The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

An Assessment of the Public Expenditure and Financial Accountability – Kakamega County

SP No. 24/2019

KENYA INSTITUTE FOR PUBLIC POLICY
RESEARCH AND ANALYSIS
(KIPPRA)

An Assessment of the Public Expenditure and Financial Accountability - Kakamega County

Kenya Institute for Public Policy
Research and Analysis

Special Paper No. 24
2019

KIPPRA in Brief

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision-making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public sector. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

Published 2019
© Kenya Institute for Public Policy Research and Analysis
Bishops Garden Towers, Bishops Road
PO Box 56445-00200 Nairobi, Kenya
tel: +254 20 2719933/4; fax: +254 20 2719951
email: admin@kippra.or.ke
website: http://www.kippra.org

ISBN 9966 817 08 2

The KIPPRA Special Reports Series deals with specific issues that are of policy concern. The reports provide in-depth survey results and/or analysis of policy issues. They are meant to help policy analysts in their research work and assist policy makers in evaluating various policy options. Deliberate effort is made to simplify the presentation in the reports so that issues discussed can be easily grasped by a wide audience. KIPPRA appreciates any comments and suggestions arising from this report.

HARAMBEE

ThinkTank Initiative   Initiative Thinktank

Acknowledgements

The PEFA report for Kakamega County was prepared by a team led by the KIPPRA Executive Director Dr Rose Ngugi. The team members included Dr Christopher Hugh Onyango, Dr Simon Githuku, Manasseh Otieno, Paul Odhiambo and Dr Bernadette Wanjala.

The oversight committee provided strategic guidance for the assessment comprised Dr Rose Ngugi, Dr Augustus Muluvi, Dr Christopher Onyango, Dr Simon Githuku, Benson Kiriga, Dr Douglas Kivoi (from KIPPRA), Christine A. Owuor, Tim Williamson (from World Bank), Joseph Kungu (Council of Governors), Warui Maina, Joel Bett (PFMR Secretariat), Joshua Musyimi, Grace Kimitei (Office of the Controller of Budget) and George Otieno (Office of the Auditor General).

The report benefitted from technical guidance from the lead consultant Elisaveta Teneva and Jeremiah Oliech. Other experts who contributed during the assessment period included Joshua Musyoka (National Treasury), Julia Muguro (KIPPRA), Mathew Ngusya (Office of the Auditor General), Macklin Ogolla (Office of the Controller of Budget), Nickson Omondi (Kenya Revenue Authority), John Mose (Commission for Revenue Allocation).

The report was reviewed by PEFA Secretariat, Jens Kristensen, Timothy Williamson, Kathy Whimp, Oleksii Balabushko, Eric Enagnon, Jane Kiringai and Christine Owuor (World Bank), Office of the Controller of Budget, the PFMR Secretariat, the Kakamega County government and SIDA. Also acknowledged are comments from other KIPPRA staff as part of the internal peer review process. We appreciate the PEFA Secretariat for the quality assurance through the PEFA CHECK which ensured that the processes used in planning and implementing the assessment were of the requisite standards.

The assessment was done with financial support from the International Development Research Centre (IDRC) in collaboration with the World Bank (Kenya Office).

The report could not have been completed without the support and collaboration of the County Government of Kakamega.

KiPPRA
The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

KAKAMEGA COUNTY GOVERNMENT

WORLD BANK GROUP

Currency and indicative exchange rates

Local currency unit = Kenyan Shilling (Ksh)

1 EUR = 118.7000 Ksh (December, 2017)

1 USD = 100.7520 Ksh

UGX (March 2017)

Fiscal Year: 1 July to 30 June

EXECUTIVE SUMMARY

Background

The main rationale of this assessment is to give a better understanding of how the public finance management (PFM) systems work, how the processes and the institutions are organised and to what extent they provide an entry point for PFM reform efforts at the level of Kakamega County. The assessment will become a benchmark for the upgrade of the PFM system in other counties in Kenya which were not assessed.

The assessment period covered is financial years 2013/14, 2014/15 and 2015/16 depending on the indicator and dimension of assessment. The field work assessment took place in April 2017 this is the time of assessment for those indicators where more up-to-date assessment period is required.

Main Outputs of the Assessment

Fiscal discipline

Overall revenue and expenditure performance were in line with budgeted amounts given the equitable shares allocated as national transfers account for approximately 90% of the County revenue and they are a factor of stability in financial performance. Both expenditure performance by economic and functional classification significantly deviated from the budgeted estimates. Conditional grants were also not realistic as well as the outturn of own source revenue which were consistently over projected. Generally, deviations in all budget categories were more pronounced in 2013/14 which was the first year of County operation and was affected by unrealistic projections. Slow procurement process and shortage of technical staff to supervise projects were also a cause for deviations. The County is in the process of establishing County Revenue Authority to enhance revenue collection.

The budget is prepared in accordance with National Treasury guidelines which require budget proposals to be presented using administrative, economic and the programme based approach. However, no information about revenue outside financial reports is produced. The County Treasury uses IFMIS to facilitate transaction processes and reporting. IFMIS users have passwords and the system maintains a log of users together with their functions. Any changes to reports must be approved by departmental heads to enhance financial data integrity. Budget documents such as the CFSP, CBROPs, annual development plans (ADPs) and budgets are prepared in a timely manner. Quarterly budget reports are also availed for the public, but not in good time and they do not cover all public resources and expenditure. In addition, in-year reports do not present budget execution along with all the data with which they should be compared to, which hampers the efficient follow-up of services delivery.

Financial reports for budgetary units are prepared annually and budget implementation reports are prepared each quarter. Coverage and classification of data allows direct comparison to the original budget for the main administrative headings. They include information on revenue, expenditures, and cash balances. Financial reporting, however, for extra budgetary units and public corporations are still not produced.

The County of Kakamega is yet to develop systems to monitor the newly established public corporations, as well as to develop procedures and selection criteria for public investment. Currently, there are no standard procedures and rules for project selection, implementation and monitoring, Contingent liabilities (related to car loan and mortgage scheme) are well managed and most of them are presented in financial reports, but the debt inherited from the defunct local authority is not disclosed.

The County has not developed standard operating procedures for disposal of assets because the counties were prohibited from disposing public assets until full transition is effected. Debt management capacity of the County Government is weak because of lack of a debt management unit and strategy.

The County of Kakamega operated a well-managed automated payroll control system i.e. the integrated payroll and personnel data (IPPD) which integrates personnel database and payroll. Changes to the personnel records and payroll are updated at least monthly, in time for the following month's payments. Staff hiring and promotion is controlled by a list of approved staff positions and usually subject to payroll audit carried out only once during the period of assessment. Only the County Public Service Board and the County Assembly Service Board are allowed to change personnel records and payroll for County Executive and County Assembly through written approval of the County Secretary and the Clerk respectively.

The procurement at the County of Kakamega does not achieve value for money service. The information on the procurement plans and the contracts awarded are not made public. There is no record of procurement method used for selection of contractors for services, goods and works. A major area of weakness in procurement is that procurement plans, contract awards, data on resolution of procurement complaints and annual procurement statistics are not made available to the public. Independent procurement complaints body exists at the National level and it is the one that can resolve procurement cases.

Strategic resource allocation

Budget preparation process is based on a comprehensive and clear budget circular. Ceilings are established during the CFSP preparation but are fixed only after the budget calendar has been issued. Some departments prepare medium-term strategic plans but the budget documents do not present any evidence showing that proposals in the annual budget estimates are aligned with the strategic plans of these departments.

The County Treasury does not prepare its own macroeconomic forecasts but adopts the macroeconomic indicators from the National Government. The County Government prepares forecasts of revenue and expenditure for the budget year and the two following fiscal years, but does not present the underlying assumptions for the forecasts.

Further, no fiscal impact analysis is performed in the County Fiscal Strategy Paper (CFSP). The County Budget Review Outlook Paper (CBROP) briefly explains the reasons for deviation from the objectives and targets set but does not provide an explanation of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget, even at the aggregate level.

There are no procedures to assess the economic impact and viability of projects with regards to public investment. Neither cost-benefit analysis is performed nor is monitoring mechanism for public investment projects in place. Public asset management is not fully established. While records of financial assets are published annually in financial statements, records of non-financial assets are not comprehensive.

Efficient service delivery

The Revenue Unit of Kakamega County does not provide taxpayers with clear access to information on the main revenue obligation areas, rights, redress processes and procedures. Also, the County does not have a risk-based approach in order to maximise public revenue collection. In addition, no independent body has been put in place in order to carry out revenue audits and fraud investigations. In terms of expected reforms, the County of Kakamega is in process of establishing a Tax Collection Agency. It will administer and enforce revenue law, assess, collect and account for all applicable tax and fees.

Budget execution is well managed and followed with the support of the computerized system integrated financial management information system (IFMIS). Responsibilities are clearly laid down for most key steps and IFMIS is used in all departments for budget execution.

Internal audit applies international professional practice framework (IPPF) as stipulated in the PFM Act, 2012 with a risk analysis approach and covers all the departments in the County Executive. Three levels of reviews are applied before reports are released. It was not possible to verify to what extent the audit plans have been implemented. Responses to internal audit reports are usually provided within one month after the report being issued but again this has not been evidenced by internal audit function at the County.

Hearings on external audit findings are supposed to be conducted in public but no evidence was provided. Committee reports are provided to the full chamber of the County Assembly. They are not published on an official website but are easily accessible to the public. The scrutiny is supposed to be completed over a period of six months but no evidence was provided by the County Assembly.

The County Assembly's reviews budget documents covering fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue but cannot follow and issue recommendation on the efficiency of services delivery.

The table below gives an overview of the scores for each of the PEFA indicators.

PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall rating
			i	ii	iii	iv	
HGL-1	Subnational PEFA indicator HLG-1: Transfers from a higher level of government	M1	A	B	D*		D+
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	A		D+
PI-3	Revenue outturn	M1	D	D			D
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	C				C
PI-5	Budget documentation	M1	D				D
PI-6	Central government operations outside financial reports	M2	D*	D*	D		D
PI-7	Transfers to subnational governments	M2					N/A
PI-8	Performance information for service delivery	M2	D	D	C	D	D
PI-9	Public access to fiscal information	M1	D				D
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting.	M2	N/A	N/A	D		D
PI-11	Public investment management	M2	D	D	D	D	D
PI-12	Public asset management	M2	C	D	D		D+
PI-13	Debt management	M2	D	N/A	D		D
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	D	D		D
PI-16	Medium-term Perspective in expenditure Budgeting	M2	A	D	D	D	D+
PI-17	Budget preparation process	M2	D	D	A		C
PI-18	Legislative scrutiny of budgets	M1	A	C	D	C	D+
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	D	D	D	D	D
PI-20	Accounting for revenue	M1	A	A	D		D+
PI-21	Predictability of in-year resource allocation	M2	C	A	D	B	C+
PI-22	Expenditure arrears	M1	C	C			C

PI-23	Payroll controls	M1	D	A	A	D*	D+
PI-24	Procurement management	M2	D	D*	D*	A	D+
PI-25	Internal controls on non-salary expenditure	M2	A	A	B		A
PI-26	Internal audit	M1	D	C	D*	D*	D+
Pillar VI. Accounting and reporting							
PI-27	Financial data integrity	M2	D	N/A	D	A	C
PI-28	In-year budget reports	M1	C	D	C		D+
PI-29	Annual financial reports	M1	C	A	D		D+
Pillar VII. External scrutiny and audit							
PI-30	External audit	M1	C	D	D*	A	D+
PI-31	Legislative scrutiny of audit reports	M1	D*	D*	D*	D*	D

ABBREVIATIONS AND ACRONYMS

CRA	Commission on Revenue Allocation
BPS	Budget Policy Statement
CRA	Commission on Revenue Allocation
CoG	Council of Governors
CBIRR	County Governments Budget Implementation Report
CBROP	County Budget and Review Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDPs	County Integrated Development Plans
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll Personnel Data
ITRC	Intergovernmental Technical Relations Committee
IDA	International Development Association
IDRC	International Development Research Centre
IPSAS	International Public-Sector Accounting Standards
KADP	Kenya Accountable Devolution Program
KDSP	Kenya Devolution Support Programme
MTEF	Medium Term Expenditure Framework
MCAs	Members of the County Assembly
OCoB	Office of the Controller of Budget
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMR	Public Financial Management Reforms
PSASB	Public Sector Accounting Standards Board
SRC	Salaries and Remuneration Commission
SCOA	Standard Chart of Accounts
TSA	Treasury Single Account

TABLE OF CONTENTS

LIST OF TABLES

1. INTRODUCTION

The Sub-National PEFA assessment seeks to ascertain the performance of the PFM system of County Governments using the PEFA methodology. So far, the Government of Kenya has gained experience in the application of the PEFA methodology by undertaking four national PEFA assessments over the years, the latest carried out in 2017 and report due for completion in 2018. However, this is the first subnational assessment to be carried out in Kenya following the adoption of a devolved system of government. It is notable that the National and subnational PEFA assessments are almost being done concurrently and this is important because both levels of government share the same PFM system implying that evidence-based reform age and can be implemented simultaneously after areas that require improvements are identified. The subnational assessments, which covered six out of forty-seven counties, have been jointly financed by the World Bank and IDRC through KIPPRA.

1.1 Rationale and Purpose

The main rationale of this assessment is to give a better understanding of the public PFM systems, processes and institutions that will provide an entry point for PFM reform efforts at the county level. This would then be used to leverage on existing capacity building efforts e.g. Public Financial Management Reform (PFMR) Strategy, National Capacity Building Framework, World Bank's Kenya Accountable Devolution Program (KADP) and Kenya Devolution Support Programme (KDSP). The findings will further facilitate identification of capacity needs especially in terms of human capacity gaps in different components of PFM system in the counties for which KIPPRA seeks to strengthen as part of its capacity building and policy development mandates.

The assessment will also be useful in identifying priorities for PFM reforms in the future to ensure a sustainable, effective and transparent allocation and use of public resources. The PEFA assessment will become a benchmark for the upgrade of the PFM system in Kenya's counties which are still in early stage of development. Currently, the fiscal discipline and the efficient allocation of resources according to the priorities of the County of Kakamega are viewed as the important prerequisites to deployment of well-functioning public finance system.

Effective PFM institutions and systems in the County governments are important for the successful implementation of devolution. The PEFA assessments are founded on the principles of openness, accountability and public participation in public finance are contained in Section 201 (a) of the Constitution of Kenya 2010. Therefore, the Devolution is a cornerstone not only in the recent government development of Kenya but also a turning point for deployment of subnational PFM assessment across all counties. This PEFA assessment will provide a baseline of current state of PFM within the County of Kakamega and for the entire financial management system and indicate areas that require improvements. National and County PEFA assessments are almost being done concurrently. This is important because both levels of government share similar PFM system implying that evidence-based reform agenda can be implemented simultaneously in areas for which improvements are identified.

This first subnational PEFA assessment has been undertaken in six counties in Kenya and Kakamega was one of the selected counties. The County expressed interest in undergoing a PEFA assessment and a commitment to design and implement a reform agenda based on the results of the assessment. An important point to note regarding results of the assessment is that they will not be used for comparing the counties but to indicate the state of PFM system in the assessed county.

1.2 Objectives of the PEFA Assessment

The specific objectives of the PEFA assessment in Kakamega County include the following:

a) Assess the state of financial management capacities in the County;

b) Identify gaps in terms of capacity, systems, policies and processes in PFM;

c) Provide basis for informing entry points for PFM reform engagements in the County that will be used to leverage on existing capacity building efforts; and

d) Facilitate and develop a self-assessment capacity at the County level and build capacities of key staff to carry out assessments in the future.

1.3 Assessment Methodology

Coverage of the assessment

This subnational PEFA assessment covers the County of Kakamega and is part of the assessment covering one-eighth of the counties in Kenya which totals to six counties. The main criterion used to select the six counties was voluntary expression of interest in being assessed. Kajiado, Baringo, Makueni, West Pokot, Nakuru and Kakamega expressed their interest in undergoing a PEFA assessment and a commitment to design and implement a reform agenda based on the assessment. An important point to note regarding these selected counties is that the assessment will cover each county and will not provide a comparison between them. Further, the counties that have been selected do not represent a group of counties from which each group will be compared against the other. This PEFA assessment has been financed by the World Bank. The assessment covers the budgetary institutions of the respective County Governments as well as the extra-budgetary entities which are funded by donors' grants (see PI-6). These entities are mainly educational establishments. There is no lower-tier subnational government.

Time of the assessment

Time period covered in the assessment is the last three complete fiscal years after the introduction of devolved system of government. That is, financial years 2013/14, 2014/15 and 2015/16 depending on the indicators and dimensions of the assessment. The field work assessment took place in April 2017 this is the time of assessment for those dimensions that state time period as 'at the time of the assessment'.

The assessment has applied the PEFA 2016 methodology and specifically the supplementary version meant for subnational entities. Subnational PEFA uses the same indicators as the national one but with some modifications. The main modification is the introduction of "HLG-1" indicator for assessing transfers and earmarked grants to the counties by the National Government.

Sources of information

The key documents that have been used in the assessment are (i) Constitution of Kenya, 2010, (ii) Government of Kenya Review of the Public Finance Management Reforms (PFMR) Strategy 2013-2018 report (2016) and (iii) the Public Finance Management (PFM) Act, 2012. The exhaustive list of all documents and materials used and referred to in this PEFA assessment are contained in the Annex 3.

2. BACKGROUND INFORMATION

2.1 Economic Context

An overview of Kenyan economy

Kenya has a unitary, but devolved system of government consisting of the national and 47 county governments. All the counties do not have detailed economic data such as GDP growth, inflation rates etc. However, the Kenya National Bureau of Statistics (KNBS) has developed county specific statistical abstracts. The National Treasury together with the World Bank are set to undertake compilation of county specific Gross Domestic Products (GDPs).

The Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 5.7 per cent, 5.9 per cent and 4.9 per cent in 2015, 2016 and 2017, respectively. The leading sectors in growth during 2017 included tourism, building & construction, transport and ICT. On the other hand, the agriculture sector declined tremendously to 1.6 per cent from 5.1 per cent the previous year due to drought coupled with pests and diseases.

Inflation rate in 2017 was 8.0 per cent, a rise from 6.3 per cent recorded in 2016. The inflationary pressure was mainly attributed to significant increases in oil and high food prices.

Economic growth is expected to be accelerated during the year 2018 due to improved political stability and favourable macroeconomic environment. In addition, the on-going investments in infrastructure, improved business confidence and strong private consumption are likely to support a strong growth. Besides, the favourable climatic conditions are likely to boost agriculture production and electricity and water sectors, hence support manufacturing growth. On the other hand, rising oil prices and depressed growth of credit to the private sector which started in 2016 is likely to undermine the growth prospects. However, the adverse effects are likely to be offset by the strong favourable factors and result into better growth in 2018.

Overview of Kakamega County economy

Kakamega is a densely populated County which according to 2009 national census had a population of approximately 1.7 million people, 12 constituencies and 60 County Assembly Wards (Table 2.1). Agriculture and fishing is the main economic activity. The population is projected to reach over 2 million by 2017. This implies that the County will have to invest more in social and physical infrastructure to match the needs of the growing population. Increased population growth rate (estimated at 2.5%) has put pressure on socio-economic facilities such as health and education. For instance, doctor population ratio is high at about 12,937.

The poverty level in Kenya is known to be about 45 per cent of which 7.6 per cent is contributed by Kakamega County. The level of population living below the poverty line is known to be 49 per cent of the total population in Kakamega County. The rates of GDP, income level, economic growth and inflation are not currently measured. Such data as well as other subnational statistical data is expected to be collected from next year.

Table 2.1: Basic economic data and indicators for Kakamega County

Indicator	
Area (KM2)	3,050.3
No. of Constituencies	12
County Assembly Wards	60
Population	1,660, 651
Population density per KM2	544.42
Main economic activities	Agriculture and fishing
ECDE Centres: Public Private	**1,631** 876 755
No. of primary schools: Public Private	**1,136** 883 253
No. of secondary schools: Public Private	**408** 383 25
No. of health facilities	232
Doctor to population ratio	12,974

Data source: CIDP, and Kakamega County Statistical Abstract 2015 and authors' calculations

The main challenges for growth and development of Kakamega County are defined in the priorities and objectives of the County Vision, also known as the First County Integrated Development Plan (CIDP) issued in 2013. The focus is mainly on on-going projects and programmes, new project proposals outlined by stakeholders during the second Medium Term Plan 2013-2017. This is the basic document that guides the budget preparation and planning. The major development challenges are defined as follows: (i) growing population, (ii) poor road network; (iii) inadequate clean and safe water; (iv) food insecurity; (v) inadequate health personnel and facilities; (vi) poorly developed industry. The CIDP does not cover any activities or priorities related to reforms in the public finance management.

Economic performance data has been included as much as it is available for this County. There is no County specific statistical economic data such as GDP, CPI, inflation, growth, that is why the table of 'Selected Economic Indicators' is not presented in this section. However, the World Bank and the National Treasury of Kenya will soon be embarking on developing county Gross Domestic Products (GDPs) data.

2.2 Fiscal and Budgetary Trends

According to Article 203 (2) of the Constitution, a minimum of 15% of total revenue collected by the national government should be disbursed to the counties every financial year. Counties are also supposed to collect their own revenues to fund their operations. Table 2.2 gives an overview of selected fiscal indicators for the County of Kakamega. The County Allocation and Revenue Act provides the amounts which are disbursed to each county every year on the basis of the population rate and other parameters. Population parameter in the revenue sharing formula by the Commission on Revenue Allocation (CRA) has a weight of 45 per cent.

Table 2.2: Overview of selected fiscal indicators

Fiscal indicator	
Budget performance	
Exchequer issues (Ksh millions)	11,554.07
Expenditure to exchequer issued (%) Recurrent expenditure Development expenditure	 87.8 82.1
Expenditure to budget allocation (absorption rate (%) Recurrent expenditure Development expenditure Overall absorption rate	 87.0 56.8 75.3

Revenue	
Annual target (Ksh millions)	1,000.00
Actual revenue (Ksh millions)	504.24
Revenue performance (%)	50.4
Conditional grants	
Annual allocation (Ksh millions)	733.18
Actual receipts (Ksh millions)	660.72
% of actual receipts	90.1
Expenditure by economic classification	
Personal emoluments (%)	38.0
Operations and maintenance (%)	19.0
Development expenditure (%)	43.0

Data source: Office of the Controller of Budget County Governments Budget Implementation Review Report (CBIRR), September 2016

Table 2.2 shows that the County is faced with the challenge of budget absorption which is 75.3 per cent. The County performs well within allocating the budget for development which was about 43 per cent as required by the PFM Act, 2012 that stipulates that it should be at least 30 per cent of the budget.

The main sources of County revenue are equitable share from the National Government, local revenue collections and donor funding (Table 2.3). The County of Kakamega proposes a series of measures to increase own source revenue and balance its fiscal spending such as strengthening the administrative structure and stimulating the economic growth and development. The County fiscal policies for 2016/17 aimed at re-orientating of expenditure from recurrent to development.

Table 2 3: Aggregate fiscal performance data for the last 3 financial years (in % of total revenues)

Economic head	**2013/14**	**2014/15**	**2015/16**
Total county revenue	100.00%	100.19%	100.00%
(i) Equitable shares	91%	91%	90%
(ii) Conditional Grants	4%	3%	5%
(iii) Own Source Revenue	5%	6%	4%
Total expenditure	**80%**	**89%**	**87%**
Compensation of employees	40%	38%	34%
Use of goods and services	13%	19%	14%
Acquisition of assets	3%	22%	25%
Interest	-	-	-

Subsidies	-	-	-
Transfers to other Government Units	-	6%	3%
Other grants and transfers	-	3%	17%
Social benefits	-	-	-
Other expenses	21%	5%	0%
Budget surplus	**20%**	**11%**	**13%**

Source: CBROP

Table 2.3 shows that aggregate fiscal discipline has been realised for the last three years, as the budget presented a surplus in the three consecutive financial years. This has been confirmed by the audited annual AFS. The County inherited some debt from the previous non devolved government but has not generated any debt since its establishment. While the share of the national transfers and conditional grants are rather stable, the share of own source revenue is gradually decreasing. The share of salaries also declined slightly which is a targeted trend.

Allocation of resources

Table 2.4 shows the budget allocation by function for the three financial years and indicates higher budgetary allocations to functions considered to be of strategic importance e.g. Health, Agriculture, Infrastructure and Education.

Table 2.4: Actual budget allocations by sectors (as a % of total expenditure)

Functional heads	**2013/14**	**2014/15**	**2015/16**
Office of the Governor	0	2	2
Public Service and Administration	65	28	25
County Treasury	4	7	3
Water, Environment and Natural Resource	1	2	2
Social Services, Youth & Sports	1	1	2
Transport, Infrastructure & Public Works	3	12	17
Lands, Housing, Urban Areas and Physical Planning	0	1	1
Health Services	11	22	28
Agriculture, Livestock, Fisheries and Co-operatives	1	5	5
Trade, Tourism & Industrialization	1	4	2
Education, Science & Technology	9	7	5
County Public Service Board	0	0	0
County Assembly	4	9	7
Total	**100**	**100**	**100**

Source: CBROPs

Tables 2.5 presents budgetary allocation according to economic classification and shows a declining share of wages and salaries and an increase in the share of development expenditures over the three years of the assessment.

Table 2.5: Budget allocations by economic classification (as a % of total expenditures)

Actual budgetary allocations by economic classification (as a percentage of total expenditures)			
	2013/14	**2014/15**	**2015/16**
Current expenditures	69%	56%	57%
- Wages and salaries	75%	73%	66%
- Goods and services	25%	27%	34%
Development Expenditure	31%	44%	43%

Source: CBROP of Kakamega County, issue June 2016

2.3 Legal and Regulatory Arrangements for PFM

The Constitution introduced significant changes to the political system of governance of Kenya. There are presently two levels of governments, national and county governments. The legal and regulatory framework providing support for PFM in Kakamega County is derived from the Constitution, various acts and regulations outlined as follows:

a) Chapter 11 and 12 of the Constitution on devolved governments and principles of public Finance respectively. Institutional arrangement for PFM including the Commission on Revenue Allocation (Article 216), the National Treasury (Article 225(1)), Controller of Budget (Article 228), Auditor General (Article 229), Salaries and Remuneration Commission (Article 230), Central Bank of Kenya (Article 231), Parliament (Article 93) and County Assemblies (Article 176 (1)). Article 227 (2) provides for the creation of a framework for procurement and asset disposal by all public entities through an Act of Parliament.

b) The PFM Act, 2012: Part IV of this Act details responsibilities with respect to PFM of public funds in the counties. This Act covers all PFM aspects including but not limited to budget making process and public participation; Treasury Single Account (TSA); financial accounting and reporting; internal auditing among others. Section 103 creates the County Treasury whose general responsibilities and powers in relation to public finance are spelt out in Sections 104 and 105. According to Section 106, upon request, the National Treasury can second public officers to the County Treasury to enhance its capacity. Section 107 places the role of enforcing fiscal responsibility principles as contained in Chapter 12 of the Constitution on the County Treasury. The County Treasury is responsible for some of the key documents related to public finance such as the budget, County Fiscal Strategy Paper (CFSP) and County Budget and Review Outlook Paper (CBROP) and thereafter presented to the County Assembly.

c) The PFM Regulations (2015) for county governments. Some highlights include strengthening inter-government fiscal relations; restricting wages to 35% of realised revenue; development budget should be 30% of total budget.

d) The Public Procurement and Disposal Act (2015): The Act provides for procedures for efficient public procurement; procedures for assets disposal by public entities. Regulations are under development.

e) Public Audit Act (2015): provides for the organisation, the functions and the powers of the Office of the Auditor-General (OAG) are spelt out in accordance with the Constitution. The Auditor General is required to present audit reports to Parliament and relevant County Assemblies six months after the end of a financial year. Under Section 4, the OAG was established, replacing the Kenya National Audit Office (KENAO). Section 10 provides explicitly for the independence of the Auditor General. Section 11 significantly reinforces the process for selecting competent persons to the position of the Auditor General in case of any vacancy. The President may nominate a candidate and submit it to Parliament for its approval. Section 24 provides for outsourcing. Section 25 provides for an Audit Advisory Board in place of the National Audit Commission (established under the 2003 Act to consider and approve the annual budget for KENAO and to determine the remuneration and other terms of appointment of staff). It affirmed that only a person registered and practicing as an accountant under the Accountants Act, 2008, should be qualified for the purpose of provision of a financial audit opinion. Sections 47-48 provide for the auditing of financial statements required by the PFM Act (2012) and the time deadlines to be adhered to.

Framework for the Devolved System of Government

The Constitution of Kenya 2010 introduced two levels of governments, namely the national and county governments. The legal and regulatory framework providing support for PFM in the County Government of Kajiado, specifically Chapter(s) 11 and 12 devolved governments and principles of public Finance, respectively. A fundamental change was the major devolution of central government responsibilities to 47 newly created county governments (Chapter11, Articles 174-

200). Part 2 of the Fourth schedule enlists fourteen (14) roles and functions of the county governments. They are, namely:

1. Agriculture;
2. County Health Services;
3. Control of air pollution, noise pollution, other public nuisances and outdoor advertising;
4. Cultural activities, public entertainment and public amenities;
5. County transport;
6. Animal control and welfare;
7. Trade development and regulation;
8. County planning and development;
9. Pre-primary education, village polytechnics, home craft centres and childcare facilities;
10. Implementation of specific national government policies on natural resources and environmental conservation;
11. County public works and services;
12. Firefighting services and disaster management;
13. Control of drugs and pornography;
14. Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local

The County Governments comprise the Executive, headed by elected Governors and the county assemblies comprising of elected members. The counties are also represented by Senators who are elected and constitute the Senate, which is the upper house of Parliament.

Institutional arrangements for PFM including the Commission on Revenue Allocation (Article 216), the National Treasury (Article 225(1)), Controller of Budget (Article 228), Auditor General (Article 229), Salaries and Remuneration Commission (Article 230), Central Bank of Kenya (Article 231), Parliament (Article 93) and County Assemblies (Article 176 (1)). Article 227 (2) provides for the creation of a framework for procurement and asset disposal by all public entities through an Act of Parliament. Generally, internal and external controls are performed at the national level. Internal control is made by the Controller of the Budget (COB) through IFMIS while external control is performed by the Office of the Auditor General (OAG).

The legal framework under the 2012 PFMA and its Regulations also apply to County Government. The Policy on Devolved System of Government (2015) has identified institutional, intergovernmental and resource related challenges to be overcome in order to improve implementation and service delivery.

2.4 Institutional Arrangements for PFM

County Governments

According to the County Government Act, 2012, a county is comprised of the County Executive headed by a Governor and a County Assembly comprising of Members of the County Assembly (MCAs) representing the Wards. The County Governor is responsible for the general policy and strategic direction of the County. The Constitution transferred various powers and functions (including limited fiscal authority) to the Counties. This is in recognition of fiscal decentralization as a mechanism for enhancing delivery of social services at the grassroots and promoting enhanced accountability. Moreover, a central objective of the Constitution was to promote good governance in PFM through the establishment of sound institutional and regulatory environment at both national and county levels.

Members of the County Executive are nominated by the Governor but their appointment has to be approved by the County Assembly. Part IV of the PFM Act, 2012 gives the County Government the responsibility of managing public finances in the County. Section 103 of PFM Act, 2012 establishes the County Treasury comprising the County Executive Committee (CEC) member in charge of finance, the Chief Officer (CO) and department(s) of the County Treasury responsible for financial and fiscal matters. According to Section 103 (3), the CEC member for finance shall be the head of the County Treasury. The COs are the chief accounting officers in their respective departments.

In addition to its primary function of passing legislation, the County Assembly also approves nominees to other county public service offices. Most of the MCAs are elected during a General Election but some are also nominated by political parties. The County Assembly has the oversight role over the County Executive in terms of use of public finances. Key public finance documents such as the budgets, CFSP and CBROPs have to be presented by the County Executive for approval. All funds including the Emergency Funds and any other by County Executive must be approved by the County Assembly.

The Constitution of Kenya, 2010 assigns functions between the national and county governments. The task of service delivery in key sectors like water, health and agriculture, transport, environment among others are assigned to county governments, with the national government's role in some of the sectors being that of policy formulation. Whereas the functions of defence, social security, overall coordination and oversight as well as external audit are with the national government.

The County Government Act, 2012 also outlines the structure and operation of County governments as comprising Sub-Counties, Wards and Villages. The structure of the public sector and public finances in Kakamega County is presented in Tables 2.5 and 2.6.

Table 2.5: Structure of the public sector (turnover in Ksh millions) – 2015/16

Year	Government subsector		Social security funds**	Public corporation subsector***	
	Budgetary unit	Extra budgetary units*		Nonfinancial public corporations	Financial public corporations
1st tier subnational – County Government (13 units)	9,926	N/a	N/a	N/a	N/a

Source: AFS 2015/16

**the County Government financial statement do not show financial information for extra-budgetary units. Extra-budgetary units do not prepare financial statements (see PI-6)*

*** Social security funds are governed on the level of the National Government *** There are two public corporation companies, currently are under transfer process from the National Government, their financial statements are not audited, yet (see PI-10.1).*

Table 2.6: Financial structure of county government (estimate expenditure in Ksh millions) – 2015/16

Year	Central government			
	Budgetary unit	**Extrabudgetary units**	**Social security funds**	**Total aggregated**
Revenue	1,000	N/a	N/a	1,000
Expenditure	12,329	N/a	N/a	12,329
Transfers to County Assembly	271	N/a	N/a	271
Liabilities	-	N/a	N/a	-
Financial Assets	-	N/a	N/a	-

Source: CBROP 2015/16

Table 2.7: Financial structure of county government (actual expenditure in Ksh millions) – 2015/16

Year	Central government			
	Budgetary unit	**Extrabudgetary units**	**Social security funds**	**Total aggregated**
Revenue	504	N/a	N/a	504
Expenditure	9,926	N/a	N/a	9,926
Transfers to County Assembly	374	N/a	N/a	374
Liabilities	62	N/a	N/a	62
Financial Assets	2,160	N/a	N/a	2,160

Source: AFS 2015/16

Key Features of internal control

Internal control is performed through IFMIS and reengineering of IFMIS was a major improvement for the reinforcing of the control. Access to IFMIS is now complete at the county levels, but the IFMIS Office is still configuring aspects of IFMIS to meet specific needs for MDAs and the counties. Presently, IFMIS is not comprehensively being used at the county level. According to OAG, manual processes are still being used for preparing and approving local purchase orders and contracts. Also, payments vouchers are being prepared manually and then uploaded into IFMIS, instead of being prepared within IFMIS on the basis of invoices and receipts of goods and services. The Integration of systems within IFMIS have not yet been completed for the following modules: (i) procurement –

the module "Procurement to Pay" available at the national level is not used by the county; (ii) revenue – the County has its own IT-based tax administration system to collect some of the revenues which is not integrated with IFMIS; (iii) payroll – the county government uses the Integrated Personnel Payment Database (IPPD) management system to for human resource management which is not integrated with IFMIS, the payroll is prepared in IPPD and then manually extracted.

County specific PFM documentation

The County Fiscal Strategy Paper (CFSP): one of the key stages in the county budget cycle is the preparation of CFSP. This is an annual paper that shows the various fiscal strategies a County Government intends to employ to meet its overall objective of public service. The CFSP shows the allocation of resources in all sectors and departments. It specifies the broad strategic priority and policy goals that will guide the County Government in preparing the annual budget. Section 117 of the Public Finance Management Act 2012 (PFMA 2012) outlines the procedures and responsibilities of the County Government with respect of the county budget process. Section 117 (2) of PFM Act 2012 provides that the County Treasury shall align its CFSP with the national objectives in the budget policy statement. In addition, Section 118 (2) (b), requires that the County Treasury specifies in its CBROP the updated economic and financial forecasts which shows changes from the forecasts in the most recent CFSP. The CFSP should be presented to the County Assembly by 28th February of budget year. Section 117 (6) of the PFM Act states that the County Assembly should in 14 days consider and may adopt it with or without amendments. Further, the County Treasury shall publish and publicise the CFSP after its submission in the CA (Section 117 (8) of the PFM Act).

The County Budget Review and Outlook Paper (CBROP): provides an analysis of the performance in a particular financial year's budget. Counties should prepare CBROP in accordance with Section 118 of the PFM Act, 2012. The CBROP should link policy, planning and budgeting. CBROP analyses previous financial years fiscal performance with focus on impact for the next financial year as detailed in the CFSP.

The County Integrated Development Plan (CIDP), 2013-2017, covers key challenges for considerations in all sectors are priorities as put forth in the respective Annual Development Plan (ADP). The purpose of the CIDP is to provide comprehensive baseline information on infrastructural and socio-economic characteristics of the county. It would further be used in allocation of scarce resources to priority projects and programmes, as determined by the county. ADP is prepared in line with the requirements of Section 126 of PFM Act, 2012 and in accordance with Article 220 (2) of the Constitution. It contains strategic priority development programmes and projects to be implemented in a particular financial year.

2.5 Other Important Features of PFM and its Operating Environment

According to Transparency International, bribery remains a challenge in Kenya, affecting most specifically security, administration of justice, land services. The Devolution process is expected to reduce the level of corruption in this domain.

Citizen participation is key to successful devolution. The counties are to develop a system that encourages citizen participation where deliberation and proposals are made. They should take into account the special needs of the illiterate, the youth, the marginalised and the disabled. The Constitution in Article 1 states that all sovereign power is vested to the people. The public can support mechanisms of social accountability by participating in local referendum, town hall meetings, and visiting development project sites. The Public Finance Management (PFM) Act, 2012 provides for public participation in public financial management and in particular: the formulation of the Budget Policy Statement, County Fiscal Strategy Paper and the Budget Estimates; the preparation of Division of Revenue Bill and County Allocation of Revenue Bill. The County Budget and Economic Forum (CBEF) provides a platform for public participation in county planning and budgeting.

Public participation in Kenya is considered a crucial point in the Kenyan Constitution and it is reflected in the legal framework of both national and subnational level. Strengthening public participation is a key focus of Kenya's Devolution. Public is provided with the opportunity to take part in decision making processes in government. Public participation in Kenya is especially important in the following processes: (i) budgeting – consultation is supposed to be held with civil societies on strategic development spending in the county; (ii) legislative – public should have access to legislative scrutiny of the budget and the audit report at the County Assembly; (iii) tendering – public should have access to all information concerning public procurement process. The Kenyan Constitution is supplemented by other acts demanding inclusive and participatory engagement of citizens in matters of planning and budgeting processes, such as:

i) County Public Participation Bill – in most counties the Bill is still at process of approval,

ii) PFM Act, section 10, 35, 125, 175 provide for public participation at budget process, in the preparation of the strategic plan and the annual budget estimates.

iii) County Government Act, section 87-90 – making public participation in county planning processes compulsory, which includes timely access to information and reasonable access to planning and policy making process, rights to petition.

iv) Urban Areas and Cities Act, 2011 - guidelines for public participation.

v) Public Procurement and Disposal Act 2015 Section 68(3), 125(5), 138, and 179 - emphasising on transparency of the procurement process including requirements for procuring entities to publicly avail procurement records, to publish notices of intention to enter into contract on websites and public notice boards.

In the County, the civil societies are organised in County Social Accountability Association organising discussions and forums with the objective to participate in the formulation of the budget, to make comments on bills and to participate in various County meetings. The PEFA assessment team held a meeting with several civil societies, among which comments were made that relate to the following issues:

- Weaknesses identified in the Public Participation Act– short time for preparation of public participation forum. The medium of communication (newspapers and websites) of the County is not favourable to citizens. There is need to communicate to the citizens in language that is understood by people.
- Budget process – make people aware about budget hearing, notices of attendance to be given early in advance for proper preparations, accessibility of budget documents to the public, County to consider incorporating public views during budgeting and give feedbacks on issues raised by the civil society.
- County organised Public Service Delivery Week with the idea of assessing the performance of contracts related to public services (e.g. water, health, schools, infrastructure)

The representatives of the civil societies who the assessment team met still consider the public participation forums only as formality required by the Constitution. The information provided to the public is not comprehensive and easy to follow so that the civil societies can take effectively part in the discussion. Citizen budgets are not prepared and the hearings at the County Assembly were described as not easily accessible.

3. ASSESSMENT OF PFM PERFORMANCE

Subnational PEFA Indicator HLG-1: Transfers from a Higher Level of Government

This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets, and are provided according to acceptable time frames.

HLG-1.1. Outturn of transfers from higher-level government

The transfers constitute the majority revenue fund of the counties in Kenya. They are allocated by the National Treasury on the basis of the county population applying a specific formula.

Each County Government transfer allocation is provided to the respective County Revenue Fund, in accordance with a payment schedule approved by the Senate and published in the gazette by the Cabinet Secretary in terms of section 17 of the Public Finance Management Act. The County Governments' allocations are included in the budget estimates of the National Government and are submitted to the Parliament for approval. The County Treasury reports on the actual transfers received by the County Government from the National Government.

According to budget documentation, the main sources of revenue for the County of Kakamega are equitable share, conditional grants and own source revenues (see indicator PI-3). The table below presents the budget estimates and the actual transfers from higher-level government which consist of conditional grants and equitable shares. The equitable shares appear as exchequer releases in all budget documentation.

Estimate of actual transfers for the last 3 financial years (in Ksh million & %)

	2013/14			2014/15			2015/16		
Economic head	**Budget**	**Actual**	**%**	**Budget**	**Actual**	**%**	**Budget**	**Actual**	**%**
Grants	-	3,113	-	227	227	100	733	609	83%
Equitable share	7,356	6,515	89	9,426	7,749	82%	10,597	10,342	98%
Total revenue	**7,356**	**9,628**	**131%**	**9,653**	**7,976**	**83%**	**11,330**	**10,951**	**97%**

Source: CBROP

The equitable share and grants transfers are relatively good. In 2013/14, the outturn of transfers of Kakamega County were 131 per cent, in 2014/15 – 83 per cent and in 2015/16 – 97 per cent. The reasons for the deviation are true across most counties and it is the overestimation of budget in all revenue items in the first years after the Devolution.

In summary, actual transfers represented at least 95 per cent of the original budget estimate in two of the last three years. The score is A.

HLG-1.2. Earmarked grants outturn

In addition to the transfers from the National Government, there are conditional allocations (appear as proceeds from domestic and foreign grants in the budget documentation) from the National Government revenue to each county government to be utilised for specific purposes, including development expenditure, which are outlined in The County Allocation of Revenue Act. The County Treasury reports on the actual conditional grants received by the County Government from the National Government.

The earmarked grants are provided for specific development spending purpose, mainly health, road maintenance and education. The first financial year 2013/14 after the Devolution, there were no grants estimate, only actual transfer used for health establishment. In the next two financial years, grants were provided for development in the health and education. In the second year 2014/15 the budgeted estimate was equal to the actual received grants amount. There was difference between the original budget grant estimate and the actual earmarked grants in the third year, 2015/16, was 83 per cent. The average difference between original budget estimate and actual grants is less than 5 per cent in two of the last three years. The score is B.

HLG-1.3. Timeliness of transfers from higher-level government

According to PFM law, equitable share estimates must be included in the Budget Policy Statement, which must be presented and adopted by Parliament in February or March. Then, transfers have been released quarterly across the year through IFMIS.

The transfers which constitute the key element of the County revenue are supposed to be disbursed from the National Treasury evenly across the year. However, the actual dates of disbursements were not provided. Mass media coverage show that there were delays due to non-functioning of IFMIS system. The score for the component is D*.

Summary of scores and performance table

Subnational PEFA indicator HLG-1: Transfers from a higher level of government (M1)	D+	Brief justification for score
HLG-1.1 Outturn of transfers from higher-level government	A	The transfers represented at least 95% of the original budget estimate in two of the last three years.
HLG-1.2 Earmarked grants outturn	B	In 2013/14 – there were no grants budgeted and transferred. In 2014/15 – the amount budgeted was the actually provided without amendment. In 2015/16 – the difference was 83 per cent. The difference between original budget estimate and actual grants is less than 5% in two of the last three years.
HLG-1.3 Timeliness of transfers from higher-level government	D*	Actual dates of transfers have not been provided.

3.1 Pillar I. Budget reliability

A budget is reliable if it is implemented in accordance with the approved estimates before the beginning of the financial year. To determine the extent to which this is the case, three indicators, namely: aggregate expenditure outturn, expenditure composition outturn and revenue outturn were examined for the financial years 2013/14, 2014/15 and 2015/16.

PI-1. Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. Table 3.1 presents aggregate expenditure outturn for the financial year 2013/14 to 2015/16 using data from county budget and review outlook papers (CBROPs) which links policy, planning and budgeting. The aggregate expenditure outturn was 43, 73 and 81 per cent for 2013/14, 2014/15 and 2015/16, respectively. The low absorption in 2013/14 was due to initial challenges of implementing the devolved system of government. Other reasons for expenditure deviations in the other years were (i) procurement delays related to capital projects; and (ii) low collection of own source revenue. In the overall, there were technical and human capacity challenges in the budgeting process. The score is D.

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

Table 3.1: Aggregate expenditure outturn (%)

inancial year	Budget	Actual	Total expenditure deviations (%)
2013/14	13,256	5,708	43
2014/15	10,321	7,548	73
2015/16	12,330	9,926	81

Data source: CBROP

Summary of scores and performance table

PI-1 Aggregate expenditure outturn (M1)	D	Brief justification for score
1.1 Aggregate expenditure outturn	D	Actual expenditure outturn for 2013/14, 2014/15 and 2015/16 was 43%, 73% and 81% of the budgeted expenditure.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition.

PI-2.1. Expenditure composition outturn by function

Budget is usually prepared according to economic, programme and administrative classification. Table 3.2 shows total expenditures were lower than total amounts budgeted in all the years. There was a bigger variance during 2013/14 financial year compared to the two subsequent years. The variance in expenditure composition was 104, 21, and 28 per cent for 2013/14, 2014/15 and 2015/16, respectively. The departments of public service and administration, water, agriculture and trade had the largest variations between the budgeted and actual expenditures. The score is D.

Table 3.2: Expenditure composition outturn by function (Ksh millions and %)

Functional head	2013/14		2014/15		2015/16	
	Budget	Actual	Budget	Actual	Budget	Actual
Office of the Governor	-	271	271	156	627	214
Public Service and Administration	1,893	3,524	2,102	1,797	1,981	2,432
County Treasury	503	217	497	582	391	341
Water, Environment and Natural Resource	284	37	275	134	322	167
Social Services, Youth & Sports	377	67	276	97	417	247
Transport, Infrastructure & Public Works	2,417	153	1,140	958	1,742	1,715
Lands, Housing, Urban Areas and Physical Planning	363	18	365	72	296	133
Health Services	3,333	594	2,378	1,744	3,174	2,737
Agriculture, Livestock, Fisheries and Co-operatives	715	57	1,040	432	940	448
Trade, Tourism & Industrialization	1,022	43	410	319	452	243
Education, Science & Technology	1,234	498	816	562	1,017	468
County Assembly	1,115	229	751	693	887	740
County Public Service Board	-	-	-	-	86	39
Total	**13,256**	**5,708**	**10,321**	**7,548**	**12,330**	**9,926**
Composition variance (%)	**104**		**21**		**28**	

Data source: CBROP

PI-2.2. Expenditure composition outturn by economic type

The County Treasury and the Chief Officers administer expenditures according to administrative, economic, and programming classifications. The extent of variance between actual and budgeted expenditures by composition of expenditures is presented in Table 3.3. Actual expenditure deviated from the original budget appropriation by 50, 207 and 115 per cent during the financial years 2013/14, 2014/15 and 2015/16, respectively. The fluctuations for 2013/14 and 2014/15 were heavily influenced by consumption of fixed capital and compensation of employees, while compensation of employees and consumption of goods and services caused the largest deviation in 2015/16. The score is D.

Table 3.3: Expenditure composition outturn by economic type (Ksh millions and %)

Economic head	2013/14		2014/15		2015/16	
	Budget	Actual	Budget	Actual	Budget	Actual
Compensation of employees	3,670	2,831	3,675	3,248	3,699	3,955
Use of goods and services	2,035	936	-	1,595	2,142	1,554
Consumption of fixed capital	382	222	4,634	3,113	5,954	2,904
Interest	-	-	-	-	-	-
Subsidies	-	-	-	-	-	-
Grants	50	-	-	-	-	2,004
Social benefits	-	-	-	-	-	-
Other expenses	7,118	1,470	2,011	-	-	13
Total expenditure	**13,256**	**5,460**	**10,321**	**7,956**	**11,796**	**10,430**
Composition variance (%)	**50**		**207**		**115**	

Data source: CBROP

PI-2.3. Expenditure from contingency reserves

Article 208 of the 2010 Constitution provides for the establishment of a Contingency Fund at the National level. The regulations are specified in Sections 19-24 of the PFM Act (2012). In Kenya, the budgeting and accounting treatment of contingency items relate to exceptional events that cannot be foreseen, such as earthquake, famine, civil war, etc. This treatment holds true for both national and sub-national levels. Section 110 of the PFM Act, 2012 provides for the County Executive Committee Member for Finance to establish Emergency Fund with the approval of the County Assembly. The County has established an Emergency Fund as per the PFM Act, 2012 but has not charged any expenditure to contingency vote during the assessment period. The score is A.

Summary of scores and performance table

PI-2.Expenditure composition outturn (M1)	**D+**	**Brief justification for score**
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by program, administrative or functional classification was more than 15% for the last 3 financial years.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification for the last three years was more than 15% for the last three financial year
2.3 Expenditure from contingency reserves	A	The County has not charged any expenditure to contingency vote during the assessment period.

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn.

The main sources of revenue for county governments in Kenya are equitable share, conditional grants and own source revenues. These revenues are described as follows:

- *Equitable share:* This constitutes the revenue raised by the national government and equitably allocated to all county governments in accordance with Article 203 of the Constitution. The allocation should be at least 15% of national revenue based on the most recent audited accounts of revenue received, as approved by the National Assembly.
- *Conditional Grants:* This is provided for under Article 202 of the Constitution and constitutes additional allocations from the national governments share of revenue, either conditionally or unconditionally. Conditional allocations are tied to the implementation of specific national policies with specific objectives by the national government.
- *Own source Revenue:* Article 209 of the constitution of Kenya provides that a county may impose: property rates; entertainment taxes and county governments may impose charges for the services they provide, but the taxation and other revenue-raising powers of a county shall not be exercised in a way that prejudices national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.

The main stream of revenue source of the County is the own source revenue which is covered in the assessment of this performance indicator.

PI-3.1. Aggregate revenue outturn

The County has enacted the County Revenue Administration and Collection Act, 2014 which provides a basis for imposition of taxes and levies.

For 2013/14 the own source revenue was estimated at Ksh 3.5 billion but the County only raised Ksh 329 million. This was mainly due to over projection of non-specified revenues in the budget. During the financial year 2014/15 the County had estimated to collect own source revenue of Ksh 874 million but realised Ksh 517 million. However, the actual own source of revenue for 2015/16 was lower than the previous year's as per the budgeted amount. The overall revenue performance over the three years was 9, 59 and 50 per cent, respectively (Table 3.4) and details are contained in Annex 3A. The score for this dimension is D.

Table 3.4: Aggregate revenue outturn (%)

Source of revenue	2013/14			2014/15			2015/16		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Total County own source revenue	3,523	329	9%	874	517	59%	1,000	504	50%

Source: CBROPs

PI-3.2 Revenue composition outturn

The overall performance of the revenue outturn is summarized in Table 3.5 (see Annex 3A for details) indicating the revenue outturns for the last complete three fiscal years. Revenue composition variance was highest during 2013/14 financial year (170%) and relatively the same in the following two years. This huge difference is explained by over projections of own source revenue unspecified by revenue stream. The score is D.

Table 3.5: Kakamega sources of revenue for the last 3 financial years (Ksh millions & %)

Data for year	2013/14		2014/15		2015/16	
	Budget	Deviation	Budget	Deviation	Budget	Deviation
Total own source revenue	329	560	517	308	504	308
Composition variance	170%		60%		61%	

Source: CBROP

In terms of reforms, the County Treasury is in process of improving own source revenue outturn by forming a semi-autonomous revenue agency; recruitment and training of the existing staff; automation of revenue collection and educating and sensitization of citizens on revenue collection. The County budgeted for grants from international organizations but the money was not received as budgeted. The score is D.

Summary of scores and performance table

PI-3 Revenue outturn (M2)	D	Brief justification for score
3.1 Aggregate revenue outturn	D	The total revenue deviation of aggregate revenue outturn for 2013/14, 2014/15, 2015/16 was 9%, 59%, and 50% respectively.
3.2 Revenue composition outturn	D	The composition variance for 2013/14, 2014/15, 2015/16 was 170%, 60% and 61% respectively. The variance is a lot above 15%

3.2 Pillar II. Transparency of Public Finances

There are five performance indicators under this pillar: budget classification, budget documentation, central government operations outside financial reports, transfers to sub-national governments, performance information for service delivery and public access to fiscal information. These indicators measure whether the budget and fiscal risks oversights are comprehensive and whether the fiscal and budget information is accessible to the public.

PI-4. Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards.

PI-4.1. Budget classification

The budget classification system provides the conditions to track county government spending. Section 164 and 165 of the PFM Act, 2012 requires reporting to be done according to the Public-Sector Accounting Standards Board (PSASB) which has been construed to mean the International Public-Sector Accounting Standards (IPSAS) issued by International Federation of Accounts (IFAC). The PFM Act, 2012 requires the budget classification to be presented according to the administrative, economic, program based budget (PBB) format. The classification is based on Standard chart of accounts (SCOA) derived from GFS standards. The PBB presents the budget by programs according to administrative and economic classifications[1]. Budget execution and reporting are presented according to the administrative, economic, and programming classification.

The County of Kakamega has set up administrative units to which programs are classified and further reported in the accounts and budgets as per the Constitution and the County Government Act, 2012. The functional classification is related to the administrative classification but differ from that of the National Government because some functions are not devolved e.g. defence and foreign affairs among others.

The programming classification is in place, but has not been consistent over the recent years, owing to the fact that the first budget for 2013/14 was not programme-based. The number of programmes is guided by the National Government. The administrative classification consists of two different levels: the first level is composed only of:

1 SCOA can be checked in the book print out on the sub-head item-source-programme geographical.

- The County Government Executive (County Treasury);
- The County Assembly (Finance Budget and Appropriation Committee).

The second level is composed of the key management personnel (accounting officers)) who has direct fiduciary responsibility, as follows:

- Office of the Governor
- Public Service and Administration
- County Treasury
- Water, Environment and Natural Resource
- Social Services, Youth & Sports
- Transport, Infrastructure & Public Works
- Lands, Housing, Urban Areas and Physical Planning
- Health Services
- Agriculture, Livestock, Fisheries and Co-operatives
- Trade, Tourism & Industrialization
- Education, Science & Technology
- County Assembly
- County Public Service Board

The first level of programming classification is presented below:

- P 1: General Administration Planning and Support Services.
- P 2: County Executive Affairs
- P 3: Public Service Board Services
- P 4: Field Administration Services
- P 5: Special Initiatives.

Consequently, budgets have consistently applied administrative, economic, functional classification criteria. The budget is initially built in excel before being uploaded as vote heads into the budget planning system through IFMIS. The score is C.

Summary of scores and performance table

PI-4 Budget classification (M1)	C	Brief justification for score
4.1 Budget classification	C	The budget estimates are presented in economic and administrative classification. The Chart of Accounts adopted mimics the national method of classification incorporated in IFMIS System. It is at 2 level classifications and revenue is not classified according to GFS.

PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. In assessing this indicator, consideration was made to basic and additional elements of budget documents.

Although Section 130 of PFM Act, 2012 provides for deficit financing through borrowing, the County governments were restrained due to moratorium on loans for county governments in transition over the three financial years of assessment. This implies that the first basic criterion is not applicable. The previous year's budget outturn is not presented in the same format as the budget proposal as required in second criteria. The County satisfies the third criteria i.e. revised budget final supplementary estimates of current year are presented in the same format as the budget proposal in the CSFP. Finally, aggregation of both revenue and expenditure are presented in the CFSP and CBROP, but not according to the main heads of the budget classification. The CSFP does not present budget execution according to the economic classification and the CBROP does not present a detailed breakdown of economic classification. In addition, the CBROP does not provide previous budget execution of the current year.

NB	Basic elements	Criteria
1	Forecast of the fiscal deficit or surplus or accrual operating result.	No
2	Previous year's budget outturn, presented in the same format as the budget proposal.	No
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. (Budget classification is covered in PI-4.)	No

With regards to additional elements, the County was not permitted to borrow during the period of analysis and therefore has no debt stock, hence the first criteria is not applicable. Nonetheless, the County is in the process of preparing a debt management strategy. However, the County reported pending bills from the defunct local authority. The macroeconomic forecasting follows that of the National Government because there are no key macroeconomic data at the county level. While the county governments were not allowed to borrow, debts acquired from the defunct local authorities have also not been authenticated and factored into the budgets as contingent liabilities. The Intergovernmental Technical Relations Committee (IGTRC) is in process of ascertaining the correct position of assets and liabilities. Financial assets mainly include cash and bank balances prepared using IPSAS cash standard. The County does not have the capacity to analyse fiscal risks i.e. a debt management strategy is yet to be prepared. Furthermore, analysis of budget implications from new policy initiatives and public investments are not undertaken. The medium term fiscal forecasts are done in the in the CFSP, the budgets and the CIDP. There were no indications of quantification of tax expenditures. The score is D.

NB	Additional elements	Criteria
5	Deficit financing, describing its anticipated composition.	N/A
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	N/A
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	N/A
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs. Available in the CBROP	No
11	Documentation on the medium-term fiscal forecasts.	Yes
12	Quantification of tax expenditures.	No

Summary of scores and performance table

PI-5 Budget documentation (M1)	D	Brief justification for score
5.1 Budget documentation	D	3 elements: 1 basic and 2 additional elements

PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside county government financial reports. Entities with individual budgets not fully covered by the main budget are considered extra budgetary in accordance with the IMF's GFS Manual 2014.

PI-6.1. Expenditure outside financial reports

As per the PFM Act, 2012, no expenditure is allowed outside the approved budget. All county expenditures should be recorded in the Annual Financial Statements (AFSs) for the respective financial year. This means that even if the County receives funds from donors such as grants which were not in the original budget, it is supposed to prepare supplementary budget to incorporate the revenue and then implement it through the County budget. The County has a number of entities that would be considered extra-budgetary items. These include the following:

i) Early Childhood Development Education (ECDE) is governed by the County through a County Coordinator. The County caters for infrastructure development and operational expenditures including payment of salaries of teachers through the Department of Education.

ii) Youth polytechnics are still under the control of the National Government but the County provides scholarships to students and funds for development. However, the County receives reports on the use of funds disbursed to the polytechnics.

In summary, there is no evidence of record of expenditure of the education establishments, therefore the magnitude is unknown and score is D*.

PI-6.2. Revenue outside financial reports

The school fees collected by the Polytechnics are not incorporated in the original or the supplementary budget and their magnitude is unknown. The County owns about 20% shares of the Kakamega Golf Club Hotel. The revenue generated from the sales of this establishment were not included in the AFS for 2013/14 but are recorded in the CBROPs. The magnitude of revenue is unknown, therefore the score is D*.

PI-6.3. Financial reports of extra budgetary units

There are two public corporations established under the laws, control, and ownership of the County Government. They are directly owned by Kakamega County: (i) Kakamega County Water and Sanitation Company and (ii) Bukura Agriculture Training and Development College. Both were undergoing transfer process from the National Government at the time of the assessment and still do not have audited Annual Financial Statements. Therefore, no financial reports for extra budgetary units were provided. The score is D.

As regards reforms, the County is in the process of establishing County Revenue Authority to enhance revenue collection.

Summary of scores and performance table

PI-6 Central government operations outside financial reports (M2)	**D**	**Brief justification for score**
6.1 Expenditure outside financial reports	D*	There is no record of expenditure outside financial reports. The Polytechnic colleges have unrecorded expenditure and their magnitude is unknown.
6.2 Revenue outside financial reports	D*	There is no record of calculating volume of revenue generated by the polytechnics.
6.3 Financial reports of extra budgetary units	D	The There are no financial reports of the extra-budgetary units of the County.

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from county government to sub-county governments with direct financial relationships to it. It considers the basis for transfers from county government and whether sub-county governments receive information on their allocations in time to facilitate budget planning. Hence, the system for allocating transfers as well as timeliness of information on transfers are not applicable since there is no lower tier government after the county government.

Summary of scores and performance table

PI-7 Transfers to sub county governments (M2)	N/A	Brief justification for score
7.1 System for allocating transfers	N/A	There is no sub government under the county level.
7.2 Timeliness of information on transfers	N/A	There is no sub government under the county level.

PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded.

PI-8.1. Performance plans for service delivery

Performance plans for service delivery for all functional units were prepared and reflected in the Programme Based Budget (PBB). The annual PBB is presented by functions and classifies plans for the key service delivery areas e.g. agriculture, education, health amongst others. While information about planned expenditure exists, it cannot be defined what are the activities to be performed by each ministry in PBB for the next financial year 2016/2017. Therefore, the materiality cannot be calculated. The specific performance information includes: programme title, the delivering unit, key outputs and performance indicators but no total expenditure amount. Also, key outputs are not translated into quantifiable indicators - the plans and outcomes are not SMART and the allocations of financial resources to the specific programs are not specified. Therefore, planned outputs and outcomes cannot be measured. The score is D.

PI-8.2. Performance achieved for service delivery

The output and outcomes of the budgets are explained in the project implementation status reports. They provide indication of the funds spent but there is no mention of the outcomes achieved. However, the specifics on the service delivery are not stated and the outputs and outcomes are not presented in the same format as the budget. The Monitoring and Evaluation report provided is not comprehensive and has no timeframes, outputs and outcomes. The score is D.

PI-8.3. Resources received by service delivery units

The Departments of Agriculture and Health have been selected for the assessment of this dimension. Agriculture was selected because it is the backbone of the County's economy and employs majority of the population. Similarly, Health sector receives the highest budgetary allocation. So, there is information on resources received by service delivery units which is collected and recorded, but there is no evidence of a report compiling the information. The above justifies score C.

PI-8.4. Performance evaluation for service delivery

Self-evaluation of performance has been previously undertaken at the County. Plans are underway to conduct performance evaluation at departmental level with a view to enhance effectiveness and efficiency in service delivery. Challenges and recommendations are elaborated in the project implementation reports and the PPB. However, this does not capture specific programme and analysis of efficiency in the utilisation of funds is not undertaken. There is no information on measurable performance indicators of outputs and outcomes for service delivery which is published. The score is D.

Summary of scores and performance table

PI-8 Performance information for service delivery N/A	**D**	**Brief justification for score**
8.1 Performance plans for service delivery	D	Information on policy or program objectives, key performance indicators, outputs produced and the outcomes planned for departments disaggregated by function is contained in the Programme Based Budgets which are prepared annually. However, materiality cannot be ascertained for performance delivery.
8.2 Performance achieved for service delivery	D	Performance results for outputs and outcomes are presented in the MTEF but this is not done in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget. Materiality cannot be calculated.
8.3 Resources received by service delivery units	C	This information is available on the level of monetary resources actually received by service delivery units and the sources of funds but there is no report with this information prepared annually on the two units mentioned before.

8.4 Performance evaluation for service delivery	D	Efficiency ratios are availed in the CBROPs but independent evaluations of the efficiency and effectiveness of service delivery have not been carried out and published for most ministries.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical.

Article 35 of the Constitution and PFM Act, 2012 emphasises the importance of public access to information. For instance, Article 131 (6) of the PFM Act, 2012 states that *"The County Executive Committee member for finance shall take all reasonably practicable steps to ensure that the approved budget estimates are prepared and published in a form that is clear and easily understood by, and readily accessible to, members of the public"*.

In assessing this indicator, five basics and four additional elements were considered. Of the basic elements, the enacted budget is not immediately accessible to the public. However, various documents such as ADP, CFSP, CIDP, and CBROPs are uploaded in the county website and also available at the Ward offices. The in-year and annual budget execution reports (CBIRR) are normally published as guided by the PFM Act, 2012 on CoB website. Whereas the County does not publish audited financial reports, the same are available in the website of the OAG although not within twelve months after the end of the year. The compliance to the basic elements is reported as follow:

NB	Basic elements	Compliance
1	A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	No
2	The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	No.
3	In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	Yes
4	Annual budget execution report. The report is made available to the public within six months of the fiscal year's end. Annual CBIRR	Yes
5	Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	No

With regards to additional elements, the CFSP presents the broad strategic priorities and policy goals that guide the preparation of the county budget for next financial year and in the medium term. The county prepares the CFSP within the stipulated time and the OAG publishes audited reports within 14 days after submission to Parliament. The other two components are not satisfied. No abridged copies of the budget are prepared or translated to local dialect. As indicated earlier, the county depends on macroeconomic forecasts at the national level. The score is D.

NB	Additional elements	Compliance
6	Pre-budget Statement. The broad parameter for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year. (CFSP is ready by 28th February of every year)	Yes
7	Other external audit reports. All non-confidential reports on government consolidated operations are made available to the public within six months of submission.	Yes.
8	Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a “citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.	No.
9	Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	No

Summary of scores and performance table

PI-9 Public access to fiscal information (M1)	D	Brief justification for score
9.1 Public access to fiscal information	D	The County makes available to the public two basic elements and two additional elements. The quality of information made available to the public is not analysed.

3.3 Pillar III. Management of Assets and Liabilities

Effective management of assets and liabilities is necessary to ensure that public investments provide value for money. This requires that county government assets are clearly recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored. There are four indicators under this pillar: fiscal risk reporting, public investment management, public asset management and debt management.

PI-10. Fiscal risk reporting

This indicator measures the extent to which fiscal risks to county government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of sub-county governments or public corporations, and contingent liabilities from the county government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. Public corporations for the purpose of this indicator are defined in accordance with GFS 2014. In this regard, it is possible that certain institutional units that are legally constituted as corporations may not be classified as corporations for statistical purposes if they do not charge economically significant prices.

PI-10.1. Monitoring of public corporations

Public corporations are those established under the laws, control, and ownership of the County Government. There are two public corporations directly owned by Kakamega County. They are (i) Kakamega County Water and Sanitation Company and (ii) Bukura Agriculture Training and Development College. Both were undergoing transfer process from the National Government at the time of the assessment and still do not have audited Annual Financial Statements. These entities do not charge economically significant prices. Because the public corporations mentioned above are not fully owned by the County, it is considered that this dimension is not applicable, yet.

PI-10.2. Monitoring of subnational governments

There are supposed to be other devolved units below the County Government of Kakamega as per the Urban Areas and Cities Act 2011, but the Act has not been operationalised. Hence, the dimension is not applicable since there are no devolved units below the County Government level.

PI-10.3. Contingent liabilities and other fiscal risks

At County level, car loan and housing mortgage schemes are currently made available for Members of County Assembly (MCAs). Currently these mortgage schemes are not established in law and there is no framework to ensure compliance in terms of repayment. The County meets its statutory obligations to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF) and

Local Authorities Provident Fund (LAPFUND). Other contingent liabilities at the County level include Mkopo Mashinani Loan Fund which is a scheme targeting development of small- and medium-sized enterprises. This Loan Fund is mentioned in Kakamega County Project Implementation Report 2013-2017. The Public Audit Act requires that the administering authority of such funds should prepare financial report on the utilisation of the funds and submit for external audit three months after the end of each financial year. Financial statements have not been submitted for external audit to OAG within the three years of assessment. Due to the fact that the MCAs loans are still not legally regulated and the Mkopo Loan Fund do not produce financial statement, it is not possible to quantify the materiality of the contingent liabilities. The score is D.

The Finance Office at the County Assembly is in the process of developing a comprehensive framework to ensure loan payments are deducted through a check-off-system. In case of default, the ultimate responsibility rests with the County and this risk is not covered for.

Summary of scores and performance table

PI-10 Fiscal risk reporting (M2)	**D**	**Brief justification for score**
10.1 Monitoring of public corporations	N/A	The public corporations are still in process of being transferred for direct ownership by the County of Kakamega. Annual Financial Statements are not being prepared and submitted for external audit during the time of assessment.
10.2 Monitoring of subnational governments	N/A	There are no devolved units under the county government hence this dimension is not applicable
10.3 Contingent liabilities and other fiscal risks	D	The Members of the County Assembly have car loan and mortgage schemes. Other contingent liabilities for staff include all necessarily social contribution payments. Some of these liabilities are quantified in the financial reports but the risks are not covered for. The ultimate responsibility for these liabilities, in the case the County is not able to pay, stays with the County Government.

PI-11. Public investment management

This indicator assesses the economic appraisal, selection, costing and monitoring of public investment projects by the government with emphasis on the largest and most significant projects.

PI-11.1. Economic analysis of investment proposals

The County does not carry out in-depth economic analysis and feasibility studies for investment projects to inform the budgeting process. It is, therefore, difficult to establish economic costs, policy benefits, as well as environmental impacts of the proposed investment projects. The score is D because economic analysis of investment proposals is not carried out. The following is a list of some investment projects as they appear in the Project Implementation Status Report for 2015/16.

No.	Project Name	Activity	Cost (Ksh)
1	Farm mechanization	purchase of tractors	74,990,000
2	Veterinary Laboratory	procurement of equipment and rehabilitate laboratory building	6,665,000
3	Kakamega fish farming and productivity programme	new fish ponds construction/ rehabilitation of fish ponds	5,985,200
4	Nakhakosia Drainage Project	Excavation of cut-off drainage structures Excavation of collector drainage structures Excavation of main drainage structure	3,200,000
5	Ivochio bridge	Excavation for structures, Dozing, Grading, Gravelling, Culverting, stone pitching, and Gabion installation	31,000,000
6	Nala Hospital – Hill school – C40 (Mumias road)	Earthworks, placing & stabilizing of the sub-base, base layers &AC layer, Drainage works	52,224,551.40
7	Market lighting	Installation of 30m Monopole electric highmast	14,989,810
8	Construction of the Maternity wing, fencing and purchase of land at Lumakanda Sub County Hospital		10,000,000
9	Kilimo Girls	Construction of staffroom	10,000,000
10	15 Modern Kiosks	Fabrication of modern kiosks	1,409,235

PI-11.2. Investment project selection

The County has not established a framework to guide investment project selection. In this regard, projects appraisals are not undertaken prior to their inclusion in the budget. The score is D.

PI-11.3. Investment project costing

There was no evidence of any cost benefit analysis made on any of the investment projects. Some projects had been costed for but in reality they were not included in the budgeting process. For example, Kakamega Dairy Development Company does not exist in the budget documentation process, yet, it was revealed that it had been allocated approximately Ksh 50 million under the agriculture docket. The score is D.

PI-11.4. Investment project monitoring

Although the County is tasked with project monitoring, it has not established a framework for investment project monitoring. Therefore, there is no information on the implementation of major investment projects. The sponsoring entity is also tasked with project monitoring which may compromise the objectivity of the exercise and may also fail to highlight loopholes and shortcomings of projects. This was evident since no records of monitoring reports were availed to cover the period from actual project approval to the entire implementation process as of the time of this assessment. Same as in the above dimensions, the score for this one is D

Summary of scores and performance table

PI-11 Public investment management (M2)	**D**	**Brief justification for score**
11.1 Economic analysis of investment proposals	D	Needs-based analysis is usually done by the County Government. No economic analysis is undertaken.
11.2 Investment project selection	D	The County has an economic planning but there are no formalised project selection criteria. There are no standard procedures to guide the investment projects selection.
11.3 Investment project costing	D	Mostly capital costs of investment projects are indicated in the budget. Not all investment projects are included in the budget.
11.4 Investment project monitoring	D	There is no framework to guide objective monitoring and evaluation of investment projects.

PI-12. Public Asset Management

This indicator assesses the management and monitoring of county government assets and the transparency of asset disposal.

PI-12.1. Financial asset monitoring

Currently, the County has cash and its equivalents in the bank and 20% shares at the Kakamega Golf Hotel as financial assets. Cash and its equivalents are reported in the AFS but not the private equity. The score is C.

PI-12.2. Non-financial asset monitoring

It is a mandatory that a county maintains a register for fixed assets such as land, buildings, computers, motor vehicles, plant and machinery. Currently, the County relies on the Transition Authority report for county assets and liabilities published in 2015. Table 3.6 provides categories of nonfinancial assets in the County. There is no non-financial assets monitoring, the score is D.

Table 3.6: Categories of nonfinancial assets

Categories	Sub-categories	Where captured	Comments
Fixed assets	Buildings and structures	Transition Authority (TA) report 2015	Kakamega County has not yet established its own assets data base.
	Machinery and equipment	N/A	
	Other fixed assets	N/A	
Non-produced assets	Land	Transition Authority (TA) report 2015	The Transition Authority report is incomplete, it does not include information on the County land properties
	Mineral and energy resources	N/A	Gold has been discovered in the County. However, management of such national resources fall under National Government
	Other naturally occurring assets	N/A	N/A
	Intangible non-produced assets	N/A	N/A

Source: Transition Authority report (2015) and interviews

PI-12.3. Transparency of asset disposal

The County has not developed standard operating procedures for disposal of assets. This is because the counties were prohibited from disposing public assets until full transition is effected by the Intergovernmental Relations Technical Committee (IGRTC). Thus, the County has not disposed of its assets since it became operational in March 2013. However, an audit report by OAG on the financial year 2013/14 indicated that several vehicles were earmarked for disposal. According to the Public Procurement and Asset Disposal Act 2015, a disposal committee should be appointed in an ad-hoc basis when needed. Asset disposal is not included in any budget documents of the County. Therefore, it cannot be ascertained such has been made, therefore the score is D.

Summary of scores and performance table

PI-12 Public asset management	**D+**	**Brief justification for score**
12.1 Financial asset monitoring	C	The financial assets include cash in the bank and its equivalent. Shareholding in Kakamega Golf Hotel is not documented as an asset in the AFSs.
12.2 Non-financial asset monitoring	D	The County Government has not developed a non-financial asset register. It still relies on the asset and liabilities report published by the defunct Transition Authority (2015).
12.3 Transparency of asset disposal	D	The Disposal Committee is to use the Public Procurement and Asset Disposal Act (2015) when disposing assets. Rules for transfer or disposal of financial assets do exist. The County has not disposed of any asset but this does not appear in any budget documentation

PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to establish whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements.

PI-13.1. Recording and reporting of debt and guarantees

Counties are allowed to borrow domestically or externally by Article 212 of the Constitution and under Section 140 of the PFM Act, 2012. Borrowing framework is anchored in County PFM Regulation, 2015 (176-196). In addition, Section 140

(d) of PFM Act, 2012 requires county governments to develop a debt management strategy. Borrowing framework exists, however at the time of assessment, there was an administrative moratorium on county borrowing.

County has not accumulated debts this far but it has inherited debt from the defunct local authorities and it is yet to prepare a debt management strategy. The process of identifying and costing the inherited debt is currently on-going and it being managed by the IGTRC. These debt records are not updated and published. The score is D.

PI-13.2. Approval of debt and guarantees

According to Article 212 of the Constitution on PFM and Devolution, county governments are allowed to borrow only if:

- Guaranteed by National Government
- Approved by the County Assembly.

According to Article 213 of Constitution, guarantees by National Government must adhere to the following:

- Parliament to enact a law and prescribe how national government may guarantee loans;
- Within two months of after the end of a fiscal year, national government to publish a report on all guarantees issued during past year.

The County does not have legislation guiding the authorization of borrowing and neither are there policies and procedures guiding borrowing and issuing loan guarantees. The dimension is considered not applicable.

PI-13.3. Debt management strategy

The County is yet to develop a debt management strategy and establish a debt management unit. The score is D.

Summary of scores and performance table

PI-13 Debt management (M2)	**D**	**Brief justification for score**
13.1 Recording and reporting of debt and guarantees	D	The County has not incurred any debt, but they inherited debt from the previous local government entities. These debt records are not updated and published annually.

13.2 Approval of debt and guarantees	N/A	There is moratorium on borrowing, the majority of the debt emanates from expenditure arrears.
13.3 Debt management strategy	D	The County Government has neither debt management strategy nor debt management function.

3.4 Pillar IV. Policy-Based Fiscal Strategy and Budgeting

Budgets and fiscal strategies should be prepared with due regard to government policies, strategic plans, and adequate macroeconomic and fiscal projections. There are five indicators under this pillar: macroeconomic and fiscal forecasting, fiscal strategy, medium term perspective in expenditure budgeting, budget preparation process and legislative scrutiny of budgets.

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a county to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances.

PI-14.1. Macroeconomic forecasts

Section 117 (2) of PFM Act, 2012 provides that the County Treasury shall align its CFSP with the national objectives as provided for in the budget policy statement (BPS). The CFSP should be presented to the County Assembly by 28th February of budget year. Section 117 (6) of the PFM Act, 2012 states that the County Assembly should in 14 days consider and may adopt it with or without amendments. Further, the County Treasury shall publish and publicise the CFSP after its submission in the County Assembly (Section 117 (8) of the PFM Act, 2012). In addition, Section 118 (2b) requires that the County Treasury specifies in its CBROP the updated economic and financial forecasts showing changes from the forecasts in the most recent CFSP. At the moment, the County adopts the macroeconomic indicators from the National Government which they use to prepare their budget documents. This is allowed by PEFA Secretariat SNG guidelines. The County Government uses the national government forecasts of key macro indicators in the CBROP for the budget year and the two following years. This justifies score C.

PI-14.2. Fiscal forecasts

The County prepares both revenue and expenditure forecasts for the budget year and the two following fiscal ones. However, the forecasts are not accompanied by the underlying assumptions and explanation of the main differences from the forecast made in the previous year's budget. The forecasts for the transfers are provided by the National Government at the stage of preparing the BPS before the County Government finalizes its CFSP. The County is projecting its own sources of revenue and is informed by the availability of the new sources of revenue and the performance of the existing revenue streams. It is a requirement by the PFM Act, 2012 to prepare a balanced budget. The score is C.

PI-14.3. Macro fiscal sensitivity analysis

The County does not carry out macro fiscal sensitivity analysis. The score is D. However, it is in process of setting up a sector working groups and macro working groups in order to develop the county specific macro indicators.

Summary of scores and performance table

PI-14 Macroeconomic and fiscal forecasting (M2)	D+	Brief justification for score
14.1 Macroeconomic forecasts	C	The County Government adopts the macroeconomic indicators from the National Government which guide the preparation of CBROP, CFSP and budget estimates
14.2 Fiscal forecasts	C	CBROP, CFSP and budget estimates forecasts are not accompanied by underlying assumptions and there are no explanations of differences from the forecasts made in the previous year's budget.
14.3 Macro fiscal sensitivity analysis	D	The County does not perform sensitivity analysis in relation to own source revenue.

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals.

PI-15.1. Fiscal impact of policy proposals

The County lacks the capacity to assess the fiscal impact of revenue and expenditure policy proposals developed during budget preparation process. The score is D.

PI-15.2. Fiscal strategy adoption

The County Treasury prepares CFSP which sets out priority programs to be implemented in the medium term in accordance with Section 117 of PFM Act, 2012. The fiscal strategies included lack explicit time-based quantitative fiscal goals and targets together with qualitative objectives. The score is D.

PI-15.3. Reporting on fiscal outcomes

According to the Public Financial Management Act, 2012 (section 118), County governments should prepare the County Budget Review and Outlook Paper (CBROP), which presents the recent economic developments and actual fiscal performance and provides an overview of how objectives relate to the actual performance. The CBROP should also include reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time it would take to address the deviations.

Because the fiscal strategy does not identify targets, quantitative and qualitative goals, there is no report to elaborate on objectives, therefore the score is D.

The County is in process of strengthening the planning function especially statistics and forecasting framework.

Summary of scores and performance table

PI-15 Fiscal strategy (M2)	**D**	**Brief justification for score**
15.1 Fiscal impact of policy proposals	D	The County does not assess the fiscal impact of revenue and expenditure policy proposals developed during budget preparation process for the last three fiscal years.
15.2 Fiscal strategy adoption	D	The fiscal strategy of the CFSP does not include explicit time-based quantitative fiscal goals and targets together with qualitative objectives.
15.3 Reporting on fiscal outcomes	D	There are no objectives to report against because the fiscal strategy does not contain quantitative and qualitative goals

PI-16. Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

16.1. Medium-term expenditure estimates

The County prepares the MTEF estimates for the budget year using the GFS classification provided in the IFMIS module. The budget is prepared using the IFMIS which has an in-build standard Charter of Accounts with administrative, economic, and programme classification segments. The PBB, the Budget Estimates and the Medium–term Expenditure Framework is prepared with projections, allocation of resources and ceilings for next three years. The score is A.

PI-16.2. Medium-term expenditure ceilings

The medium term expenditure ceilings are issued after the budget circular. They are normally provided during the preparation of the CFSP which is in line with PFM Act, 2012. According to PFM Act, 2012, the budget circular should be issued by 30th October. The ceilings are included in the CFSP, which is supposed to be ready by 28th February. Evidence from the County indicates that aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years were not approved before the first budget circular was issued. The score is D.

PI-16.3. Alignment of strategic plans and medium-term budgets

The departments of the County have not prepared any strategic plans. The score is D.

PI-16.4. Consistency of budgets with previous year's estimates

The budget estimates, CFSPs, CBROP and ADPs do not explain deviations of the budgetary allocations across the departments. The breakdown of allocations by department for 2015/16 and 2016/17 approved budget data are not comparable. The score is D.

Summary of scores and performance table

PI-16 Medium-term perspective in expenditure budgeting (M2)	D+	Brief justification for score
16.1 Medium-term expenditure estimates	A	The County provided the Program Based Budget which indicated estimate for the budget year and the two outer years. The budget is prepared using the IFMIS which has an in-build standard Chart of Accounts with administrative, economic, and programme classification segments. The evidence is provided by PBB, Budget Estimates.
16.2 Medium-term expenditure ceilings	D	The medium-term expenditure ceilings for the budget year and the two following fiscal years are not issued and approved by the government before the budget circular. The preliminary ceilings are in the CBROP.
16.3 Alignment of strategic plans and medium-term budgets	D	The County departments do not have strategic plans and are therefore not aligned to the budgets.
16.4 Consistency of budgets with previous year's estimates	D	The budget documents do not provide explanation of the changes to expenditure estimates between the last medium term budget and the current medium budget at ministry level. There is no consistency between estimates for overlapping MTEF periods

PI-17. Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely.

PI-17.1 Budget calendar

According to Section 25 of the PFM Act, 2012, the National Treasury is required to submit the Budget Policy Statement (BPS) to Parliament by the 15th February each year. This BPS sets out the broad strategic priorities and policy goals that will guide the National Government and the County Governments in preparing their budgets both for the following financial year and over the medium term. Further, the PFM Act, 2012 requires that the BPS include the amount of indicative transfers of funds from the National to the County Governments. The BPS must be published not later than 15 days after its submission to Parliament.

The County prepares the CFSP guided by the BPS which sets expenditure limits for counties. The CFSP is tabled in the County Assembly in February[2]. It is then submitted to the Committee of County Budget and Appropriations to deliberate upon it according to their respective mandate. The County follows the budget calendar of the National Government. It is attached as annex in the CBROP. The budget ceilings are approved in the CFSP by the County Assembly in February every financial year as per PFM guidelines. Not all line ministries/departments have been reported to adhere to the calendar and it is not clear how much time is provided to budgetary units to complete their estimates. Information allowing calculation of materiality was not provided. The score is D.

Table 3.7: Budget calendar for Kakamega County

	Activity	Responsibility	Deadline
1	Develop and issue MTEF guidelines	Treasury	15-Aug-16
2	Launch Sector Working Groups	The County Treasury	22-Aug-16
3	Performance Review and Strategic Planning	MDAs	23-Aug-16
	Review and update of strategic plans		23-Aug-16
	Review of programme outputs and outcome		23-Aug-16
	Expenditure review		23-Aug-16
	Progress report on MTP implementation		23-Aug-16
	Preparation of annual plans		23-Aug-16
4	Determination of Fiscal Framework	Macro Working Group	9-Sep-16
	Estimation of Resource Envelope		26-Aug-16
	Determination of policy priorities		26-Aug-16
	Preliminary resource allocation to sectors and County Assembly		26-Aug-16
	Draft County Budget Review and Outlook Paper (C-BROP)		26-Aug-16
	Submission and approval C-BROP by County Cabinet		2-Sep-16
	Submit approved C-BROP to County Assembly		9-Sep-16
5	Preparation of MTEF budget proposals	Line ministries	18-Oct-16
	Draft Sector Report	Sector Working Group	4-23-Sep-16
	Public Sector Hearing	County Treasury	3-7-Oct-16

2 The CFSP was laid in the Assembly on 26th February 2015

	Review of the Proposal	Treasury	12-Oct-16
	Submission of Sector Report to Treasury	Sector Working Group	14-Oct-16
6	Draft County Fiscal Strategy Paper (CFSP)	County Treasury	17-Nov-16
	Draft CFSP	County Treasury	24-Oct-16
	Division of Revenue Bill (DORB)	National Treasury	24-Oct-16
	County Allocation of Revenue Bill (CARB)	National Treasury	24-Oct-16
	Submission of CFSP to the County Executive Committee	County Treasury	17-Nov-16
	Submission of CFSP to County Assembly	County Treasury	28-Nov-16
	Publishing and publicising the CFSP	Treasury	12-Dec-16
7	The 2015/16 Supplementary Budget	Treasury	10-Nov-16
	Develop and issue guidelines on the 2015/16 revised budget	Treasury	10-Nov-16
	Submission of Supplementary Budget Proposals	MDAs	20-Nov-16
	Review of Supplementary Budget Proposals	Treasury	3-Dec-16
	Submission of Supplementary Budget Proposals to County Cabinet	Treasury	5-Dec-16
	Submission of Supplementary Budget Proposals to County Assembly	Treasury	15-Dec-16
8	Preparation and approval of Final MDAs Programme Budgets	Treasury	28-Feb-16
	Develop and issue final guidelines on preparation of 2015-16 MTEF Budget	Treasury	2-Dec-16
	Submission of Budget Proposals to Treasury	Line ministries	22-Dec-16
	Consolidation of Draft Budget Estimates	Treasury	26-Dec-16
	Submission of Draft Budget Estimates to the County Assembly	Treasury	27-Jan-17
	Review of Draft Budget Estimates by County Assembly	County Assembly	22-Feb-17
	Report on Draft Budget Estimates from County Assembly	County Assembly	24-Feb-17
	Consolidation of Final Budget Estimates and Cash flows	Treasury	15-Mar-17
	Submission of Appropriation Bill to County Assembly	Treasury	15-Mar-17
9	Budget Speech	Treasury	30-Mar-16

Source: CBROP

PI-17.2 Guidance on budget preparation

The budget circular gives clear guidance on the budget preparation to ministries/ departments in line with the PFM Act, 2012. The ceilings are usually provided later during the sector working group meetings and firmed up at the time of finalising the CFSP. Indicative budget ceilings in the CBROP are issued by 22nd October and finalized by 28thFebruary. Ceilings for the budget year are provided by ministry and are approved by government before sending the budget to the County Assembly. The score is D.

PI-17.3 Budget submission to the legislature

According to the PFM Act, 2012, final estimates submitted to the County Assembly should have taken into account the recommendations from the County Budget and Appropriations Committee (CBAC). The CBAC consists of a Chairperson, and not more than eight other members. The specific dates of submission of the budget to the County Assembly for the three years of assessment are as follows: 2014/15 – 29thApril, 2014; 2015/16 – 27thApril, 2015; 2016/17 – 29thApril, and 2016. Hence, the County budgets were submitted as stipulated in the PFM Act, 2012. The score is A.

The County plans to train staff on policy and budget formulation process to ensure timely submission and adherence to the budget calendar.

Summary of scores and performance table

PI-17 Budget preparation process (M2)	**C**	**Brief justification for score**
17.1 Budget calendar	D	The budget circular is provided; however, there is no information which line ministries adhered to deadline for completing their estimates.
17.2 Guidance on budget preparation	D	The budget circular gives clear guidance on the budget preparation to line ministries. The budget ceilings are not provided together with the budget circular.
17.3 Budget submission to the legislature	A	The budget was submitted by end of April in all three-last completed fiscal years, which is two months before the start of the next fiscal year in July.

PI-18. Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinises, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

PI-18.1. Scope of budget scrutiny

The County Assembly Budget Committee scrutinises the budget documents guided by the following procedures: (i) Standing Order Paper No. 209 establishing the procedure for scrutinising the CFSP; (ii) Standing Order Paper No. 210 providing for the presentation of budget estimates to the County Assembly; (iii) Standing Order Paper No. 216 providing for the pronouncement of the budget highlights and revenue raising measures before County Budget and Appropriation Committee. The scope of the budget scrutiny covers review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as expenditure and revenue estimates. These elements are included in the following documents: (i) ADP, (ii) CFSP, (iii) CBROP and (iv) detailed budget estimates which are debated, commented and voted. These documents are submitted to the County Assembly for consideration and approval. The score is A.

PI-18.2. Legislative procedures for budget scrutiny

Standing Order Paper No 186, establishes the Budget and Appropriation Committee. The County Assembly has standing orders which guide the operations of the Budget and Appropriation Committee. The Committee applies the PFM Act, 2012 and PFM Regulations of 2015 to guide the Supplementary Budget review process. Article 35 of the Constitution, section 87 of the County Government Act, 2012 and the PFM Act, 2012 section 125 (2) provides that the public should be involved in the budget making process through public participation. Budget scrutiny is also carried out through consultation and public participation forums. Details of public consultation and specialised sectoral committees are contained in the report of the Budget Committee which is discussed and approved by the County Assembly. This was evidenced in the minutes of the Budget Committee Report of the County Assembly and the Hansard. However, it was not clear how long it took to scrutinize the budget and whether the County Executive is allowed to incorporate the review comments. The score is C.

PI-18.3. Timing of budget approval

It has been reported that there has been no delay in the timing of the budget approval for the last three fiscal years. The budgets for 2014/15, 2015/16 and 2016/17 were approved by the 30th day of June of the respective years. All the budgets were approved before the commencement of the new financial year, For 2017/18 the budget was approved on April 20th, 2017, however the actual dates of submission of the budget have not been provided. The score is D.

PI-18.4. Rules for budget adjustments by the executive

The rules for budget adjustments are defined in the PFM Act, 2012 Sections 135 and 154. These rules are adhered to in most cases. PFM Act section 135 allows the counties to spend or adjust expenditures and seek for approval within two months. Currently the counties cannot spend before approval by the respective County Assemblies. Section 154 of the PFM Act, 2012 states that an accounting officer may reallocate funds but the total reallocation shall not exceed 10 per cent of the total approved expenditure vote for that particular programme. Thus, the rules are allowing extensive administrative reallocations and expansion of total expenditure up to 10%. Materiality is provided by the supervision of the Controller of Budget. Standing Order Paper No. 218 provides for the procedure of passing the Supplementary Budget. However, the Budget Committee follows the PFM Act, 2012 and the standing order regulations when making adjustments to the budget. The PFM Regulations No. 37(1), 2015 provides that the County Assembly can approve any changes in the budget estimates but shall not exceed 1 per cent of the vote ceiling. The budget adjustments are done through preparation of supplementary budgets and reallocation across activities. This is checked by the Controller of Budget on national level and the rules are adhered to in all instances. The rules allow for administrative reallocation of total expenditure up to 10% and this is controlled through the IFMIS system. This is the case of all Kenya counties and it is controlled on national level, therefore the score is C.

The County Assembly plans to strengthen the capacity of the committees that scrutinize the ministry budgets through recruitment of fiscal analysts.

Summary of scores and performance table

PI-18 Legislative scrutiny of budgets (M1)	D+	Brief justification for score
18.1 Scope of budget scrutiny	A	The County Assembly scrutinizes the ADP, CBROP and the CFSP which covers review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as expenditure and revenue estimates.
18.2 Legislative procedures for budget scrutiny	C	The legislative procedures for budget scrutiny are adhered to, the Budget Committee Report of the County Assembly shows that consultation and public participation forums have been organised. However, there is no evidence of technical support and negotiation procedures.
18.3 Timing of budget approval	D	The budgets for the three fiscal years under review have been approved before the start of the new fiscal year but the actual dated of budget submission to the legislature have not been provided.
18.4 Rules for budget adjustments by the executive	C	The budget adjustments are done through preparation of supplementary budgets and reallocation across activities. This is checked by the Controller of Budget on national level and the rules are adhered to in all instances. The rules allow for administrative reallocation of total expenditure up to 10% and this is controlled through the IFMIS system.

3.5 Pillar V. Predictability and Control in Budget Execution

Indicators of this pillar measures whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended. There are eight indicators under this pillar: revenue administration, accounting for revenue, predictability of in-year resource allocation, expenditure arrears, payroll controls, procurement, internal control on non-salary expenditure and internal audit.

PI-19. Revenue administration

This indicator relates to the entities that administer county government revenues, which may include tax administration, customs administration, and social security contribution administration. It also covers agencies administering revenues from other significant sources such as natural resources extraction. These may include public enterprises that operate as regulators and holding companies for government interests. In such cases, the assessment will require information to be collected from entities outside the government sector. The indicator assesses the procedures used to collect and monitor county government revenues.

PI-19.1. Rights and obligations for revenue measures

The County Revenue Unit is the sole entity charged with the responsibility of administering all revenues. The Finance Acts are not published hence members of public can only get copies from the County headquarters. Although the Acts are prepared through public participatory process, there was no verifiable evidence that the contents contained therein have been disseminated or communicated to payers.

The County has not put in place redress system to deal with complaints, compliments and appeals. Complaints and other issues raised by payers are handled by ad hoc committees. There was no documentary evidence on the deliberations of these committees. The score is D.

The revenue of the County is collected mostly at the cash points of the County administration. The following table shows the own source revenue streams for 2015/16.

	Revenue Stream	Amount
1	Property Rates	71,420,051
2	Single Business Permit	32,389,482
3	Barter Market	43,186,774
4	CESS	11,958,910
5	Housing/Stall	3,887,700
6	Kiosk Fee	1,431,130
7	Slaughter	48,381,260
8	Bus Park	8,925,394
9	Parking Fee	7,832,156
10	Hire of Machinery	66,821,659
11	Other Revenues/devolved government functions	0

12	Contribution in lieu of rate	13,139,200
13	Liquor license	0
14	Court Fines	175,786,142
15	Health facilities & Others	71,420,051
	Total	**504,238,292**

Source: CBROP

PI-19.2. Revenue risk management

The Revenue Unit has not put in place a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks. Classification of taxpayers into various categories of small, medium and large payers has not been undertaken to effectively facilitate prioritization of compliance risks and mitigation measures. Further, the County has not automated revenue collection which is instrumental in minimizing revenue pilferage. It was also noted that there is no integrated revenue management system to detect and arrest potential revenue risks. The score is D.

PI-19.3. Revenue audit and investigation

The County Revenue Unit has not put in place audit and fraud investigation systems. It is therefore not easy to identify risks and make follow up to minimise revenue leakages. The Internal Audit function is new to the immature subnational governments. It is in process of being established and staffed. The score is D.

PI-19.4. Revenue arrears monitoring

Stock of revenue arrears as at end of 2015/16 financial year were estimated at Ksh 2.6 billion but were not disclosed in the financial statement. According to this information provided to the assessment team, the estimated revenue arrears to total own revenue collected was about 516 per cent. This is mostly due to the aged debts being inherited from the former local authorities and suggests that there is no procedure for writing off bad debts. The Revenue Unit does not carry out ageing analysis of the arrears and hence it is not possible to determine the arrears which are over 12 months. These arrears date from the time the subnational structure came to existence and also include inherited arrears from the defunct local authorities. The score is D.

Summary of scores and performance table

PI-19 Revenue administration (M2)	**D**	**Brief justification for score**
19.1 Rights and obligations for revenue measures	D	All County revenue is collected and accounted for by the Revenue Unit under Finance and Economic Planning Sector. The Revenue Unit has not put in place a mechanism for communicating to payers of their obligations, rights and redress. Complaints and other issues raised by payers are handled by ad hoc committees. There was no documentary evidence on the deliberations of the committees.
19.2 Revenue risk management	D	The County Government of Kakamega has not put in place a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks.
19.3 Revenue audit and investigation	D	The Revenue Unit of the County Government has not put in place audit and fraud investigation systems. It is therefore not easy to identify risks and make follow ups to minimise revenue leakages.
19.4 Revenue arrears monitoring	D	Evidence provided indicated stock of revenue arrears as at end of 2015/16 financial year which was not in the AFS. The percentage of revenue arrears to total revenue was about 516%.

PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and non-tax revenues collected by the county government.

PI-20.1. Information on revenue collections

Revenue from various sources is paid directly to the County bank accounts, the cash office at the headquarters or various pay points in the County. Additionally, revenue collectors visit various collection points at headquarters and the sub-counties. Revenue officers submit revenue collection reports on daily basis to the Revenue Unit at the headquarters. These reports capture all information on revenue and are consolidated reflecting revenue types and period of collection.

The County of Kakamega has filed a Bill (Kakamega County Revenue, Administration and Collection Bill) with the County Assembly in 2014 for the establishment of a Tax Collection Agency. The Agency is described to administer and enforce revenue law, assess, collect and account for all rates, taxes and fees.

The Bill is still with the County Assembly for approval. The taxpayers currently pay their revenue obligations directly at the County administration cash points as well as to the County bank accounts. The score is A.

PI-20.2. Transfer of revenue collections

Revenue collected from various sources is banked daily into the County revenue collection bank accounts by the individual revenue collectors or their supervisors. There are, however, few instances where daily banking of revenue collected may not be adhered to but the delay usually does not exceed more than one day. The score is A.

PI-20.3. Revenue accounts reconciliation

No evidence was provided to indicate the frequency of complete reconciliation of assessments, collections, arrears, and transfers to County Treasury revenue collection accounts. It was indicated that the reconciliations were not consistent with PFM Regulation No. 90 of 2015. The score is D.

Summary of scores and performance table

PI-20 Accounting for revenue (M1)	**D+**	**Brief justification for score**
20.1 Information on revenue collections	A	Revenue collection reports are prepared on monthly basis from daily reports. This information is broken down by revenue type and is consolidated into a report. Monthly revenue reports consolidated from the sub-counties for January 2017 and February 2017 have been provided as evidence.
20.2 Transfer of revenue collections	A	All revenue collected in cash and cheques is banked into the County bank accounts on a daily basis as evidenced by the daily banking slips.
20.3 Revenue accounts reconciliation	D*	There was no evidence that reconciliation of assessments, collections, arrears, and transfers to Treasury controlled accounts are carried out.

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central department of finance is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery.

PI-21.1. Consolidation of cash balances

Section 109 (2) of the PFM Act 2012 provides that each County Government shall ensure that all monies raised or received by or on behalf of the County Government shall be paid into the County Revenue Fund (CRF). Not all bank accounts of the County are in the Central Bank of Kenya. The County operates seven accounts at the Central Bank of Kenya and their cash balances are consolidated daily. The commercial bank accounts are numerous. At the time of assessment it was reported that there are 48 bank account in commercials banks and their cash balances are consolidated on a monthly basis. A list of all bank accounts and respective bank balances was provided. However, it was observed that the OAG reported the existence of 185 bank account in 2015/16 operated by the County Government (see PI-27.1). The score is C.

PI-21.2. Cash forecasting and monitoring

Section 120 of the PFM Act, 2012 provides for the management of cash at the County level. A County Treasury shall manage its cash within a framework established by the County Assembly. Every County Government entity is required to prepare and submit an Annual Cash Flow Plan under the direction of the County Treasury with a copy to the Controller of Budget. The cash forecast is provided annually based on the approved budget and updated on a monthly basis. A copy of the cash flow forecast and requisition has been provided. The score is A.

PI-21.3. Information on commitment ceilings

The County Treasury prepares cash flow projections at the beginning of the fiscal year and updates it monthly based on cash requirements from all departments. The reliability of the commitment ceilings has not been ascertained. The spending units are given a month time to plan their commitment. There was no evidence to show that all budgetary units are given enough information on actual resources available for their budgetary commitments. The score is D.

PI-21.4. Significance of in-year budget adjustments

The County makes only one Supplementary Budget in a fiscal year as provided in Section 135 of PFM Act, 2012 while Standing Order Paper No. 218 of the County Assembly provides for the procedure of passing the Supplementary Budget. In addition, adjustments to the original budget appropriations are guided by PFM Act, 2012 and PFM Regulations of 2015. Generally all in-year adjustments are gathered in the County Supplementary Budget submitted to the Assembly for approbation. The Supplementary Budget is a request for approval of anticipated reallocations. Usually the Supplementary Budgets are approved. Only one Supplementary Budget was issued in 2015/16. The score is B.

Summary of scores and performance table

PI-21 Predictability of in-year resource allocation (M2)	C+	Brief justification for score
21.1 Consolidation of cash balances	C	The County operates seven accounts at CBK and their cash balances are consolidated daily. The commercial bank accounts cash balances are consolidated on a monthly basis. List of all bank accounts has been provided and a copy of the bank balances.
21.2 Cash forecasting and monitoring	A	The cash forecast is provided annually and updated on a monthly basis on the basis of actual cash inflows and outflows
21.3 Information on commitment ceilings	D	It was not ascertained that plans and expenditure commitments were in accordance with budget appropriations and that all budgetary units are given enough information on actual resources available.
21.4 Significance of in-year budget adjustments	B	There was only once in-year budget adjustment in any of the three financial years assessed. Supplementary Budget was made once in the last fiscal year which was done fairly transparent and have been subjected to approval by the County

PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions namely stock of expenditure arrears and expenditure arrears monitoring.

PI-22.1. Stock of expenditure arrears

Expenditure arrears in the context of the County government are referred to as pending bills. These are financial obligations due to employees, statutory organisations, service providers, suppliers and contractors. They arise as a result of services provided, goods delivered as per orders and contracts executed but payments not made by due dates. Reports on expenditure arrears are generated manually from other underlying accounting records.

As at close of 2014/15 and 2015/16, the County had expenditure arrears amounting to Ksh 735 million and Ksh 626 million respectively, but there were no arrears in 2013/14. The percentage of stock of expenditure arrears to total expenditure for 2014/15 and 2015/16 were 9.7 per cent and 6.3 per cent, respectively. The stock of expenditure arrears is more than 6% in two years and less than 10 per cent in the three years. The score is C.

PI-22.2. Expenditure arrears monitoring

The County prepares expenditure arrears schedules at the end of each financial year for incorporation in the AFS. In this regard, quarterly expenditure arrears reports are not prepared. Further, the annual expenditure arrears do not indicate their age. A report on expenditure arrears was provided indicating stock and composition. The generation of data on the stock and composition of expenditure arrears is performed at the end of each financial year during the preparation of the annual financial statements. The score is C.

The County has commenced preparation of expenditure arrears reports on a quarterly basis using the template prescribed by the National Treasury. The first of such report will cover the third quarter of 2016/17 financial year (January to March 2017).

Summary of scores and performance table

PI-22 Expenditure arrears (M1)	C	Brief justification for score
22.1 Stock of expenditure arrears	C	The stock of expenditure arrears is more than 6% in two years and less than 10% in the three years.
22.2 Expenditure arrears monitoring	C	Even though the County Government prepares a report on expenditure arrears as at end of each financial year, the report does not include age analysis of the arrears.

PI-23.Payroll Controls

This indicator is about the payroll for public servants: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25.

PI-23.1. Integration of payroll and personnel records

The County Government uses the Integrated Personnel Payment Database (IPPD) management system to generate monthly payroll and staff payslip. The system is used for human resource management including appointments/recruitment, personnel records management, career development and pension. In addition, it administers the records of benefits enjoyed by the officers such as loans, medical benefit, claims and personal advances, and allowances. The payslip data base is uploaded to Government Human Resource Information system (GHRIS), which is an online platform that enables staffs to access their pay information. The County does not have an approved staff establishment but uses existing staff and projected hires as a basis for the annual budget. In addition, staff hiring is done on need basis. Reconciliation of the payroll with personnel records takes place on an annual basis through payroll audit. The score is D.

PI-23.2. Management of payroll changes

Any amendment to the personnel database on IPPD is processed through the Authorised Data Sheet (ADS). Such changes are effected in time to allow adjustments in the following month's pay. Only authorized officers are allowed to effect changes. There were retroactive adjustments but the number and size varied from month to month and in February 2017, the percentage of adjustments to total payroll expenditure was less than 3 per cent.

As at the time assessment, payroll data for February 2017 indicated total payments of Ksh 256,880,011 which included arrears of Ksh 1,789,016. Consequently the percentage of arrears to total payroll expenditure was 1 per cent which is less than 3 per cent. Adjustments to payroll are accessioned by promotions, deletion of staff records due to retirement or natural attribution, reasons which are considered normal. The score is A.

PI-23.3. Internal control of payroll

The Head of Human Resource Management allocates IPPD access rights to ensure efficiency, effectiveness and accountability. Different access rights ensure that no one person can initiate and complete any payroll amendment without involving another party.

The system requires several persons with different or same user rights to complete an action or amend a record. A formal, documented access control policy that addresses purpose, scope, roles, and responsibilities of IPPD system users is well outlined in that any IPPD password is issued solely for the holder's use, in execution of the official duties assigned to him or her.

The access control policy addresses the purpose, scope, roles, and responsibilities of IPPD system users in execution of the official duties. Every change of records in the IPPD system must be supported by duly filled and signed ADS. In summary, authority to change records and payroll for employees in the IPPD is restricted, results in an audit trail, and is adequate to ensure full integrity of data. However, the procedures are not documented and the roles and responsibilities are contained in the job description.

The procedures establishing roles and responsibilities for internal control were adopted from the National Government. There is a County Public Service Human Resource Manual developed by Public Service Commission of Kenya that provides standard operating procedures on all HR matters for all the Counties in Kenya (www.psc.co.ke). The score is A.

PI-23.4. Payroll audit

During the last three years, the Internal Audit Department carried out a human resource audit and submitted the report to the audit committee. However, no documentary evidence was provided to support the information given during the meetings. The score is D*.

Summary of scores and performance table

PI-23 Payroll controls (M1)	**D+**	**Brief justification for score**
23.1 Integration of payroll and personnel records	D	Reconciliation of the payroll with personnel records takes place on an annual basis through payroll audit. The IPPD system is not integrated to the IFMIS which has the budget module. Staff hiring is controlled by a list of approved staff positions but it is not sure if it is checked against the approved budget
23.2 Management of payroll changes	A	Changes to personnel records and payroll are updated on monthly basis and in time for the following month's payments. Percentage of arrears to total payroll expenditure for the recent two months was less than 3%. There are no delays in recording a change in personnel status to personnel records and to payroll data. All is completed within one month.

23.3 Internal control of payroll	A	Authorisation of records and payroll changes is restricted to payroll manger based on approved authority from Head of Human Resource. Audit trail in the form manual documents was available and verified during assessment.
23.4 Payroll audit	D*	It was indicated that payroll audits covering all County departments are carried by the Internal Audit Department. Payroll audit reports and response to the reports were not provided to support the information given during the meetings.

PI-24. Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements.

PI-24.1. Procurement monitoring

The procurement process is regulated by the Public Procurement and Asset Disposal Act, 2015 (PPADA). Section 68 requires that there is an accounting officer of the procuring entity to keep records for each procurement. The Procurement Directorate of the County Executive is in charge of the entire supply chain management. The County has developed a Framework Contract for low-value procurement of good and services. In addition, the annual Project Implementation Status Report provides information on value of procurement and the awarded contracts. However, the accuracy and completeness of the information could not be ascertained. The score is D.

PI-24.2. Procurement methods

The Public Procurement and Asset Disposal Act, 2015 provides for different procurement methods. The County Executive applies two procurement methods (i) open tender and (ii) request for quotation both of which are competitive processes. This can be seen in the annual Project Implementation Status Report. The annual Project Implementation Status Report provides information on data and information on contracts awarded through competitive and non-competitive methods and value. However, no information on the percentage of the total value of contracts carried out has been provided. The score is D*.

PI-24.3. Public access to procurement information

The public can 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 is available online as published by the Public Procurement and Administrative Review Board (PPARB). The tendering opportunities are available on the County website. However, information on the County procurement plans, annual procurement statistics and details of contracts awarded are not posted on the website. Any procurement complaints are addressed through the Public Procurement and Administrative Review Board. Data on resolution of procurement complaints are available on the PPOA (independent board under the Public Procurement Oversight Authority) website. Clear guidelines on the process followed for any conflict are published and available online on the web site www.ppoa.go.ke. The decisions of the Board are binding to all parties involved. The table below summarises the compliance with key procurement information that should be made available to the public. There is no information on materiality. The score is D*.

Public access to procurement information

Key procurement information to be made available to the public:	Compliance (Y/N)
1. legal and regulatory framework for procurement	Y
2. government procurement plans	N
3. bidding opportunities	Y
4. contract awards (purpose, contractor and value)	N
5. data on resolution of procurement complaints	Y
6. annual procurement statistics	N

PI-24.4. Procurement complaints management

Procurement complaints are addressed by the PPARB under the PPRA. This is an external higher authority which is not involved in the procurement process - ref to component (1). Section 27 of PPADA establishes an independent Public Administrative Review Board to ensure the proper and effective performance of the functions of the PPRA. There are clear guidelines on the process followed in case of complaints. The decisions of the PPARB are binding to all parties involved – ref. to (6). The Procurement Regulations state that "a decision by the Review Board is binding on all parties concerned subject to judicial review where the parties so appeal". There is a fee payable by the party filing complaints – ref to (2). The schedule of fees can be extracted from the Public Procurement and Disposal Regulations, 2013. However, it was observed that the complaints filed with the Board are getting more and more each year which may imply that the fee is not so material to prohibit access.

The PPARB follows processes for submission and resolution of complaints that are clearly defined and publicly available. The process for submission and resolution of complaints is clearly provided for in the PPADA (Section 27) which is publicly available. The PPARB exercises the authority to suspend the procurement process – ref to (4). The PPADA provides grounds for debarment of a person from participating in procurement or asset disposal proceedings.

The decisions are issued within the timeframe specified in rules – ref to (5): the PPADA requires the PPARB to make a decision within thirty days of the date of submission of an application for review. The PPARB report for 2015/16 states that all cases filed were heard and determined within an average of 22.5 days. The score is A.

Compliance of complaints reviewed by an independent body in accordance with the PEFA criteria is summarized in table below.

Procurement complaints management

Complaints are reviewed by a body which:	**Compliance (Y/N)**
1. is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y
2. does not charge fees that prohibit access by concerned parties	Y
3. follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y
4. exercises the authority to suspend the procurement process	Y
5. issues decisions within the timeframe specified in the rules/ regulations, and	Y
6. issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y

Summary of scores and performance table

PI-24 Procurement (M2)	D+	Brief justification for score
24.1 Procurement monitoring	D	The County Executive has an annual Project Implementation Status Report where all major projects are recorded. The data in the Report is not complete for all procurement methods for goods, services and works.
24.2 Procurement methods	D*	The County Executive applies two procurements methods-open and request for quotation both of which are competitive processes. There is no data on percentage of competitive vs non-competitive tenders procured.
24.3 Public access to procurement information	D*	The procurement met three of the six elements for this dimension. The key procurement information elements are complete, reliable and are made available to the public. However, no information was provided on materiality.
24.4 Procurement complaints management	A	The procurement complaint system meets all criteria

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23.

PI-25.1. Segregation of duties

The legislations about segregation of duties are respectively: (i) the Constitution of Kenya of 2010, (ii) the PFM Act, 2012, (iii) Circulars from National Treasury and (iv) Public Procurement and Asset Disposal Act, 2015. The different responsibilities about internal controls are (i) Planning, (ii) Budgeting, (iii) Procurement, (iv) Accounting (v) Monitoring and Evaluation and (vi) Internal Audit.

The County Government uses the Integrated Financial management information system (IFMIS) which has various modules and different levels of access rights to ensure adequate segregation of duties in the expenditure process. Each stage is assigned to an officers with specific log-in credentials. No one can initiate a transaction and process it to completion without the approval of the other user. Further, the County uses its own Standard Operating Procedures when making all their transactions in the IFMIS. The score is A.

PI-25.2. Effectiveness of expenditure commitment controls

Payments are made through IFMIS system and the system has the approved budget which serves as vote control mechanism. Any payment is supported by a payment voucher which is prepared by the user department. The payment voucher has various sections for authorization and approval. The AIE holder signs and certifies that the expenditure was incurred for the authorized purpose, the departmental accountant signs to confirm the accuracy and the Chief Officer in the department of finance authorize the payment. The payment voucher has a vote book control section (Vote Book Certificate) which is used to ensure that payments are made within the approved vote.

The County Government makes its payment commitments based on monthly cash flows which are derived from Annual Budgets and Quarterly Plans. The cash flows are both for recurrent and development expenditures and are based on projected and actual expenditures of all departments. The County Government has always provided for a reservation of Ksh 150 Million in their Revenue Account, for payment of staff salaries in case of delay of fiscal transfers. Further, the cash flow provides an annexed list of contractors of goods and services and development projects due for payment in any particular month of the cash flow projections. This implies that there exists a comprehensive expenditure commitment controls at the County. The score is A.

PI-25.3. Compliance with payment rules and procedures

All payments of the County were compliant with regular payment procedures as evidenced by payment vouchers from the different departments and approved at various levels. However, two accounts, Operations and Ward Projects payments were made outside the IFMIS system although the posting of vouchers is captured in the system. The calculated amounts for these payments were only about 4.6% of the total. The volume of payments made outside IFMIS for which there is no certainty that comply with payment rules and procedures are less than 10%, therefore the score is B.

Summary of scores and performance table

PI-25 Internal controls on non-salary expenditure (M2)	A	Brief justification for score
25.1 Segregation of duties	A	There is clear segregation of duties among PFM functions. Officers have access rights to PFM system with clear and distinct mandates. The County Government also uses the standard operating procedures defining the roles and duties of each officer and their powers.
25.2 Effectiveness of expenditure commitment controls	A	The IFMIS system does not allow commitment of funds where a vote does not provide funds. Internet Banking (IB) gives actual balance for utilization. Payment cannot be made if there are no funds.
25.3 Compliance with payment rules and procedures	B	Most payments by the County Government are made in line with payment rules and procedures in IFMIS. Calculated figure for payments outside IFMIS is about 4.6%. The authorization and justification are not evidenced for the payments outside IFMIS which constitute less than 10% of all payments executed

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit.

PI-26.1. Coverage of internal audit

The legal framework defining the background for internal audit consists of Section 155 of the PFM Act, 2012 and PFM Regulation No. 153, 2015 for the County Governments. In addition, the PFM Regulation No. 154 specifies that internal auditors shall comply with the International Professional Practices Framework (IPPF) as issued by the Institute of Internal Auditors and shall conduct audits in accordance with policies and guidelines issued by the Public-Sector Accounting Standards Board.

The County Internal Audit Services Department covers all the departments in the County Executive. However, the internal audit reports showed that audit work was not executed per department/function but was done according to an audit area e.g. expenditure management audit, audit on revenue collection, etc. The practice maintained by the Internal Audit Department is to group the entities to be audited by risk exposure as follows: (i) to audit and to have a follow-up of the high risk entities every year; (ii) to have at least one full audit in a year and a follow-up visit in two years for the medium risk entities and (iii) for the low risk entities to perform at least one audit every three years. The percentage of the County entities which were subject to internal audit over the last three financial years has been reported to be 75%. However, no evidence has been provided to justify this calculation. Therefore the score is D*.

PI-26.2. Nature of audits and standards applied

The Internal Audit Services Department applies International Professional Practice Framework (IPPF) of the Institute of Internal Audit as stipulated in the laws of Kenya. The focus of the internal audit practice is to evaluate the adequacy and effectiveness of internal control system guided by a risk-based approach. The types of audits performed in all County departments over the last three years are internal control, regularity audit and financial control.

The Internal Audit Services Department conducted a number of internal audits in the County. This notwithstanding, there was no evidence of IPPF standards followed in the audit exercise and no properly documented audit working paper files were provided. In addition, the proportion of internal control audits versus compliance audits carried out over the last three years is not clear. The score is C.

PI-26.3. Implementation of internal audits and reporting

The Annual Audit Plan sets out the areas of coverage. Audits carried out over the last three financial years have covered all the areas specified in the approved audit plan for the respective financial year. However, there was no evidence that more than 50% of the planned audits in 2015/16 were completed. The internal audit reports were not provided. Furthermore, internal audits for 2013/14 and 2014/15 were conducted on an ad hoc basis mainly because of limited staff capacity. No evidence was provided on the percentage of completed planned audits, therefore the score is D*.

PI-26.4. Response to internal audits

Responses to the Internal Audit reports are provided within one month of the report being issued. Management of the audited entity makes comments to the audit report and should respond to queries raised within two weeks. Partial evidence was provided documenting actual response to audit recommendations, but it could not be confirmed if audit recommendations were acted upon. Management letters were not obtained, therefore the score is D*.

Summary of scores and performance table

PI-26 Internal audit (M1)	D+	Brief justification for score
26.1 Coverage of internal audit	D*	No evidence was provided to justify the percentage of audited county entities.
26.2 Nature of audits and standards applied	C	The Internal Audit Services Department applies International Professional Practice Framework (IPPF) as stipulated in the law in Kenya. However, the review of the working papers showed that quality assurance is not diligently applied. The internal audit is focused on effectiveness of internal controls. The e proportion of internal control audits versus compliance audits carried out over the last three years is not known.
26.3 Implementation of internal audits and reporting	D*	In 2013/14 and 2014/15 audits were only ad hoc. Planned audits have been completed only from 2016 onwards but no evidence was provided on the percentage of completed planned audits.
26.4 Response to internal audits	D*	Responses to the Internal Audit reports are provided within one month of the report being issued. Partial evidence has been provided on response to audit recommendations. It was not confirmed if all audit recommendations were acted upon. No management letters were viewed or obtained.

3.6 Pillar VI. Accounting and Reporting

Indicators under this pillar measure whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. There are three indicators under this pill are: financial data integrity, in-year budget reports and annual financial reports.

PI-27. Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data.

PI-27.1. Bank account reconciliation

PFM Act, Section 90 (1), requires bank reconciliations to all active accounts to be prepared every month and submitted to the County Treasury with a copy to the

OAG not later than 10th of the subsequent month. Any discrepancy noted during reconciliation should be investigated immediately.

Reconciliations to all active bank accounts are done monthly. However, it was not confirmed whether the aggregate cash position of the County Government across all its accounts is reconciled with the CBK's corresponding records. Further, not all County Government accounts are at the CBK. The bank accounts show the own source revenue of the County. An important note to make – the County Government operated 185 bank account in 2015/16, it was not possible during the external audit of OAG to verify the reconciliation of so many accounts. The number of bank accounts with verified cash positions is 34, however in terms of weight (value) this constitute 81 per cent. The bank balances of these 34 accounts is Ksh 1,722,627,416 and statement of financial assets in the AFS 2015/16 is Ksh 2,128,306,539. In any event, the operation of such a large number of bank accounts is inefficient and poses serious risks of loss of funds. The County keeps bank accounts in commercial banks contrary to the guidelines of the National Treasury. It was not possible for the OAG to verify the bank reconciliations in the previous two financial years of assessment. Although the assessment team was provided with copies of monthly bank reconciliations of all active bank accounts, it was not confirmed if they were submitted to the OAG within the required deadline. The score is D

PI-27.2. Suspense accounts

According to PFM Regulation No. 107(2b), 2015, the accounting officer must ensure that monthly reconciliations are performed to confirm the balance of each account. The County did not have any suspense account at time of assessment, therefore this dimension is considered not applicable.

PI-27.3. Advance accounts

The PFM Regulation No. 93(1&5), 2015 classifies imprests into 2 (i) temporary (safari) imprests which should be accounted for within seven days after returning to duty station. The County has imprest account as the only advance account (ii) Standing Imprests are given to AIE holders up to a fixed level. The imprest surrender is done within 7 days after an officer return to the duty station. Imprest reconciliations are prepared monthly and accounted for at the end of the financial year and presented as a note to the financial statements, however they are cleared more than two months after the year end. The score is D.

PI-27.4. Financial data integrity processes

The PFM Regulation No. 109 (1) and 110, 2015 requires for the establishment of an IFMIS, with appropriate access controls put in place in the system to minimize breach of information confidentiality and data integrity. The County Treasury uses IFMIS for recording and processing budget data. This system has various modules ranging from budgeting, payments and reporting. All users are assigned passwords and the Chief Officer finance authorizes assignment of responsibilities in the various rights to the system. The IFMIS has an audit trail and any record change is electronically recorded in the system. The IFMIS department in the National Treasury is responsible for introduction of new users in the system with the approval of the accounting officer. Finally, the County has an examination unit that ensures data integrity by pre-audit of payments before they are passed into the system. The score is A.

Summary of scores and performance table

PI-27 Financial data integrity (M2)	**C**	**Brief justification for score**
27.1 Bank account reconciliation	D	Reconciliation of 81% of the County bank accounts takes place monthly.
27.2 Suspense accounts	N/A	
27.3 Advance accounts	D	Advance accounts are presented as accounts receivables (outstanding imprests) in the Annual Financial Statements. Advance/imprest accounts are reconciled annually as a note to the AFS but they are cleared more than two months after the year end
27.4 Financial data integrity processes	A	IFMIS has a system administrator who ensures compliance of assigned responsibilities and ensures approval are sought to make changes in the system. General Ledger reconciliations are done at the County Treasury to ensure items are correctly posted. The County has an examination unit that ensures data integrity.

PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

PI-28.1. Coverage and comparability of reports

The PFM Act, 2012 requires budget execution monthly financial statement and non-financial budgetary reports to be submitted to the County Treasury. The CBROP is prepared in accordance with Section 118 of the PFM Act, 2012. According to this Act, the County should prepare quarterly implementation reports to give an over view of budget execution. They give comparisons between budget estimates and actual expenditures among departments and County Assembly.

Budget reports are prepared quarterly allowing for comparison with the original budgets but not for all items.

The reports show budgeted expenditure against actual expenditure. Coverage and classification of data allows direct comparison to the original budget with presentation of the main administrative headings. The score is C.

PI-28.2. Timing of in-year budget reports

PFM Act 166, 2012 requires Counties to prepare quarterly reports and deliver copies to the National Treasury, COB and CRA while County Treasury Circular requires preparation of reports of performance of the entire budget during the implementation phase.

Annual Expenditure Appropriation Accounts are prepared annually and submitted by 30th September. Budget execution reports are prepared quarterly and submitted within one month from the end of each quarter. Copies of cover letters were obtained for:(i) CBROP 2015/16 - 30th September 2016, (ii) County Fiscal Strategy Paper 2017/18 (27thFebruary 2015), (iii)Budget Estimates 2015/16 (30th April 2015 and 22nd June 2015). Copies of quarterly in-year budget reports have been obtained for only two quarters as detailed in Table 3.8. The score is D.

Table 3.8: Timing of in-year budget reports

Type of report	End of quarter	Date of report
Quarter Budget Expenditure Report	July-September 2015	13 November 2015
Quarter Budget Expenditure Report	July-September 2016	7 March 2017

Source: County Executive

PI-28.3. Accuracy of in-year budget reports

The County uses IFMIS to record budget reports. Changes to these reports must be sought from the National Treasury IFMIS Department to allow changes. There are Guidelines on implementation of budget for the Financial Year 2015/16 which guides on how to report performance and accounting for expenditures in the County Treasury and line ministries. It has not been reported if information on expenditure is covered at commitment stage. The reports are prepared by the County Treasury, reviewed and sent to various bodies including County Executive, National Treasury and the Controller of Budget. The level of review ensures that these reports are accurate. However, no analysis of the budget execution is provided for at least a half-yearly basis. The score is C.

Summary of scores and performance table

PI-28 In-year budget reports (M2)	**D+**	**Brief justification for score**
28.1 Coverage and comparability of reports	C	Budget reports are prepared quarterly allowing for comparison with the original budgets for the main administrative headings.
28.2 Timing of in-year budget reports	D	Quarterly reports are prepared but submitted more than two months after the end of each quarter
28.3 Accuracy of in-year budget reports	C	It was not reported whether information on expenditure is covered at commitment stage. Annual Financial Statements show that they are reflected at least at payment stage.

PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

PI-29.1. Completeness of annual financial reports

The Annual Financial Statement are prepared based on a template issued by the Public Sector Accounting Standards Board. They contain disclosure of revenue, expenditure and cash balances. AFS are also accompanied by a balanced cash flow. Actual revenue and expenditure can be compared with the budget. The AFS compares the actuals with those of previous year but not with approved budgeted amounts. The score is C.

PI-29.2. Submission of reports for external audit

Section 68, of the PFM Act, 2012 requires that all entities prepare Annual Financial

Statements for each financial year within three months after the end of the financial year and submit them to the CoB and the OAG for audit. The consolidated set should be submitted within 4 months after the end of the financial year, i.e. by end of October.

The Annual Financial Statements were submitted within 3 months after 30 June i.e. by 30 September in line with the PFM Act, 2012. The consolidated Financial Statements of the last completed fiscal year were submitted to the Auditor General on 30/10/2016 which is the deadline specified in the relevant legislation, i.e. within four months after the end of the fiscal year as per the PFM Act, 2012. This information was verified with the stamps of actual submission of financial reports for external audit by the OAG. The score is A.

PI-29.3. Accounting standards

The Public-Sector Accounting Standards Board (PSASB) adopted International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) for use by public sector entities in July 2014. Retrospective application for the year ended June 2014 was encouraged by PSASB. The use of IFRS and IPSAS was, therefore, formally adopted and applied for the first year in the year ending 30th June 2014. Financial year 2015/16 is the third year of implementation of the standards as prescribed by the PSASB in 2014. The county governments and their respective entities apply IPSAS Cash based standard.

The County prepares AFS as per the IPSAS Cash based standards according to the requirements of the Public-Sector Accounting Standards Board. The Cash-basis IPSAS enhances comprehensive and transparent financial reporting of the cash receipts, cash payments, and cash balances of the County Government. Application of IPSAS Cash based standards imply comparability of the government's financial statements.

The OAG states in the Annual Audit Report 'the financial statements are prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.'

In summary, because the standards used in the preparation of the statements are not disclosed and do not appear as notes in the AFS and the variations between international and national standards are not disclosed, the score is D.

As regards reforms, Public Accounting Standards Board in Kenya is designing a framework for all County Governments to move to accrual-basis IPSAS.

Summary of scores and performance table

PI-29 Annual financial reports (M1)	D+	Brief justification for score
29.1 Completeness of annual financial reports	C	The County is applying IPSAS Cash, there is only information on revenue, expenditure, and cash balances, but no assets and liabilities and the actuals are comparable to the approved budget.
29.2 Submission of reports for external audit	A	The Annual Financial Statements were submitted for external audit within three months after end of the financial year i.e. by 30 September of each year. This is in line with the PFM Act, 2012.
29.3 Accounting standards	D	The County prepares AFS as per the IPSAS Cash based standards according to the requirements of the Public-Sector Accounting Standards Board. The standards used in the preparation of the statements are not disclosed and do not appear as notes in the AFS. Variations between international and national standards are not disclosed and gaps are not explained in the reports of the OAG.

3.7 Pillar VII. External Scrutiny and Audit

There two indicators under this pillar, namely, external audit and legislative scrutiny of audit reports. These indicators assess the arrangements for scrutiny of public finances and follow-up on the implementation of recommendations by the executive.

PI-30. External audit

This indicator examines the characteristics of external audit.

PI-30.1. Audit coverage and standards

The OAG, headed by the Auditor General, has the primary oversight role of ensuring accountability in the use of public resources. The OAG may audit the accounts of any entity that is funded from public funds (including SAGAs, as discussed under PI-10). The Constitution and Public Audit Act, 2015 specify that OAG must, within 6 months of the end of the financial year, audit and report on the accounts of all

County Government entities, covering revenue, expenditure, assets, and liabilities, using International Standards on Supreme Audit Institutions (ISSAIs) or consistent national auditing standards. The audit reports highlight relevant material issues, systemic and control risks. In depth audits should be carried out on the basis of risk analysis methods. More emphasis is given to performance audits (value for money) forensic audits and procurement/asset disposal than under the previous law (sections 34-38 of the Public Audit Act, 2015). For the case of Kakamega, the OAG audits receipts and payables, statement of assets and cash flow. The OAG annually audits all county government MDAs that are linked to IFMIS. All County budget entities have been audited the last three completed financial years with the exception of the extra-budgetary units as discussed in PI-6.3 and PI-12.1 which do not appear in the AFS. The financial statements of the extra-budgetary units are not audited and it is not possible to ascertain the magnitude of expenditure. It is assumed that they do not constitute a volume of more than 50% of the total expenditure of the central government budget units. Therefore, the score is C.

The Office of the Auditor General employs quality assurance system to assess whether its audits adhere to the adopted audit standards. These assessments are performed by independent peer reviewers or via the professional organisation of the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E) which assisted in the development of a Quality Assurance Manual, whereas the Quality Control Manual was developed by the OAG. The AFROSAI-E made its first peer review in 2003, then in 2009, 2012, 2014, and 2016. Independent quality assurance reports are prepared by the reviewers.

PI-30.2. Submission of audit reports to the legislature

According to the PFM Act, 2012, the OAG directly submits audit reports to the legislature. Table 3.9 presents the dates for the submission of audit reports to the legislature (Senate and the County Assembly). The audit reports with the audited Annual Financial Statements of the County are submitted after 12months. This is attributed to low staff levels at the OAG. In addition, the deadline is quite often missed because submitted financial statements are often returned to the County to correct errors. The score is D.

Table 3.9: Submission of audit reports to the legislature

Financial year	Date annual financial statement received by SAI	Date audited annual financial statement submitted to legislature
2013/14	30 September 2014	07 July 2015
2014/15	30 September 2015	26 September 2016
2015/16	30 September 2016	Not yet submitted

PI-30.3. External audit follow-up

The Public Audit Act, 2015 explicitly covers the audit process, including response and follow-up. The Public-Sector Accounting Standards Board has prepared a template to this purpose. It is too early to assess its effectiveness. The audit process is prescribed in Section 31 of Part IV of the Public Audit Act 2015 on the 'Audit Process and Types of Audit'. The audit opinion and summary findings of the external audits of both year 2013/14 and 2014/15 have been received. According to the County Assembly, there is a systematic follow-up of audit findings but no evidence of the responses was provided. The score is D*.

PI-30.4. Supreme Audit Institution (SAI) independence

The OAG is established as an independent office under Articles 229, 248 and 253 of the Constitution. In accordance with the Constitution, the Auditor-General is nominated and appointed by the President with the approval of the National Assembly. The statutory duties and responsibilities of the position are provided in Article 229 of the Constitution and in the Public Audit Act, 2015. The OAG operates independently from the executive with respect to procedures for appointment and removal of the head of the OAG, the planning of audit engagements, arrangements for publicising reports, and the approval and execution of the OAG's budget. This independence assures unrestricted and timely access to records, documentation and information. The Public Audit Act, 2015 confirms OAG's independence from the executive branch of the national government. Thus, OAG independence is assured by the Constitution and law.

Since the Public Audit Act, 2015 came into force in January 2016, the follow-up process has become more formalised. The Public-Sector Accounting Standards Board (established in sections 192-195 of the PFM Act, 2012) and elaborated on under Financial Regulation 111 of 2015. The Board is located in the National Treasury prepared a template in 2015/16 for preparing annual financial statements. Section 27 of the template (available on National Treasury's website) provides for monitoring the actions taken by an MDA in response to the recommendations of audit reports. A matrix contains the following in column form: list of issues raised by OAG in its Management Letter to the respective MDA; Management comments; name of MDA staff person in charge of resolving the issue; status of resolving the issue; and expected date for resolving the issue. The template came into effect for 2016/17. The audit process is still on-going, so it is not possible to assess how well this new process has worked.

The nature of the Auditor General's functions requires guaranteed independence. This aspect has been recognized by the International Organization of Supreme Audit Institutions (INTOSAI), in the so called Mexico Declaration on SAI Independence, recognizing eight core principles. The essential requirements for proper public sector auditing have been adopted in Kenya. It is worth noting that OAG's budget is negotiated with officials of the National Treasury. This has not resulted in pressure of making changes or withholding funds.

The OAG has unrestricted and timely access to records and documentation but the fact that its budget is submitted first to the MoF may endanger its financial autonomy. Anyway, the score A for its other attributes and for consistency with the National PEFA assessment.

Summary of scores and performance table

PI-30 External audit (M1)	**D+**	**Brief justification for score**
30.1 Audit coverage and standards	C	All audits of public entities in Kenya are carried out by Office of Auditor General. The Office applies ISSAI and highlight material weaknesses and controls risks. A County budget units have been audited over the last three financial years with the exception of the extra-budgetary units and the private equity (see 12.1).
30.2 Submission of audit reports to the legislature	D	The audit reports were submitted to the CA after 12 months.
30.3 External audit follow-up	D*	The Executive follows up on issues raised by the external auditor. The Public Accounts Committee (PAC), at the County Assembly follows up with the Executive to ensure implementation. No evidence has been provided on follow-up activities and decisions.
30.4 Supreme Audit Institution (SAI) independence	A	All audits of public entities in Kenya are carried out by Office of Auditor General. This is an independent office set up by the Constitution of Kenya The financial independence has not been assured, yet.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of County government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf.

PI-31.1. Timing of audit report scrutiny

The scrutiny of the Audit Reports is completed over a period of six months. However, no evidence has been provided to corroborate this practice. The score is D*.

PI-31.2. Hearings on audit findings

Article 96 (3) of the Constitution states that "the Senate determines the allocation of national revenue among counties, as provided in Article 217, and exercises oversight over national revenue allocated to the county governments". In addition Article 185 (3) gives the County Assembly oversight role over the County Executive.

The County confirmed that in-depth hearings on key findings of the Audit Reports take place regularly with the responsible officers from all audited entities which received a qualified or adverse audit opinion or a disclaimer. It was reported that once the Audit Report is received from the Auditor General, it is tabled in the County Assembly and submitted to the relevant committees. The Committee summons relevant parties and finalizes the reports within 2-4 weeks for submission to the County Assembly. Staff from the OAG attends the hearings to explain the observations and findings. It was confirmed that discussions are held with the audited budget entities which are expected to provide action plans for remedy. However, records of attendance at hearings of audit reports for the last three completed fiscal years were not provided. The score is D*.

PI-31.3. Recommendations on audit by the legislature

The audit reports are submitted to the Public Accounts Committee (PAC) of the County Assembly which in turn seeks guidance from the OAG on the findings. The County Assembly then writes to the County Secretary requesting for information and setting a date for interrogation. The interrogation is held and a report including observations, findings and recommendations is prepared and tabled in the floor of the County Assembly. Once the report is adopted, it is forwarded to the Governor for implementation and a copy to the OAG. The implementation of the recommendations is monitored by the implementation committee or the PAC. However, no record of recommendations made by the legislatures for actions to be taken up by the County Executive was provided, nor has any record of procedures for following up on recommendations. The score is D*.

PI-31.4. Transparency of legislative scrutiny of audit reports

Articles 196 and 201 of the Constitution and Section 115 of the County Government Act, 2012 state that there shall be openness and accountability, including public participation in financial matters. In addition, the County Assembly shall conduct its business in an open manner, and facilitate public participation in the deliberations. The PAC proceedings are open to the public except under special circumstances that the County Assembly determines. Further, audit reports are discussed in the full chamber of the house. The committee reports are however not published on the County Assembly website.

In addition, no evidence was provided for civil societies' participation in Committee hearings. Further, it was not clear whether other means of public scrutiny are employed in the transmission of the proceedings. The score is D*.

Summary of scores and performance table

PI-31 Legislative scrutiny of audit reports (M2)	**D**	**Brief justification for score**
31.1 Timing of audit report scrutiny	D*	Reportedly, the scrutiny is completed over a period of six months. There is no evidence to ascertain how much time it takes to complete scrutiny of the external audit report by the legislature after receipt of the reports from the OAG.
31.2 Hearings on audit findings	D*	Records of attendance at hearings of the Audit Reports for the last three completed fiscal years have not been provided
31.3 Recommendations on audit by the legislature	D*	The audit reports usually contain recommendation to the Executive for implementation. The County Assembly use these for follow up. No record of recommendations made by the legislatures for actions to be taken up by the County Executive has been provided, nor has any record of procedures for following up on recommendations.
31.4 Transparency of legislative scrutiny of audit reports	D*	No evidence has been provided on the number of hearings on the Audit Reports or the number of hearings conducted in public or full chamber debates occurrences.

4. CONCLUSIONS OF THE ANALYSIS OF PFM SYSTEMS

4.1 Integrated Assessment of PFM Performance

Pillar I: Budget reliability

The aggregate budget outturn (PI-1) shows significant deviation of the actual aggregate expenditure from the originally approved budget with 43%, 73% and 81% for 2013/14, 2014/15 and 2015/16, respectively. There was over budgeting especially in the first year after the Devolution but with improvements in budget estimation in subsequent years. The main reasons for budget deviation include lengthy procurement procedures and low collection of own source revenue. Existing challenges undermine fiscal discipline and the ability of the County to control expenditures and manage fiscal risks. This also affects the ability to effectively plan and allocate resources to strategic policy priorities. The huge variance (PI-2) in expenditure composition by functional and economic classification for the last three financial years is indicative of the early stage of County development and shows that budget forecasting is not accurate.

The revenue outturn (PI-3) shows that the change in revenue between the original approved budget and end-of-year outturn was significant due to low collection of own source revenue and over projections. This necessitates immediate reforms geared towards improving and strengthening enforcement in the revenue collection. Accurate revenue forecasts are a prerequisite for preparation of a credible budget. The County Government budget does not provide a reliable basis for policy implementation.

Pillar II: Transparency of public finances

The transparency of public finances is not comprehensive, consistent, and accessible to the public. The budget classification (PI-4) of government budget and accounts is consistent with international standards but is not sufficient (level 2). This does not facilitate budget tracking in formulation, execution and reporting. The transparency of government revenue and expenditure is low because there are no financial reports for extra-budgetary operations.

The budget documentation (PI-5) is fairly elaborate but not sufficient to provide a complete picture of the County Government fiscal forecasts, budget proposals, and outturn of the current and previous fiscal years. There are no records of expenditures outside financial reports (PI-6) because extra-budgetary units do not prepare any kind of financial reports. This contributes to lower transparency of government operations but is also a gap in the analysis of the County's policies and objectives.

Performance results for outputs and outcomes are presented in the MTEF but this is not done in a format that is comparable to the plans previously adopted within the annual or medium-term budget and do not meet the SMART criteria. Thus, information, on whether the budget resources reach service delivery units as planned, is not availed. Operational efficiency in public service delivery is a core objective of the PFM system. The inclusion of performance information within budgetary documentation strengthens the accountability of the Executive for the planned and achieved outputs and outcomes of government programmes and services.

Public access to fiscal information is available (PI-9) i.e. budget documents such as CIDP, ADP, CFSP and CBROPs are available in the County website. However, audit reports are published with delays after the lapse of a financial year.

Pillar III: Management of assets and liabilities:

There is no effective management of assets and liabilities due to lack of a comprehensive fixed asset register, formalised investment appraisal practice and fiscal debt risks are not adequately monitored. Thus, fiscal risks are not identified and monitored. The public investment (PI-11) activities are not based on in-depth cost-benefit analysis for lack of procedures to assess the economic impact and viability of projects. There are no formalised project selection criteria, hence it cannot be ascertained if the projects undertaken by the County are of type and nature that would support social and economic development objectives. The assets of the County (PI-12) are not properly recorded and therefore not adequately managed. Existing shareholding of assets are not included in the AFSs, there is no asset register of non-financial assets and no transparency of assets disposal in the AFS.

The County has not yet borrowed any money but has inherited debt from the defunct local authorities (PI-13). There is no debt management unit at the County Executive and a debt management strategy is also lacking. This puts the County's ability to maintain fiscal discipline at risk.

Pillar IV: Policy-based fiscal strategy and budgeting

The County prepares fiscal strategy, budget review outlook papers and medium-term budget estimates, which are submitted to the legislature on a timely basis. The County also prepares forecasts of main fiscal indicators (revenue and expenditure). The legislative scrutiny of budgets covers fiscal policies, medium term fiscal forecasts and medium-term priorities, in addition to a detailed review of expenditure and revenue. There are clear legislative procedures (Standing Orders) for budget scrutiny and budgets are approved by County Assembly on a timely basis. Budget adjustments by the Executive are mainly governed by the PFM Act, 2012 and are included in the Supplementary Budget. Besides, a comprehensive and clear budget calendar also exists and is generally adhered to.

However, fiscal policies and development strategic plans are not prepared based on County relevant macroeconomic and fiscal projections. The County relies on the economic data provided by the National Government and the Kenya National Bureau of Statistics on key Macro-economic indicators such as the Gross Domestic Product, inflation, interest rates, and exchange rates. Sensitivity analysis, which is in essence a modelling on uncertainly and looking for options in case of unpredicted circumstance, is not prepared by the County. This has an impact on prioritising on expenditure and certainly puts limits and fiscal constraints on deployment of activities of strategic importance to the Government.

The 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 is non-existent. The County had not assessed the fiscal impact of revenue and expenditure policy proposals developed during budget preparation process for the last three fiscal years (PI-15). The good practice is that the County prepares a County Budget Review and Outlook paper annually providing a review of fiscal performance on quarterly basis, as well as a County Fiscal Strategy Paper elaborating on fiscal goals and targets for the medium term.

Expenditure budgets are developed for the medium term within budget expenditure ceilings (PI-16), however they are not submitted together with the budget circular. The County prepares Programme-Based Budgets with estimate for the budget year and the two outer years. The budget is prepared using the Hyperion and uploaded into IFMIS. Only 25% of the line ministries policies and programmes in the ADPs are not in line with the approved budgets. There is no clear alignment of strategic plans and medium-term budgets, as well as no consistency of the budgets with previous year's estimates. Forward year estimates need to be linked to strategic planning in order to provide a medium-term perspective allowing for the effects on future years to be more apparent, predicted and eventually provided for in the budget planning.

The budget preparation process (PI-17) is good and relatively sound with participation by relevant stakeholders. It is generally orderly and timely with clear annual budget calendar and timely submission to the legislature. The key weakness being the fact that guidance on budget preparation does not include budget ceiling. This makes the information provided in advance of preparing budget proposals insufficient. It may lead to chances of weak and ill-considered budget proposals that later may need to be revised.

Pillar V: Predictability and control in budget execution

Budget execution is not very well implemented and lacks effective control and predictability. This results in revenue shortfalls and poor allocation of resources as envisaged in the County budget. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed.

The County does not have a well organised system for revenue collection (PI-19). There is no integrated revenue management system in place to detect and prevent potential revenue risks. Information on the stock of revenue arrears is not disclosed in the Annual Financial Statement. Revenue collection monitoring is well functioning with monthly reports based on daily consolidation. However, there was no evidence provided to indicate the frequency of assessment, collections, arrears and transfers to County Treasury revenue collection accounts. In addition, not all accounts of the County are held in the CBK thereby making it difficult to ensure that the collection and transfer system function well as intended.

With regards to revenue accounting (PI-20), there exist clear procedures for recording and reporting revenue collections, consolidation of revenues collected and reconciliation of revenue accounts. This indicates compliance with tax laws and strengthens the fiscal discipline and the administrative capacity to allocate budget resources to strategic priorities. However, there is no reconciliation of arrears and monitoring the difference between outstanding revenues and payments. Accumulation of arrears may disrupt revenue administration system and affect the reliability of the revenue planning process.

There is no Treasury Single Account, therefore cash balances cannot be identified and consolidated for the purpose of informing the release of funds (PI-21). This creates difficulties in making management decisions in predicting cash resources availability. Consolidation of cash balances exists when the government has information on the total of its cash and bank balances and can switch unused balances to meet overdrawn balances and minimize its borrowing costs. For this purpose it is required that all balances are held in the Central Bank of Kenya.

Planning of commitment expenditures is in accordance with budget appropriations but it is carried out only on a monthly basis. No cash flow problems were reported while the cash forecast is provided annually and updated on a monthly basis.

The expenditure arrears (PI-22) are accumulated within 10% of the total expenditure. The monitoring of stock is done on annual basis, but lacks age analysis hence does not facilitate effective monitoring. Payroll controls (PI-23) are fairly good. There are no delays in recording a change in personnel status to personnel records and to payroll data. These are manually reconciled on a monthly basis. Adjustment to payroll is occasioned by promotions, deletion of staff records due to retirement or natural attribution.

There is lack of transparency of the public procurement (PI-24) in the County i.e. information on the County procurement plans and the contracts awarded are not made public. There is no data in percentage of competitive versus non-competitive tenders procured. Besides, procurement method of selecting contractors cannot be ascertained. The problem is further compounded by the fact that appeals made by complainants are charged. The effectiveness of general internal controls for non-salary expenditures is good and reliable (PI-25). The segregation of duties exists to a good extent. Majority of payments are compliant with regular payment procedures. Expenditure commitment controls are generally in place and mostly limit commitments to projected cash availability, nonetheless expenditures arrears do occur even with the current controls. There is no sufficient and comprehensive commitment controls, the County budget entities are not prevented from incurring unauthorized commitments through system controls, regulations and procedures.

There are regular feedbacks to management about the performance of the internal control systems (PI-26) through an Internal Audit function. Although the Audit Committee is not yet established, the Internal Audit function applies risk based approach in selection of audit object and audit subject and prepares Annual Audit Work Plans. The IA function is primarily focused on compliance audit assuring the adequacy and effectiveness of internal controls.

Pillar VI: Accounting and reporting

The financial data integrity (PI-27) is relatively sound. There is no operational Treasury Single Account and key treasury accounts are reconciled at different times, thus creating backlogs and making the data unreliable for management decisions. The accounting processes in place support integrity of financial data through the IFMIS where data is processed and verified against documents. The financial data is reviewed by internal audit but the audit process is not developed yet to ensure that areas vulnerable to risk are covered by annual scrutiny.

The budget execution reports (PI-28) are generally comprehensive and accurate. Information on budget execution is prepared on quarterly basis. Regular reporting is part of an effective monitoring and control system to ensure that budgets are executed as intended, and that deviations from planned budgets are considered by decision makers. Deviations from budgets go through an adjustment process after the approval of the decision makers adjusting budget execution to better meet objectives and achieve desired outcomes.

The Annual Financial Statements (PI-29) are generally complete, timely, and consistent with generally accepted accounting principles and standards. The AFS provide a record of how resources were obtained and used. They generally allow comparison with plans but do not contain a reconciled cash flow statement. The timeliness of submission of reconciled year-end financial reports for external audit is a key indicator of the effectiveness of the accounting function. This area needs improvement especially concerning the quality of the financial statements submitted for external audit that are often returned because of incomplete and erroneous data. The accounting principles and national standards (consistent with international cash-basis IPSAS) used are transparent and understandable. This contributes to accountability and transparency throughout the entire PFM system.

Pillar VII: External scrutiny and audit

The external audit and scrutiny by the legislature are not strong and effective in holding the County Government accountable for its fiscal and expenditure policies and their implementation.

The public finances are independently reviewed but the external follow-up on the implementation of recommendations for improvement by the executive is poor. The Audit Reports are issued with delay, hence scrutinized late and no effective hearings are carried out. There is no evidence that the executive takes actions on recommendations from the County Assembly.

4.2 Effectiveness of the Internal Control Framework

Control environment

Based on the available information provided by the County, the internal control practice in place is not sufficient to contribute to the achievement of the four control objectives. (i) the execution of operations in an orderly, ethical, economical, efficient and effective manner; (ii) fulfilment of accountability obligations; (iii) compliance with applicable laws and regulations; and (iv) safeguarding resources against loss, misuse and damage. National level Internal Control framework is to a large extent indicative for the County operation due to the fact that the subnational functions and operations mirror in regulation and practice the establishment on the National level. The following is an overview of the internal control activities collected from the preceding sections of the report. It builds on the description of the design of internal controls and the individual assessment of specific control activities as covered by the performance indicators (Chapter 3).

Risk assessment

The County decisions do not appear to be driven by risk assessment and management activities. This is because; risks are not evaluated by their significance or the degree of likelihood of occurring almost at all budget processes. Having no risk profile of the County functions, no risk responses are to be made to reduce the likelihood or downside outcomes for key operations. Thus, potential future events that create uncertainty are not covered for. Risk which are not provided for exist in all stages of PFM:

Pillar 2: Transparency of public finances, the County Executive is not able to capture expenditure and revenue outside financial reports (PI-6), this creates the risk of having incomplete budget environment, potential misuse of funds and poor service to the public.

Pillar 3: Management of assets and liabilities: with no economic analysis of investment proposals (PI-11), no costing of investment and no written procedures for monitoring of the investment performance. This creates risk of abuse and loss of funds in investment projects. The County does not have a debt management strategy as well as a framework of debt reconciliation with creditors (PI-13).

Pillar 4: Policy based fiscal strategy and budgeting: the County generally lack linkages between policy formulation and programmed activities in the budget estimates. This creates a risk of having inadequate and prone to amendments budget. The County lacks a framework to provide for uncertain economic events and does not also undertake sensitivity analysis for macroeconomic policies.

Pillar 5: Predictability and control in budget execution: revenue administration does not have an integrated revenue management system to detect, arrest potential revenue risks and manage arrears (PI-19). The approved staff establishment is not linked to the Integrated Payroll and Personnel Database (IPPD), which is also not linked to IFMIS (PI-23). This creates a risk of ghost workers. Nonetheless, payment control system is well formalised and applied. Reports on procurement contracts with method of selection (competitive versus non-competitive) are not readily available to the public. This creates the risk of favouritism, reduced control on the quality of procured services or works, misuse of funds and hence poor public service delivery (PI-24). There is clear segregation of duties on non-salary expenditures which are electronically set up in IFMIS. The IFMIS has different authorization levels, roles assigned to different functions and operational staff. This arrangement provides for all phases of budget implementation to be executed in IFMIS (PI-25).

Control activities

The County does not have a risk profile to define risk responses and this may lead to inadequate and insufficient control activities to treat, share, avoid or intercept the risk. There are risks related to the budget process, implementation and execution which is undertaken through IFMIS. However, the use of IFMIS is not sufficient to have a sound internal control system. There are risks which cannot be addressed by IFMIS e.g. expenditures and revenue outside financial reports (PI-6). With regards to public investment management, the County does not have an objective criterion for selection of investment projects (PI-11). Under management of assets and liabilities, there is no ageing analysis of non-financial asset (PI-12). Payroll control framework is incomplete because actual staff establishment is not linked to the IPPD which is in turn is not linked to IFMIS.

Weak internal control system leads to unreliable financial records as well as loss of organizational integrity. This can impact not only on the execution of the budget but also the implementation of projects and County priorities be they of development or recurrent in nature.

Information and communication

This internal control element deals with the methods and records used to register, maintain, and report facts, events of the entity, as well as maintain accountability for the related assets, liabilities, and initiatives of the county. It is a legal requirement that all budget related documents are made available to the public. The County is in the process of adopting legislation on public participation which will formalise the rules for interaction with the public at all stages of budget formulation and service delivery.

Monitoring

Monitoring in COSO terms means the process of assessing the quality of internal control performance over time. In the context of the County, this aspect can be expanded to encompass also the monitoring framework of PFM process in general. Performance monitoring at the County is not sufficient because the main tools of monitoring the budget utilization are the quarterly reports and budget execution reports. The CBROP is a kind of economic assessment paper as well.

There are no specific reports elaborating on consistency of planned performance, outputs and achieved outcomes with explanations of any deviation(s). The internal control framework of the County as described is not sufficient to safeguard against irregularities and errors. It highlights areas that require improvements such as (i) performance information for service delivery; (ii) public access to fiscal information; (iii) monitoring of fiscal risk; (iv) monitoring on public investment; and (v) public asset management.

In terms of assessment of the quality of the internal control system, the County has established Internal Audit Department and it is still in process of firming its operational procedures. The focus of the internal audit is mainly on compliance and regulatory issues and it is still nascent to provide full oversight of all budget users. External audit is more advanced and focuses on financial audit with elements of internal control. Apart from their usual financial report mandate, the external auditors check the processes related to the accounting function, salary and payroll, and procurement. There is no evidence of interaction between external and internal audit as far as the oversight of the internal control system is concerned.

Apart from the OAG, external oversight mechanisms which is supposed to contribute to monitoring and effectiveness of the internal control system is the review of audits by the County Assembly, the follow-up systems for the Executive's implementation of remedial measures, and providing public access to relevant reports and debates (PI-31). The control practice in oversight of the County Executive is not quite effective. This is due to the failure to convene hearings of OAG reports finding, lack of evidence of recommendations and limited transparency of audit reports scrutiny by the County Assembly. Therefore, the legislative scrutiny does not reinforce mechanisms to make the internal control system of the County Government more effective.

Detailed findings concerning the main elements of the five internal control components are summarized in Annex 2. As far as the national legislative framework is concerned the internal control system of the County is largely sound. The County does not have internal control mechanism for external factors such as unexpected economic, social and natural disasters. In addition, specific control environment does not effectively determine fiscal and budgetary outcomes despite the inherent risk assessment, control and monitoring mechanisms. A well-established internal control system will ensure that resources are safeguarded and directed in an optimal manner to the priority activities and projects as planned

4.3 PFM Strengths and Weaknesses

1. Aggregate fiscal discipline

The annual budget presents estimate of expenditure for the budget year and the two following fiscal years allocated by administrative, economic and programme classification. The budget estimates and medium-term priorities are reviewed by the County Assembly. Budget credibility is compromised by large deviations in expenditure composition outturn by functional and economic classification as well as the variance in revenue outturn composition. This is aggravated by inability of the County to capture expenditure and revenue outside financial reports.

The County does not prepare macroeconomic forecast. The medium-term perspective in expenditure budgeting is undermined by the lack of fiscal impact analysis, weak policy formulation and programme based budgeting that are linked to the budget estimates. In addition, the County does not keep proper records of expenditure arrears with ageing analysis to facilitate effective monitoring.

Data on revenue are collected and consolidated monthly. Personnel records and payroll are controlled and updated on monthly basis. The advance accounts reconciliation is done monthly but it is not cleared before the end of the financial year. The AFSs are submitted within 3 months after the end of the year. The feedback received from the OAG is that these AFSs are often returned to the counties for revision because of errors and incomplete data.

The practice of accounting and reporting is well developed and functioning. The budget reporting and standards applied are in line with PFM Act, 2012 (IPSAS cash basis) and the Public-Sector Accounting Standards Board. The AFSs are audited each year by the OAG. Weak legislative scrutiny of audited AFSs undermines the effectiveness of external audit required to ensure accountability of the County Executive with respect to fiscal policies and their implementation.

Another weakness is the absence of TSA and the fact that various departments maintain bank accounts in different commercial banks. There is a need for the County to operate a TSA in line with Section 119 (2) of PFM Act, 2012.

The approved staff establishment, personnel database and payroll are directly linked. Further, the payroll is supported by full documentation for all changes made to personnel records. Staff hiring and promotion is controlled by a list of approved staff establishment and payroll audits are conducted periodically. However, the approved staff establishment, IPPD and IFMIS are not linked.

The segregation of duties deriving from national level regulations is well formalised and executed throughout the expenditure process and the county has developed its own SoPs for finance. The County Treasury uses IFMIS to facilitate transaction processes and reporting. There are separate levels of approval of different stages of payment in IFMIS. The system users have passwords and the system maintains an audit trail.

The OAG operates independently from the County Executive through its regional hub offices and provides external overview of the execution of the budget. The AFS of the County Executive representing most total expenditures and revenues have been audited using national auditing standards based in ISSAI during the last three completed financial years. The audits highlight relevant material issues and systemic and control risks.

2. *Strategic allocation of resources*

Revenue collection is automated and the collections are banked daily and swept into CRF account on a timely basis. However, the Revenue Unit does not have an integrated revenue management system to detect and arrest potential revenue risks and to manage arrears.

Revenues and expenditures are allocated within a medium-term framework and budget ceilings are established. However, the forecasts of revenue and expenditure are not based on county specific but rather on national projections and no underlying assumptions are used for the forecasts.

There is no framework of managing public investments through proper selection of viable projects and performance reporting with key indicators which are recognised by development strategy and incorporated in the budget documentation. Thus, when priorities change in course of the year, the County Executive looks for available funds within other functions in order to keep a sustainable budget on track. This has a negative impact on strategic allocation of resources and ultimately hampers budget credibility.

There is clear presentation of recurrent and development expenditure in the budget execution which contributes to the reporting and visibility of resources allocation. Even though the County has not accumulated any new debt, it has inherited debt from the former local authorities but this debt is not reported in the AFSs. The County does not have a debt management unit and strategy.

There is an Internal Audit Department which applies international internal audit standards. However, its practice is still not well developed. The weaknesses have been found in the lack of comprehensive work plans, insufficient coverage and review of internal control system, lack of clarity in disclosing follow up comments of previous audit findings. The practice remains closer to regularity and financial control, than to a systemic approach.

There is weak legislative scrutiny of the OAG reports with no formalised procedures on timing; lack of procedures on documenting the hearing sessions and making recommendations to the Executive and; no transparency of the legislative scrutiny process.

3. Efficient use of resources for service delivery

The efficient and effective use of public services is not subject to systematic review by the County Government. The County has not developed the necessary tools and capacity to develop programme based budgets focused on service delivery. The ADP and CIDP objectives and targets are not traced into specific budget priorities.

There is a database of procured contracts indicating all contract details including the tender method selection but the public has limited access. Only tender bids are announced in the website, whereas information on the county procurement plans, annual procurement statistics and details of contracts awarded are not made public.

5. GOVERNMENT PFM REFORM PROCESS

5.1 Approach to PFM Reforms

In Kenya, the National Government through the National Treasury takes the lead in initiating and implementing PFM reforms. The government of Kenya has undertaken PFM reforms since 2006 and has been elaborated in Vision 2030. The current PFM reform strategy is elaborated in the Strategy for Public Finance Management Reforms in Kenya 2013-2018. The overall goal of this Reform Strategy is to ensure “A public finance management system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development”. The main areas of emphasis in the strategy include: (i) Macro-economic management and resource mobilization, (ii) Strategic planning and resource allocation, (iii) Budget execution, accounting and reporting and review, (iv) Independent audit and oversight, (v) Fiscal decentralization and intergovernmental fiscal relations, (vi) Legal and institutional framework and (vii) IFMIS and other PFM Systems.

IFMIS has been implemented at the national and the county levels in order to reinforce accountability, but still has room for improvement in terms of offering solutions to procurement-related challenges. At the county level, there is need for a better appropriation and reinforced controls. More operations are by-pass IFMIS at the county level than at the national level. The implementation of a single treasury account should ensure the national and county governments perform better monitoring the movement of funds. The PFM Act allows for the establishment of a committee to check on the use of funds and disciplinary measures that can be taken in the event of misappropriation. However, proper monitoring of public resources would be possible if IFMIS is fully used at the county level a Business Intelligence layers is implemented to facilitate data analysis and visualisation.

5.2 Recent and on-going reform actions

The key reforms which are still outstanding and are relevant to this PEFA assessment are:

i) The adoption of the TSA at county government level;

ii) Strengthening strategic planning and budget formulation by providing strong integrated results framework and costing of planning documents (MTPs, Sector and County Strategies);

iii) Improvement of investment programme management by strengthening the control and enhancing appraisal, selection and monitoring procedures of projects;

iv) Implementing comprehensive cash management reforms by strengthening commitment control and reporting and enhancing in-year budget monitoring and reporting;

v) Integration of IPPD with IFMIS module at national level and then cascaded to county governments; and

vi) The Public Accounts Standards Board in Kenya is designing a framework for all county governments to move to accrual-basis IPSAS.

5.3 Institutional Considerations

The Kenyan Devolution process is still young and the county still needs to improve the efficiency of public expenditures, while improving domestic resource mobilization. The county heavily relies on equitable transfers and grants. Focus, however, is to be on improving expenditure efficiency. The preceding analysis of Kakamega County PFM system indicates that to improve its performance, enhancement of own source revenues is necessary. Further, establishing predictable flow of central government grants (conditional and unconditional) is also necessary to enable preparation of realistic medium-term fiscal plans.

Annex 1: Performance indicator summary

COUNTY NAME: KAKAMEGA				
				Current assessment
Pillar	**Indicator/Dimension**		**Score**	**Description of requirements met**
	Subnational PEFA indicator		**D+**	
HLG-1: Transfers from a higher level of government	HLG-1.1. Outturn of transfers from higher-level government		A	The transfers have been at least 95% of the original budget estimate in two of the last three years.
	HLG-1.2. Earmarked grants outturn		B	The average difference between original budget and actual is less than 5% in two of the last three years.
	HLG-1.3. Timeliness of transfers from higher-level government		D*	Actual dates of transfers have not been provided.
Budget Reliability	**PI-1**	**Aggregate expenditure out-turn**	**D**	Actual expenditure outturn for 2013/14, 2014/15 and 2015/16 was 43%, 73% and 81% of the budgeted expenditure
	PI-2	**Expenditure composition outturn**	**D+**	
		(i) Expenditure composition outturn by function	D	Variance in expenditure composition by program, administrative or functional classification was more than 15% for the last 3 financial years.
		(ii) Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification for the last three years was more than 15% for the last three financial years
		(iii) Expenditure from contingency reserves.	A	The County has not charged any expenditure to contingency vote during the assessment period.
	PI-3	**Revenue outturn**	**D**	
		(i) Aggregate revenue outturn	D	The total revenue deviation of aggregate revenue outturn for 2013/14, 2014/15, 2015/16 was 65.8%, 80.7%, and 92.9% respectively.
		(ii) Revenue composition outturn	D	The composition variance for 2013/14, 2014/15, 2015/16 was 170%, 60% and 61% respectively. The variance is a lot above 15%
Transparency of Public Finances	**PI-4**	**Budget Classification**	**C**	The Budget Estimates are presented in economic and administrative classification. The Chart of Accounts adopted mimics the national method of classification based on IFMIS System. It is at 2 level classification and revenue is not classified according to GFS.
	PI-5	**Budget Documentation**	**D**	5 elements: 2 basic and 3 additional elements

Transparency of Public Finances	**PI-6**	**Central government operations outside financial reports**	**D**	
		(i) Expenditure outside financial reports	D*	There is no record of expenditure outside financial reports.
		(ii) Revenue outside financial reports	D*	There is no record of calculating volume of such revenue.
		(iii) Financial reports of extra-budgetary units	D	There are no financial reports for the extra-budgetary units.
	PI-7	**Transfers to subnational governments**	**N/A**	There are no sub governments under the county level.
		(i) System for allocating transfers	-	-
		(ii) Timeliness of information on transfers	-	-
	PI-8	**Performance information for service delivery**	**D**	
		(i) Performance plans for service delivery	D	There is no performance information related to outputs and outcomes
		(ii) Performance achieved for service delivery	D	Performance results are not in format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.
		(iii) Resources received by service delivery units	C	There is no report with this information prepared annually.
		(iv)Performance evaluation for service delivery	D	Efficiency ratios are availed in the CBROPs but independent evaluations of the efficiency and effectiveness of service delivery have not been carried out.
	PI-9	**Public access to information**	**D**	The County makes available to the public two basic elements and two additional elements.
Management of assets and liabilities	PI-10	Fiscal risk reporting	D	
		(i) Monitoring of public corporations	N/A	The public corporations are still in process of being transferred for direct ownership by the County of Kakamega.
		(ii) Monitoring of sub-national government (SNG)	N/A	There are no devolved units under the county government e
		(iii) Contingent liabilities and other fiscal risks	D	Contingent liabilities are not quantified in the financial reports
	PI-11	**Public investment management**	**D**	
		(i) Economic analysis of investment proposals	D	Needs-based analysis is usually done by the County Government but no in-depth economic analysis is undertaken
		(ii) Investment project selection	D	The County has an economic planning but there is no standard project selection criteria.

Management of assets and liabilities		(iii) Investment project costing	D	Mostly capital costs of investment projects are indicated in the budget.
		(iv) Investment project monitoring	D	There is no independent monitoring agency to conduct objective monitoring and evaluation of projects.
	PI-12	**Public asset management**	**D+**	
		(i) Financial asset monitoring	C	The financial assets include cash in the bank and its equivalent.
		(ii) Nonfinancial asset monitoring	D	The County Government has not developed a non-financial asset register.
		(iii) Transparency of asset disposal	D	Rules for transfer or disposal of financial assets do exist. The County has not disposed of any asset and this does not appear in any budget documentation
	PI-13	**Debt management**	**D**	
		(i) Recording and reporting of debt and guarantees	D	The County does not have a debt management strategy.
		(ii) Approval of debt and guarantees	N/A	The County does not have legislation or procedures for borrowing or loan guaranteeing.
		(iii) Debt management strategy	D	The County Government has neither debt management strategy nor debt management function.
Policy-based fiscal strategy and budgeting	**PI-14**	**Macroeconomic and fiscal forecasting**	**D+**	
		(i) Macroeconomic forecasts	C	The County Treasury adopts the macroeconomic indicators from the National Government for its budget estimates in CBROP.
		(ii) Fiscal forecasts	C	CBROP, CFSP and budget estimates forecasts are not accompanied by the underlying assumptions
		(iii) Macro-fiscal sensitivity analysis	D	The County does not perform sensitivity analysis in relation to own source revenue.
	PI-15	**Fiscal strategy**	**D**	
		(i) Fiscal impact of policy proposals	D	CFSP, CBROP does not provide explanations required.
		(ii) Fiscal strategy adoption	D	The fiscal strategy of the CFSP does not include explicit time-based quantitative fiscal goals and targets together with qualitative objectives.
		(iii) Reporting on fiscal outcomes	D	The CBROP does not provide specific action plan to address the deviations but generic recommendations.
	PI-16	**Medium term perspective in expenditure budgeting**	**D+**	
		(i) Medium-term expenditure estimates	A	The County provided the Program Based Budget which indicated estimate for the budget year and the two outer years.

Policy-based fiscal strategy and budgeting		(ii) Medium-term expenditure ceilings	D	The medium-term expenditure ceilings are not issued before the budget circular
		(iii) Alignment of strategic plans and medium-term budgets	D	Only 25% of the line ministries policies and programmes in the ADPs are not in line with the approved budgets.
		(iv) Consistency of budgets with previous year estimates	D	The budget documents do not provide explanation of the changes to expenditure estimates between the last medium-term budget and the current medium budget at ministry level.
	PI-17	**Budget preparation process**	**C**	
		(i) Budget calendar	D	The budget circular is provided; however, it is not adhered to by all line ministries.
		(ii) Guidance on budget preparation	D	The budget circular gives clear guidance on the budget preparation to line ministries. The budget ceilings are not provided together with the budget circular.
		(iii) Budget submission to the legislature	A	The budget was submitted two months before the start of the next fiscal year in July.
	PI-18	**Legislative scrutiny of budgets**	**D+**	
		(i) Scope of budget scrutiny	A	The County Assembly scrutinizes the ADP, CBROP and the CFSP
		(ii) Legislative procedures for budget scrutiny	C	The legislative procedures for budget scrutiny are adhered to and public participation forums have been organised. No evidence of technical support and negotiation procedures.
		(iii) Timing of budget approval	D	The budgets for the three fiscal years under review have been approved before the start of the new fiscal year but the actual dated of budget submission to the legislature have not been provided.
		(iv) Rules for budget adjustments by the executive	C	Clear rules exist as per PFM Act 2012 and they allow administrative reallocation and expansion of expenditures.
Predictability and control in budget execution	**PI-19**	**Revenue administration**	**D**	
		(i) Rights and obligations for revenue measures	D	All County revenue is collected and accounted for by the Revenue Unit under Finance and Economic Planning Sector. There was however no documentary evidence on the deliberations of the committees.
		(ii) Revenue risk management	D	The County Government of Kakamega has not put in place a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks.
		(iii) Revenue audit and investigation	D	The Revenue Unit of the County Government has not put in place audit and fraud investigation systems

Predictability and control in budget execution		(iv) Revenue arrears monitoring	D	The percentage of revenue arrears to total revenue was about 513%.
	PI-20	**Accounting for revenues**	**D+**	
		(i) Information on revenue collections	A	Revenue collection reports are prepared on monthly basis from daily reports.
		(ii) Transfer of revenue collections	A	All revenue collected in cash and cheques is banked into the County bank accounts on a daily basis as evidenced by the daily banking slips.
		(iii) Revenue accounts reconciliation	D	There was no evidence that reconciliation of assessments, collections, arrears, and transfers to Treasury controlled accounts are carried out.
	PI-21	**Predictability of in-year resource allocation**	**C+**	
		(i) Consolidation of cash balances	C	The County operates seven accounts at CBK and their cash balances are consolidated daily.
		(ii) Cash forecasting and monitoring	A	The cash forecast is provided annually and updated on a monthly basis on the basis of actual cash inflows and outflows
		(iii) Information on commitment ceilings	D	It was not ascertained that plans and expenditure commitments were in accordance with budget appropriations.
		(iv) Significance of in-year budget adjustments	B	There was only once in-year budget adjustment in any of the three financial years assessed.
	PI-22	**Expenditure arrears**	**C**	
		(i) Stock of expenditure arrears	C	The stock of expenditure arrears is more than 6% in two years and less than 10% in the three years.
		(ii) Expenditure arrears monitoring	C	The report does not include age analysis of the arrears.
	PI-23	**Payroll controls**	**D+**	
		(i) Integration of payroll and personnel records	D	Reconciliation of the payroll with personnel records takes place on an annual basis through payroll audit but it is not sure if it is checked against the approved budget
		(ii) Management of payroll changes	A	Changes to personnel records and payroll are updated on monthly basis and in time for the following month's payments.
		(iii) Internal control of payroll	A	Authorisation of records and payroll changes is restricted to payroll manger based on approved authority.
		(iv) Payroll audit	D*	Payroll audit reports and response to the reports were not provided as evidence.
	PI-24	**Procurement**	**D+**	
		(i) Procurement monitoring	D	The data in the Report is not complete for all procurement methods for goods, services and works.

Predictability and control in budget execution		(ii) Procurement methods	D*	There is no data on percentage of competitive vs non-competitive tenders procured.
		(iii) Public access to procurement information	D*	The procurement met three of the six elements for this dimension. However, no information was provided on materiality.
		(iv) Procurement complaints management	A	The procurement complaint system meets all criteria
	PI-25	**Internal controls on non-salary expenditure**	**A**	
		(i) Segregation of duties	A	There is clear segregation of duties among PFM functions.
		(ii) Effectiveness of expenditure commitment controls	A	Payment cannot be made if there are no funds.
		(iii) Compliance with payment rules and procedures	B	Calculated figure for payments outside IFMIS is about 4.6%. The authorization and justification are not evidenced.
	PI-26	**Internal audit effectiveness**	**D+**	
		(i) Coverage of internal audit	D*	No evidence was provided to justify the percentage of audited county entities.
		(ii) Nature of audits and standards applied	C	Quality assurance is not diligently applied. The e proportion of internal control audits versus compliance audits carried out over the last three years is not known.
		(iii) Implementation of internal audits and reporting	D*	No evidence was provided on the percentage of completed planned audits
		(iv) Response to internal audits	D*	No evidence provided
Accounting and Reporting	**PI-27**	**Financial data integrity**	**C**	
		(i)Bank account reconciliation	D	Reconciliations of bank accounts take place monthly. Only 81% of bank accounts are reconciled monthly
		(ii) Suspense accounts	N/A	
		(iii) Advance accounts	D	Advance/imprest accounts are reconciled annually as a note to the AFS but they are cleared more than two months after the year end.
		(iv) Financial data integrity processes	A	IFMIS has a system administrator who ensures compliance of assigned responsibilities and ensures approval are sought to make changes in the system. General Ledger reconciliations are carried out.
	PI-28	**In-year budget reports**	**D+**	
		(i)Coverage and comparability of reports	C	Budget reports are prepared quarterly allowing for comparison with the original budgets for the main administrative headings.

Accounting and Reporting		(ii) Timing of in-year budget reports	D	Quarterly reports are prepared but submitted more than two months after the end of each quarter
		(iii)Accuracy of in-year budget reports	C	It was not reported whether information on expenditure is covered at commitment stage.
	PI-29	**Annual financial reports**	**D+**	
		(i)Completeness of annual financial reports	C	The County is applying IPSAS Cash, there is only information on revenue, expenditure, and cash balances, but no assets and liabilities and the actuals are comparable to the approved budget.
		(ii) Submission of reports for external audit	A	The Annual Financial Statements were submitted for external audit within three months after end of financial year i.e. by 30 September of each year. This is in line with the PFM Act, 2012.
		(iii) Accounting standards	D	Variations between international and national standards are not disclosed and gaps are not explained in the reports of the OAG.
External scrutiny and audit	**PI-30**	**External audit**	**D+**	
		(i)Audit coverage and standards	C	Not all County budget value expenditure have been audited over the last three financial year.
		(ii) Submission of audit reports to the legislature	D	The audit reports are submitted to the CA usually after 12 months.
		(iii) External audit follow-up	D*	No evidence has been provided on follow-up activities and decisions.
		(iv)Supreme Audit Institution (SAI) independence	A	The OAG is an independently set up by the Constitution of Kenya.
	PI-31	**Legislative scrutiny of audit reports**	**D**	
		(i)Timing of audit report scrutiny	D*	There is no evidence to ascertain how much time it takes for complete scrutiny of the external audit report by the legislature after receipt of the reports from the OAG.
		(ii) Hearings on audit findings	D*	Records of attendance at hearings and Audit Reports for the last three completed fiscal years have not been provided
		(iii) Recommendations on audit by the legislature	D*	No record of recommendations made by the legislatures for actions to be taken up by the County Executive has been provided, nor has any record of procedures for following up on recommendations.
		(iv)Transparency of legislative scrutiny of audit reports	D*	No evidence has been provided on the number of hearings on the Audit Reports.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	There is a strong regulatory framework in the County which governs both the National and County Government. The Kenya Constitution- 2010, The Public Financial Management Act 2012 and The PFM Regulations 2015. Government circulars are issued periodically to ensure compliance with the laws. There is an Internal Audit department set up for all the County Government functions and annual external audits are carried out by an independent Office of the Audit General. The audit reports are submitted to the County Assembly when completed. There is, however, a noted delay in completion of the external audits.
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	Chapter Six of the Kenya Constitution sets out the responsibilities of leadership of all public officers. This includes (i) oath of office of state officers, (ii) conduct of state officers, (iii) financial probity of state officers, (iv) restriction on activities of state officers, (v) citizenship and leadership, (vi) legislation to establish the ethics and anti-corruption commission and (vii) legislation on leadership. These appear to be understood and internalised by the management and staff. The mission was not aware of any reported ethical and integrity issues.
1.2. Commitment to competence	No information available from the PEFA assessment. However, from our general understanding of the County, the senior level staff have necessary academic qualification and experience.
1.3. The "tone at the top" (i.e. management's philosophy and operating style)	The PFM Act, paragraph 104- states that management must ensure proper management and control of, and accounting for the finances of the county government and its entities in order to promote efficient and effective use of the county's budgetary resources. This responsibility rest squarely with the County leadership. The tone at the top may not be adequate judging from the work of external auditors where audit findings are not acted upon. The assembly which is a key institution of control has not also played its oversight role effectively.
1.4. Organisational structure	It has not been reported if the County has an organisational structure.

1.5. Human resource policies and practices	The County organisation policies are management by the County Public Service Board. The Board is responsible for recruitment, staff development and discipline. The Public Service Commission is set up by Article 234 of the Constitution which outlines the functions and powers of the Public Service Commission. One of the key mandate of this Commission is to investigate, monitor and evaluate the organization, administration and personnel practices of the public service including the County government.
2. Risk assessment	The PFM Regulation 165 sets out role of the Accounting Officer in risk management. It requires the Accounting Officer to develop: (a) risk management strategies, which include fraud prevention mechanism; (b) a system of risk management and internal control that builds robust business operations. However, the County does not have a risk management policy and a risk register.
2.1 Risk identification	Several PIs are related to the extent to which risks are identified, notably: 11.1 Economic analysis of investment proposals, - proposed capital investment projects are not submitted to the Public Investment Committee for economic appraisal before approval; 13.3 Debt management strategy - neither debt management strategy nor debt management function exist 21.2 Cash forecasting and monitoring - the cash forecast is provided annually and updated on a monthly basis 19.2 Revenue risk management – risks are not identified, there is no comprehensive, structured and systematic approach for assessing and prioritizing compliance risks.
2.2 Risk assessment (significance and likelihood)	This has not been put into consideration. One example of a risk assessment would be the work in preparing a medium-term debt strategy, updated annually and providing clear targets with associated risks.
2.3 Risk evaluation	Risk-based annual audit plans are prepared by the Internal Audit Department and are designed to progressively secure key risks in the control environment in a timely manner.
2.4 Risk appetite assessment	No information available from the PEFA assessment.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	No information available from the PEFA assessment.
3. Control activities	The various functions of departments are set out in the PFM Regulations. In PI-25, internal control was examined. All functions are properly segregated but there are no formalised activities in place to control the risks of the County operations.

3.1 Authorization and approval procedures	The Government Accounting Manual sets out the systems of authorization, policies, standards, and accounting procedures and reports used by the agencies to control operations and resources and enable the various units to meet their objectives. These procedures or activities are implemented in order to achieve the control objectives of safeguarding resources, ensuring the accuracy of data and enabling adherence to laws, policies, rules and regulations. There is also a Standard Chart of Accounts used by all County departments.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Appropriate segregation of duties exists, in accordance with IFMIS and government circulars, which specifies clear responsibilities.
3.3 Controls over access to resources and records	25.3 Compliance with payment rules and procedures is good. Actual transfer is carried out through IFMIS. 27.4 Financial data integrity processes which is rated A. Access to records are restricted by password and changes are recorded and result in audit trail. Internet banking via IFMIS is used to record and process budget data.
3.4 Verifications	The PFM regulations and finance manual sets out the usual internal control instructions for verification, review of transactions to check the propriety and reliability of documentation, costing, or mathematical computation. It includes checking the conformity of acquired goods and services with agreed quantity and quality specifications. The verification procedures should be built-in in every transaction. This is an internal checking procedure to avoid errors or fraud.
3.5 Reconciliations	PI-27.1, bank account reconciliation, was rated B. Monthly bank reconciliation statements are prescribed per law and such are prepared by the County.
3.6 Reviews of operating performance	No information available from the PEFA assessment.
3.7 Reviews of operations, processes and activities	13.3 Debt management strategy which is rated D. There is no debt management review practice. There is a draft debt management strategy that does not include risk indicator such as foreign currency risks. 24.1 Procurement monitoring which is rated 'A' this is comprehensive, and is not published annually.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	No information available from the PEFA assessment.
4. Information and communication	All county governments are required to report quarterly and annually to the Controller of Budget, the Office of Auditor General and the National Treasury through the production of financial reports in a template provided by the PSASB.

5. Monitoring	No reports on performance planned outputs and achieved outcomes. No control activities to cover for: (i) performance information for service delivery; (ii) public access to fiscal information; (iii) monitoring of fiscal risk; (iv)monitoring on public investment; (v) poor public asset management information. PI-26, Internal Audit, found that internal audit has been formally established that audit programs are largely completed, but with delays.
5.1 Ongoing monitoring	On-going monitoring in the County Government involves checking the completeness of transaction documents and reports. Transaction documentation has to be complete in order to substantiate the transaction. Operational and financial reports are tools for monitoring performance, subsequent planning, and decision-making.
5.2 Evaluations	Example of the evaluations that take place are found in the following PIs: 8.4 Performance evaluation for service delivery is rated 'D' 11.2 Investment project selection which is rated 'D'. Major investment projects are not evaluated before they are included in the budget
5.3 Management responses	PI-26.4 examined response to internal audits. Internal audit reports provide recommendations that are presented by the head of the audited unit. Documentary evidence of management response to internal audit recommendations has not been provided. Due the lack of an audit committee and inadequate senior management support, there is no clear follow up of the management actions.

Annex 3: Sources of information by indicator

The data on aggregate budgeted expenditure was obtained from the original budget. To confirm that the budget was approved the estimate was compared against the amounts in the respective Appropriation Act. The information on expenditure has been obtained from the economic classifications in the annual financial statement, more specifically the statement of receipts and payments. The shortcoming of comparing budgeted expenditure to actual expenditure by economic classification is that the classification in the approved budget does not match those reported in the financial statements because the financial statements have been prepared based on IPSAS cash.

Indicator/dimension	Data Sources
I. Budget reliability	
Subnational PEFA indicator	
HLG-1.1. Outturn of transfers from higher-level government	• Annual budget estimates approved by the legislature; • Annual budget execution report or annual financial statements. • AFS for the three financial years
HLG-1.2. Earmarked grants outturn	
HLG-1.3. Timeliness of transfers from higher-level government	
PI-1. Aggregate expenditure outturn 1.1 Aggregate expenditure outturn	• Annual budget estimates approved by the legislature; • Annual budget execution report
PI-2. Expenditure composition outturn	• Annual budget estimates approved by the legislature; • Annual budget execution report or annual financial statements. • AFS for the three financial years
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	• Annual budget estimates approved by the legislature; • Annual budget execution report or annual financial statements. • AFS for the three financial years
3.1 Aggregate revenue outturn	
3.2 Revenue composition outturn	
II. Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	• Annual budget document for 2015/16 • GFS list • Copy of a standard chart of accounts

PI-5. Budget documentation 5.1 Budget documentation	• Last annual budget estimates and approved budget for 2015/16. • County Fiscal Strategy Paper for 2015/16 • Annual Development Plan 2013-14, 2015-15, 2015 -2016 , 2016-17
PI-6. Central government operations outside financial reports	• Information from Treasury
6.1 Expenditure outside financial reports	
6.2 Revenue outside financial reports	
6.3 Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	• N/A
7.1 System for allocating transfers	
7.2 Timeliness of information on transfers	
PI-8. Performance information for service delivery	• Annual financial statements; • In-year budget execution reports • CFSP • The National Treasury
8.1 Performance plans for service delivery	
8.2 Performance achieved for service delivery	
8.3 Resources received by service delivery units	
8.4 Performance evaluation for service delivery	
PI- 9 Public access to fiscal information	• Information from The National Treasury corroborated through availability at government websites, governance NGOs • Approved budget • Budget Calendar 2014/15
9.1 Public access to fiscal information	
III. Management of assets and liabilities	
PI- 10 Fiscal risk reporting	• The National Treasury • Annual financial statements • Budget execution reports
10.1 Monitoring of public corporations	
10.2 Monitoring of sub-national government (SNG)	
10.3 Contingent liabilities and other fiscal risks	
PI- 11: Public investment management	• Kakamega Annual Development Plan 2014/15 and 2015/16; • Kakamega CFSP 2014/15 and 2015/16 • County Monitoring and Evaluation Project Report 2016 • County Projects Status 2015/16
11.1 Economic analysis of investment proposals	
11.2 Investment project selection	
11.3 Investment project costing	
11.4 Investment project monitoring	

PI-12: Public asset management	• Consolidated financial statements 2015/16, including notes relating to the holdings of financial assets. • Asset Register of Kakamega County
12.1 Financial asset monitoring	
12.2 Nonfinancial asset monitoring	
12.3 Transparency of asset disposal.	
PI-13: Debt management	• Treasury • Debt Management Unit
13.1 Recording and reporting of debt and guarantees	
13.2 Approval of debt and guarantees	
13.3 Debt management strategy	
IV. Policy-based fiscal strategy and budgeting	
PI-14: Macroeconomic and fiscal forecasting	• Annual budget documents • CBROP 2014/15 and 2015/16
14.1 Macroeconomic forecasts	
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15 Fiscal strategy	• The National Treasury • County Fiscal Strategy Paper for 2014/15, 2015/16 and 2016/17
15.1 Fiscal impact of policy proposals	
15.2 Fiscal strategy adoption	
15.3 Reporting on fiscal outcomes	
PI-16 Medium-term perspective in expenditure budgeting	• Annual budget estimates • Budget circular • Ministry of Finance
16.1 Medium-term expenditure estimates	
16.2 Medium-term expenditure ceilings	
16.3 Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year's estimates	
PI-17: Budget preparation process	• 2016 budget circular • 2016 CBROP • Budget calendar 2016/2017 • Budget submission 2014/15, 2015/16, 2016/17
17.1 Budget calendar.	
17.2 Guidance on budget preparation	
17.3 Budget submission to the legislature	
PI-18: Legislative scrutiny of budgets	• County Assembly budget estimates2016 • County assembly standing orders
18.1 Scope of budget scrutiny.	
18.2 Legislative procedures for budget scrutiny.	
18.3 Timing of budget approval.	
18.4 Rules for budget adjustments by the executive.	
V. Predictability and control in budget execution	

PI-19 Revenue administration 19.1 Rights and obligations for revenue measures 19.2 Revenue risk management 19.3 Revenue audit and investigation 19.4 Revenue arrears monitoring	• Revenue report for Feb 2017 • Revenue collection authority records such as a documented report on (i) the stock of revenue arrears
PI-20 Accounting for Revenues 20.1 Information on revenue collections 20.2 Transfer of revenue collections 20.3 Revenue accounts reconciliation.	• Treasury • Central Bank
PI-21 Predictability of in-year resource allocation 21.1 Consolidation of cash balances. 21.2 Cash forecasting and monitoring. 21.3 Information on commitment ceilings. 21.4 Significance of in-year budget adjustments.	• Treasury - List of Bank Account; • Bank balances as of 29 March 2017 • Cash flow requisitions 2016/2017
PI-22 Expenditure arrears 22.1 Stock of expenditure arrears. 22.2 Expenditure arrears monitoring	• Expenditure arrears as of end 2015 and 2016
PI-23 Payroll controls 23.1 Integration of payroll and personnel records. 23.2 Management of payroll changes. 23.3 Internal control of payroll. 23.4 Payroll audit.	• Payroll variance support documentation; • Salary arrears less than 3%; • Payroll change authorization trail; • Payroll restriction and audit trail
PI-24 Procurement 24.1 Procurement monitoring. 24.2 Procurement methods. 24.3 Public access to procurement information. 24.4 Procurement complaints management.	• Consolidated procurement plan of Kakamega; • Project Implementation Status Report 2015/16 of Kakamega; • Website - Public procurement and administrative review board • Public procurement and asset disposal act 2015
PI-25 Internal controls on non-salary expenditure 25.1 Segregation of duties. 25.2 Effectiveness of expenditure commitment controls. 25.3 Compliance with payment rules and procedures.	• IFMIS modules and segregation of duties; • IFMIS changing rights request; • Standard Financial Management Operating Procedures of Kakamega County, 2014

PI-26 Internal audit 26.1 Coverage of internal audit. 26.2 Nature of audits and standards applied 26.3 Implementation of internal audits and reporting. 26.4 Response to internal audits.	• Internal Audit Work Plan 2016/2017; • Internal Audit Questionnaire
VI. Accounting and reporting	
PI-27 Financial data integrity 27.1 Bank account reconciliation. 27.2 Suspense accounts. 27.3 Advance accounts. 27.4 Financial data integrity processes	• Bank Reconciliations 2015/16 • Central bank • Budget directorate • Accounting directorate • Oversight body • Internal audit
PI-28 In-year budget reports 28.1 Coverage and comparability of reports. 28.2 Timing of in-year budget reports. 28.3 Accuracy of in-year budget reports	• Annual expenditure reports 2015/16; • Expenditure reports; • Quarterly financial reports; • CBROP, CFSP transmittal letters; • Kakamega County Assembly Financial Statements
PI-29 Annual financial reports 29.1 Completeness of annual financial reports. 29.2 Submission of the reports for external audit. 29.3 Accounting standards.	• Annual Financial Reports 2013/14, 2014/15, 2015/16
VII.External scrutiny and audit	
PI-30 External audit 30.1 Audit coverage and standards. 30.2 Submission of audit reports to the legislature 30.3 External audit follow up. 30.4 Supreme Audit Institution independence.	• SAI – OAG Audit Reports 2013/14, 2014/15, 2015/16 • SAI • Legislation on SAI • External reports on SAI independence and financial governance
PI-31 Legislative scrutiny of audit reports 31.1 Timing of audit report scrutiny 31.2 Hearings on audit findings. 31.3 Recommendations on audit by the legislature. 31.4 Transparency of legislative scrutiny of audit reports.	• SAI

Other documents and materials that have been used in the assessment include the following:

1. Constitution of Kenya, 2010.
2. Government of Kenya Review of the Public Finance Management Reforms (PFMR Strategy) 2013-2018 report (2016).
3. World Bank and Government of Kenya In-depth Report Recommendations and Action Plan Following the Analysis of Financial Management, Procurement and Human Resource Management in Kenya County Governments (2015).
4. National Treasury 2015 Budget Review and Outlook Paper.
5. County Budget Review and Outlook Papers.
6. County Fiscal Strategy Papers.
7. World Bank Public Expenditure Review of 2015.
8. World Bank Kenya Economic Updates of 2015 and 2016.
9. World Bank Country Economic Memorandum 2016.
10. Government of Kenya National Capacity Building Framework Progress and Implementation Reports.
11. Kenya Economic Survey 2016.
12. 2016 Budget Policy Statement.
13. Budget Summary for the 2016/17 and Supporting Information.
14. Division of Revenue and County Allocation of Revenue Acts 2014, 2015 and 2016.
15. Revenue Books.
16. Quarterly Economic and Budgetary Reviews 2015/16.
17. Controller of Budget quarterly, bi-annual and annual reports.
18. Auditor General Reports.
19. Public Finance Management (PFM) Act, 2012 and related amendments.
20. Estimates of Revenues, Grants and Loans Book for 2016/17.
22. End of assignment report to the National Treasury by PwC on the provision of technical assistance in the preparation of individual and consolidated financial statements for the County Government entities for 2014/15. (June, 2016).

23. Integrated Fiduciary Assessment Report. Program for Results for the Kenya Devolution Support Operation (KDSP). December 21, 2015.
24. PEFA (2016a). Framework for assessing public financial management.
25. PEFA (2016b).Supplementary guidance for subnational PEFA assessment.
26. KIPPRA Kenya Economic Report 2016.

Annex 3A: List of persons who have been Interviewed and Provided Information

Function
Head of Accounting
Head of County Treasury
Economic planning
Principal Accountant - County Assembly
Head of Internal Audit-
Head of HR
HR County Assembly
Head of Revenue
Deputy Head of Revenue
Clerk Budget Committee

Annex 4: Sub-national government profile

Subnational Government Structure

The subnational government structure of Kakamega is governed and guided to a large extent by the National Government legislation. The national legal framework relevant for PFM was amended and enforced over the last 3-4 years and was meant to cover all national and subnational structures. Due to the fact that the Devolution in Kenya was deployed only in 2013, the subnational government structures were developed by mirroring the establishment of the higher level national government.

The administrative structures of Kakamega County consist of; (i) Office of the Governor; (ii) County Assembly and (iii) County Government (Executive). The County Assembly is involved in the approval of the budget of the executive by its budget committees, however it has no role in the monitoring process. The budget monitoring is performed by the Budget Controller at the County Executive administration.

The main responsibilities of the County Assembly are to enact laws and oversight over the County Executive. County Assembly receives and approves plans and policies for management of the county's financial resources. Members of the County Assembly (MCAs) are elected by voters at the Wards and some are nominated by political parties. The Governor as well the members of the Assembly are independently elected in county elections. The County Government has not yet developed specific legal framework for its own structures.

The economic activity is mainly farming and fishing. Kakamega serves as the headquarters of Kenya's largest sugar producing firm, Mumias Sugar, located in the town of Mumias. The County of Kakamega serve a population of 1,660,651 spread over 12 constituencies on total 3,050.3 km^2 with population density of 544 per km^2.

The non-governmental organisations operating in the Country of Kakamega are as follows:

1. CES Canada (Community Education Services Canada), established in 2004, is a Canadian non-profit organization based in the greater Toronto area. In July 2013 CES Canada was granted Special Consultative status with the United Nations. Focusing on the four cornerstones of Education, Water, Health and Nutrition,
2. The primary mission of KEEF is to provide scholarships for very bright students from Kakamega County in Western Kenya who do not have the financial means to pay the fees for secondary and post-secondary schools

in Kenya. KEEF was established in 2004 under the Society Act of British Columbia and was granted charitable status by The Canada Revenue Agency in 2006. KEEF is a non-profit organization, not affiliated with any government or religious organization. KEEF's Board of Directors from British Columbia, Canada, is represented in Kakamega by volunteers who interview and select students meeting the academic criteria and showing a proven need for assistance. KEEF works with local Kenyan communities through personal involvement and close collaboration.

3. Kakamega Orphan Project is a Quaker founded initiative that helps support the education and wellbeing of orphans and other vulnerable young people. The organization supports over 150 elementary school and 150 high school students, as well as college students and programs for out of school youth. It is funded primarily by a US partner organization.

4. ACCES (African Canadian Continuing Education Society) is a Canadian non-profit that provides a suite of programs to foster social and economic improvements among the poorest of the poor, both in rural areas and the slums of Kibera in Nairobi. The flagship program of ACCES is providing post-secondary scholarships to bright and needy students from poor families.

The Devolution of year 2010 established a lower subnational government level with all national level legislation being mirrored in the county environment. That is, there are no laws developed or reforms undertaken in the County of Kakamega as of the time of this assessment.

The total expenditure as of end 2016 is Ksh 10,799 million, the expenditure per capita is Ksh 6,503 and the own-source revenue Ksh 515,019,231 or only 5% of total revenue in financial year 2016.

Table A: Overview of subnational governance structure in Kakamega County

Government level or administrative tier	Local
Corporate body	Yes
Own political leadership	Yes
Approves own budget	Yes
Number of jurisdiction s	1
Average population	1,660, 651
Percentage of public expenditure/total revenue	107
Percentage of public revenues	15
Percentage funded by transfers	92

Main Functional Responsibilities of the Subnational Government

The Constitution of Kenya, 2010 in the Fourth Schedule assigns functions between the national and county governments. The Constitution assigns the task of service delivery in key sectors like water, health and agriculture among others to county governments, with the national government's role in some of the sectors being that of policy formulation. The structure of the Government (Executive) of the County of Kakamega is as follows:

I. Ministry of County Treasury and Economic Planning
II. Ministry of Public Service and Administration
III. Ministry of Health Services
IV. Ministry of Transport, Infrastructure and Public Works
V. Ministry of Education, Science, Technology
VI. Ministry of Agriculture, Livestock, Fisheries & Cooperatives
VII. Ministry of Environment, Water, Energy, Natural Resources and Forestry
VIII. Ministry of Lands, Housing, Urban Areas and Physical Planning
IX. Ministry of Labour, Social Services, Culture, Youth & Sports
X. Ministry of Industrialization, Trade and Tourism

These functions are entirely devolved with the subnational government, whereas the functions of defence and overall coordination and oversight as well as external audit are with the national government.

Schedule 4 of the Constitution clearly lists the distinct functions of the national and county governments. The National Government shall pass legislations and implement policies to support the Devolution process as well as provide adequate support to county government to perform their functions while the county governments will be responsible for service delivery at the county level in addition to other functions.

Subnational Budgetary Systems

The National Government laws and regulations guide to a high degree the subnational budget cycle.

The Central Bank of Kenya is the banker for the national and county governments thus monitoring to ensure the institutions aren't at risk of overdraft, and also advises the institutions on financial matters. The County of Kakamega and its entities are supposed to hold and manage their own bank accounts in the Central Bank of Kenya, however many counties in Kenya violate this rule and deposit cash in commercial banks. The PFM Act obliges all counties to hold their account at CBK except for imprest *bank accounts* for petty cash which can be in commercial banks.

The subnational government have its own budget, adopted by its own approval body (by the County Assembly) and this process does not require subsequent review or modification by the national government.

The County possess the authority to procure its own supplies and capital infrastructure within the context of applicable procurement legislation which is the Public Procurement and Asset Disposal Act, 2015 relevant for both national and subnational level. The Procurement Directorate of the County Executive is in charge of the entire supply chain management. They prepare annually a Project Implementation Status Report providing information on value of procurement and the awarded contracts. However, the procurement complaints are handled at national level by a Public Procurement Administrative Review Board which is an external higher authority which is not involved in the procurement process.

Subnational Fiscal Systems

The composition of financial resources collected and received by the County of Kakamega is similar to all sources of revenue for the county governments in Kenya and they are equitable share, conditional grants and own source revenues.

The Constitution of Kenya (Article 209) provides that a county may impose: property rates; entertainment taxes and any other charges for the services they provide. The main tax revenue source of Kakamega County is from various charges related to business permits, parking and market fees, as well as cesses. The collection of own source revenue has been deteriorating in the three years of assessment. The County Treasury of Kakamega is in process of improving own source revenue outturn by forming a semi-autonomous revenue agency.

The transfers constitute the majority revenue fund of the counties in Kenya. They are allocated by the National Treasury on the basis of the county population applying a specific formula. The main transfers are the earmarked grants transferred from the national government to the counties which constitute nearly 95% of the County revenue of Kakamega. These transfers are distributed quarterly across the year through IFMIS. However, there are no transfers to any lower subnational administrative structure than the County Government. There are grants, constituting about 3% of the total County revenue, which are transferred for particular earmarked programmes related to education and health.

Counties are allowed to borrow domestically or externally by Article 212 of the Constitution and under Section 140 of the PFM Act, 2012. Although the legislation provides for deficit financing through borrowing, the County governments were restrained from borrowing in the absence of a clear borrowing framework over the three financial years of assessment. Thus, the County of Kakamega has not accumulated debts this far but it has inherited debt from the defunct local authorities and it supposed to set up a debt management function and to prepare a debt management strategy. These, however, have not been established yet.

Table B. Overview of subnational government finances for 2016/17

Item	Total value	Value per capita	Per cent of total
	Ksh	Ksh	%
Wage and salary expenditure	4,917,531,516	2,961	0.0001%
Nonwage recurrent administrative expenditure	3,285,904,098	1,979	0.0001%
Capital expenditure	3,061,159,643	1,843	0.0001%
Total expenditure	**11,264,595,257**	**6,783**	**0.0001%**
Own revenue	515,019,231	310	0.0001%
Intergovernmental fiscal transfers	9251132376	5,571	0.0001%
Other revenue sources	317,818,852	191	0.0001%
Total revenue	**10,083,970,459**	**6,072**	**0.0001%**
Borrowing	**NA**	**NA**	**NA**

Subnational Institutional (Political and Administrative) Structures

The County Assembly is directly elected by the citizens of the County independently from any higher level participation. The elected County Assembly is responsible for approving the budget and monitoring the finances.

The County political leadership and executive are able to appoint their own officers independent from the higher level national administration and control. The only PFM function which is still exercised by a national level institution is the external audit organised by OAG. Nevertheless, the OAG has established a local decentralised hubs of audit teams who perform the audits of a particular country but report to the headquarter at national level. The chief administration officer, the chief financial officer and the internal auditors are appointed and hired by County of Kakamega.

Annex 5: Calculation sheet templates for Pi-1, Pi-2 and Pi-3

Calculation Sheet for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

Table 1: Fiscal years for assessment

Year 1 =	2013/14
Year 2 =	2014/15
Year 3 =	2015/16

Table 2: Data for year 2013/14 (Ksh & %)

Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Office of the Governor		271,125,751	0	271,125,751	271,125,751	0.0
Public Service and Administration	1,893,099,564	3,524,418,247	815,246,162	2,709,172,085	2,709,172,085	332.3
County Treasury	502,797,412	216,834,929	216,525,146	309,783	309,783	0.1
Water, Environment and Natural Resource	284,463,240	36,573,646	122,501,515	-85,927,869	85,927,869	70.1
Social Services, Youth & Sports	376,757,786	67,143,661	162,247,324	-95,103,663	95,103,663	58.6
Transport, Infrastructure & Public Works	2,416,881,694	153,277,669	1,040,808,186	-887,530,517	887,530,517	85.3
Lands, Housing, Urban Areas and Physical Planning	362,804,888	17,930,637	156,238,635	-138,307,998	138,307,998	88.5
Health Services	3,333,169,208	593,857,839	1,435,399,096	-841,541,257	841,541,257	58.6
Agriculture, Livestock, Fisheries and Co-operatives	715,065,446	57,147,543	307,936,450	-250,788,907	250,788,907	81.4
Trade, Tourism & Industrialization	1,022,457,000	43,267,757	440,311,836	-397,044,079	397,044,079	90.2
Education , Science & Technology	1,233,550,000	497,823,942	531,217,122	-33,393,180	33,393,180	6.3
County Assembly	1,114,504,183	228,980,973	479,951,121	-250,970,148	250,970,148	52.3

allocated expenditure	13,255,550,421	5,708,382,594	5,708,382,594	0	5,961,215,238	
Interests						
Contingency						
Total expenditure	13,255,550,421	5,708,382,594				
Overall (PI-1) variance						43.1
Composition (PI-2) variance						104.4
Contingency share of budget						0.0

Table 3: Data for year 2014/15 (Ksh& %)

Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Office of the Governor	271,125,751	155,995,573	198,273,644	-42,278,071	42,278,071	21
Public Service and Administration	2,101,513,781	1,797,464,465	1,536,832,239	260,632,226	260,632,226	17
County Treasury	497,260,168	582,051,507	363,645,228	218,406,279	218,406,279	60
Water, Environment and Natural Resource	275,468,000	134,089,399	201,449,121	-67,359,722	67,359,722	33
Social Services, Youth & Sports	276,029,110	97,194,000	201,859,459	-104,665,459	104,665,459	52
Transport, Infrastructure & Public Works	1,139,690,660	958,435,015	833,453,183	124,981,832	124,981,832	15
Lands, Housing, Urban Areas and Physical Planning	364,540,000	72,461,586	266,587,271	-194,125,685	194,125,685	73
Health Services	2,378,072,277	1,744,453,345	1,739,078,837	5,374,508	5,374,508	0
Agriculture, Livestock, Fisheries and Co-operatives	1,040,200,000	431,610,586	760,695,890	-329,085,304	329,085,304	43
Trade, Tourism & Industrialization	409,950,000	318,669,048	299,795,501	18,873,547	18,873,547	6
Education , Science & Technology	816,440,000	562,296,531	597,060,712	-34,764,181	34,764,181	6
County Assembly	751,000,000	693,214,617	549,204,589	144,010,028	144,010,028	26
allocated expenditure	10,321,289,747	7,547,935,672	7,547,935,672.0	0.0	1,544,556,842.2	
Interests						
Contingency						
Total expenditure	10,321,289,747	7,547,935,672	5.1	5.2	5.1	
overall (PI-1) variance						73.1
composition (PI-2) variance						20.5
contingency share of budget						0.0

Table 4: Data for year 2015/16 (Ksh& %)

Functional Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Office of the Governor	626,599,838	214,060,850	504,427,505	-290,366,655	290,366,655	58
Public Service and Administration	1,980,547,705	2,431,874,721	1,594,387,161	837,487,560	837,487,560	53
County Treasury	390,642,806	341,277,820	314,476,583	26,801,237	26,801,237	9
Water, Environment and Natural Resource	322,157,691	167,493,726	259,344,466	-91,850,740	91,850,740	35
Social Services, Youth & Sports	417,030,280	246,525,453	335,719,116	-89,193,663	89,193,663	27
Transport, Infrastructure & Public Works	1,742,435,569	1,715,129,443	1,402,701,330	312,428,113	312,428,113	22
Lands, Housing, Urban Areas and Physical Planning	296,062,159	133,496,438	238,336,953	-104,840,515	104,840,515	44
Health Services	3,173,551,311	2,737,056,025	2,554,782,928	182,273,097	182,273,097	7
Agriculture, Livestock, Fisheries and Co-operatives	939,862,773	448,361,570	756,611,484	-308,249,914	308,249,914	41
Trade, Tourism & Industrialization	451,613,185	243,317,395	363,559,162	-120,241,767	120,241,767	33
Education , Science & Technology	1,016,586,176	467,844,702	818,375,616	-350,530,914	350,530,914	43
County Public Service Board	85,798,311	38,949,465	69,069,644	-30,120,179	30,120,179	44
County Assembly	886,853,365	740,342,013	713,937,673	26,404,340	26,404,340	4
allocated expenditure	12,329,741,169	9,925,729,622	9,925,729,622	0	2,770,788,694	
Interests						
Contingency						
Total expenditure	12,329,741,169	9,925,729,622				
Overall (PI-1) variance						81
Composition (PI-2) variance						28
Contingency share of budget						0

Table 5: Results

	for PI-1	for PI-2.1	for PI-2.3
Year	total exp. deviation	Composition variance	Contingency share
2013/14	43.1%	104.4%	0.0%
2014/15	73.1%	20.5%	
2015/16	80.5%	27.9%	

Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2

Table 1 - Fiscal years for assessment

Year 1 =	2013/14
Year 2 =	2014/15
Year 3 =	2015/16

Table 2: Data for year 2013/14(Ksh& %)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Compensation of employees	3,670,324,668	2,831,056,530	1,511,679,227	1,319,377,303	1,319,377,303	87.3
Use of goods and services	2,035,363,395	936,231,082	838,295,476	97,935,606	97,935,606	11.7
Consumption of fixed capital	381,572,358	221,857,539	157,156,399	64,701,140	64,701,140	41.2
Interest			0	0	0	0
Subsidies			0	0	0	0
Grants	50,000,000		20,593,263	-20,593,263	20,593,263	100.0
Social benefits			0	0	0	0
Other expenses	7,118,300,000	1,470,359,700	2,931,780,487	-1,461,420,787	1,461,420,787	49.8
Total expenditure	13,255,560,421	5,459,504,851	5,459,504,851	0	2,964,028,099	
overall variance						242.8
composition variance						54.3

Table 3: Data for year 2014/15(Ksh & %)

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	%
Compensation of employees	3,675,397,780	3,247,713,320	1,513,768,666	1,733,944,654	1,733,944,654	115
Use of goods and services		1,595,418,085	0	1,595,418,085	1,595,418,085	0
Consumption of fixed capital	4,634,400,000	3,112,549,590	1,908,748,365	1,203,801,225	1,203,801,225	63
Interest			0	0	0	0
Subsidies			0	0	0	0
Grants			0	0	0	0
Social benefits			0	0	0	0
Other expenses	-2,011,491,967		-828,463,664	828,463,664	828,463,664	-100
Total expenditure	6,298,305,813	7,955,680,995	2,594,053,367	5,361,627,628	5,361,627,628	
Overall variance						79
Composition variance						207

Table 4: Data for year 2015/16(Ksh & %)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Compensation of employees	3,699,238,010	3,955,166,241	1,523,587,628	2,431,578,613	2,431,578,613	160
Use of goods and services	2,142,286,201	1,553,979,008	882,333,265	671,645,743	671,645,743	76
Consumption of fixed capital	5,954,117,304	2,904,177,249	2,452,294,077	451,883,172	451,883,172	18
Interest			0	0	0	0
Subsidies			0	0	0	0
Grants		2,004,212,444	0	2,004,212,444	2,004,212,444	0
Social benefits			0	0	0	0
Other expenses		12,811,088	0	12,811,088	12,811,088	0
Total expenditure	11,795,641,515	10,430,346,030	4,858,214,970	5,572,131,060	5,572,131,060	
Overall variance						113
Composition variance						115

Table 5: Results Matrix

Year	total expenditure deviation	Composition variance
2013/14	242.8%	54.3%
2014/15	79.2%	206.7%
2015/16	113.1%	114.7%

Calculation Sheet for PFM Performance Indicators PI-3: Revenue composition outturn

Table 1: Fiscal years for assessment

Year 1 =	2013/14
Year 2 =	2014/15
Year 3 =	2015/16

Table 2: Data for year 2013/14 (Ksh & %)

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Per cent
Own source revenue						
Property Rates	51,065,953	37,173,324	4,772,775	32,400,549	32,400,549	678.9%
Single Business Permit	58,472,574	39,216,196	5,465,020	33,751,176	33,751,176	617.6%
Barter Market	36,560,824	42,905,440	3,417,083	39,488,357	39,488,357	1155.6%
CESS	127,354,968	17,123,608	11,902,973	5,220,635	5,220,635	43.9%
Housing/Stall	10,457,528	1,856,205	977,392	878,813	878,813	89.9%
Slaughter	50,701,573	-	4,738,719	(4,738,719)	4,738,719	100.0%
Bus Park	-	48,866,080	-	48,866,080	48,866,080	#DIV/0!
Parking Fee	53,797,916	18,838,018	5,028,113	13,809,905	13,809,905	274.7%
Hire of Machinery	10,865,653	2,271,370	1,015,536	1,255,834	1,255,834	123.7%
Other Revenues/devolved government functions	3,004,647,096	5,494,042	280,823,226	(275,329,184)	275,329,184	98.0%
Health facilities & Others	119,106,093	115,528,563	11,132,008.6	104,396,554.4	104,396,554.4	937.8%
Total revenue	3,523,030,178	329,272,846	329,272,846.0	0.0	560,135,807.0	
overall variance						9.3%
composition variance						170.1%

Table 2: Data for year 2014/15 (Ksh & %)

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Per cent
own source revenue						
Property Rates	45,000,000	20,894,388	26,605,859	-5,711,471	5,711,471	21.5%
Single Business Permit	117,295,528	91,237,493	69,349,963	21,887,530	21,887,530	31.6%
Barter Market	37,487,059	39,761,963	22,163,898	17,598,065	17,598,065	79.4%
CESS	230,000,000	42,083,894	135,985,503	-93,901,609	93,901,609	69.1%
Housing/Stall	3,820,640	1,777,435	2,258,920	-481,485	481,485	21.3%
Kiosk Fee	12,329,480	4,755,690	7,289,698	-2,534,008	2,534,008	34.8%
Slaughter	6,789,080	915,314	4,013,985	-3,098,671	3,098,671	77.2%
Bus Park	45,986,088	45,123,400	27,188,875	17,934,525	17,934,525	66.0%
Parking Fee	46,350,800	11,359,310	27,404,508	-16,045,198	16,045,198	58.5%
Hire of Machinery	5,821,760	2,417,490	3,442,065	-1,024,575	1,024,575	29.8%
Other Revenues/devolved government functions	61,363,312	5,294,000	36,280,525	-30,986,525	30,986,525	85.4%
Liquor license		7,444,500	0	7,444,500	7,444,500	#DIV/0!
Court Fines		344,086	0	344,086	344,086	#DIV/0!
Health facilities & Others	262,000,000	243,480,062	154,905,225	88,574,837	88,574,837	57.2%
Total revenue	874,243,747	516,889,025	516,889,025	0	307,567,086	
overall variance						59.1%
composition variance						59.5%

Table 4: Data for year 2015/16 (Ksh & %)

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Per cent
Own Source Revenue						
Property Rates	47,250,000	19,078,434	23,825,259.3	-4,746,825.3	4,746,825.3	19.9%
Single Business Permit	123,160,304	71,420,051	62,102,141.3	9,317,909.7	9,317,909.7	15.0%
Barter Market	39,361,412	32,389,482	19,847,531.2	12,541,950.8	12,541,950.8	63.2%
CESS	241,500,000	43,186,774	121,773,547.5	-78,586,773.5	78,586,773.5	64.5%
Housing/Stall	4,011,672	11,958,910	2,022,838.6	9,936,071.4	9,936,071.4	491.2%
Kiosk Fee	12,945,954	3,887,700	6,527,845.7	-2,640,145.7	2,640,145.7	40.4%
Slaughter	7,128,534	1,431,130	3,594,479.8	-2,163,349.8	2,163,349.8	60.2%
Bus Park	48,285,392	48,381,260	24,347,343.6	24,033,916.4	24,033,916.4	98.7%
Parking Fee	48,668,340	8,925,394	24,540,440.6	-15,615,046.6	15,615,046.6	63.6%
Hire of Machinery	6,112,848	7,832,156	3,082,332.0	4,749,824.0	4,749,824.0	154.1%
Other Revenues/devolved government functions	21,000,000	66,821,659	10,589,004.1	56,232,654.9	56,232,654.9	531.0%
Contribution in lieu of rate	86,935,033	-	43,835,972.6	-43,835,972.6	43,835,972.6	100.0%
Liquor license	38,331,879	13,139,200	19,328,401.2	-6,189,201.2	6,189,201.2	32.0%
Court Fines	208,632	-	105,200.2	-105,200.2	105,200.2	100.0%
Health facilities & Others	275,100,000	175,786,142	138,715,954.1	37,070,187.9	37,070,187.9	26.7%
Total revenue	1,000,000,000	504,238,292	504,238,292.0	0.0	307,765,030.0	
overall variance						50.4%
composition variance						61.0%

Kenya Institute for Public Policy Research and Analysis
Bishops Garden Towers, Bishops Road
P.O. Box 56445-00200, Nairobi, Kenya
Tel: +254 20 4936000; +254 20 2719933/4
Fax: +254 20 2719951
Email: admin@kippra.or.ke
Website: http://www.kippra.org

ISBN 9966 817 08 2