

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

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Introduction

The Public Expenditure and Financial Accountability (PEFA) assessment was carried out in the County of Nakuru and five other counties, namely: Baringo, Kajiado, 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 advent of 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 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	Rift Valley
Area	7,510 km ²
No. of constituencies	11
No. of elective wards	55
Estimated total population (2015)	1,603,325
Females	798,456
Males	804,869
Population density per Km ²	213.5
County contribution to national GDP	6.1
Gross county product (2017), Ksh millions	101,684
Poverty levels%	29.1

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. There were significant deviations between approved and actual expenditures. The expenditure deviations in 2013/14 were mainly due to delay in disbursement of equitable share from the National Government and over-budgeting. The deviations in subsequent years were largely occasioned by increased compensation of employees. Similarly, there were significant deviations in revenue between the original approved budget and actual outcomes. This was due to optimistic revenue forecasts of own source revenue and poor collection of budgeted own source revenue. This led to in-year budget reviews and reallocations on spending, given that borrowing was not an option.

(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. Transparency of public finances was limited in the sense that reports were not comprehensive, consistent and readily accessible to the public. Though the County Government budget and accounts were consistent with international standards, it was difficult to track through the process of formulation, execution and reporting as per administrative unit, economic category, or sub-function. There were no reports on the operations of extra-budgetary units. Besides, information on the performance of service delivery units was not accessible online to the public. This limited the effectiveness of the legislature and civil society in scrutinizing the budget policy actions.

(c) Management of assets and liabilities

Effective management of assets and liabilities is necessary to ensure public investments provide value for money. Management of assets and liabilities was not effective as reflected in failure to conduct economic analysis to assess investment projects, and absence of a formal criteria for investment project selection. Besides, monitoring and evaluation was not carried out during the life cycle of projects. It was indicated that the County Assembly made final decisions on the project selection based on proposals made during public participation exercise. The other challenge was limited capacities to prepare County fiscal forecasts and inaccurate mapping of revenue sources.

Apart from cash, the County Government did not own any other form of financial assets. The County kept records of physical assets but information on age and value was not provided. There was no analysis of age and depreciation. The asset management practices were inherited from the previous local government structures and asset disposal had not been effected even though clear rules existed. The debt service was properly managed by the debt management unit, but the associated fiscal risks were not adequately analyzed. Debt management practices were generally not satisfactory because records of debt were recorded but not regularly reconciled.

(d) Policy-based fiscal strategy and budgeting

Budget preparation process is based on a comprehensive and clear budget circular issued by the County Government and clearly spells out the guidelines on budget preparations. Budget ceilings were established during the County Fiscal Strategy Paper preparations but fixed only after the budget calendar had been issued.

The budget preparation process was carried out satisfactorily with participation of relevant stakeholders. However, the major weakness was lack of budget ceilings, thereby making information provided in advance of preparing budget proposals insufficient. The element of public participation was not well executed because the civil society and the public were not informed in time about the public participation forums.

In addition, the County did not perform macroeconomic forecasts but rather adopted the national ones. Forecasts of revenue and expenditure for the budget year and the two following fiscal years were prepared, although they did not highlight the underlying assumptions guiding the forecast.

Expenditure budgets were developed for the medium term within budget expenditure ceilings. However, they were not submitted together with the budget circular. Besides, strategic plans were not aligned to medium-term budgets, to previous year's estimates.

(e) Predictability and control in budget execution

Budget execution was not well controlled although good practices existed in revenue accounting and internal control of non-salary expenditure. Although the rights and obligations of the revenue payers are clearly stipulated in the Finance Act, the information was not published in the County website.

Payroll controls were weak, thereby leading to existence of ghost workers and personnel information gaps. The County did not have an approved staff establishment, and this created challenges in annual budgeting because the budget was based on existing staff and projected hires.

Moreover, there was limited transparency in the public procurement process, whereby information on County procurement plans and contracts awarded were not made public and it also applied non-competitive procurement methods. However, procurements complaints were well handled according to the PEFA criteria.

Revenue charges and fees were collected and paid through commercial banks and the slips presented to the revenue office for records. Parking and market fees had been automated and this enabled totalling of amounts collected.

There was segregation of duties throughout the expenditure process and there were different levels of authorization or approval. The approved budget allocations were used as a means of expenditure commitment control. The proportion of internal control audits vis a vis compliance audits were, however, not clear.

However, there was regular feedback to management about the performance of the internal control systems, through an internal audit function.

(f) External Audit and Scrutiny

External audits for the County were performed at the national level by the Office of the Auditor General (OAG). Material weaknesses were highlighted in the management letters that were issued to the County. The external audit and scrutiny did not guarantee accountability by the County Government for implementation of its fiscal expenditure policies. This was due to inefficiencies associated with follow up on implementation of recommendations by the County Executive. Audit reports were not issued in a timely manner and it followed that their scrutiny was also delayed. The weaknesses associated with external audit therefore undermined effective implementation of PFM reforms. Documents emanating from the external scrutiny by legislature were not made public in the County Assembly website and the recommendations were not implemented by the County Executive.

(g) Accounting and reporting

Indicators under this pillar assessed whether accurate and reliable records were maintained, and information disseminated to support decision making. The County Treasury prepared monthly bank reconciliations for all the key active bank accounts. These included the key accounts held in the CBK and the 37 others in commercial banks. These were bank accounts of budgetary and extra-budgetary units. Reconciliations of cash positions of the County accounts were carried out within the set timelines and in accordance with the County Financial and Procedure Manual.

The key Treasury accounting processes put in place support for enhancing integrity of financial data through the IFMIS only where data is processed and verified against documents. Key Treasury accounts were reconciled at different times although they were not cleared by the end of the fiscal year.

Budget execution reports were accurate and comprehensive, but performance monitoring was made difficult by the fact that reporting on commitments and payments were prepared separately and did not form part of the in-year information. Besides, budget information on items such as revenue and expenditure were not presented in the format of budget document. This made the information less traceable.

The Annual Financial Statements (AFS) were generally complete, timely, consistent and adhered to the general accounting standards. Even though they provided information on how resources were obtained and used, they did not allow for easy comparison with existing plans. The quality of

financial statements submitted for audit needed improvement because they were often returned due to errors or incompleteness of the documents. The accounting principles and standards used were transparent and easily comprehensible.

On-Going and Outstanding Reforms

On budget and planning, strategic planning and budget formulation was initiated by providing strong integrated results framework and costing of planning documents. Besides, the County embarked on updating the land valuation rolls to facilitate the quantification of land rates payable vis-a-vis actual collections and possibly identify defaulters.

To achieve effective management of assets, there were efforts aimed at improvement of investment programme management by strengthening the control and enhancing appraisal, selection and monitoring procedures over projects. On management of liabilities, the County Government embarked on building capacity of the Debt Management Unit in terms of staffing and training.

To enhance predictability and control in budget execution, the procurement directorate was in the process of developing a procurement and disposal manual. In addition, the County Government was in the process of establishing an Internal Audit Committee to strengthen the internal audit system. The County Assembly had also started the process of recruiting Internal Audit Committee members as provided for in Article 167 of the Public Finance Management Regulations 2015.

Conclusion and Policy Recommendations

The PEFA assessment aimed at providing a better understanding of how PFM systems work, how the processes and institutions are organized and which areas need to be targeted for PFM reforms. So far, considerable efforts have been made towards establishing the foundations of a sound PFM system in Nakuru County. However, the findings indicate that reforms are needed in several areas for effective implementation of the PFM systems. In view of these, the following recommendations are suggested:

- 1) **Preparation and budget reliability:** The County Government needs to map out potential revenue sources to expand revenue streams. Besides, expenditures on non-essential recurrent expenditures should be eliminated and automation of revenue collection systems put in place. In addition, sensitization of revenue payers on existing levies, charges and fees and their importance in service delivery will enhance revenue collections.

- 2) **Comprehensiveness and transparency in public finances:** There is need to put in place a framework for evaluation of performance in service delivery. Besides, sharing of information with the public is encouraged to enhance transparency.
- 3) **Effective management of assets and liabilities:** The county needs to establish and/or strengthen monitoring and evaluation units to ensure effective implementation of various activities and programmes. The County Government also requires establishing a robust framework for fostering public participation to enhance transparency in budget preparation and execution. In addition, there is need to update the asset register to capture the value, age and usage of existing assets on a continuous basis. Further, a debt management strategy for efficient management of its debt portfolio would be of great importance.
- 4) **Policy-based fiscal strategy and budgeting:** The County needs to build capacity in macro-sensitivity analysis, revenue and expenditure forecasting, economic analysis of investment projects and fiscal impact analysis.
- 5) **Predictability and control in budget execution:** There is need to strengthen the link between planning and budgeting and ensure that priorities within CIDPs are in line with the Vision 2030 framework. This also requires realistic costing of projects or expenditure priority needs and this should be matched with the available resources. The County Government should also adopt the medium-term approach to planning to ensure predictability and discipline in budget implementation. In addition, there is need to establish a database to provide information for contracts, value of procurement, who has been awarded contracts, and assess compliance with 40% local content requirement.
- 6) **External scrutiny and audit:** There is need to establish a framework for follow-up of audit recommendations and ensure complaints are effectively dealt with.
- 7) **Accounting and Auditing:** The County Government needs to strengthen the capacity of the Internal Audit Unit to strengthen the internal audit system. This should be done by increasing the staffing levels in the audit department and building their capacity to carry out audits.

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.

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