KIPPRA
The KENYA INSTITUTE for PUBLIC POLICY RESEARCH and ANALYSIS

Policy Brief

No. 72/2018-2019

Supporting Sustainable Development through Research and Capacity Building

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

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Introduction

The Public Expenditure and Financial Accountability (PEFA) assessment was carried out in the County of Baringo and five other counties, namely: Nakuru, Kajiado, Makueni, West Pokot and Kakamega. The exercise, which was undertaken by KIPPRA in conjunction with the World Bank (Kenya Office) in 2017, was the first sub-national PEFA assessment in Kenya following the devolved system of government. The rationale for the PEFA assessment is to provide a clear and deeper understanding about the functioning of the public finance management (PFM) system and the organizational aspects of existing institutions at county level. The main objectives of the assessment include: i) assess the state of financial management capacity in the county government; ii) identify gaps in terms of capacity, systems, policies and processes in PFM; iii) provide a basis for PFM reforms; and iv) facilitate and develop a self-assessment capacity at the county level. The users of PEFA include the private sector, civil society organizations, faith-based organizations and international development institutions. The PEFA scores and reports allow all users of the information to gain a quick overview on the strengths and weaknesses of the county's PFM systems. The importance of PEFA is to facilitate in the attainment of fiscal discipline, strategic resource allocation, and efficient service delivery.

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

County Administrative and Development Indicators	
Location	Former Rift Valley Province
Area	11,075 km²
No. of constituencies	6
No. of county assembly wards	30
Estimated total population (KNBS 2015)	555,561
Females	277,781
Males	277,780
Population Ddensity per km²	52 persons
County contribution to national GDP	1.1
Gross county product (2017) (Ksh)	92.8 billion
Poverty levels (%)	39

Key Findings of the PEFA Assessment

(a) Budget reliability

Budget reliability refers to the extent to which a budget is realistic and implemented in accordance with the approved estimates. The County budget was prepared in accordance with National Treasury guidelines which require budget proposals to be presented using administrative, economic and programme-based approach. Budget documents such as the County Fiscal Strategy Paper, County Budget and Review Outlook Paper, annual development plans and budgets are prepared in a timely manner. Quarterly budget reports are availed for the public, but not in good time and they did not cover all public resources and expenditure. In-year reports did not present budget execution along with all the data they should be compared with, which hampers the efficient follow-up of services delivery.

Financial reports for budgetary units were prepared annually and budget implementation reports were prepared each quarter. However, no information on revenue outside financial reports was produced. Coverage and classification of data allowed direct comparison to the original budget for the main administrative headings. They included information on revenue, expenditures, and cash balances.

Actual expenditure deviated from the original budget appropriation, indicating a low absorption rate especially for 2013/14 because it was the first year of implementation of the devolved system of government in Kenya. In addition, the largest share of the variance emanated from low absorption of the development expenditure, and slow procurement processes.

The County under-performed in revenue generation due to unrealistic projections during the first year of devolution. In addition, lower than budgeted own sources revenue was due to revenue potentials which had not been exploited by the County, such as land rates and plot rents and uncollected revenue from education establishments.

Budget reliability was also constrained by inadequacy of human and technical capacity to design and supervise projects, and under-exploitation of potential revenue sources in the County.

(b) Comprehensiveness and transparency of public finances

The key focus is on the comprehensiveness of budget, the fiscal risk oversights and accessibility by the public to the fiscal and budget information. Budget formulation, execution, and reporting were based on administrative and economic classification using Government Financial Statistics standards. Budget documentation transferred to the County Assembly contained forecast of the fiscal deficit/surplus, previous and revised budget in the same format as the budget proposal in the budget estimates, and aggregated budget data for both revenue and expenditure. Expenditure outside government financial reports were reported and they represent less than 5% of total expenditure.

The transparency of public finances was not comprehensive, consistent, and accessible to the public. The classification of government budget and accounts was consistent with international standards but it could not allow transactions to be tracked throughout the budget's formulation, execution, and reporting cycle according to administrative, economic, or functional classification. The transparency of government revenue and expenditure was limited due to lack of reports on the operation of the extra budgetary units. However, publication of approved annual budget law took place within two weeks of passage of the law and the County availed to the public the annual budget execution report by August of each financial year.

All major investment projects were prioritized based on the established public participation framework. However, economic analysis to assess the viabilities were not conducted, neither were monitoring and evaluation reports availed for scrutiny. Furthermore, the Revenue Unit did not provide taxpayers with clear access to information on the main revenue obligation areas, rights, redress processes and procedures.

The County had a number of entities that, according to the performance indicator, would be considered extra-budgetary, including the Agricultural Mechanization Services, Water companies, and the Early Childhood Education. However, no financial reports for extra-budgetary units were provided.

With regard to transparency and access to information, the County circulated information through a newsletter "Baringo Today", a quarterly publication which highlights the County achievements and planned activities. Besides, public participation forums were organized by ward administrators and finally the County website where a number of documents can be obtained including CBROP, CIDP, ADP and CFSP.

(c) 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 assets are clearly recorded and managed, fiscal risks identified, and debts and guarantees prudently planned, approved, and monitored.

While records of financial assets are published annually in financial statements, those of non-financial assets were not comprehensive. Besides, there was no consolidated reporting on the financial performance of the public corporations on any basis.

The County was yet to develop systems to monitor the newly established public corporations, and to develop procedures and selection criteria for public investment. There were no standard procedures and rules for project selection, implementation and monitoring and no procedures to assess the economic impact and viability of projects. Neither was cost-benefit analysis undertaken nor monitoring mechanism for public investment projects in place. A public asset management framework was not fully established.

Contingent liabilities (related to car loans and mortgage schemes) were well managed and most of them presented in financial reports, but the debt inherited from the defunct authority was not recognized and disclosed.

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

(d) Policy-based fiscal strategy

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

There was alignment of strategic plans with County Integrated Development Plan (CIDP) and departments drew their programmes and projects on an annual basis from the CIDP to prepare the ADP which is usually finalized by August each year. Most departments provided costed submissions to the County Treasury when compiling the ADPs. However, there was a tendency to bring on board new projects before old ones were completed, leading to the risk of thinly spreading the funds to many projects.

The County Treasury did not prepare its own macroeconomic forecasts but adopted the macroeconomic indicators from the National Government. In addition, whereas forecasts for revenue and expenditures were prepared every year and the two subsequent fiscal years, the underlying assumptions for the forecasts were not prepared.

The fiscal impact analysis of the CFSP were performed and the County Budget Review Outlook Paper (CBROP) briefly explained the reasons for deviation from the objectives and targets set. However, explanations about 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 were not provided.

(e) Predictability and control in budget execution

The County operated a well-managed automated payroll control system (Integrated Payroll and Personnel Data) which integrates personnel database and payroll. Changes to the personnel records and payroll were updated at least monthly, in time for the following month's payments. Staff hiring and promotion was 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 were 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 County has automated revenue collection which helped in revenue collection. However, a comprehensive, structured and systematic approach for assessing and prioritizing compliance risks had not been established. In addition, tax payers had not been classified into small, medium and large to efficiently and effectively facilitate prioritization of compliance risks and mitigation measures.

Revenue collected from various sources was banked daily and banking slips surrendered to the Revenue Office at the headquarters. Reconciliations between collections and banking were carried at the end of the month to establish any discrepancy. All revenue collections in various banks were kept in the County Revenue Fund (CRF) account held at the Central Bank of Kenya once in every month.

The county did not operate a Treasury Single Account (TSA). Besides, the County had 17 accounts at commercial banks and the rest with the Central Bank of Kenya. These accounts were consolidated on monthly basis through bank reconciliation statements.

There was limited transparency in the procurement system in the County of Baringo. It was established that about 80% of procurement was done according to competitive methods. However, procurement plans, contract awards, data on resolution of procurement complaints and annual procurement statistics were not made available to the public. Independent procurement complaints body existed at the national level and is the one that can resolve procurement cases.

The County had a clear segregation of duties throughout the expenditure process and responsibilities were clearly specified even though there is no standard operating procedure for finance.

(f) Accounting and reporting

This involves a measure of the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. Besides, monthly reporting on budget execution with production of quarterly budget implementation reports enables a partial follow up of service delivery. These reports provide a comparison between actual and budgeted expenditure with partial aggregation. Commitment expenditure are presented in a separate report.

The County Executive prepared Annual Financial Statement (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 were not disclosed and did not appear as notes in the AFS.

Besides, the County Government prepared monthly bank reconciliations for all active bank accounts. These included the key accounts held at the CBK and the others in commercial banks. These were bank accounts of budgetary and extra-budgetary units. The County uses IFMIS and Internet banking to record and process budget data. Both systems have phases of verification and approval to enhance data integrity. However, there was no operational unit to verify financial data integrity.

(g) External scrutiny and audit

This focuses on assessment of the arrangements for scrutiny of public finances and follow-up on the implementation of recommendations by the Executive. It was established that the internal audit applied 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. In addition, responses to internal audit reports were usually provided within one month after the report being issued, although no evidence was provided. However, it was not possible to verify to what extent the audit plans had been implemented.

Although hearings on external audit findings are supposed to be conducted in public, no evidence was provided. In addition, committee reports were provided to the full chamber of the County Assembly but the same were not published on an official website as required. The scrutiny is supposed to be completed over a period of six months but no evidences were provided by the County Assembly.

The County Assembly's reviewed budget documents covering fiscal policies, medium-term fiscal forecasts, and medium-term priorities and details of expenditure and revenue but did follow up and issue recommendations with respect to efficiency of services delivery.

(h) Risk assessment

The County does not have a risk-based approach in the revenue department to maximize public revenue collection. In addition, no independent body has been put in place to carry out revenue audits and fraud investigations.

On-Going Reforms

The County of Baringo is undertaking various reforms to improve the PFM system.

To reduce revenue-expenditure deviations and strengthen budget reliability, the County Government embarked on cost cutting measures including freezing of employment to contain the wage bill emanating from the health sector. In addition, the use email for internal communication was effected to cut down on printing costs. Regarding revenue enhancement, the introduction of parking fees and automation of all revenue streams were initiated.

With regard to management of public assets, the County Government initiated development of a framework on how Chemsusu Water and Sanitation and Kirandic Water and Sanitation Companies would be monitored, and their annual financial reports audited. Besides, the framework for citizen participation and engagement on prioritization of development projects in all sub-counties and ward levels was being considered. The County Government also planned to hire statisticians to help provide precise statistics per administrative ward, for purposes of prioritizing mega projects, resource allocation and for use in cost-benefit-analysis before project implementation. Furthermore, the County Government embarked on developing a policy on Monitoring and Evaluation (M&E) to enhance project supervision and reporting in the field. In this regard, M&E

champions had been nominated in every department and community to assist in project monitoring and reporting.

With respect to enhancing fiscal strategies, the County adopted the in-year reporting of fiscal outcomes strategy as recommended by the National Treasury guidelines. Plans were underway to build the capacities of champions identified from each department to facilitate and improve on quality of financial reporting.

To effectively control revenue arrears and enhance predictability and budget execution, the County Government embarked on development of a framework to roll out civic education to all residents of the County on their rights and obligations as tax/revenue payers and also on the obligations of the County Government with the revenue collected. The County also planned to go cashless as far as revenue collection was concerned. In addition, a team to review previous weaknesses and embark on reconciliations of revenue collections, arrears and transfers to Treasury controlled accounts had been set up and was further required to ensure that the reconciliations were up-to-date.

Regarding procurement, the County planned to roll out sensitization of contractors. In addition, fuelling cards were introduced as opposed to bulk purchasing of fuel and this was already being implemented by the departments of Health, and Agriculture and Livestock.

Conclusion and Policy Recommendations

The County Government of Baringo has made considerable efforts to establish a strong and effective PFM system. Notable achievements include the creation of various PFM structures, and timely preparation of budget documents including County fiscal strategy papers, County budget review and outlook papers, and budget estimates as per the PFM Act 2012 guidelines and timelines. However, there is room for improvements to achieve the outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. For instance, there are institutional and human capacity constraints in revenue and expenditure forecasting. The internal and external audit systems require strengthening to provide full oversight of the effectiveness of the internal control system. Besides, although civil society groups are organized through various social media and participate in the formulation of the budget, this exercise is still largely considered a formality because the information provided to the public is not comprehensive and is difficult to follow for effective public participation.

In view of the findings of the assessment, the following recommendations are suggested:

1) **Budget reliability:** There is need to reduce expenditures and enhance own revenue sources to improve expenditure (revenue deviations) by mapping potential revenue sources to expand revenue streams and cut down on non-essential recurrent expenditures. There is further need for an audit and fraud investigation to facilitate identification of risks and minimize revenue leakages in the County.

2) **Transparency in public finances:** There is need to prepare financial reports for all extra-budgetary units in the County and share with the public. The County also needs to undertake performance evaluation of services in all departments vis avis utilization of funds.

3) **Management of public assets and liabilities:** There is need for capacity building for selection and economic analysis of investment projects and standard procedures for project implementation. Finalization of debt management strategy is essential to guide borrowing. Besides, there is need to establish systems to monitor revenue arrears especially through automation of revenue systems and updating of business registers and valuation rolls.

4) **Policy based fiscal strategy and budgeting:** There is need for capacity building in macroeconomic forecasting (revenue and expenditure forecasting), MTEF budgeting, macro fiscal sensitivity analysis, fiscal impact analysis, and economic analysis of investment projects. In addition, improvements in alignment between plans, CIDP and the Vision 2030 framework is paramount.

5) **Predictability and control of budget execution:** There is need to develop a comprehensive, structured and systematic approach for assessing and prioritizing revenue collection compliance risks. Besides, the system for revenue administration in terms of assessments, collections, arrears, and transfers should be strengthened in terms of both capacity and number of technical staffs. The need to maintain comprehensive records of revenue arrears including the value, age and composition of revenue arrears is also fundamental. Besides, expenditure arrears reports should be prepared quarterly to facilitate effective monitoring.

6) **Accounting and Reporting:** There is need to establish an operational unit to verify financial data integrity.

7) **External scrutiny and audit:** There are need to publish legislative audits and also document public hearings of audit reports in the County.

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

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

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