

***FISCAL
DECENTRALISATION
STRATEGY
PILOT***

Guidelines

for

Districts and
Municipalities

Volume 6:

*Sector Budget Implementation
Manual*

Table of Contents

1	Introduction/Background	3
1.1	Background	3
1.2	Target Audience.....	3
1.3	Scope of Guidelines	3
2	Key Elements in Budget Implementation.....	5
2.1	Introduction.....	5
2.2	The importance of the Annual Workplan & Budget.....	5
2.3	Cashflow Management.....	5
2.4	Maintaining Books of Account and Bank Accounts	6
2.5	Commitment and Expenditure Control.....	6
2.6	Budget Reporting	7
3	Roles and Responsibilities in Budget Implementation	9
3.1	Overview.....	9
3.2	Within Local Government.....	10
3.3	Departments.....	11
3.4	Politicians	12
3.5	The Local Government Releases and Operations Committee	12
4	Budget Implementation	14
4.1	Planning Implementation in the Financial Year	14
4.2	Opening of Accounting Records and Bank Accounts	15
4.3	Cashflow and Budget Disbursements in the Financial Year	17
4.4	Commitment and Expenditure Control.....	22
4.5	Internal Financial and Performance Reporting.....	25
4.6	Quarterly Reporting to Council.....	36
4.7	Alterations in the Budget and Workplans.....	36
5	Application of Sanctions for Non-Compliance.....	37
5.1	Sanctioning Departments which fail to report.....	37
5.2	Sanctions from Central Government	37

Acronyms

AWP	Annual Workplan
DDP	District Development Plan
DTB	Development Transfer Budget
FDS	Fiscal Decentralisation Strategy
LC	Local Council
LDG	Local Development Grant
LG	Local Government
LGBFP	Local Government Budget framework Paper
LGBC	Local Government Budget Committee
LoGROC	Local Government Releases and Operations Committee
LGFC	Local Government Finance Commission
LGDP	Local Government Development Programme
LLG	Lower LG
MoLG	Ministry of Local Government
MFPED	Ministry of Finance Planning & Economic Development
PAF	Poverty Action Fund
PMA	Plan for modernisation of Agriculture
RTB	Recurrent Transfer Budget
RB	Recurrent Budget

1 Introduction/Background

1.1 Background

These manuals for budget implementation have been prepared to lead staff in higher level local governments through the various elements of implementing the budget using the new FDS modalities. They follow on from the FDS Budgeting Manuals, and have been prepared specifically for use by the FDS pilot local Governments.

	FDS Manual 4: General Guide to Budget Implementation	FDS Manual 5: Technical Manual for Budget Implementation	FDS Manual 6: Sector Manual for Budget Implementation
Audience	LCV councillors, LCV, executive, NGOs & district level administration, budget conference attendees	CAO/TC, members of Local Government Budget Desk (CFO, Planner, Population officer etc), finance & planning departments.	District/municipality heads of department (vote controllers) and staff, sector committees and accountants
Purpose	<p>Description of overall budget implementation process.</p> <p>Highlight the responsibilities of all involved parties in ensuring effective financial management, reporting and accountability</p> <p>Explanations on how politicians should interpret reports provided to them by the administration</p>	<p>A detailed manual to assist the CAO/TC and Finance and Planning Department to control commitments and expenditures, manage bank accounts and ensure effective and timely budget reporting.</p> <p>Guidelines for the structure and management of bank accounts.</p> <p>Provide information on the sanctions that will be imposed on LGs due to non-compliance, including central government reducing and/or withholding the release of funds.</p> <p>Provide formats for commitment requisitions, bank reconciliations, internal and external reporting and the vote book.</p>	<p>Lead sectors through their roles and functions in financial management and reporting.</p> <p>Guidelines for heads of departments to control commitments and expenditures.</p> <p>Technical guidelines for preparing internal and external sector performance reports.</p> <p>Provide formats for commitment requisitions, bank reconciliations, internal and external reporting and the vote book.</p>
Approach	<p>Explain the major elements of budget implementation,</p> <p>Simple, readable and self explanatory</p> <p>Show examples of possible eventualities.</p>	<p>Set out functions of the Budget Desk & provide guidance on how to carry out these functions.</p> <p>Step by step according to timing and activities.</p> <p>Technical aspects of planning & budgeting.</p>	<p>Take sectors step by step through their roles in financial management and according to timing and activities</p> <p>Readability (simple and accessible)</p>

1.2 Target Audience

This Sector Budget Implementation is prepared for use by sector committees, heads of department and section heads within districts and municipalities, it aims to serve as a practical tool to guide them through the new systems of commitment and expenditure control and procedures of reporting on activities on both monthly and quarterly intervals against annual budgets and work plans.

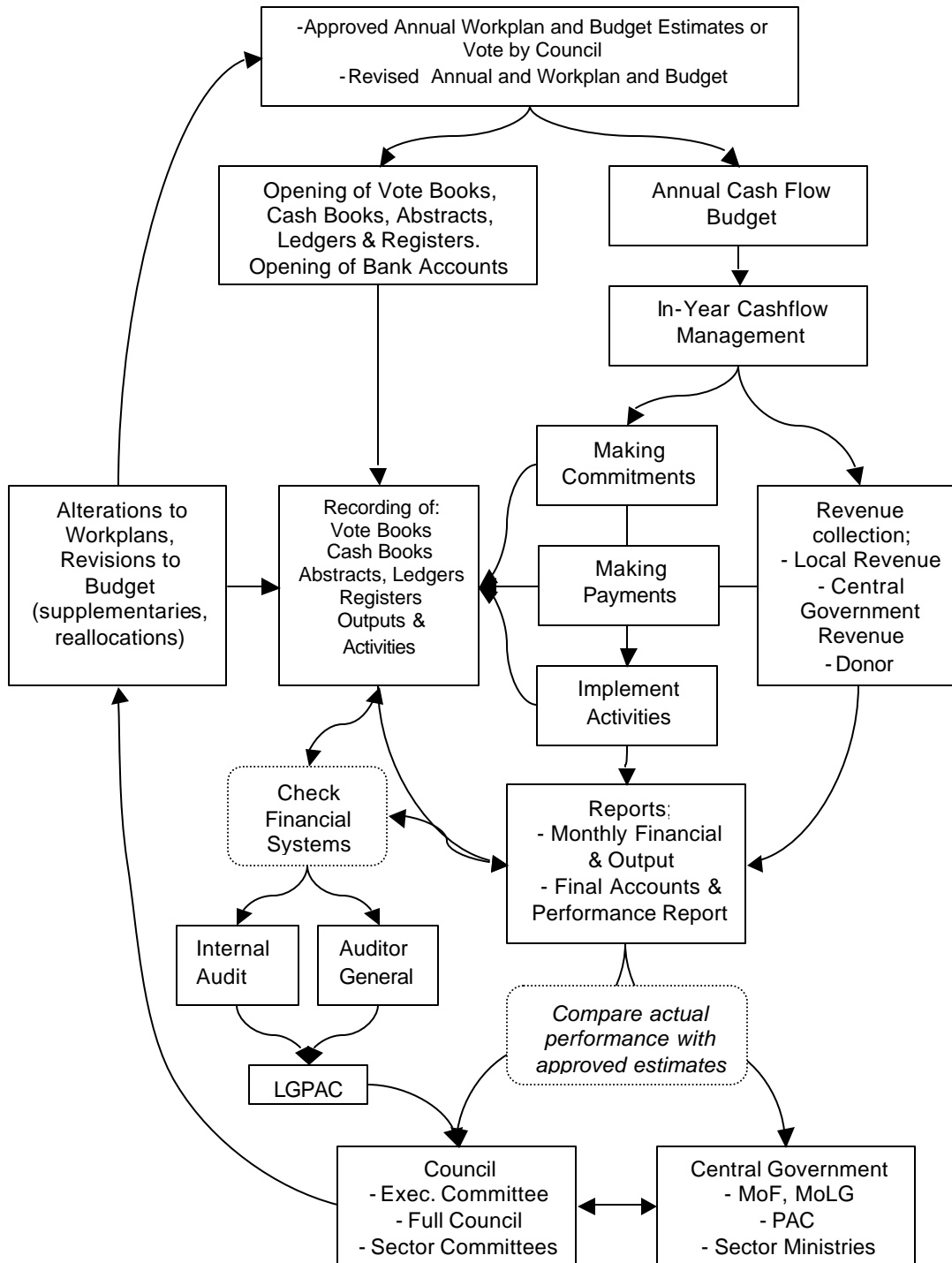
1.3 Scope of Guidelines

The manual covers the following areas of Financial Management:

- ?? Principles of financial management and output reporting
- ?? The role of departments in commitment and expenditure control
- ?? The steps in the sector reporting process

- ?? The roles and order of reporting of central government, sector committees, Chief Administrative Officers, Heads of Department, Section Heads, LLGs, Sector Accountants and Service Delivery. Technical guidance on preparing reports at the various levels.
- ?? Financial and Performance Reporting against the budget and annual workplan

The Key Elements of Budget Implementation



2 Key Elements in Budget Implementation

2.1 Introduction

The systems outlined in this document are aimed at one thing: **ensuring implementation of the annual workplan and budget.** This section sets out the conceptual framework for budget implementation, and how it relates to departments and service units. There are various elements to the implementation of the budget, and these guidelines lead departments through each element.

The FDS emphasises a major new principle. All revenues going to a sector department within a local government whether from conditional grants or from local revenue should be reported on and accounted against the annual budget, using the same procedures and systems, and not treated separately according to source. Once disbursed to sector departments, department revenues should not be treated separately according to source.

2.2 The importance of the Annual Workplan & Budget

The starting point of Budget Implementation is the Approval of the Annual Workplan and Budget by Council. The annual workplan and budget is prepared to help ensure that Local Government resources are efficiently allocated in the following financial year towards activities and outputs in order to achieve its objectives. The budget process will only add value if there are adequate systems in place to ensure that the Workplan and Budget are actually implemented during the financial year. In approving the workplan and budget, or vote on account, the Council allows the LG administration to raise revenue and make expenditures on behalf of the council in order to implement the workplan and budget.

IMPORTANT NOTE

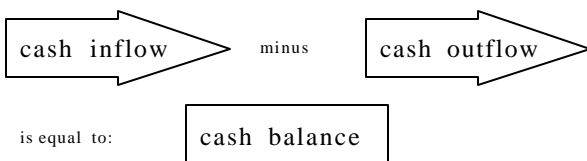
In this report we use the terminology of the new Public Service Structures:

- **Departments** are the equivalent of the former directorate s
- **Divisions/Sections** are the equivalent of the former Departments

2.3 Cashflow Management

Cash flow management refers to the financial systems and procedures by which a local government ensures:

- ?? *tight budgetary control by constantly comparing actual revenues and expenditures with the budget;*
- ?? *the financial ability at any time to meet current payments according to financial commitments;*
- ?? *a pattern of payments which prevents serious decline in cash balance and ensures an adequate amount of working capital;*



The main purpose of local government cash flow management is to ensure that local authorities can implement the workplans and budget, though meeting their expenses when required, in accordance with commitments and mandatory expenditure (e.g. salaries, debt servicing costs, loan

servicing, pensions, etc.). Proper cash flow management is in this way one of the cornerstones of financial management.

All transfers from central government will be made through the recurrent and development transfer systems. Central government disbursements will be made against sector departments and divisions/section in Local Governments' recurrent transfer budgets and development

transfer budgets. Disbursements will be made only to those higher local governments that have submitted monthly reports. Transfers will be monthly under the RTS, and quarterly under the DTS. The collection of Local Revenues should be ongoing and donor project disbursements will be irregular and various.

On a quarterly basis the monthly disbursements to sector departments should be agreed through a cashflow committee and approved by the executive. One release should be made each month to sector accounts.

2.4 Maintaining Books of Account and Bank Accounts

The system of commitment and expenditure management relies on prompt and accurate maintenance of books of account. The commitment requisition forms, cashbook, vote book, abstracts, ledgers, and commitment registers are the means by which commitments and expenditures are controlled. Entries into books must be made promptly, as transactions occur. Heads of department, as vote controllers, have an important role monitoring to ensure that these books of account are being kept up to date.

Bank accounts are where funds are kept, but it is the books of account through which revenues and expenditures are controlled. Each Local Government to maintain the following Bank Accounts:

- (a) **General Fund bank account** in which all revenues are received before they are transferred to sector accounts. No expenditures should be made out of the General Fund account.
- (b) **One account per sector department** for all recurrent and development expenditures.
- (c) **Donors/NGO bank accounts** for pre-existing agreements where separate bank accounts are required by funding agencies.

Each department will only have one account for government funds, and all sector expenditures bar salaries must take place from that account. It is important that bank statements are reconciled with the cash books soon after the close of each month. In such away the maintenance of bank accounts and books of account remains consistent.

Some Definitions

Commitments – A commitment occurs when a Local Government enters into a legal obligation that requires it to pay for goods or services either immediately or at some time in the future.

Expenditure – Expenditure occurs when payment is made to a supplier or other person or organisation to whom the LG legitimately owes money.

Outstanding commitment – The outstanding commitment is the difference between total commitments and total expenditure for the current year.

2.5 Commitment and Expenditure Control

A local government enters into a financial commitment, whenever it enters into an agreement which involves future financial payments – this may be a contract or an LPO. Heads of department should only approve financial commitments if he or she is confident that he or she will be able to honour that financial commitment. It is very important that Heads of Department as vote controllers control the value of commitments they enter into, so as to ensure that they can honour those commitments within the financial year, and that those commitments are in line with the budget and intended purpose in the workplan.

The Ministry of Finance sets quarterly commitment limits for expenditures funded by conditional, equalisation and local development grants, to enable local governments to enter into financial commitments before funds are actually received. For all other revenue sources a head of department will only be able to enter into commitments against them if the funds have actually been received.

When a commitment is entered into, funds are set aside to enable the LG to honour the commitment. A system of requisitioning for of commitments helps ensure the commitments are entered into only when there are sufficient uncommitted funds available to do so, that the commitment is consistent with the budget, and the purpose of the commitment is reflected in the annual workplan. Once funds are “committed” they should not be spent on any other area.

When Head of Department is processing a payment, they should approve it only if the associated commitment has been approved as well. This means that when a Local Government receives a bill it is always able to pay promptly.

2.6 Budget Reporting

Reporting on the implementation of the Budget services two purposes:

- to provide managers and politicians at every level with information which will help them make decisions to improve implementation within the FY and in future.
- As a means of accountability to beneficiaries, politicians and central government agencies, by describing how local government’s resources have been used, and whether this is inline with agreed workplans and budgets.

Budget Reporting will be on the basis of:

- ?? **Outputs:** The expected results or products of activities and processes, which contribute to the realisation of sector outcomes.
- ?? **Activities and processes** These are carried out using inputs. A set of activities contributes towards the achievement of outputs.
- ?? **Inputs:** Public expenditure, public officials, agents, and assets which are used with a view to implementing policies and programmes.

A **monthly system of internal reporting** within local governments will help heads ensure that performance and financial information is delivered to Heads of Department and other managers and decision makers within the organizations where and when they are needed. Information needs to be recorded accurately and there will be internal systems for verification to ensure this. The reporting system outlined here will enable more effective monitoring of activities but also improve on the planning process. Reports can enhance in year management decisions, by identifying problems, and helping ensure implementation is on track, and also assist in future planning and budgeting decisions. It also helps Districts/Municipalities target technical assistance to poorly performing units.

External reporting to Council and Central Government will also be Monthly. Each month Higher Local Governments will be required to submit to the chair of the Local Government

Key Principles of Commitment Control

- ?? All Local Government recurrent and capital development expenditure transactions are processed through the Commitment Control system (CCS).
- ?? No contract agreement, LPO or other commitments should be issued unless a proper commitment requisition has been approved.
- ?? All commitments must be entered into the vote book as soon as they occur.
- ?? Each commitment requisition should possess a Reference Number
- ?? All commitments should be consistent with the annual budget and relate to activities in the annual workplan.
- ?? Commitments should not be approved unless there is sufficient balance available in the quarter’s commitment limit, for the relevant budget item or there is sufficient balance
- ?? No payment should be made unless it is passed on a previously approved commitment
- ?? The Chief Finance Officer should produce a monthly/quarterly report on outstanding commitments, unpaid and overdue bills by 15th day of the following month
- ?? Accounting officers will be personally responsible for any over-commitment of the local governments, and should monitor commitments together with Vote Controllers.

Releases and Operations Committee a set of financial statements, bank reconciliations supported by bank statements, and department output reports. Central Government Disbursements will be made conditional upon receipt of all reports. Incomplete submissions will result in a reduction or cancellation of disbursement. Heads of Department will be required to prepare their output reports by the 15th day of each month.

3 Roles and Responsibilities in Budget Implementation

3.1 Overview

The roles and responsibilities of different institutions in Local Government Financial Management both within central government and local government are well articulated in the established Legal Framework – such the LGFAR, LG, as the new Public Finance and Accountability Act.

Here we highlight the role of the Sector Department vis a vis the CAO/TC, Finance Department and the Budget Desk, the role of sector committees and council, and the newly formed Local Government Releases and Operations Committee Chaired by the Ministry of Finance, Planning & Economic Development.

Budget Implementation of Local Government				
	Timing	Activity/Events	Responsibility	Output
1.	Before 15 th June	Approval of budget estimates or vote on account	Council	Approved budget estimates
2.	Before 31 st June	Preparation and Approval of the Annual Cashflow Budget	CFO + Executive Committee	Approved Annual Cashflow Budget
3.	Before 15 th July	Opening of vote books, cash books, abstracts, ledgers and registers	CFO and Sector Accountants/Assistant Accountants	Record books opened
4.	July	Opening of Bank accounts	CAO/TC	Bank account opened
5.	July	Appointing Bank accounts signatories	CAO/TC + Executive Committee	Bank account signatories appointed
6.	Quarterly	Revising Quarterly Cashflow Budget and Preparing Disbursement Schedule	Produced by budget desk, approved by the Executive Committee	Quarterly cash flow budgets and Disbursement Schedule
7.	Monthly	Disbursement to Votes/ Sector Accounts	Budget desk, effected by CAO/TC	Funds Disbursed to Votes
8.	Continuous	Making Commitments	By Directors & Heads of Departments CAO/TC approves all commitments	Commitments approved
9.	Continuous	Recording of Vote Books	Heads of Department/Sector Accounts	Vote books up to date posted
10.	Continuous	Recording of contract/commitments registers	CFO	Contract/ Commitment registers in place
11.	Continuous	Payments	Sector Accountants CFO and Heads of Department authorised by CAO/TC	Payments made within 30 days after receipt of demand note/invoice
12.	Continuous	Collection of Revenue and recording	CFO, CAO/TC Revenue Officer	Revenue collected and recorded
13.	Continuous	Recording of financial transactions (Revenue & Payments) Cash book, Abstracts, Ledger and Registers	CAO/TC Accounts Staff	Monthly balanced cash book and ledgers. Monthly bank reconciliation statements
14.	Monthly	Financial Statements/ Reports	CAO/TC to Executive Committee/Sector Ministries	Prompt monthly financial statement/ reports
15.	As needed	Revision of budget estimates	CAO/TC	Budget estimates

Budget Implementation of Local Government				
	Timing	Activity/Events	Responsibility	Output
16.	Quarterly	Internal Audit Reports	CFO Directors Executive Committee Council CIA and Internal Auditor	revised Prompt Internal Audit reports submitted to Council and LPAC
17.	By October	Final Accounts and Annual Performance Report	CFO CAO/TC	Submitted to Auditor General

3.2 Within Local Government

3.2.1 Basic Delineation of Roles

The CAO/TC is overall responsible officer for the implementation of the LG workplan and budget on behalf of the council. Heads of Department are responsible, at their level for ensuring that the activities and outputs in department workplans are achieved, given the resources available to them. Heads of Department will be Vote Controllers, and responsible for managing all expenditures and commitments within their departments, whilst the CFO is responsible for ensuring that all financial transactions are transacted in line with the budget, and the provisions of the Law. The planner is responsible for ensuring that all activities and outputs being implemented by departments are consistent with the workplan and budget and hence whether finances are being used for the purpose for which they were voted.

3.2.2 The Role of the CAO/TC

The CAO/TC or Town Clerk is the Accounting Officer of the administration, in accordance with the Local Governments Act , section 65 (1), and is ultimately responsible for ensuring the activities of the administration to proceed within the framework of the annual workplan and budget, and the Law. He or she is responsible for all payments and commitments entered into by the Local Government, and for reporting on the performance of the Local Government to Council and Central government.

3.2.3 Role of the Finance and Planning Departments

CFO

The Chief Finance Officer shall be responsible to the Chief Executive for all financial transactions and accounts of the administration, and as such shall be the receiver, paymaster and Chief Accountant of the administration. He is responsible, therefore for keeping watch over proper use of financial resources, and ensuring financial transactions in the Local Government are made in line with the legal framework for financial management. He is also responsible for preparing financial reports for council and central government, on behalf of the CAO/TC. He is also responsible for preparing financial reports to CAO/TC for onward submission to the District/Municipal Executive and to Chair of LoGROC.

Planner

During Budget Implementation, the planner has a responsibility for supervising the implementation of department workplans, ensuring that expenditures are being incurred for the original purpose for which they were approved. He or she also coordinates the monitoring of the implementation of programmes across sectors.

Budget Desk

It is important that the activities of the planning department and the finance department with respect to budget implementation are fully coordinated, and this is the key responsibility of the Budget Desk. The Budget Desk is also responsible for managing budget disbursements and the cashflow.

3.3 Departments

3.3.1 Heads of Department

Heads of Departments are responsible for ensuring that the expenditures and activities in the department budget and workplans are implemented as approved by council. Consequently the HODs must ensure that provision and delivery of the services are in accordance with political objectives. Furthermore HODs should provide regular reports on expenditures against the budget and implementation of the workplan to the CAO/TC and the Council.

As stated earlier Heads of Department (i.e. the former directors) will be vote controllers and have the following responsibilities. They will:

- ?? Be personally responsible for ensuring that all financial commitments are within commitment limits or set by the CAO/TC or cash received, and in line with approved workplans.
- ?? Be responsible for keeping and recording commitments and expenditures in vote books as they happen (i.e. with each transaction).
- ?? Ensure that no payment from a vote is approved which is not covered by an approved commitment requisition.
- ?? Ensuring all payments are promptly recorded in the vote book.
- ?? All activities, outputs and expenditures in the department are reported on by the 10th day of each month.

Heads of Departments therefore need to be provided with sufficient flexibility to make decisions on how and when to manage the resources and inputs available to them towards the achievement of workplan activities and outputs, provided that implementation lies within budget estimates and workplans.

3.3.2 Responsibilities within the Department

It is important at the outset that the Head of Department Sets out clear responsibilities for management of finances and implementation and reporting within the departments. As a general rule heads of division/section will be responsible for managing finances, and preparing reports at their level.

However in the case where there is implementation being carried out by lower level units or local governments in the sector, which does not come under a specific cases, the Head of Department should assign responsibilities to his staff for preparing cash requisitions, and reporting. For example in the Health Sector the DDHS will need to ensure a member of staff compiles reports from health sub-districts, whilst the District Production Coordinator will need to ensure that a member of staff is compiling reports from all extension staff.

3.3.3 Accountants Attached to Departments

Accountants attached by the CFO to work with individual departments are responsible for maintaining the vote book, cash book and ledgers, and preparing commitment and payment requisitions for the department. The CFO should ensure that sector accountants keep the books accurately and on time. The CFO should ensure that all Heads of Department are

adequately serviced by accountants, so that Heads of Department can always initiated commitments or payments as and when required.

3.4 Politicians

The political role in budget implementation consists of regular following-up on budget and work plan implementation and the financial position of the council and of taking remedial action whenever found needed. The functions of the full Council during the implementation process are set out in the LGFAR. Thus the responsibility of the Council is to:

- ?? Review quarterly financial reports produced by Chief Finance Officer;
- ?? Review quarterly performance reports prepared by the CAO/TC
- ?? Review reports produced by either the Chief Internal Audit, Auditor-General or the Local Governments Public Accounts Committee;
- ?? Approve supplementary budgets, re-allocations and major alterations to workplans whenever necessary;
- ?? Take any other action, which deems necessary to implement the budget and to achieve the political objectives behind the budget.

3.4.1 The Executive committee

Pursuant to the LGFAR, the Executive Committee has been assigned the following functions, amongst others:

- ?? oversee the implementation of the Government and Councils policies and programmes and monitor and co-ordinate activities of NGOs in a district;
- ?? supervise and control the Councils finances and government conditional grants and ensure that the Local Governments Financial and Accounting Regulations are observed;
- ?? approve the department disbursement schedules on a quarterly basis;
- ?? at the end of each Financial Year consider and evaluate the performance of the Council against the approved work plans and programmes.

If a Finance Committee is not in place, the Executive Committee consequently should undertake the same functions as otherwise would have been the responsibility of the Finance Committee.

3.4.2 Sector committees

Standing committees should be responsible for carrying out the following functions and tasks:

- ?? review performance each department, division/section against the workplan;
- ?? ensure that expenditure is maintained within the budget estimates for the sector;
- ?? discuss and recommend remedial actions to council including amendments to sector workplans and budget estimates (virement/reallocations)

3.5 The Local Government Releases and Operations Committee

Central government operations with respect to Local Government Transfers and budget implementation will be coordinated by the Local Government Releases and Operations Committee. The LoGROC is chaired by the Director of Budget of the Ministry of Finance, planning and economic development.

The LGROC will be made up members who deal with the day to day operations of the Transfer Systems at a senior level in the LGFC, MoLG MFPED, MoPS and sector ministries. Members will also be drawn from Accountability Institutions responsible for monitoring Local Government Programmes. When the LoGROC meets there will also be representatives of the Local Government Associations present as observers to ensure that rules are

administered fairly. Specifically, the LGROC will be responsible for carrying out the following activities:

- ?? The study and analysis of financial and output information from local governments.
- ?? The processing and effecting of releases to local governments.
- ?? Review the application of sanctions on LGs which are not compliant with the reporting and accountability provisions.
- ?? Overseeing the monitoring and mentoring of the use of and accounting for funds in the implementation of Local Government programmes by central government actors.
- ?? Overseeing the provision of feedback to Local Governments on the use of and accounting for funds in the implementation of Local Government Programmers by Central Government actors.

All these activities are related to Local Government Transfers, and need to be carried out in a coordinated way. This coordination of central government actors is therefore the primary role of the Committee. The LGROC will not usurp the legal mandate of any institution. The activities which being coordinated by the LGROC, will be carried out by member's institutions in line with their legal mandates.

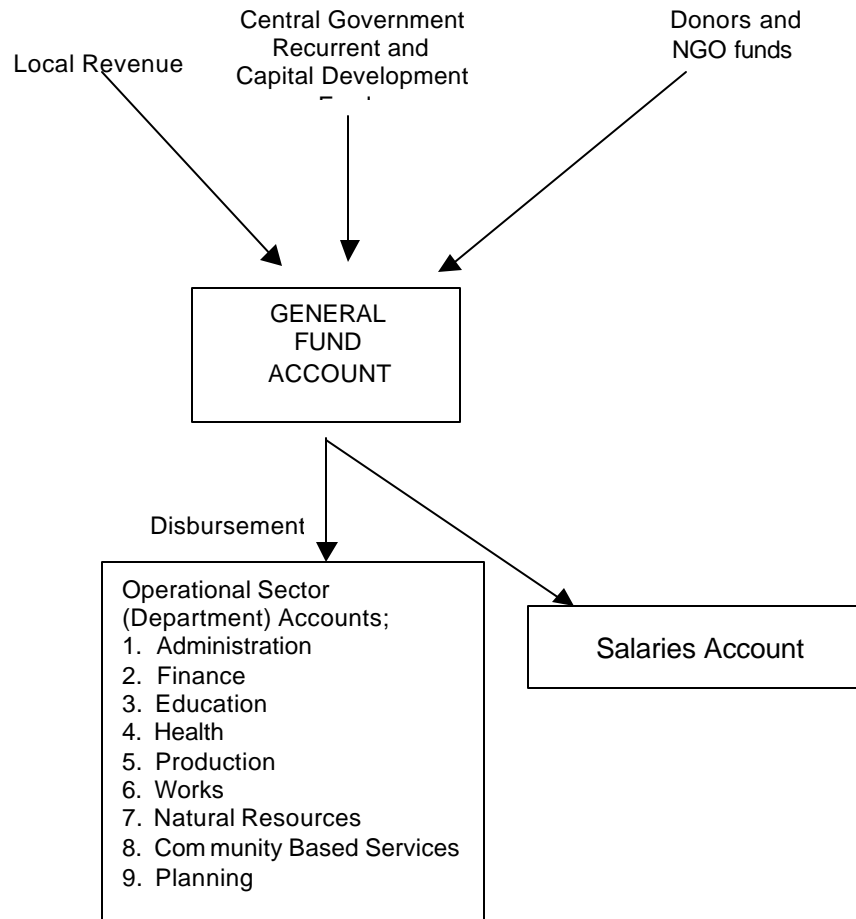
4.2.2 Bank Accounts

The Local Government will ensure that the following Bank Accounts are opened/maintained:

- (a) General Fund bank account
- (b) One bank account for salaries
- (c) One bank account for each department
- (d) Donors/NGO bank accounts, where separate bank accounts are required by funding agencies.

Those Local Governments under the IFMS pilot will have different bank account requirements that they are to observe.

A summary of Bank Accounts to be maintained by Local Governments



The General Fund Bank Account

The General Fund Bank Account is to be maintained for all the district revenue sources (receipts):

- ?? All central government transfers
- ?? All local council's local revenue collections.

Funds should be transferred monthly from general fund account to either salaries or department operational bank accounts, soon after central government transfers have been received. Direct expenditure from the General Fund bank account will not be allowed.

Department Bank Accounts

Each department should maintain one operational bank account for all its transactions both recurrent and development, instead of separate recurrent and development accounts. Instead ledger accounts will be opened for recurrent and development transactions. Transfers from the General Funds account should be receipted with details indicating the purpose of the receipt (Recurrent or Development expenditure) recorded in the cash book and other relevant recurrent or capital development ledgers posted immediately. All expenditures will be made out of Sector Accounts or conditional donor accounts – no expenditures will be made out of the General Fund account

Salaries Bank Account

One bank account should be maintained for all salaries in the Local Government, including all sector salaries. Ledger accounts will be maintained for each sector's salaries.

Donor/NGO Conditional Bank Account

Donors or NGOs operating in a Local Government may demand for a separate bank account to be opened for a particular purpose or project, and this must be catered for. Wherever possible Local Governments should try and resist donor demand for separate accounts. Where a donor requires a separate account, this will need authorisation from the Accountant General in addition to the CAO.

4.2.3 Recording of Cash Books, Abstracts and Ledgers

Each department will operate a cash book for its operational account, and open a vote book for each division/section and service area in the department. Transactions are recorded on abstracts immediately a receipt/payment is made at the same time as it is entered into the cash book. At the end of every month the total revenue or payments appearing under different item codes in the abstracts are posted¹ to the respective ledgers. The Chief Finance Officer is to maintain the various control ledgers while the General and subsidiary ledgers are maintained by the Sector Accountants

4.3 Cashflow and Budget Disbursements in the Financial Year

Day-today cashflow management and commitment control are heavily intertwined. Commitment control ensures that commitments are not made in excess of cash inflows over a period, whilst cashflow management ensures that the LG has sufficient cash available to meet expected payments when they need to be made.

Quarterly Cash/Commitment Limits from MoFPED

The Secretary to the Treasury will set Quarterly Commitment Limits for Local Governments for those budget lines funded by conditional grants, on the basis of cashflow projections. These limits will be communicated in the form of a letter and schedule documenting the cumulative and quarterly commitment limits. They will also set commitment limits for the Local Development, Equalisation and PMA Non-Sectoral Conditional Grants for the district. This letter will be sent by the Ministry of Finance to the Chairperson of the Council, the CAO/TC and Heads of Department.

Form CR1 is the commitment limit schedule. It sets out the grant budget, the funds transferred up to the end of the previous quarter, and the next quarter's commitment limit for

¹ Details of recording cash books appear in LGFAR Chapter 5.

CR-1: QUARTERLY CONDITIONAL GRANT CASH AND COMMITMENT LIMITS

Local Government:

Vote:

Financial Year:

Quarter:

Grant Code	Department & Section Codes	Department/Grant Name	GRANT BUDGET		Releases		CASH/COMMITMENT LIMIT*		
			Budget a	Revised b	Cumulative to end last Q d	Budget Balance e	For Quarter f	Cumulative to end this Q g	Budget Balance g
A RECURRENT CONDITIONAL GRANT									
	01	Administration							
	02	Finance							
	03	Statutory Bodies							
321424	4	DSC Chairs' Salaries							
321425	2,3,4	D.TBPAC/DSC/Land Board, etc.							
		Total							
	04	Production							
321408	6	Agric. Ext Salaries							
321414	6	Agric Extension							
321416	7	Agric Development Centres							
		Total							
	05	Health							
321407	4	PHC Salaries							
321413	1,2,3,4	PHC- Non wage							
321417	1,2,3,5	District Hospitals							
321418	5	NGO Hospitals							
		Total							
	06	Education							
321404	6	Tertiary Salaries							
321405	4	Primary Salaries							
321406	5	Secondary Salaries							
321411	5	Distance Education							
B DEVELOPMENT CONDITIONAL GRANT									
	01	Administration							
	02	Finance							
	03	Statutory Bodies							
	04	Production							
321429	6	NAADS							
		Total							
	05	Health							
321431	1,2,3,4	PHC Development							
		Total							
	06	Education							
321433	4	SFG							
		Total							
	07	Works							
321428	2	Rural Water							
		Total							
	08	Natural Resources							
	09	Community Based Services							
	10	Planning							
	11	Internal Audit							
		DEVELOPMENT TOTAL							
		C DISCRETIONARY GRANTS							
321401		District Unconditional grants*							
321402		Urban unconditional grants*							
321403		Equalisation Grant							
321415		Conditional transfers to PMA NSCG							
321423		Local Development Grant							
		DISCRETIONARY TOTAL							
		D OTHER GRANTS							
321421		Other grants							
321422		Contingency transfers							
321410		Autonomous Institutions (Wage subvention)							
		OTHER GRANTS TOTAL							
		GRAND TOTAL							

* Commitments cannot be made against unconditional grant cash limits, only EG, LDG & CG

conditional grants. It also sets out the commitment limit for the equalisation, local development, and PMA Non-Sectoral Conditional Grants as well, which the CFO/Budget Desk will assign to the relevant budget lines after consultations with departments. The schedule not only states the item code, but also the code for the department, and divisions/sections within the Local Government Budget to which the grant is assigned. Commitment limits will be cumulative from quarter to quarter, which means that if a department has not used up its full commitment limit for a quarter, the balance will be added to the next quarters commitment limit.

Departments will be able to make commitments in advance of receipt of conditional grants, and their share of equalisation, local development and PMA Non-Sector

CFM-2: DEPARTMENT QUARTERLY CASH/COMMITMENT REQUISITION

Department		Code:		Financial Year:				Quarter:				Approved quarterly cash projections by month					Approved Quarterly Commitment Limit
Section Code	Section Name	Item Code	Item Description	Budget Approved	Provision Revised Budget	Cumulative Cash Receipts	Budget Available Balance (B-Q)	Quarter Month 1	Cash Requirements Month 2	Month 3	Total	Month 1	Month 2	Month 3	Total	(i)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	
			TOTAL														

Prepared by: Vote Controller Name: Signature: Date:/...../00
 Reviewed by: CFO Name: Signature: Date:/...../00
 Approved by: Accounting Officer Name: Signature: Date:/...../00

Conditional grants only. Local Governments will, initially, not be permitted to make commitments in anticipation of receipt of local revenues or the unconditional grant.

The commitment limit represents a commitment by the Ministry of Finance to disburse funds up to the value of the limit during the quarter for the Grants Specified. However the Ministry of Finance will only fulfil this commitment if the local government fulfils its monthly reporting requirements during the same quarter. The letter communicating these limits will state clearly these rules and the obligations of the Ministry of Finance and the Local Government.

Preparation of Department Cash Requisitions

On receipt of copies of the quarterly commitment limits from MFPED, Heads of Department should prepare quarterly cash/commitment application forms (CFM-2), on the basis of central governments commitment limits. The CFO should also remind the Heads of Department to do this. If commitment limits are vastly different from the annual quarterly cash request the Head of Department should consult Heads of Section on how to adjust the quarter’s requests and workplans. The Head of Department should also describe, in writing the activities to be carried out in the quarter as well, justifying the cash request. Once completed these should be forwarded to the CFO.

The Quarterly Cashflow Meetings

The CFO will revise the annual cashflow budget and then the Budget Desk will compare expected revenues to the Department’s Cash Requests, and translate this into proposals for department commitment limits and disbursements for the quarter. This will be discussed and agreed in a cash-flow meeting between the budget desk and heads of department. It is important that Heads of Department attend these meetings to defend their quarterly cash requests and ensure that they get a fair share of the expected revenues in relation to their budgets.

The Quarter's Disbursement Schedule

The quarter's cashflow budget and disbursement schedule will be forwarded to the CAO/TC and Executive for approval.

Once approved Heads of department will get a copy of the disbursement schedule (CFM-4) and the approved quarter's department cash requisition from the CFO (CFM-2). They should examine the approved schedules carefully. Department and Division/section commitment on the disbursement schedule will consist of the conditional grant limit for the section plus the share of equalisation grant and or local development grant and/or the PMA non-sectoral conditional grant allocations. Commitment limits will not apply to local revenue or donor funds – LGs will only be allowed to make commitments when cash is received for these funds.

CM-4: Quarterly Disbursement Schedule

Local Government:		Quarter										
Cond. Grant Codes	Dept & Section Code	Department/Section Name	Budget Provision		Cumulative Cash Receipts	Budget Available/Spent (f - g)	Quarterly Cash Projections				Approved Quarterly Commitment Limit	
			Approved (h)	Revised Budget (i)			Month 1 (m)	Month 2 (n)	Month 3 (o)	Total (p)		
	01	A: RECURRENT BUDGET Administration 1 Administration 2 Personnel 3 Secretariat of Council and Statutory Bodies 4 Police & Prisons 5 Multi sector donor projects which require separate bank accounts 6 Total Of which: Salaries										
	02	Finance 1 Revenue and Budget 2 Expenditure and Accounting 3 Cash Total Of which: Salaries										
	03	Statutory Bodies 1 Council 2 District Tender Board 3 District Land Board 4 District Service Commission Total Of which: Salaries										
	04	Production 1 Agriculture 2 Fisheries 3 Poultry 4 Piggeries 5 Commercial Fisheries 6 Veterinary Services 7 Agriculture Development Centre Total Of which: Salaries										
	05	Health 1 Quilty Assurance 2 Administration and HRD 3 Health Information 4 Primary Healthcare Services 5 Hospital Services 6 Total Of which: Salaries										
	06	Education 1 Administration										

4.3.2 Receiving Revenues and Disbursing Funds

The Monthly Release from MFPED

A standard release letter and schedule will be issued by the Director of Budget in the Ministry of Finance, as Chairperson of the LoGROC, each month stating the composition of the releases. Release notes will be distributed to heads of department as well as to the CAO/TC and Chairperson of the Council. The release schedule releases against grant item, and like the commitment schedule against each department and also specifies the division/section/service area. It will detail cumulative and the month's cash releases, against the budget and quarterly and cumulative commitment limits.

Disbursing Funds to Departments

As a general rule, disbursements of all revenues, whether donor, local or central grant to sector departments should be made together once every month by the CAO/TC. The timing should be soon after central government release has been received on the general fund

account at the district. The transfer of funds involves the posting of revenues in the cash book and vote book and ledgers, and the transfer of funds from the General Fund Account to the Department Accounts.

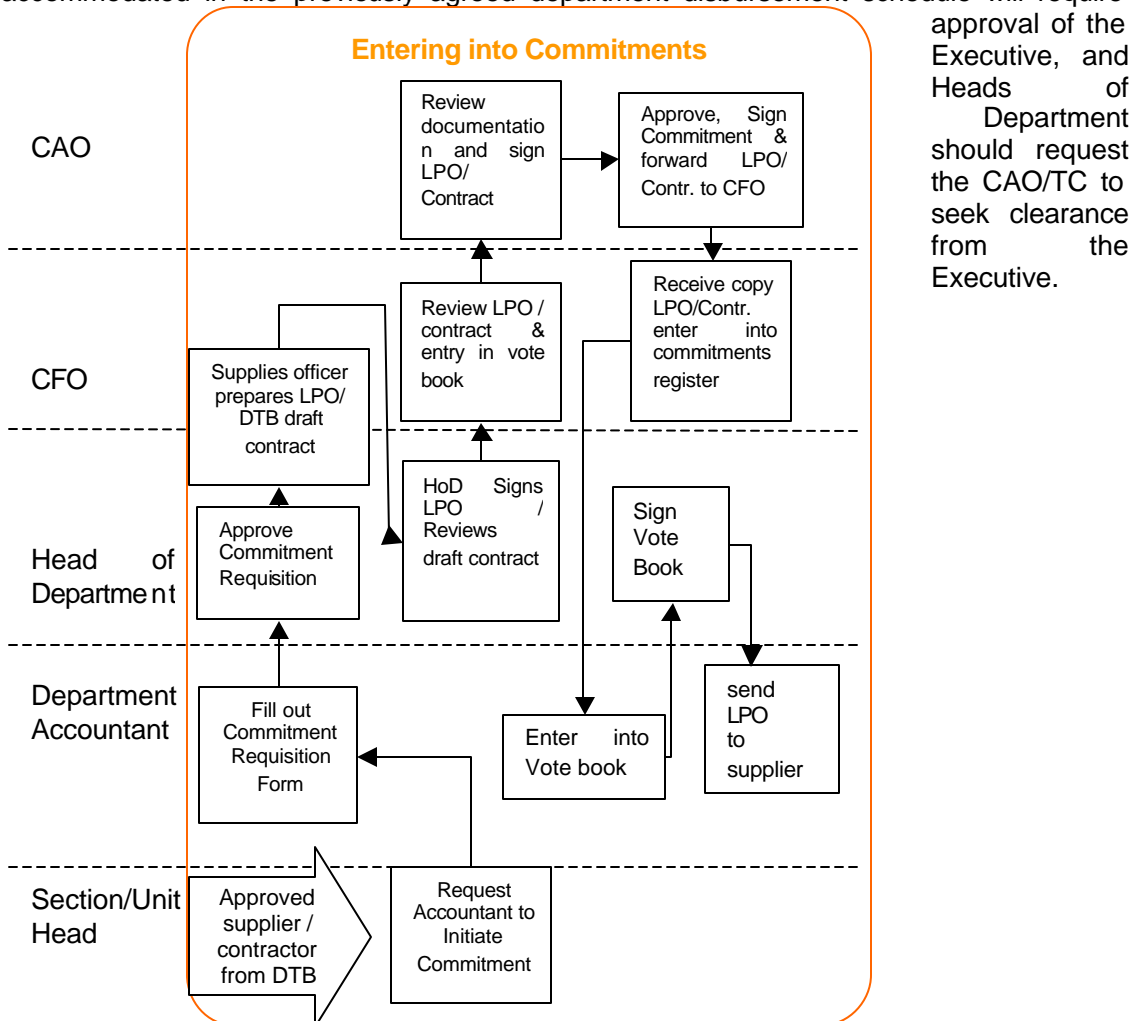
CM-4: Quarterly Disbursement Schedule

Local Government:

Cont. Grant Codes	Dept & Section Code	Department/Section Name	Budget Provision		Cumulative Cash Receipts	Budget Available/Balance (f-g)	Actual Disbursements			
			Approved (a)	Revised Budget (b)			Month 1 (i)	Month 2 (j)	Month 3 (k)	Total (m)
021405	01	A: RECURRENT BUDGET Administration								
		1 Administration								
		2 Personnel								
		3 Secretariat of Council and Statutory Bodies								
		4 Police & Prison								
		Multi sector donor projects which require separate bank accounts								

Before the release is made each month, there should be a cashflow meeting, held by the budget desk, to discuss any new emerging expenditure revenue pressures. Unless it means certain commitments cannot be honoured, disbursements will be scaled up or down in proportion to the agreed department disbursements for the quarter, in the case of cash inflows being higher or lower than expected.

The funding of new activities outside the agreed quarterly disbursement schedule is discouraged, and is only likely to be accepted in exceptional circumstances. Any new activities, or expenditure pressures for activities in the workplan/budget which cannot be accommodated in the previously agreed department disbursement schedule will require



approval of the Executive, and Heads of Department should request the CAO/TC to seek clearance from the Executive.

4.4 Commitment and Expenditure Control

4.4.1 Ensuring Vote Books are Correctly Posted

The Vote Book

The vote book is the key document by which a Vote controller actually controls all commitments and expenditures in the vote. The vote book caters for commitment control, ensuring that commitments are only entered into when there is sufficient commitment balances available either on the commitment limit, or cash received. Each item of expenditure that appears in the budget estimates should have vote book sheet opened. The recommended vote book sheet is presented below.

Columns for commitment limit, balance on commitment limit and uncommitted funds have been added:

- ?? **Date** – the date a commitment or payment is entered into
- ?? **Voucher** – the number of the Commitment Requisition form or payment voucher to which the transaction refers
- ?? **Workplan Reference** – activity number in workplan to which the expenditure refers
- ?? **Payee details**– the details of the payee & contract/LPO/Invoice number
- ?? **Commitment limit** – the cumulative commitment limit for conditional, equalisation and LDG releases are added here.
- ?? **Cash release** – here cash received is added from all revenue sources.
- ?? **Balance on commitment limit** – here the balance available against the commitment limit is recorded, this is run down each time by the value of each new commitment is entered into, and increased whenever a new commitment limit is issued.
- ?? **Commitment balance on cash receipts** – here the difference between total cash receipts and total commitments is recorded.
- ?? **Commitments** - a recording of all commitments made as they happen (i.e. when a commitment requisition is approved).

VOTE BOOK

Budget Adjustments

Directorate Code:
 Division/Section Code:
 Item Code:
 Approved Estimates (\$hs)

Date	Reference	Amount +/- \$hs	How Budget \$hs

(1) Date	(2) Reference		(3) Payee Details	(4) Commitment Limit (Cumulative)	(5) Cash Release (Cumulative)	(6) Commitments	(7) Balance on Commitment Limit (4-5)	(8) Commitment Balance on Cash Release (5-6)	(9) Payments	(10) Cash Balance (5-9)	(11) Unpaid Commitments (6-9)	(12) Vote Controller		(13) Remarks
	Voucher	Workplan										Initials + Date		

At least one of (7) or (8) must remain positive at all times

- ?? **Payments** - All payment vouchers approved are recorded here.
- ?? **Cash balance** – this shows the total cash received less total payments

Often an item has a commitment limit of zero as it will have no CG, EG, LDG or PMA revenues allocated to it. In such cases or in the situation where the commitment limit has been exhausted, if total cash receipts are greater than total commitments then vote controllers can make commitments up to the value of the commitment balance available on cash receipts. A Head of department should only approve a new commitment if there is sufficient commitment balance available against either the commitment limit or cash receipts.

One of either the balance on commitment limit or Commitment balance on cash receipts must be positive at all times. If this is not the case then the Vote Controller will be personally liable for any over-commitment that cannot be honoured, alongside any others who approved the commitment.

The CFO and Head of Department must ensure that the accountants attached to sector departments maintain vote books correctly and ensure they are up to date. It is especially important that the columns relating to commitments are posted as well as expenditures. Without these columns posted neither the HoD, CFO, or CAO/TC should approve any commitment or payment.

4.4.2 Entering into New Commitments

Commitment Requisitioning

Before a department enters into a commitment is approved, it must be requested by the User Department and approved by the CAO/TC. Section A of the commitment requisition forms are to be completed by officers requisitioning or the accountant in the user Department. In completing the form the officer must check that the required balances are available in the vote book. The officer requisitioning should also describe the activity and provide the workplan reference number – if an activity is not in the workplan the officer will also need to request for an amendment to the workplan and gain that approval before the commitment is requested (see section...).

The commitment requisitions must then be authorized by the Vote Controllers (HoD), who should check in the vote book to see whether the requisite balance is available, and whether the activity is in the workplan.

COMMITMENT REQUISITION FORM

Department Section/Division..... Code:.....

REQUISITION No./Month

A: REQUEST FOR COMMITMENT

To be completed by User Department

Stores or Services Required

Item No.	Quantity	Unit	Details of Goods and Services	Estimated Cost
Total				

Amount in words

Special Instructions

Expenditure Details:

Department Division/Section.....

Budget Item Sub-Item.....

Description of Activity..... Workplan Ref. No.....

Funds Position:

Balance per Commitment Limit or Cash Release	Amount Committed	Balance after Commitment

Requisition prepared by: Position: Date:.....

Authorised by: (Vote Controller)..... Position: Date:.....

B: APPROVAL OF COMMITMENT

For Use by Finance Department and CAO/Town Clerk

Activity in Workplan (yes/no) Funds available as per Vote Book

Commitment Amount of approved and authorised in Vote Book (yes/no)

If commitment rejected, give reasons

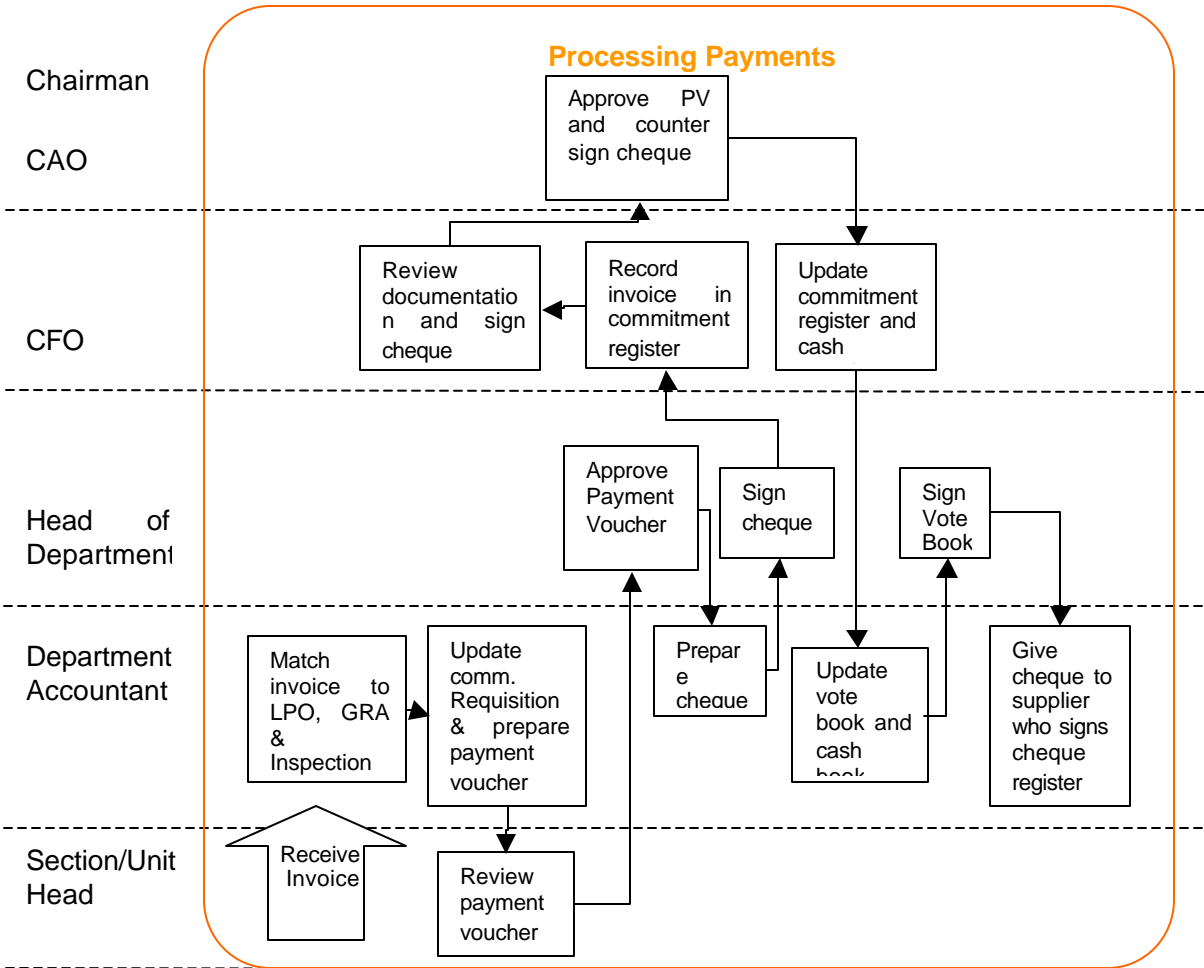
CFO/Treasurer Date:

Accounting Officer/CAO Date:

Payment Voucher No. and Amount

Cheque No. and date

Cashier/Cheque Dispatch



The Commitment Requisition should then be forwarded to the CFO, who will again check that balances available forward for approval by the CAO/TC.

4.4.3 Processing Payments

The process of making payments does not change significantly from current practices, although Internal Audit is no longer approved. The officer initiating the payment, or the sector accountant, prepares the payment voucher and submits it to the Head of Department for approval. It is also important that any invoice received is matched against the original commitment requisition form and LPO – without this payment should not be approved.

The Head of Department must approve no payment unless the associated commitment has been approved by the CAO/TC beforehand.

It is also very important that bills, when they are received that the date and amount are recorded in the commitment register. If the commitment control system is working there should always be enough cash to honour bills, and no excuse for their not being honoured.

Unpaid bills become overdue when they have not been paid for more than 30 days. The CFO should monitor the promptness of paying of bills using the contract register.

4.4.4 Reporting on Commitments and Bills

At the end of each month the department accountant should prepare a division/section commitment summary form by the 10th day of each month in line with format CEC4. It should be prepared by the department accountant, on behalf of the Vote Controller who approves it and forwards it to the Accounting Officer.

It's purpose is to provide information about the current commitments and bills from the divisions and sections in the department. It is also provides essential information to the CFO to enable him or her to compile the monthly financial statement for the district.

CEC-4: MONTHLY COMMITMENTS SUMMARY FORM

Department:			Section:			Month:		FY:		Type:		
Date of Commitment	Date of Expected Payment of Commitment	LPO/ Contract No.	Contractor /Supplier / Payee	Item Code	Amount Shs	Additional Obligation (if any) Shs	Total Est. amount owed Shs (f+g)	Amount Billed for	Date of Submission of Bill	Payments	Date Paid	Remarks
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
Preparing Officer: Position: Vote Controller Name:..... Signature:..... Date:.....			Verifying Officer: Position: CFO Name:..... Signature:..... Date:.....			Approving Officer: Position: CAO Name:..... Signature:..... Date:.....						

4.5 Internal Financial and Performance Reporting

4.5.1 Introduction

Internal reporting systems within local governments are important for ensuring that performance and financial information is delivered to managers and decision makers at levels where this information are needed, and that information is recorded accurately and there is an internal system of verification. This will enable more effective monitoring of activities but also improve on the planning process. Reports can enhance in year management decisions, by identifying problems, and helping ensure implementation is on track, and also assist in future planning and budgeting decisions. It also helps Districts/Municipalities target technical assistance to poorly performing units.

Heads of Department will have to put in place measures to ensure that all cadres underneath him or her adhere to the set standards of reporting in terms of timely submission, compliance with prescribed quality/content and authenticity of reports.

Timing of Reports

The order of internal and external reporting will be defined by four tiers and due dates for submission of reports as follows:

DR1a: Descriptive Monthly Progress Report for Service Unit/Extension Worker²

Unit/Service Name:	Location:	Code:	
1. Statement of Month's Key Priority			
2. Description of Month's Achievements against the Workplan and Key Priority			
3. Challenges/Problems Faced			
4. Strategy for Addressing Challenges and Problems			
5. Statement of Key Priority for Next Month			
Prepared by:	Name:	Signed :	Position:
Verified/ Approved by:	Name:	Signed :	Position:

²To be filled in by Head of Unit/Extension Worker and Combined with BR1 and Submitted to Head of Section

DR1b: Descriptive Monthly Progress Report for LCIII/HSD Service Delivery³

Service Name:		Area:		Code:	
1. Description of Month's Achievements against the Workplan					
2. Challenges/Problems Faced					
3. Good Performing Service Units/Extension Workers & Reasons					
4. Poorly Performing Service Units/ Extension Workers and Reasons					
5. Strategy for Addressing Challenges and Problems					
Prepared by:	Name:	Signed :	Position:		
Verified/ Approved by:	Name:	Signed :	Position:		

³ To be filled in for Service Delivery for each LC3 (or HSD in Health Sector) and submitted with report BR1 to HoD

Target Audience

At the District the audience for reports will be Heads of Section/Department, internal audit and those involved in monitoring performance or inspection.

Information Requirements

Reports will be both tabular and descriptive using the generic format for activity and expenditure reporting BR1, and DR1a. One form BR1 should be prepared for recurrent expenditures, and one for development expenditures, if there are any. After “type”, it should be stated whether the report is recurrent or development. The format is intended to be simple and just contains information on expenditures and activities carried out and/or some simple service delivery indicator. Where there are workplans activity reporting should be against these.

The reports will also be supported by a descriptive form, where the service provider will describe progress against its workplan, identify challenges and how they are going to be addressed. This is an important element because it will be easy to understand for those assessing the reports, and avoids reporting solely being a box filling exercise.

Compiling LCIII/HSD Service Delivery Reports

Sector Committees and the District Executive are unlikely to be interested in detailed reports from all units, although those which show specific problems should be forwarded to them. This is especially true in the case of Health and Education. Also in sectors such as roads and water, where there are often no subcounty/division based staff, there need to be reports on performance in specific subcounties and divisions. Similarly in the Health Sector Reports should be compiled at Health Sub District Levels.

Departments will therefore also produce **monthly area based service delivery reports**. Heads of Department will delegate responsibility to Section Heads or other specific members of staff the responsibility for compiling information from service delivery unit reports, and provide information by sub-county/division in line with the annual workplan structure. Area based staff such as county schools inspectors should compile the information on behalf of the department head. The reports will use the same format – one form BR1 to provide a summary of recurrent activity and expenditure information and one for development, and a descriptive form, DR1b will be used.

4.5.3 Reporting by Section Heads to Heads of Department, and onward CAO/TC & Sector Committees

Internal Reporting on department expenditure, outputs and activities to CAO/TC will be monthly. It will consist of the summary output reports and detailed division/section & service delivery output, activity and financial reports. There will also be supporting descriptive reports.

Purpose

At the district level managers need information on their own activities as well as compiled information on service delivery performance, regularly to ensure performance is on track relative to the workplan.

The purpose of this level of reporting is to facilitate heads of department with information on the implementation of workplans, and allow him or her to make decisions on how to improve implementation in the future and ensure that workplans are implemented in full, and that resources are better deployed in future on the areas in which they are needed. It also enables heads of section to raise issues which they would like addressed with the Head of Department.

DR2a: Descriptive Monthly Progress Report for Division/Section⁴

Division/Section Name:		Department:		Code:	
1. Statement of Month's Key Priority					
2. Description of Month's Achievements against the Workplan and Priority					
3. Key Challenges/Problems Faced					
4. Strategy for Addressing Challenges and Problems					
5. Statement of Key Priority for Next Month					
Prepared by:		Name:		Signed :	
Verified/ Approved by:		Name:		Signed :	

⁴To be prepared by Head of Division/Section and submitted to HoD in conjunction with report BR2

DR2b: Descriptive Monthly Progress Report for District/Municipality Service Delivery⁵

Service Name:		Area:		Code:	
1. Description of Month's Achievements against the Workplan					
2. Key Challenges/Problems Faced					
3. Good Performing Service Units/Extension Workers & Reasons					
4. Poorly Performing Service Units/ Extension Workers and Reasons					
5. Strategy for Addressing Challenges and Problems					
Prepared by:	Name:	Signed :	Position:		
Verified/ Approved by:	Name:	Signed :	Position:		

⁵ To be filled in for Service Delivery for each LC3 (or HSD in Health Sector) and submitted with report BR1 to HoD

Target Audience

The target audience for the reports are primarily Heads of Department, the Executive Committee and Sector Committees. The CAO/TC will have the responsibility of forwarding the reports to the Executive Committees, whilst the Planner also has an interest in verifying implementation against the workplan.

Information Requirements

Section reports will provide information on activities and service delivery levels, as well as outputs relative to the annual workplan using form BR2. They also provide summary information on spending and commitments against the budget. The staff delegated by the HoD to prepare service delivery reports will compile information from lower level implementers and prepare reports giving performance in a give service for the District/Municipality as a whole.

Tabular reports should be supplemented by 1 page descriptive reports describing the activities carried out, problems in implementation, and actions being taken to address the problems.

4.5.4 Monthly Reporting to Council and to LoGROC

The following are the monthly reporting requirements for the Administration to the Executive and Central government:

Descriptive Progress Report: A report describing progress in each department and overall financial performance.

Key Department Output Performance: One page sector output reports for every department in the LG, which will be on the basis of departmental summary work plans.

Financial Statement: a consolidated report for all recurrent and development revenues and expenditures in and district and municipality, showing income and disbursement against budget lines and recording expenditures and commitments against those budget lines.

Bank Reconciliation Statements and supporting copies of bank statements for all bank accounts in the local government.

Output reports from each sector will be presented on a single page sector monitoring form, which will include both recurrent and development outputs. The CAO/TC will submit to the Executive Committee a descriptive (popular) version with up to two pages of text per department explaining the tabular/numeric presentations for easy comprehension of non-technical and political audience, in addition to a copy of the report submitted to central government.

Who Reports to Whom?

CAO/TCs will be required to submit the above reports by the 20th day of each month to the Chair of the LoGROC in MFPED, copied to the MoLG, LGFC and Sector Ministries.

NB: The statutory provision for the deadline for submission of monthly reports from Local Governments to Central Government is currently the 15th day of each month: To enable the timely and efficient delivery of the new reporting systems being introduced here, a statutory amendment is proposed to cabinet change this date to the 20th day of each month.

Responsibilities of Heads of Department

Heads of Department will be responsible for the preparation of **one-page monthly department output reports** and ensuring that monthly accounts are up to date. The output

BR3 - DEPARTMENT KEY OUTPUT PERFORMANCE											
Department:		Code:		Quarter:		Month:		FY:			
A. RECURRENT - Key Outputs & Delivery Levels	Dept & Service Section Code	Output Code	Annual Target	Achieved by end of Previous Quarter	Performance in Quarter				Cumulative Performance To Date		Comments
					Month1	Month2	Month3	Total	No.	Workplan remaining	
B. DEVELOPMENT - Output & Volume of Investments	Dept & Service Section Code	Output Code	Annual Target	Cumulative Performance Output	Performance in Quarter				Cumulative Performance To Date		Comments
					Month1	Month2	Month3	Total	No.	Workplan remaining	
Preparing Officer Head of Department: Name..... Signature..... Date.....		Verifying Officer Planner: Name..... Signature..... Date.....				Approving CAO/TC: Name..... Signature..... Date.....					

reports will be submitted monthly to the CAO/TC and copied to the sector secretary. They will be supplemented by the **short descriptive report on the performance of the department, DR3**, as some councillors may find the tables difficult to understand. The Planner will be responsible for ensuring that all departments have submitted reports.

Chief Finance Officers will prepare monthly statement of accounts in addition to the quarterly set of accounts, which will be presented to the Executive through the Secretary for Finance. The basic structure and content of the reports will be similar to reports submitted to line ministries and the MFPED. The CFO will only be able to do so if:

- ?? the sector accounts are up to date,
- ?? the requisite bank reconciliations have been carried out, and
- ?? the monthly commitment summary form has been submitted to him/her.

The Head of Department should assist the CFO by ensuring that these have been carried out.

Timing and Frequency

The reports will be monthly and will combine financial and output reporting for Recurrent and Development expenditures. The deadline for quarterly reports should be the 20th of each month, as this should allow releases to be computed, and disbursements made at the beginning of the following month.

This means that **Sector Output reports for the quarter ending, and monthly sector financial statements and commitment summary form will be expected by the 15th of every month** and financial sanctions will apply to units making late submissions of reports.

Internal Verification

Reports approved by Heads of Department will be verified either by a designated officer in the CAO/TC's office or *the planner*. Verifying officers will be held legally liable for knowingly certifying reports, which are later proven to be false or incomplete and will face disciplinary action for due negligence. Heads of department must cooperate with the verifying officer to provide information on the integrity of the report.

DR3: Descriptive Monthly/Quarterly Progress Report for Department ⁶

Department:		Code:	
1. Statement of Month/Quarter's Key Objective			
2. Description of Month/Quarter's Achievements against the Workplan and Objective			
3. Key Challenges/Problems Faced			
4. Strategy for Addressing Challenges and Problems			
5. Statement of Key Objective of Next Month/Quarter			
Prepared by:	Name:	Signed :	Position:
Verified/ Approved by:	Name:	Signed :	Position:

⁶ To be filled in by Head of Department and Submitted to CAO in conjunction with report BR3

4.6 Quarterly Reporting to Council

Each quarter the administration must prepare a report for the Executive to present to Council on performance against the Annual Workplan and Budget. This should consist of:

A descriptive report describing progress in the quarter, along the lines of the regularly submitted on page department summary reports, the

one page department output forms, (BR3) completed for the three months in the quarter and

the recurrent and development financial statements, (BR 4&5) completed for the quarter rather than the month.

This should be prepared and submitted to the Executive by the 20th of the Month after the close of the quarter, and submitted to Council as soon as possible thereafter by the Executive.

Heads of department should prepare the quarterly descriptive report and submit it to the CAO/TC and planner before the 15th of the month.

4.7 Alterations in the Budget and Workplans

4.7.1 Reallocations and Virements in the Budget

Local Governments should process virements and reallocations in line with the local government Financial and Accounting Regulations. Heads of department must apply for any reallocation or virement to the Executive through the CFO and CAO/TC.

4.7.2 Supplementary Expenditures

Supplementary Expenditures need to be processed in line with the LGFAR 1998. The new Public Finance and Accountability Bill broadens the definition of over expenditure from moneys expended "*in excess of the amount appropriated for it*" to "*for a purpose for which no moneys have been voted and appropriated*". Annual workplans are the documents which describe the purpose of expenditures. Therefore any new activity not in the workplan will need to be appropriated as well through the issuing of a supplementary. Thus the Executive will need to be clear any new activities in the workplan before they are affected and Council will need ultimately to approve them.

5 Application of Sanctions for Non-Compliance

5.1 Sanctioning Departments which fail to report

The CAO/TC and Budget Desk will develop internal sanctions for non-compliance to FDS reporting requirements, and to the legal framework including the LGFAR.

Sanctions will be put in place for departments that fail to report, and fulfil other financial management obligations. This may include stopping the approval of commitments and payments in a department until a report is received and/or reducing the share of discretionary revenue it receives in future disbursements.

Sanctions should not just be financial, however. When problems can be traced to an individual member of staff, action should, where possible be taken on those responsible.

5.2 Sanctions from Central Government

5.2.1 Analysis of Reports by Central Government

The Secretariat of the LGROC in the Ministry of Finance is responsible for the collation of the information in the Quarterly Reports in terms of both outputs and financial information. LGROC is responsible for studying and analysing financial and output information in reports. The Ministry of Finance, Planning & Economic Development is held responsible for analysing the financial information, whilst sector ministries responsible for evaluation of LG performance and output data provided.

The LGROC has a computerised database which captures and analyses local government financial expenditure and output performance from quarterly reports. This database should carry out three main functions, in analysing information:

- Compare financial performance between sectors and across local governments. It should be able to verify the consistency of financial information provided, compare commitments and expenditures against budget, commitment limits and cash disbursed. It also should be able to provide information on the absorption of funds by local governments.
- Compare output performance between sectors and across local governments, against annual targets.
- Relate output information to expenditures, and where possible make efficiency calculations.
- Automatically detect errors in reports, and advise on releases to local governments, and the sanctions to be applied to local governments.

At any point the Local Government can ask the Ministry of Finance to see the data stored on the database with respect to their own local government.

5.2.2 Application of in Year Sanctions on the basis of LG Reports/Submissions

The table below shows the types of financial and non-financial sanctions that will be applied by the LoGROC to Districts/Municipalities for different types of problem with reports submitted during budget implementation. These problems are verifiable at the centre and sanctions will be applied immediately once problems are detected.

Local Governments will, however be informed of the reason of any sanction by the Chair of the LoGROC at the time of the monthly release.

	Problem at Local Government	Sanctions from Centre	
		Immediate Financial	Non Financial
A1	No approved workplan and/or budget/vote on account by the 25 th of last month of the previous FY	No release	Publishing of non-submitting LGs in national newspapers
A2	Non-compliant Submission – either: one or more of the bank reconciliation statement, financial statements missing, or <75% of other elements of the report missing, or deadline of submission missed or combination.	No release	Publishing of non-submitting LGs in national newspapers
A3	Near compliant submission – financial statement and bank reconciliation statement submitted, and >75% of other reports and submission on time.	25% reduction in disbursements to all budget lines until complete submission made	Write to CAO/TC/Executive, Chairman of Executive
A4	Failure to Submit Complete Report by the 25 th of the following month	Subsequent Release withheld	Publish in National Newspaper MFPED writes to CAO/TC, copied to Chairman of Executive, Parliamentary PAC and accountability institutions
A5	Substantial inaccuracies in overall financial information in quarterly reports	25% reduction in releases to non-wage budget lines in the RTS and DTS	Write to CAO/TC and Chairman of Executive and sector committee
A6	Substantial inaccuracies in sector financial and/or performance information in quarterly reports	25% reduction in releases to non-wage sector budget lines, until accurate information provided.	Write to CAO/TC and Chairman of Executive and sector committee

5.2.3 Sanctions on the basis of other factors

All financial sanctions, except withholding/reduction of releases for non/incomplete/inaccurate report submissions above, which is verifiable at the centre, should involve verification by central government at the district, and be authorised by the LGROC. Each quarter the LoGROC will meet to discuss such cases and will agree when financial sanctions should be applied to Local Governments.

The specific sanctions will often be negotiated annually by the LGBC and communicated to Local Governments. These Sanctions will take into account the provisions of Section 100 of the Local Government Act, which sets of the powers of the Minister of Local Government with respect to non-compliant Local Governments.