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An Assessment of the Public Expenditure and Financial Accountability in Kajiado County

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Introduction

The Public Expenditure and Financial Accountability (PEFA) assessment was carried out in the County of Kajiado and five other counties, namely: Baringo, Nakuru, Makueni, West Pokot and Kakamega. The exercise, which was undertaken by KIPPRA in conjunction with the World Bank (Kenya Office), was the first sub-national PEFA assessment carried out in Kenya following the devolved system of government. The rationale for the PEFA assessment is to provide a clear and deeper understanding about the functioning of public finance management (PFM) system and the organizational aspects of existing institutions at county level. The main objectives of the assessment include: i) assess the state of financial management capacity in the county government; ii) identify gaps in terms of capacity, systems, policies and processes in PFM; iii) provide a basis for PFM reforms and iv) facilitate and develop a self-assessment capacity at the county level.

The users of PEFA include the private sector, civil society organizations, faith-based organizations and international development institutions. The PEFA scores and reports allow all users of the information to gain a quick overview on the strengths and weaknesses of the county's PFM systems. The importance of PEFA is to facilitate in attainment of fiscal discipline, strategic resource allocation, and efficient service delivery.

The assessment covered a period of three (3) fiscal years, 2013/14, 2014/15 and 2015/16. It focused on seven (7) key pillars of the PEFA framework, namely: (i) budget reliability; (ii) comprehensiveness and transparency; (iii) management of assets and liabilities; (iv) policy-based fiscal strategy and budgeting; (v) predictability and control in budget execution; (vi) accounting and reporting; and (vii) external scrutiny and audit.

The County's socio-economic indicators are as presented below

County Administrative and Development Indicators	
Location	Former Rift Valley Province
Area (Km^2)	21,293
No. of constituencies	5
No. of electoral wards	25
Estimated total population (KNBS 2015)	807,069
Females	395,464
Males	411,605
Population density per km^2	37.9
County contribution to national GDP %	1.5
Gross county product (2017)	Ksh 114,894 million
Poverty levels (%)	41

Key Findings of the PEFA Assessment

(a) Budget reliability

A budget is considered reliable if implemented in accordance with the approved estimates before the beginning of the year. Kajiado County prepared its budget according to economic, programming and functional classification of transactions.

There were significant deviations between budgeted and actual expenditures. These were mainly attributed to the low absorption rates associated with capital expenditures in sectors such as public works, roads and housing, and wages. This was caused by delays in disbursement of funds by the National Treasury, thereby creating a mismatch between the procurement plan and implementation. Implementation of the development expenditure was made difficult by the fact that funds were released in the second half of the financial year.

Similarly, actual revenues fell short of budgeted amounts in all three years. This was largely attributed to over-estimation of local revenues. Capacity gaps were identified in fiscal forecasting, and therefore the inaccurate projection of revenue and expenditure. The County, however, performed well in terms of actual expenditure charged to a contingency vote.

(b) Comprehensiveness and transparency of public finances

The key focus is on the comprehensiveness of budget and fiscal risk oversights and accessibility by the public to the fiscal and budget information. Budget formulation, execution, and reporting were based on administrative and economic classification and in accordance with the standardized Chart of Accounts (SCOA) and comparable GFS/COFOG standards which are anchored in the PFM Act. Information on the activities performed for most budget users is published annually in the budget implementation review reports (CBROP and CFS). Information on resources received by frontline service delivery units was collected and recorded in the budget implementation review reports.

During the preparation and approval process of the annual budget, the public participated through various forums. Even though the Appropriation Act was gazetted and made available to the public, they were not published on the County website or Sub-County notice boards. Annual budget documents were produced by the County Government but not shared with the public in good time. Besides, financial reports of the extra-budgetary units were not availed, the "citizens' budget" was not produced, and macroeconomic forecasts at the County level were not done.

Performance plans for service delivery were published in annual development plans. Further, the county government had not established a unit to conduct performance evaluation and had limitations in terms of human capacity to prepare performance evaluation reports for each service delivery unit that received funding.

(c) Management of assets and liabilities

Effective management of assets and liabilities is necessary to ensure public investments provide value for money. The County was yet to form any public corporations and did not have a list of public corporations. The County did not isolate contingent liabilities within the budget and other fiscal risks mentioned in the County Fiscal Strategy Paper (CFSP) and County Budget and Review Outlook Paper (CBROP) but not itemised in the budget.

No economic analysis of projects was carried out to effectively inform public investment decisions. Most of the rules and practices for project selection had not been formalized and there was no evidence of public participation in investment project selection. Capital costs of investment projects were provided but recurrent costs were not available. There was no evidence of monitoring of physical progress of capital projects.

Although there were records of the County government financial asset holdings, information on assets and liabilities contained in the bank statement was incomplete. Regarding the non-financial assets and liabilities, the County maintained records but details about their age and usage was lacking. Procedures and rules for disposal of financial assets had not been established because the County was yet to dispose of any assets. The County did not have any debt except the debt inherited from the defunct local authority. The County was yet to formulate a debt servicing strategy.

(d) Policy-based fiscal strategy and budgeting

Budgets and fiscal strategies ought to be prepared with reference to government policies, strategic plans, and macroeconomic and fiscal projections. The County provided a situational analysis of key macroeconomic indicators (growth, inflation, exchange rate, interest rates) at the national level in the County Fiscal Strategy Paper (CFSP) but did not carry out macroeconomic sensitivity analysis. Besides, fiscal forecasts were presented in the County Budget and Review Outlook Paper (CBROP), but no explanations were provided for the deviations therein. The County prepared medium-term expenditure estimates by administrative, economic and functional classification presented in budget estimates and the CFSP. Strategic plans were, however, not aligned to budget estimates.

The budget calendar was generally adhered to but there were weaknesses in quality of the budget programming. A comprehensive budget circular was issued to budgetary units, covering total budget expenditure for the full fiscal year but it did not include ministry ceilings. Budgets were submitted to the County Assembly in a timely manner.

(e) Predictability and control in budget execution

Personnel records were prepared and updated monthly in a timely manner for subsequent payments. Controls existed to ensure 75% integrity of the payroll, but since 25% of staff were paid manually, changes to the payroll with regard to this were not restricted.

Procurement records were maintained but materiality related to the completeness could not be verified as the procurement module was not connected to IFMIS. The Internal audit was functional for the County Executive and County Assembly entities that collected budgeted government revenue and expenditure. Audited entities provided a full response to audit recommendations within twelve months of the audit report being produced.

The entities collecting revenues provided payers with access to information on the main revenue obligation areas but not on redress processes and procedures in case of complaints. The county did not have a risk assessment framework for assessing and prioritizing risks. Most of the planned audits and investigations were complete but there was no evidence of compliance improvement plans.

The County consolidated the revenue data into monthly reports and was broken down by revenue type in monthly, quarterly and annual reports. All revenues were banked in revenue collection accounts. However, there was no complete reconciliation of assessments, collections, arrears and transfers. Cash balances were consolidated on an annual basis. In addition, yearly pending bills were mentioned in the Annual Financial Statistics, but the stock of arrears were not established.

(f) Accounting and reporting

This pillar measures the extent to which the County ensures processes are put in place to ensure financial data integrity, accounting standards are adhered to and information on budget execution is provided accurately, comprehensively and in a timely manner. Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The reports disclose financial standards used in preparing annual financial reports. Bank reconciliation for all active County Government bank accounts took place at least monthly. However, bank reconciliation regarding extra budgetary units were unknown. Evidence was also missing for suspense accounts that were reported to be cleared monthly. Financial reports for budgetary County Governments were prepared annually. They included information on revenue, expenditures, and cash balances.

(g) External audit and scrutiny

The Office of the Auditor General conducts external audits using the International Standards on Supreme Audit Institutions for both National and County Governments. The County Government provided formal responses to audit findings but were not necessarily comprehensive and timely. There was missing evidence of a systematic follow up to address audit findings. In addition, the audit committee reports were not published in the County Assembly website.

On-going Reforms

The County Government was undertaking the following reforms to strengthen its financial system:

To ensure comprehensiveness and transparency of public finances, the County began using GFS codes while budgeting for revenue. The use of IFMIS had also been extended to budget revenue and there are efforts to partner with an NGO to prepare a citizen's budget.

To ensure effective management of assets and liabilities, a borrowing framework was being developed under the leadership of National Government with the participation of the County Government and other stakeholders. To ensure predictability and control in budget execution, the procurement department acquired an integrated records management system to strengthen records management within the procurement department. Other measures, such as planning reforms (budget calendars) accounting reforms (improving cash books and AFS) were also on track.

Conclusion and Policy Recommendations

The County Government of Kajiado has made efforts to implement provisions of the PFM Act 2012 to achieve its development objectives. In that regard, there have been major improvements in the maintenance of the cashbook and allocation of resources among other achievements. However, there exists challenges which inhibit optimal use of County resource in attaining their strategic goals. In view of the findings of the PEFA assessment, the following recommendations are suggested:

1) **Budget reliability:** The County Government should adopt measures to enhance own sources of revenue, including expanding revenue sources, conducting sensitivity analysis on various revenue streams and automation of revenue collections. It should also cut down on unplanned expenditures to curtail revenue-expenditure deviations.

2) **Comprehensiveness and transparency of public finances:** To address weaknesses in transparency of public finances, there is need to publish finance related documents and make them easily accessible to the public for scrutiny. In addition, the County should develop an effective public participation framework cascaded to ward levels to ensure ownership of the budget process.

3) **Management of assets and liabilities:** There is need to maintain a comprehensive record of revenue arrears, assets and liabilities including the value, age and usage for effective management

of assets and liabilities for effective monitoring. Additionally, the County needs to establish and/or strengthen monitoring and evaluation units to ensure effective implementation of various activities and programmes.

4) **Policy-based fiscal strategy and budgeting:** There is need for capacity building in macro-sensitivity analysis, revenue and expenditure forecasting, economic analysis of investment projects and fiscal impact analysis. Besides, the alignment of planning and budgeting to the medium-term budgets, the CIDP and the Vision 2030 is critical for greater efficiency and effectiveness of the budgets.

5) **Predictability and control in budget execution:** There is need to enhance capacity in internal audit department by recruiting staff and offering training for existing staff in areas where there is deficiency. Automation of revenue collection systems and sensitization of revenue payers on existing levies, charges and fees and their importance in service delivery will help increase revenue collection and citizen's morale to comply with the levies.

6) **External scrutiny and audit:** Entities collecting revenue need to go beyond providing information on revenue but include information on redress processes and procedures in the event of complaints.

7) **Accounting and reporting:** The County should endeavor to provide audit trails for local resources and provide comprehensive and timely responses to audit findings whenever called upon. Finally, the committee reports need to be published online in the County Assembly website.

About KIPPRA Policy Briefs

KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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