supply chain problems that require the county to rethink suppliers?

6. Does the report provide information on non-financial targets and performance by ministry/department?

In addition to financial performance data, we also expect to see some data on indicators and targets for non-financial performance. These should be the same as, or closely related to, the indicators and targets in the program based budget approved at the start of the year. Not all indicators can be measured quarterly, but those that can be should be reported on. This would include information that allows us to link financial performance (e.g., 20% of the budget spent) to non-financial performance (20% of vaccinations delivered).

7. Does the report provide proposals for how to rectify challenges in implementation of either revenue or expenditure?

Beyond simply identifying challenges in implementation, the report should provide proposals for improving performance. For example, if one of the challenges in implementation is lack of adequate staff with procurement knowledge, then a description of a staff recruitment plan for personnel with the requisite skills could be provided with timelines, etc.

EXTRA READINGS

- i. IBP Kenya, “Guide to Reading Office of the Controller of Budget’s County Reports,” Companion Spreadsheet for Reading Office of the Controller of Budget’s County Reports, and Training Exercises: Reading the COB County Report available at: <http://www.internationalbudget.org/budget-work-by-country/ibps-work-in-countries/kenya/understanding-county-budgets/reading-office-of-the-controller-of-budgets-county-reports/>
- ii. Open Budget Survey Guide and Questionnaire (Question 68-96) available at: <http://www.internationalbudget.org/publications/obs-2015-questionnaire-and-guidelines-english/>
- iii. IBP Kenya, “Guide to Reading Office of the Controller of Budget’s County Reports” (February 2015) available at: <http://www.internationalbudget.org/wp-content/uploads/Guide-to-Reading-OCOB-Country-Reports.pdf>

KEY TAKEAWAYS

- ✓ **COUNTY IMPLEMENTATION REPORTS ARE PRODUCED ON A QUARTERLY BASIS AND SHOULD BE AVAILABLE ON OCTOBER 31, JANUARY 31, APRIL 30, JULY 31(NEXT FY)**
- ✓ **IMPLEMENTATION REPORTS SHOULD PROVIDE:**
 - **PERFORMANCE OF REVENUES COMPARED TO THE PREVIOUS YEAR**
 - **PERFORMANCE OF EXPENDITURE BY DEPARTMENT COMPARED TO THE PREVIOUS YEAR**
 - **EXPENDITURE AND REVENUE TARGETS FOR THE QUARTER AND PERFORMANCE AGAINST TARGET**
 - **EXPLANATIONS OF GOOD AND POOR PERFORMANCE AND SOLUTIONS TO THE CHALLENGES FACED BY DEPARTMENTS**