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CPA

Advanced Public Financial Management

April 2026

Level: Advanced Level

Question 1

Introduction to Public Financial Management

Your country has recently experienced fiscal instability arising from weak budget controls, delayed reporting and ineffective oversight mechanisms. The National Treasury has constituted a taskforce to review weaknesses within the Public Financial Management (PFM) cycle.

Required:

(a) Analyse FIVE components of the Public Financial Management Cycle.

(b) Evaluate FIVE global best practices that could strengthen the country's public financial management system.

✓ Answer for Question 1

(a) Analyse components of the Public Financial Management (PFM) Cycle

The **Public Financial Management (PFM) Cycle** refers to the processes through which government resources are planned, allocated, utilised, monitored and accounted for to achieve public policy objectives.

The major components of the PFM cycle include:

1. Policy Formulation and Planning

This is the initial stage where government priorities and development goals are identified.

Activities involved:

- Formulation of national and sectoral policies.
- Preparation of strategic plans.
- Determination of development priorities.
- Alignment of public expenditure with national objectives.

Importance:

- Ensures government spending supports policy goals.
- Provides direction for resource allocation.

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2. Budget Preparation and Formulation

This stage involves translating policies and plans into financial terms.

Activities involved:

- Revenue forecasting.
- Estimation of expenditures.
- Preparation of budget proposals by ministries and departments.
- Consolidation of budget estimates by the National Treasury.

Importance:

- Facilitates allocation of scarce resources.
- Links expenditure plans to available revenues.

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3. Legislative Review and Budget Approval

The proposed budget is scrutinised and approved by the legislature.

Activities involved:

- Examination of budget estimates.
- Public participation and stakeholder consultations.
- Approval or amendment of budget proposals.
- Enactment of Appropriation and Finance Acts.

Importance:

- Promotes accountability and transparency.
- Ensures public resources are authorised before spending.

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4. Budget Execution and Implementation

After approval, funds are released and utilised to implement programmes and projects.

Activities involved:

- Revenue collection.
- Procurement of goods and services.
- Payment processing.
- Project implementation.
- Cash management.

Importance:

- Converts plans into actual service delivery.
- Ensures efficient utilisation of public resources.

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5. Accounting and Financial Reporting

Government entities record financial transactions and prepare reports.

Activities involved:

- Maintaining accounting records.
- Preparation of monthly, quarterly and annual financial statements.
- Reporting on budget performance.

Importance:

- Provides information for decision-making.
- Enhances transparency and accountability.

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6. Internal Control and Monitoring

Continuous monitoring is conducted to ensure compliance with laws and regulations.

Activities involved:

- Internal audits.
- Risk management.
- Performance monitoring.
- Compliance reviews.

Importance:

- Detects irregularities early.
- Safeguards public assets.
- Improves operational efficiency.

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7. External Audit

Independent audit institutions assess the use of public funds.

Activities involved:

- Financial audits.
- Compliance audits.
- Performance audits.
- Issuance of audit reports.

Importance:

- Provides independent assurance.
- Detects fraud, waste and misuse of resources.

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8. Legislative Oversight and Evaluation

The legislature reviews audit findings and evaluates government performance.

Activities involved:

- Examination of audit reports by parliamentary committees.
- Summoning accounting officers.
- Making recommendations for corrective action.

Importance:

- Strengthens accountability.
- Ensures implementation of audit recommendations.

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9. Feedback and Policy Review

Lessons learned from implementation and audits are incorporated into future planning.

Activities involved:

- Evaluation of programme outcomes.

- Review of policies and budgets.
- Improvement of future PFM processes.

Importance:

- Facilitates continuous improvement.
- Enhances effectiveness of government spending.

(b) Evaluate global best practices that could strengthen the country's Public Financial Management system

To address fiscal instability, weak controls, delayed reporting and poor oversight, the country can adopt the following international best practices:

1. Medium-Term Expenditure Framework (MTEF)

This links budgeting to long-term strategic priorities over a three to five-year period.

Benefits:

- Improves fiscal discipline.
- Enhances predictability of funding.
- Promotes strategic allocation of resources.

Evaluation:
Helps governments avoid short-term and politically motivated budgeting decisions.

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2. Programme-Based Budgeting (PBB)

Resources are allocated based on programmes and expected outcomes rather than line items.

Benefits:

- Focuses on results and performance.
- Enhances accountability for outcomes.
- Improves efficiency in resource utilisation.

Evaluation:
Encourages managers to achieve measurable outputs and outcomes.

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3. Integrated Financial Management Information Systems (IFMIS)

Use of automated systems to manage budgeting, procurement, accounting and reporting.

Benefits:

- Real-time financial information.
- Reduced manual errors.
- Improved transparency.
- Enhanced expenditure control.

Evaluation:
Significantly reduces opportunities for fraud and financial mismanagement.

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4. Accrual-Based Accounting

Recording transactions when they occur rather than when cash is received or paid.

Benefits:

- Provides a complete picture of government finances.

- Captures liabilities and assets accurately.
- Improves financial reporting quality.

Evaluation:
Supports informed decision-making and better fiscal sustainability assessment.

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5. International Public Sector Accounting Standards (IPSAS)

Adoption of globally recognised accounting standards.

Benefits:

- Improves comparability of financial reports.
- Enhances credibility of public sector accounts.
- Promotes transparency.

Evaluation:
Facilitates investor confidence and donor support.

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6. Strengthened Internal Audit Functions

Establishment of independent and professional internal audit units.

Benefits:

- Early detection of control weaknesses.
- Improved risk management.
- Enhanced compliance.

Evaluation:
Prevents financial irregularities before they become significant problems.

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7. Independent Supreme Audit Institutions (SAIs)

Empowering institutions such as the Auditor-General.

Benefits:

- Independent scrutiny of government spending.
- Detection of fraud and inefficiency.
- Enhanced public trust.

Evaluation:
Acts as a key pillar of accountability in public finance.

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8. Open Budgeting and Fiscal Transparency

Making budget information publicly accessible.

Benefits:

- Increases citizen participation.
- Reduces corruption.
- Enhances accountability.

Evaluation:
Public scrutiny often leads to better financial management practices.

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9. Performance Monitoring and Evaluation Systems

Regular assessment of programme performance against targets.

Benefits:

- Measures value for money.
- Improves service delivery.
- Facilitates evidence-based policymaking.

Evaluation:
Ensures government expenditure generates intended results.

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10. Treasury Single Account (TSA)

Consolidation of all government cash resources into a single account structure.

Benefits:

- Improves cash management.
- Reduces idle balances.
- Minimises borrowing costs.

Evaluation:
Enhances fiscal control and liquidity management.

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11. E-Procurement Systems

Digitisation of procurement processes.

Benefits:

- Increased competition.
- Reduced procurement fraud.
- Improved transparency.

Evaluation:
Strengthens integrity and efficiency in public purchasing.

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12. Fiscal Responsibility Frameworks

Establishment of fiscal rules and debt limits.

Benefits:

- Controls excessive borrowing.
- Promotes sustainable public finances.

- Enhances macroeconomic stability.

Evaluation:
Provides long-term protection against fiscal crises.

Conclusion

A robust Public Financial Management cycle consists of **planning, budgeting, legislative approval, implementation, accounting, reporting, auditing, oversight and feedback mechanisms**. To address fiscal instability, the country should adopt international best practices such as **MTEF, programme-based budgeting, IFMIS, IPSAS, accrual accounting, strong audit systems, fiscal transparency, e-procurement and treasury single accounts**, which collectively improve fiscal discipline, accountability, transparency and service delivery.

CPA

Advanced Public Financial Management

December 2025

Level: Advanced Level

Question 2

 The role of Accounting officer in management of Public Funds, The Office of Auditor General

(a) Explain FIVE roles of Public Accounts Committee (PAC) in the National Assembly.

(b) The integration of iTax into Kenya's public finance ecosystem has played a pivotal role in advancing the goals of the Public Finance Management Act, 2012.

With reference to the above statement, analyse FIVE ways in which the integration of iTax supports the objectives of the Public Finance Management (PFM) Act.

✓ Answer for Question 2

(a) Roles of the Public Accounts Committee (PAC) in the National Assembly

The **Public Accounts Committee (PAC)** is a key oversight committee that ensures accountability in the use of public resources, mainly based on reports from the **Office of the Auditor-General**.

1. Examination of Auditor-General's Reports

- Scrutinises audit reports on national government ministries, departments, and agencies
- Identifies irregularities, wastage, and misuse of public funds

This is the core function—PAC acts on audit findings.

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2. Holding Accounting Officers Accountable

- Summons Principal Secretaries and other accounting officers
- Requires explanations on audit queries and financial mismanagement

Creates personal responsibility for public funds.

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3. Investigating Misuse of Public Resources

- Conducts inquiries into suspected fraud, corruption, or inefficiency
- May recommend further investigations by relevant agencies

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4. Reporting to the National Assembly

- Prepares and tables reports with findings and recommendations
- Advises Parliament on corrective actions

These reports influence policy reforms and sanctions.

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5. Ensuring Implementation of Recommendations

- Follows up on whether ministries implement audit and PAC recommendations
- Promotes continuous improvement in financial management

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6. Enhancing Transparency and Accountability

- Provides a public platform for scrutiny of government spending
- Strengthens public confidence in governance

(b) How Integration of iTax Supports Objectives of the PFM Act, 2012

The **iTax** system by the **Kenya Revenue Authority** is a digital tax administration platform. Its integration into public finance directly advances key objectives of the **Public Finance Management Act**.

Let's break this down analytically:

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1. Enhancing Revenue Mobilisation

PFM Objective: Maximise revenue collection

- iTax automates tax registration, filing, and payment
- Reduces tax evasion through data matching and compliance tracking
- Broadens the tax base

Result: Increased and more predictable government revenue.

---

2. Promoting Transparency and Accountability

PFM Objective: Ensure openness in public finance

- Provides real-time records of tax transactions
- Creates audit trails for all payments
- Minimises human interference

Reduces corruption and enhances traceability of funds.

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3. Improving Efficiency in Tax Administration

PFM Objective: Efficient use of public resources

- Eliminates manual processes and paperwork
- Speeds up tax processing and compliance
- Reduces administrative costs

Government operates more efficiently with fewer resources.

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4. Supporting Fiscal Planning and Budgeting

PFM Objective: Strengthen budget preparation and execution

- Generates reliable revenue data and trends
- Enhances forecasting accuracy
- Supports evidence-based budgeting

Leads to realistic and credible budgets.

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5. Strengthening Compliance and Enforcement

PFM Objective: Improve financial discipline

- Tracks taxpayer behavior and compliance levels
- Enables enforcement through automated penalties and notices
- Integrates with other systems for data verification

Encourages voluntary compliance and reduces defaults.

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6. Facilitating Integration with Other Public Finance Systems

PFM Objective: Integrated financial management

- Links with systems like Integrated Financial Management Information System

- Supports the **Single Treasury Account (STA)** framework
- Enables seamless flow of revenue data into government accounts

Improves coordination across government financial systems.

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7. Enhancing Reporting and Decision-Making

PFM Objective: Timely and accurate financial reporting

- Provides up-to-date revenue reports
- Supports monitoring of government performance
- Enables quick policy adjustments

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8. Reducing Leakages and Corruption

PFM Objective: Safeguard public resources

- Minimises cash handling and manual intervention
- Detects inconsistencies through system controls

Seals common loopholes in revenue collection.

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Advanced Public Financial Management

August 2025

Level: Advanced Level

Question 3a

 Public sector Budgeting and Planning

Explain FIVE ways of improving budget preparation process in order to enhance fiscal responsibility and efficiency in your country.

✓ Answer for Question 3a

Introduction:

The budget preparation process is the foundational stage of public financial management. Enhancing its quality directly leads to greater fiscal responsibility (prudent management of resources) and efficiency (achieving maximum output with available inputs). Improvements should focus on embedding discipline, transparency, and strategic foresight throughout the cycle.

Here are key ways to improve the budget preparation process:

1. Strengthening the Medium-Term Budget Framework (MTBF):

- **Shift from Annual to Multi-Year Focus:** Rigorously use the Medium-Term Expenditure Framework (MTEF) to base annual budgets on 3-year forward estimates. This forces line ministries and counties to plan beyond the current year, reducing ad-hoc, unsustainable projects and enhancing predictability of funding.
- **Hard Budget Constraints:** Ensure the sectoral ceilings provided in the Budget Policy Statement (BPS) and County Fiscal Strategy Paper (CFSP) are strict and binding. This compels agencies to prioritize and make tough choices within their limits, fostering fiscal discipline from the outset.

2. Deepening Programme-Based Budgeting (PBB):

- **Link Budget to Results:** Fully transition from line-item budgeting to Programme-Based Budgeting. Allocate funds to specific programmes and projects with clear, measurable objectives and performance indicators (outputs and outcomes).
- **Enable Performance Evaluation:** This allows for the evaluation of whether public funds are achieving their intended results (efficiency). It moves the question from "How much did you spend?" to "What did you achieve with the spending?"

3. Integrating Robust Risk Analysis and Contingency Planning:

- **Formal Risk Assessment:** Mandate and institutionalize a formal risk assessment during the preparation phase. This involves identifying potential fiscal risks (e.g., economic shocks, drought, fluctuations in commodity prices, performance of state corporations) and quantifying their potential impact on the budget.

- **Create Explicit Contingencies:** Based on this analysis, establish a realistic and transparent contingency fund within the budget to absorb shocks. This prevents mid-year unbudgeted emergency spending that undermines fiscal responsibility.

4. Enhancing the Quality and Use of Data & Evidence:

- **Evidence-Based Budgeting:** Requize ministries and departments to submit robust evidence to justify their budget bids. This includes:
  - **Cost-Benefit Analysis (CBA)** for new projects.
  - **Results from previous audits** and performance reviews.
  - **Accurate and timely data** on existing programmes.
- **Independent Scrutiny of Proposals:** Establish a dedicated technical unit within the Treasury to vet the economic and financial viability of major capital project proposals before they are included in the budget.

5. Promoting Inclusivity and Participatory Budgeting:

- **Structured Public Participation:** Move beyond tokenistic consultation to a structured, meaningful public participation process. This can include publishing citizen-friendly budget guides, holding sector-specific forums, and using technology for wider outreach.
- **Enhance Ownership and Accountability:** When citizens are involved in setting priorities, it enhances the legitimacy of the budget and creates a constituency for accountability, making it harder to divert funds to pet projects that do not serve public interest (enhancing fiscal responsibility).

6. Improving Inter-Governmental Coordination:

- **Harmonized Planning Cycles:** Ensure the timelines for national and county government budget preparation are perfectly synchronized as per the PFM Act.
- **Clear Funding Mechanisms:** For programmes that involve both levels of government (e.g., healthcare), clearly define roles, responsibilities, and funding flows during the preparation stage to avoid duplication, confusion, and inefficiency in service delivery.

7. Leveraging Technology (E-Budgeting):

- **Integrated Financial Management Information System (IFMIS):** Fully utilize the budget module of IFMIS to automate the preparation process. This ensures:
  - **Standardization** of formats and templates.
  - **Real-time tracking** of submissions and revisions.
  - **Transparency** and a clear audit trail.
  - **Seamless consolidation** of estimates by the Treasury.
- **Data Analytics:** Use analytics on historical IFMIS data to identify spending trends, inefficiencies, and potential savings.

8. Strengthening Legislative Scrutiny at the Preparation Stage:

- **Early Engagement of Parliament:** Involve parliamentary committees (especially the Budget and Appropriations Committee) early in the process during the review of the BPS/CFSP and public hearings. Their input at this stage is more strategic than during the approval of the final budget bill.
- **Provide Analysis to Legislators:** Equip committees with independent, technical analysis (e.g., from the Parliamentary Budget Office - PBO) to critically scrutinize the Executive's budget proposals and make informed recommendations.

Conclusion:
Improving the budget preparation process is not a single action but a series of interconnected reforms. By embedding a **multi-year perspective**, a **focus on results**, **evidence-based decision-making**, and **inclusive processes**, the government can create a budget that is not only a financial plan but a powerful tool for responsible and efficient economic governance. This leads to better service delivery, sustainable public finances, and enhanced public trust.

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Advanced Public Financial Management

April 2025

Level: Advanced Level

Question 3b

 Introduction to Public Financial Management

Examine FOUR principles of public finance.

✓ Answer for Question 3b

Introduction:

Principles of public finance are the fundamental guidelines that govern how governments raise, allocate, and manage public resources. These principles are essential for ensuring that public funds are used in a way that promotes the overall well-being of society, economic stability, and intergenerational equity. In Kenya, these principles are explicitly anchored in **Article 201 of the Constitution of Kenya (2010)**.

The key principles of public finance are as follows:

1. Equity and Fairness:

- **Explanation:** This principle dictates that the burden of taxation and the benefits of public expenditure should be distributed fairly among citizens.
- **Application:**
  - **Revenue Side:** The tax system should be progressive (where higher earners pay a larger percentage of their income) rather than regressive. This means that those with a greater ability to pay contribute more.
  - **Expenditure Side:** Government spending should aim to reduce inequality and poverty by prioritizing essential services (e.g., healthcare, education) that benefit the poor and marginalized groups.

2. Prudence and Responsibility in Financial Management:

- **Explanation:** Those managing public funds must do so with care, caution, and a long-term perspective. The government must live within its means and avoid imposing unsustainable debt burdens on future generations.
- **Application:** This is achieved through:
  - **Fiscal Responsibility:** Setting and adhering to limits on budget deficits and public debt (as outlined in the PFM Act).
  - **Value for Money:** Ensuring that public expenditures are efficient and effective, delivering the maximum possible benefit from every shilling spent.
  - **Contingency Planning:** Setting aside resources for unforeseen events (e.g., through an Emergency Fund) to avoid fiscal crises.

3. Transparency and Accountability:

- **Explanation:** This is a two-fold principle. **Transparency** means that the government must provide the public with clear, accessible, and timely information about its financial activities. **Accountability** means that public officials must be held responsible for their decisions and the use of public resources.
- **Application:**
  - **Transparency:** Publishing draft and final budgets, audit reports, and contract awards. Using citizen-friendly budgets.
  - **Accountability:** Appearing before parliamentary committees (like the PAC), having accounts audited by the Auditor-General, and facing legal consequences for misappropriation of funds.

4. Public Participation:

- **Explanation:** The public has a right to be involved in the process of making decisions about how public money is raised and spent. This ensures that government policies reflect the needs and priorities of the people.
- **Application:** Holding public hearings on the budget (County Fiscal Strategy Papers and Budget Policy Statement), inviting public submissions on tax proposals, and engaging citizens in monitoring the implementation of projects.

5. Sustainable Development:

- **Explanation:** Public financial management must meet the needs of the present without compromising the ability of future generations to meet their own needs. This covers fiscal, economic, and environmental sustainability.
- **Application:**
  - **Fiscal Sustainability:** Managing public debt to ensure it remains at a sustainable level.
  - **Environmental Sustainability:** Using taxes and expenditures to promote green growth and protect the environment (e.g., carbon taxes, funding for renewable energy).
  - **Intergenerational Equity:** Borrowing primarily for productive capital investments (like infrastructure) that will benefit future generations, not for recurrent consumption.

6. Macro-Economic Stability:

- **Explanation:** The management of public finances should contribute to a stable economic environment, characterized by low and predictable inflation, stable exchange rates, and sustainable economic growth.
- **Application:** Using fiscal policy (taxation and spending) to manage aggregate demand in the economy. For example, increasing taxes or reducing spending to cool down an overheating economy, or doing the opposite to stimulate a sluggish economy.

7. Responsibility and Clear Definition of Roles:

- **Explanation:** The roles of different government organs (national vs. county, executive vs. legislature) in public financial management must be clearly defined by law to avoid conflict and ensure smooth operation.
- **Application:** The Constitution and the PFM Act clearly delineate the roles of the National Treasury, Parliament, County Executives, County Assemblies, and independent offices like the Auditor-General.

Conclusion:
In summary, the principles of public finance provide a moral and practical compass for governing the use of public money. They are not abstract concepts but are legally binding in Kenya. They work together to ensure that public resources are mobilized and utilized **efficiently, equitably, and in a manner that is accountable to the people,** ultimately fostering economic development and social justice.

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Advanced Public Financial Management

December 2024

Level: Advanced Level

Question 4a

 Public sector Budgeting and Planning

Discuss FIVE roles of parliamentary budget office as provided for in section 10 of Public Finance Management Act, 2012.

✓ Answer for Question 4a

Introduction:

The Parliamentary Budget Office (PBO) is established under **Section 10 of the Public Finance Management (PFM) Act, 2012**. It is an independent, non-partisan office within the Parliament of Kenya tasked with providing professional technical services to Parliament and its committees on matters of the national budget, the economy, and finance. Its primary purpose is to empower the Legislature to effectively hold the Executive accountable and make informed decisions on public finance.

The key roles of the Parliamentary Budget Office are as follows:

1. Providing Objective Economic and Fiscal Analysis:

- **Role:** The PBO is mandated to provide Parliament with independent analyses of the nation's economic and fiscal policy.
- **Application:** This involves interpreting the national government's macroeconomic forecasts, assessing the assumptions behind the Budget Policy Statement (BPS), and providing alternative scenarios. This arms Parliament with the technical capacity to challenge the Executive's economic outlook and fiscal framework.

2. Scrutinizing the Budget and Estimates of Revenue and Expenditure:

- **Role:** A core function of the PBO is to examine the national budget and the estimates of expenditure submitted by the National Treasury and various government departments.
- **Application:** The PBO reviews the budget for coherence, credibility, and alignment with national priorities. It provides briefs and reports to parliamentary committees (especially the Budget and Appropriations Committee) highlighting areas of concern, potential inefficiencies, and unfunded priorities, enabling evidence-based scrutiny.

3. Conducting Budget-Related Research for Parliament:

- **Role:** The PBO undertakes research on specific budget-related issues at the request of Parliament or its committees.

- **Application:** If a committee is reviewing the budget for the health sector, the PBO can research the cost implications of a proposed policy, benchmark costs of medical equipment, or analyze the efficiency of past health sector spending. This provides committees with deep, specialized knowledge.

4. Providing Advice to Committees on Budget Issues:

- **Role:** The PBO acts as a technical advisor to parliamentary committees.
- **Application:** Officials from the PBO regularly appear before committees to answer technical questions, explain complex budget concepts, and offer opinions on the fiscal implications of proposed legislation or amendments. This levels the playing field between Parliament and the well-resourced National Treasury.

5. Monitoring and Reporting on the Implementation of the Budget:

- **Role:** The PBO's work continues after the budget is approved. It monitors how the national government is implementing the budget.
- **Application:** It tracks expenditure against approved allocations, analyzes quarterly economic and budget execution reports from the Treasury, and reports to Parliament on any deviations from the approved budget. This supports ongoing oversight throughout the financial year.

6. Enhancing Transparency and Public Understanding:

- **Role:** While its primary client is Parliament, the PBO also plays a role in making budget information more accessible to the public.
- **Application:** By publishing its analyses, reports, and "citizen-friendly" budget summaries, the PBO demystifies the national budget. This facilitates more informed public participation and strengthens social accountability.

Significance of the PBO:
The establishment of the PBO is a cornerstone of modern public financial management. It transforms Parliament's role from passive approval of the Executive's budget to **active, informed engagement**. By providing independent, high-quality analysis, the PBO:

- **Counters Executive Dominance:** Reduces Parliament's over-reliance on information from the very National Treasury it is meant to oversee.

- **Promotes Fiscal Discipline:** Encourages more responsible budgeting by the Executive, knowing that its proposals will be subject to rigorous technical scrutiny.
- **Improves Accountability:** Leads to better-targeted public spending and improved service delivery by ensuring every budgetary allocation is justified.

Conclusion:
In summary, the Parliamentary Budget Office acts as Parliament's **independent fiscal watchdog and analytical arm**. Its roles are designed to ensure that the power of the purse, a fundamental constitutional mandate of the Legislature, is exercised effectively. By providing objective technical expertise, the PBO strengthens the entire budget process, leading to greater transparency, more accountable government, and ultimately, a more efficient and equitable use of public resources for the benefit of all Kenyans.

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CPA

Leadership and Management

August 2024

Level: Advanced Level

Question 4b

 Project management

Illustrate FIVE different stages of the project life cycle.

✓ Answer for Question 4b

Stages of the Project Life Cycle

Topic: Project Management

The project life cycle provides a high-level view of the journey a project takes from an initial idea to its conclusion. While some methodologies (like Agile) have more iterative cycles, this traditional, sequential model is fundamental to project management.

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1. Initiation

Description: This is the conceptual "birth" of the project. The stage focuses on defining the project at a high level, determining its feasibility, and justifying its necessity. The key question is: "Should we do this project?" The main output is the project charter, a document that formally authorizes the project's existence and gives the project manager the authority to apply organizational resources.

Example: Launching a New Mobile App

- **Business Need:** "We are losing market share to competitors who have a mobile app for customer orders."
- **Feasibility Study:** A quick analysis is done to see if building an app is technically possible and financially beneficial.
- **Project Charter:** A document is created and signed by a senior executive. It states the project's goal (e.g., "Build and launch an iOS and Android app to increase customer orders by 15% within six months") and names the project manager.

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2. Planning

Description: This is the most critical stage for setting the project up for success. The high-level ideas from initiation are broken down into detailed, actionable plans. The key question is: "How will we do it?" This stage creates the project's roadmap, covering scope, schedule, budget, resources, risks, and communication.

Example: Planning the Mobile App

- **Scope:** A detailed list of features for Version 1.0 (e.g., user login, product catalog, shopping cart, secure payment).
- **Schedule:** A Gantt chart is created showing tasks: UI/UX design (2 weeks), development (8 weeks), testing (3 weeks), app store submission (1 week).
- **Budget:** Costs are estimated for developers, designers, testing tools, and marketing launch.
- **Risk Plan:** Potential risks are identified (e.g., "Apple's app review might be delayed") and mitigation strategies are planned.

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3. Execution

Description: This is the "doing" phase where the plans are put into action. The project team is built and managed, resources are allocated, and the deliverables are physically constructed. The project manager's role shifts to directing, coordinating, and ensuring tasks are completed efficiently. This phase typically consumes the most resources and time.

Example: Building the Mobile App

- The development team writes the code for the front-end and back-end.
- The designers create the final graphical assets and user interface screens.
- The project manager holds daily stand-up meetings to track progress and remove obstacles.
- Procurement orders any necessary software licenses or services.

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4. Monitoring & Controlling

Description: This phase runs concurrently with **Execution**. It involves tracking, reviewing, and regulating the project's progress and performance.

The key question is: "Are we on track, and if not, what needs to change?" Changes are managed, and quality is verified to ensure the project stays aligned with the plan.

Example: Overseeing the App Development

- **Tracking:** Comparing actual development progress against the planned schedule.
- **Quality Control:** Testing features as they are built to find bugs.
- **Change Management:** A stakeholder requests a new feature. The team evaluates its impact on timeline and budget before approving or rejecting it.
- **Performance Reporting:** Weekly status reports are sent to management showing budget spent versus value delivered.

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5. Closure

Description: This is the formal conclusion of the project. The key activities include handing over the completed deliverable to the customer, releasing project resources, documenting lessons learned, and formally closing out all contracts. The key question is: "How did we do, and what can we learn?"

Example: Launching and Wrapping Up the App Project

- The final app is submitted to the Apple App Store and Google Play Store and goes live.
- The project team conducts a "lessons learned" meeting to discuss what went well and what could be improved for the next project.
- All contracts with external developers or designers are finalized and closed.
- Project documentation is archived for future reference.
- The team is released to work on new projects.

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Advanced Public Financial Management

April 2024

Level: Advanced Level

Question 4c

 Internal Auditing in the Public sector

Describe THREE reasons for the establishment of an internal audit committee in the management of public funds in your country.

✓ Answer for Question 4c

The establishment of an Internal Audit Committee (IAC) is a cornerstone of good governance and a requirement under the Public Finance Management (PFM) Act, 2012, for all national and county government entities. Its establishment is driven by several critical reasons:

1. To Enhance Oversight and Strengthen Governance

- **Reason:** The committee provides an independent, high-level oversight layer between management and the governing body (e.g., Parliament or County Assembly). It strengthens the governance structure by ensuring there is a dedicated body reviewing the adequacy and effectiveness of internal controls, risk management, and governance processes, thereby reducing the opportunity for executive overreach or error.

2. To Provide Independent Assurance to the Accounting Officer

- **Reason:** While the internal audit unit reports functionally to the committee, the committee itself provides independent assurance and advice to the Accounting Officer. This helps the Accounting Officer discharge their legal mandate of ensuring resources are used lawfully and effectively, giving them confidence in the internal control environment and the reliability of financial reports.

3. To Improve the Effectiveness of the Internal Audit Function

- **Reason:** The committee safeguards the independence, objectivity, and professionalism of the internal audit activity. It does this by reviewing and approving the internal audit charter, annual work plans, and budget, ensuring the audit unit has the necessary resources and authority to perform its work without interference from management.

4. To Strengthen Risk Management

- **Reason:** A key role of the committee is to oversee the entity's risk management framework. It reviews management's assessment of key risks and ensures that internal audit's plans are aligned to address these highest risks. This proactive approach helps the entity identify and mitigate potential threats to the achievement of its objectives and the safeguarding of public funds.

5. To Ensure Compliance with Laws and Regulations

- **Reason:** The committee oversees the entity's compliance with applicable laws, regulations, and policies, such as the PFM Act, procurement laws, and Treasury directives. This helps prevent unauthorized, irregular, and wasteful expenditure, protecting the Accounting Officer and the entity from legal and reputational damage.

6. To Facilitate External Audit and Improve Accountability

- **Reason:** The committee acts as a liaison between management and the external auditor (the Auditor-General). It reviews the annual financial statements before submission and monitors the implementation of recommendations from both internal and external audit reports. This creates a closed-loop system that ensures audit findings are addressed, enhancing overall accountability to the public.

Conclusion:

The Internal Audit Committee is not established as a symbolic body but as a vital component of the public financial management control ecosystem. Its primary reasons for existence are to provide **independent oversight, strengthen risk and control environments, and enhance accountability**, thereby ensuring that the management of public funds is characterized by integrity, transparency, and the pursuit of value for money.

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Email: customercare@senm-answers.com Tel: 254-734-053-765

CPA

Advanced Public Financial Management

December 2023

Level: Advanced Level

Question 5a

 Public Financial Management Reforms in Kenya

In a public finance management seminar, one of the facilitators noted that "there are certain matters specified under Section 6 of the Public Finance Management (PFM) Act, 2012, where in case of any inconsistence with the PFM Act, the Act shall prevail".

With reference to the above statement, outline FOUR such matters where in case of inconsistence with the PFM Act, the Act prevails.

✓ Answer for Question 5a

Section 6 of the Public Finance Management (PFM) Act, 2012, is a supremacy clause. It establishes the PFM Act as the paramount law on all matters of public finance, ensuring uniformity and consistency across the entire government. In case of any inconsistency or conflict between the PFM Act and any other legislation, the provisions of the PFM Act shall prevail.

The matters where this supremacy applies, as specified in the Act, are:

1. **The Management of the Public Debt:** This includes the raising of loans, the issuance of guarantees, and the overall management of the national debt. Any other law that contradicts the PFM Act's debt ceilings or procedures is overridden.
2. **The Management of the Public Revenue:** This covers the collection, receipt, and accounting for all public money. The PFM Act's procedures for handling revenue (e.g., payment into the Consolidated Fund) take precedence over any other law.
3. **The Management of the Public Expenditure:** This encompasses the authorization, withdrawal, and spending of all public money. The PFM Act's rules on budgeting, commitment control, and payment processes are supreme.
4. **The Imposition of a Charge on the Public Revenue:** This refers to any action that creates a financial obligation to be paid from public funds. The PFM Act's requirement for parliamentary approval for any such charge prevails.
5. **The Custody of the Public Money and Other Money:** This dictates how all government funds, including those held in trust, are safeguarded and banked. The PFM Act's provisions, such as the requirement for a Treasury Single Account (TSA), override any conflicting legislation.
6. **The Acquisition or Disposal of Public Assets:** This governs the process of purchasing and selling government property. The PFM Act's rules on asset management take precedence.
7. **The Accounting for and Internal Control of Public Money, Public Assets, and Public Liabilities:** This establishes the standards for financial recording, reporting, and internal checks. The PFM Act's framework is binding over any other conflicting rules.

8. **The Financial Reporting of Public Entities:** This mandates the preparation, audit, and publication of financial statements by all public entities. The timelines and formats prescribed by the PFM Act are supreme.

Conclusion:

The purpose of Section 6 is to create a **single, coherent legal framework** for managing Kenya's public finances. Before its enactment, different laws (e.g., the old Exchequer and Audit Act, individual Acts establishing state corporations) often had conflicting financial rules. This supremacy clause eliminates that confusion, ensuring that the modern, transparent, and accountable principles enshrined in the PFM Act are applied uniformly across the entire public sector, thereby strengthening fiscal discipline and oversight.

CPA

Advanced Public Financial Management

August 2023

Level: Advanced Level

Question 5b

 Public sector procurement, Public Financial Management Reforms in Kenya, Internal Auditing in the Public sector , Management of Revenues in County Governments, Public sector Budgeting and Planning

The recent advancements in technology and innovation offer opportunities for reforming public financial management (PFM) in developing countries and could be a key solution to overcoming most of the challenges faced by these countries in public financial management.

With reference to the above statement, discuss FIVE ways in which developing countries could leverage on technology and innovation in order to improve public financial management (PFM) practices.

✓ Answer for Question 5b

Introduction:

The statement is accurate; technology and innovation present a transformative opportunity for developing nations to leapfrog traditional PFM constraints. By integrating digital solutions, these countries can address pervasive challenges such as inefficiency, corruption, lack of transparency, and poor service delivery, thereby enhancing accountability, fiscal discipline, and the overall effectiveness of public financial management.

Discussion on Leveraging Technology and Innovation:

1. Digitalization of Revenue Collection (e-Revenue)

- **Application:** Implementing integrated electronic revenue collection systems, such as **electronic tax filing (e-Tax), mobile money payments, and online portals** for levies, fees, and fines.
- **Improvement to PFM:** This reduces the reliance on cash transactions, which are prone to leakage and misappropriation. It automates processes, minimizes human intervention, and ensures revenues are directly paid into government accounts, thereby **boosting Own Source Revenue (OSR)**. Systems like Kenya's *eCitizen* platform demonstrate how this can enhance efficiency and transparency.

2. Integrated Financial Management Information Systems (IFMIS)

- **Application:** Strengthening and fully utilizing an IFMIS to digitally integrate all stages of the budget cycle—from planning, allocation, and commitment to expenditure, accounting, and reporting.
- **Improvement to PFM:** An effective IFMIS provides **real-time financial data** to managers and the public, enabling better decision-making and oversight. It enforces budget controls, reduces unauthorized spending, and automates processes like payroll, thereby eliminating "ghost workers." It serves as the central nervous system for modern PFM, enhancing accountability and control.

3. E-Procurement Systems

- **Application:** Deploying end-to-end electronic procurement platforms where tender notices are published online, bids are submitted digitally, and evaluations and awards are managed through the system.

- **Improvement to PFM:** E-procurement dramatically **increases transparency and competition** while reducing opportunities for collusion and corruption. It provides an auditable digital trail for all procurement activities, shortens procurement cycles, and ensures value for money, which is crucial for efficient public investment.

4. Digital Treasury and Cash Management Systems

- **Application:** Implementing a **Treasury Single Account (TSA)** structure supported by robust technology to consolidate all government cash balances.
- **Improvement to PFM:** A digital TSA eliminates numerous idle bank accounts held by MDAs, **consolidates government cash resources**, and gives the Treasury a real-time view of its fiscal position. This improves cash management, reduces borrowing costs, and enhances the ability to prioritize payments and manage liquidity risks effectively.

5. Advanced Data Analytics and AI for Auditing & Forecasting

- **Application:** Leveraging **Big Data analytics, Artificial Intelligence (AI), and Machine Learning** to analyze vast volumes of financial transactions.
- **Improvement to PFM:**
  - **Auditing:** AI can be used for **continuous auditing**, automatically flagging anomalous transactions, patterns indicative of fraud, or non-compliance with procedures for further investigation by human auditors.
  - **Forecasting:** Advanced analytics can improve the accuracy of revenue and macroeconomic forecasting, leading to more realistic and credible budgets.

6. Open Data and Citizen Engagement Platforms (e-Citizen)

- **Application:** Publishing PFM data—including budgets, expenditure reports, audit findings, and contract awards—in open, machine-readable formats on online portals.
- **Improvement to PFM:** This practice of **Open Data** empowers citizens, civil society organizations (CSOs), and the media to act as external overseers. It promotes transparency, allows for independent analysis of

government performance, and strengthens social accountability, putting pressure on governments to manage public funds more responsibly.

Conclusion:

The leverage of technology is not merely an administrative upgrade but a fundamental catalyst for PFM reform. While challenges such as digital infrastructure, cybersecurity, and capacity building exist, the potential benefits are immense. By strategically investing in these digital solutions, developing countries can overcome entrenched inefficiencies and corrupt practices, thereby fostering a PFM environment characterized by greater transparency, accountability, and effectiveness in the delivery of public services.

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Email: customercare@senm-answers.com Tel: 254-734-053-765

CPA

Advanced Public Financial Management

August 2022

Level: Advanced Level

Question 5b

 Introduction to Public Financial Management, Public sector procurement, Internal Auditing in the Public sector , Public sector Budgeting and Planning

Public Financial Management Processes and tasks are very complex and technical since they involve macroeconomic forecasting, budgeting, accounting and auditing. This complexity limits public scrutiny and provides possible avenues for corruption. In most instances, corruption manifests itself in form of illegal money transfers at the budget execution but can also occur during other stages of the public financial management process.

Required:
As an expert in public financial management, evaluate the possible avenues that public officers could use to perpetrate corrupt acts in the public financial management process and propose measures to counter them.

✓ Answer for Question 5b

Evaluation of Possible Avenues for Corruption in the PFM Process

Corruption can infiltrate every stage of the Public Financial Management (PFM) cycle. The avenues are multifaceted and often exploit weaknesses in internal controls.

1. During Budget Formulation and Preparation:

- **Avenue: Padding of Budgets (Inflated Expenditure Estimates):** Officers may collude to inflate project costs or include fictitious items in the budget to create a slush fund for embezzlement.
- **Avenue: Captured Prioritization:** Powerful individuals or cartels can lobby to have projects that benefit them personally included in the budget, diverting funds from genuine public needs (pork-barrel projects).

2. During Budget Execution (The Most Vulnerable Stage):

- **Avenue: Procurement Fraud:**
  - **Collusive Tendering:** Officials leak bid information to favoured vendors or tailor specifications to fit a specific company.
  - **Fictitious Supplies/Ghost Deliveries:** Creating invoices and payment documents for goods or services that were never delivered.
  - **Inflated Pricing:** Splitting large procurements into smaller values to avoid competitive thresholds or accepting abnormally high prices in exchange for kickbacks.
- **Avenue: Payroll Fraud:**
  - **Ghost Workers:** Maintaining names of non-existent employees on the payroll and diverting their salaries.
  - **Overtime Fraud:** Claiming payment for overtime not worked.
- **Avenue: Misuse of Imprest and Petty Cash:** Claiming reimbursements for fictitious travel or using advances for unauthorized purposes.
- **Avenue: Manipulation of Revenue Collection:** Under-declaring collections, issuing fake receipts, or diverting revenues into personal accounts instead of the official revenue account.

3. During Accounting and Reporting:

- **Avenue: Falsification of Accounts and Records:** Manipulating financial records to conceal theft or misappropriation that occurred during execution. This includes creating false supporting documentation for illegal transactions.
- **Avenue: Obstructing Access to Information:** Deliberately failing to maintain records or making them inaccessible to hide fraudulent activities from auditors and investigators.

4. During Audit and Oversight:

- **Avenue: Corruption of Auditors:** Attempting to bribe internal or external auditors to issue a clean audit opinion or omit significant findings from their reports.
- **Avenue: Weak Follow-up on Audit Recommendations:** Deliberately failing to implement audit recommendations to allow the corrupt practices to continue unchecked.

Proposed Measures to Counter These Avenues

A multi-pronged approach, combining technology, policy, and cultural change, is essential to seal these avenues.

1. Systemic and Technological Measures:

- **Full Automation and Integration of PFM Systems:** Implement and mandatorily use integrated systems like IFMIS and e-procurement portals. This reduces human interface, creates a digital audit trail, and enhances transparency in transactions from commitment to payment.
- **Strengthen Treasury Single Account (TSA):** Ensure all government revenues are consolidated into a single account. This eliminates numerous bank accounts where funds can be hidden and misappropriated.
- **Implement Digital Payment Systems:** Pay all salaries, allowances, and supplier payments directly into bank accounts (via EFT). This eliminates cash handling and helps easily identify ghost workers through bank verification processes.

2. Policy and Legal Measures:

- **Strict Enforcement of the PFM Legal Framework:** Ensure strict adherence to the PFM Act, the Public Procurement and Asset Disposal Act (PPADA), and supporting regulations. Perpetrators must face swift and severe legal consequences to act as a deterrent.
- **Protect Whistleblowers:** Strengthen mechanisms that allow and protect civil servants and citizens to report corruption without fear of reprisal.
- **Enforce Asset Declaration:** Mandate and verify regular declaration of assets by public officers to help identify illicit enrichment.

3. Strengthening Oversight Institutions:

- **Empower Internal Audit Function:** Ensure Internal Audit units are independent, well-resourced, and staffed with competent professionals. Their reports must be acted upon by Accounting Officers and monitored by Audit Committees.
- **Support Supreme Audit Institutions (SAI):** Guarantee the independence and adequate funding of the Office of the Auditor-General to conduct thorough and fearless audits.
- **Strengthen Parliamentary Oversight:** Enhance the capacity of legislative committees (e.g., Public Accounts Committee - PAC, Public Investments Committee - PIC) to effectively scrutinize audit reports and hold the executive accountable.

4. Cultural and Behavioral Measures:

- **Promote Ethics and Integrity Training:** Institutionalize continuous training on ethics, integrity, and the code of conduct for all public officers involved in financial management.
- **Foster a Culture of Transparency:** Proactively publish key fiscal information (budgets, contracts, expenditure reports, audit findings) online in open data formats for public scrutiny. This enables citizens and civil society organizations to act as watchdogs.
- **Leadership and Tone at the Top:** The highest levels of government must demonstrate an unwavering commitment to fighting corruption through their actions and decisions, setting the right tone for the entire public service.

Conclusion: While the complexity of PFM processes creates vulnerabilities, a relentless focus on **automation** (to reduce human discretion), **transparency** (to enable scrutiny), **accountability** (with consequences for wrongdoing), and a **strong ethical culture** provides the most effective antidote to corruption in public financial management.