

## An Assessment of the Public Expenditure and Financial Accountability in Kakamega County

By Christopher H. Onyango, Kenneth Malot and Manaseh O. Otieno

### Introduction

The Public Expenditure and Financial Accountability (PEFA) assessment was carried out in the County of Kakamega and five other counties, namely: Nakuru, Kajiado, Makueni, West Pokot and Baringo. The exercise, which was undertaken by KIPPRRA in conjunction with the World Bank (Kenya Office) in the year 2017, is 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 the 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 the 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.

County Administrative and Development Indicators	
Location	Western Kenya
Area	3,050.3 km <sup>2</sup>
No. of Constituencies	12
No. of county assembly wards	60

Estimated total population (KNBS 2015)	1,812,330
Females	932,645
Males	879,685
Population density per km <sup>2</sup>	66.4
County contribution to national GDP	2.4%
Gross county product (2017)	182.6 Ksh billion
Poverty levels (%)	36

### 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. Kakamega County implemented the budgets in accordance with the approved estimates. However, there was significant deviation of the actual aggregate expenditure from the originally approved budget. There was over-budgeting especially in the first financial year (2013/14) after devolution but with improvements in budget estimation in subsequent years. The main reasons for low absorption included lengthy procurement procedures and low collection of own source revenue. Existing challenges such as over budgeting and low revenue collection undermined fiscal discipline and the ability of the County to control expenditures and manage fiscal risks. This also affected the ability to effectively plan and allocate resources to strategic policy priorities.

There was over projection of non-specified revenues in the budgets. Accurate revenue forecasts are a prerequisite for preparation of a credible budget. The County Government budget, however, did not provide a reliable basis for policy implementation.

#### (b) Comprehensiveness and transparency of public finances

The key focus is on comprehensiveness of budget, fiscal risk oversights, accessibility by the public to the

fiscal and budget information. Transparency of public finances was not comprehensive, consistent, and accessible to the public. The budget classification of County budget and accounts was consistent with international standards although not sufficiently. As a result, this failed to adequately facilitate budget tracking in formulation, execution and reporting. The transparency of government revenue and expenditure was low because there were no financial reports for extra-budgetary operations.

The in-year and annual budget execution reports County Governments Budget Implementation Report (CBIRR) were published as guided by the PFM Act 2012 on Office of the Controller of Budget (CoB) website. Whereas the County did not publish audited financial reports in time, the same were available in the website of the Office of the Auditor General (OAG) although not within twelve months after the end of the year.

Performance results for outputs and outcomes were presented in the Medium-Term Expenditure Framework (MTEF) but this was not done in a format comparable to the plans previously adopted within the annual or medium-term budget and did not meet the SMART criteria. Inclusion of performance information within budgetary documentation strengthened the accountability of the executive for the planned and achieved outputs and outcomes of government programmes and services. Budget documents such as CIDP, ADP, CFSP and CBROPs were available in the County website. However, audit reports were published with delays after the lapse of a financial year.

### **(c) Management of assets and liabilities**

Effective management of assets and liabilities is necessary to ensure public investments provide value for money. The management of assets and liabilities was weak due to lack of a comprehensive fixed asset register, formalized investment appraisal practice and fiscal debt risks which are not adequately monitored. Besides, there was no formalized project selection criteria, and therefore it was difficult to ascertain if the projects undertaken by the County were of type and nature that would support social and economic development objectives. The County did not carry out in-depth economic analysis and feasibility studies for investment projects to inform the budgeting process.

At County level, car loan and housing mortgage schemes were being made available for Members of County Assembly (MCAs). These mortgage schemes were not established in law and there was no framework to ensure compliance in terms of repayment. Other contingent liabilities for staff were social contribution payments including the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Local Authorities Provident Fund (LAPFUND) and the Mkopo Mashinani Loan Fund. Some of these liabilities were quantified in the financial reports but the risks were not covered.

Regarding financial assets, the County had cash and its equivalents in the bank, and 20% shares at the Kakamega Golf Hotel as financial assets. However,

Kakamega Golf Hotel was not documented as an asset in the annual financial statements.

The County did not have a debt management strategy nor a debt management unit, putting the maintenance of fiscal discipline at risk. The County had not borrowed any money but inherited debt from the defunct local authorities. Effective management of assets and liabilities was further undermined by delays in transferring assets and liabilities from the defunct local authorities to the counties.

The County had not developed standard operating procedures for disposal of assets. This was because counties were prohibited from disposing public assets until full transition is affected by the Intergovernmental Relations Technical Committee (IGRTC).

### **(d) Policy-based fiscal strategy and budgeting**

Kakamega County prepared the budget documents including the budget estimates in line with the Public Financial Management Act 2012. The County neither carried out independent macroeconomic forecasting nor undertook macro-fiscal sensitivity analysis due to technical capacity gaps and lack of baseline data. The County prepared both revenue and expenditure forecasts for the budget year and the two following fiscal ones. However, the forecasts were not accompanied by the underlying assumptions and explanation of the main differences from the forecast made in the previous year's budget. In addition, there was limited ability to develop and assess the fiscal impact of revenue and expenditure policy proposals to support the achievement of the County Government's fiscal goals. The County has not assessed the fiscal impact of revenue and expenditure policy proposals developed during budget preparation process for the three fiscal years analyzed.

Expenditure budgets were developed for the medium term within budget expenditure ceilings. However, they were not submitted together with the budget circular. There was no clear alignment of strategic plans and medium-term budgets, and no consistency of the budgets with previous year's estimates.

### **(e) Predictability and control in budget execution**

The County did not have an organized system for revenue collection to detect and prevent potential revenue risks. Information on the stock of revenue arrears was not disclosed in the annual financial statement. In addition, there was no evidence provided to indicate the frequency of assessment, collections, arrears and transfers to County Treasury revenue collection accounts. Further, not all accounts of the County were held in the CBK, thereby making it difficult to ensure proper functioning of revenue collections and transfers. Budget execution lacked effective control and predictability leading to revenue shortfalls and poor allocation of resources.

Regarding revenue accounting, there are clear procedures for recording and reporting revenue collections, consolidation of revenues collected and reconciliation of revenue accounts. However, there

was no reconciliation of arrears and monitoring the difference between outstanding revenues and payments. There was no Treasury Single Account, therefore cash balances could not be identified and consolidated for the purpose of informing the release of funds. This created difficulties in making management decisions in predicting cash resources availability.

Payroll controls were fairly good. There were no delays in recording a change in personnel status to personnel records and to payroll data which was done monthly. The public could access the legal and regulatory framework (Public Procurement and Assets Disposal Act 2015) for procurement freely from the Public Procurement and Regulatory Authority (PPRA) website. Data on resolution of procurement complaints was available online as published by the Public Procurement and Administrative Review Board (PPARB). The tendering opportunities were available on the County website.

There were regular feedbacks to management about the performance of the internal control systems through an internal audit function. Although the Audit Committee had not been established, the Internal Audit function applied risk-based approach in selection of audit object and audit subject and prepared annual audit work plans.

#### **(f) Accounting and reporting**

Financial data integrity was relatively sound with presence of the accounting processes that supports integrity of financial data through the Integrated Financial Management Information System (IFMIS) where data was processed and verified against documents. The County budget execution reports were generally comprehensive and accurate. The annual financial statements were also complete, timely, and consistent with generally accepted accounting principles and standards. The county prepared annual financial statements (AFS) as per the International Public-Sector Accounting Standards (IPSAS) cash based standards according to the requirements of the Public-Sector Accounting Standards Board. The standards used in the preparation of the statements were not disclosed and did not appear as notes in the AFS. Variations between international and national standards were not disclosed and gaps were not explained in the reports of the Office of the Auditor General. The annual financial statements, however, needed improvement especially concerning the quality of the financial statements submitted for external audit that were often returned because of incomplete and erroneous data. The budget execution reports were prepared on quarterly basis and were generally comprehensive and accurate. Regular reporting was part of an effective monitoring and control system to ensure that budgets were executed as intended.

#### **(g) External scrutiny and audit**

The external audit and scrutiny by the legislature in Kakamega County were not strong and effective in holding the County Government accountable for its fiscal and expenditure policies and their implementation. The public finances were independently reviewed but external follow-up on the implementation of

recommendations for improvement by the executive was poor. The audit reports were issued with delay, hence scrutinized late and no effective hearings were carried out. There was no evidence that the Executive implemented the actions on recommendations from the County Assembly.

### **On-going and Outstanding Reforms**

The County was undertaking reforms in various areas aimed at enhancing governance, administration and decision making for better service delivery.

For instance, on budget reliability, the County was undertaking capacity building of staff on policy formulation, planning, programming and budgeting with assistance from Ahadi Kenya, USAID and the World Bank. The County was also in the process of recruiting more qualified technical staff to enhance efficiency in service delivery.

On budget predictability and budget control execution, the County was in the process of adopting the Treasury Single Account (TSA) at County Government level for the purposes of cash balance consolidation.

On transparency of public finances, County reforms were geared towards building capacities in project costing and evaluation for recurrent and development expenditure in budget execution. This was aimed at strengthening strategic planning and budget formulation by providing strong integrated frameworks.

Regarding control of budget execution, the County was in the process of implementing comprehensive cash management by strengthening commitment control and reporting and enhancing in-year budget monitoring and reporting.

Under management of assets and liabilities, the County Finance Office at the County Assembly was developing a comprehensive framework to ensure loan payments were deducted through a check-off-system.

On accounting and reporting, the County adopted the use of accounting principles and national standards that was consistent with International Public Sector Accounting Standards (IPSAS) to enhance accountability and transparency throughout the entire PFM system.

### **Conclusion and Policy Recommendations**

Considerable efforts have been made towards establishing the foundations of a sound PFM system in Kakamega County. There is still much work to be done to ensure that PFM systems impact significantly on the achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery at local, regional and national levels. Other than addressing institutional and human capacity issues, the internal and external audit systems require strengthening to provide full oversight of the effectiveness of the internal control system. Identified weaknesses undermine their efficiency and

effectiveness in identifying irregularities and errors in the PFM. Considering the findings of the assessment, the following recommendations are suggested:

- 1) **Budget reliability:** There is need to enhance and improve own revenue sources. This can be done by automation of revenue collection and fast-tracking formation of a semi-autonomous revenue agency. There is further need to educate and sensitize the citizens on importance of payment of various fees and levies for services offered by the County Government
- 2) **Comprehensiveness and transparency of public finances:** There need to re-align budgets to departmental strategic plans, the County Integrated Development Plans to the Vision 2030 framework, and enhance budget reliability.
- 3) **Management of public assets and liabilities:** The County needs to develop a debt management strategy and debt management unit for effective management of assets and liabilities. This will go a long way in maintaining fiscal discipline and reduce the delays in transferring assets and liabilities from the defunct local authorities to the County.
- 4) **Policy based fiscal strategy and budgeting:** There is need for capacity building in macroeconomic forecasting (revenue and expenditure forecasting), MTEF budgeting, macro fiscal sensitivity analysis, fiscal impact analysis, and economic analysis of investment projects in budget making process
- 5) **Predictability and control in budget execution:** The County needs to monitor revenue arrears through automation of revenue collection systems to enhance detection and prevention of potential revenue risks and sensitization of revenue payers on existing levies, charges and fees and their importance in service delivery to enhance own source revenues.
- 6) **External scrutiny and audit:** The County needs to strengthen the legislative oversight role and scrutiny to ensure all audit recommendations are implemented by the County Government accordingly for accountability and improvement of service delivery.
- 7) **Accounting and reporting:** There is need to strengthen and build capacity for the accounting and reporting unit to verify financial data integrity and produce more quality and complete annual financial statements.

### 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.

KIPPRA acknowledges generous support from the Government of Kenya and the Think Tank Initiative of IDRC, who have continued to support the Institute's activities over the years.

### For More Information Contact:

Kenya Institute for Public Policy Research and Analysis  
Bishops Road, Bishops Garden Towers  
P.O. Box 56445-00200, Nairobi  
Tel: 2719933/4, Cell: 0736712724, 0724256078  
Email: [admin@kippra.or.ke](mailto:admin@kippra.or.ke)  
Website: <http://www.kippra.org>  
Twitter: [@kippra.kenya](https://twitter.com/kippra.kenya)