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An Assessment of the Public Expenditure and Financial Accountability in West Pokot County

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Introduction

The Public Expenditure and Financial Accountability (PEFA) assessment was carried out in the County of West Pokot and five other counties, namely: Nakuru, Kajiado, Makueni, Kakamega and Baringo. The exercise was undertaken by KIPPRA in conjunction with the World Bank (Kenya Office) in 2017. This was the first sub-national PEFA assessment carried out in Kenya following the advent of the devolved system of government. The rationale for the PEFA assessment is to provide a clear and deeper understanding about the functioning of the PFM system and the organizational aspects of existing institutions at county level. The main objectives of the assessment include: i) assess the state of financial management capacity in the county government; ii) identify gaps in terms of capacity, systems, policies and processes in PFM; iii) provide a basis for PFM reforms; and iv) facilitate and develop a self-assessment capacity at the county level.

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

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

County Administrative and Development Indicators	
Location	Rift Valley
Area	9,169.40 km^2
No. of constituencies	4
No. of county assembly wards	20
Estimated total population (KNBS 2015)	605,033
Females	304,928
Males	300,105
Population density per km^2	56
County contribution to national GDP (%)	0.7
Gross county product (2017) (Ksh million)	46,785
Poverty levels (%)	57

Key Findings of the PEFA Assessment

(a) Budget reliability

A budget is considered reliable if implemented in accordance with the approved estimates before the beginning of the year. The West Pokot County prepared the budget according to economic, programming and administrative classification. Total expenditures were lower than total amounts budgeted in financial year 2013/14,2014/15 and 2015/16, though revenue performances remained good. Generally, budget implementation was done in accordance with the approved estimates. This was reflected in the small variances between the aggregate and functional votes.

Financial reports for budgetary units were prepared annually and budget implementation reports are prepared each quarter. The County had no contingency fund that was officially approved. The only item that would be assimilated to a contingency fund was the Disaster Fund.

The own source revenue was higher than expected for the financial year 2013/14 and 2014/15 but lower than expected in 2015/16. This was due to various factors including unrealistic revenue estimates, reduced compliance rates and pilferage due to weak revenue collection systems. The deviation of the own revenue for the period could be explained by the lack of a valuation roll to determine appropriate rates for land and other properties.

(b) Comprehensiveness and transparency of public finances

The key focus is on the comprehensiveness of budget and fiscal risk oversights and accessibility by the public to the fiscal and budget information. Generally, the County Government of West Pokot had adopted the guidelines provided by the National Treasury on Budget classification which requires counties to present their budgets according to the administrative, economic, programme-based budget (PBB). However, budget execution and reporting did not consider the PBB format. Further, the fiscal information available to the public was not comprehensive as it did not incorporate macroeconomic assumptions and fiscal risks.

Approved budgets were published and accessible by the public up to the ward offices. In addition, the County Executive uploaded various documents such as Annual Development Plans (ADPs), County Fiscal Strategy Paper (CFSP), County Integrated Development Plan (CIDP) and County Budget and Review Outlook Paper (CBROP) in the County website. The public participation initiative was cascaded downward to the ward levels where ward Administrators helped explain the budget and other public initiatives to the public. Whereas the County did not publish audited financial reports, the same are available on the website of the Office of the Auditor General (OAG) although not within twelve months after the end of the year.

(c) Management of assets and liabilities

The County had a medium-term debt management strategy although it did not present risk indicators such as interest rates and refinancing, and foreign currency risks. Besides, the County was yet to develop systems to monitor County corporations such as the Kapenguria Water and Sewerage Company (KWSC). Contingent liabilities related to car loan and mortgage scheme were well managed and most of them were presented in financial reports, but the debt inherited from the defunct authority was not disclosed.

The County maintained a record of its holdings in major categories of financial and non-financial assets. However, non-financial asset register was not comprehensive as it did not include major assets such as land. Besides, the County had not developed standard operating procedures for disposal of assets because counties were prohibited from disposing public assets until full transition was effected by the Intergovernmental Technical Relations Committee (IGTRC).

The County had not contracted any debt, as no policies and procedures to provide guidance for undertaking borrowing had been established. However, the County inherited debts from the previous defunct local government, but they were neither published nor updated due to lack a debt management strategy.

(d) Policy-based fiscal strategy and budgeting

The West Pokot County Government prepared forecasts of revenue and expenditure for the budget year and the two subsequent fiscal years, but it did not present the underlying assumptions for the forecasts. The County Executive did not prepare its own macroeconomic forecasts or carry out any sensitivity analysis. In addition, no fiscal impact analysis was performed in the County Fiscal Strategy Paper (CFSP). Ceilings were established during the CFSP preparation but were fixed only after the budget calendar had been issued.

The county budget preparation process was based on a comprehensive and clear budget calendar circular. The annual budget presented estimates of expenditure for the budget year and the two following fiscal years allocated by administrative, economic, and programme classifications. The County Budget and Review Outlook Paper (CBROP) briefly explained the reasons for deviation from the objectives and targets set but did not provide an explanation of the changes to expenditure estimates. The County Assembly reviews covered fiscal policies, medium-term fiscal forecasts, and medium-term priorities and details of expenditure and revenue.

(e) Predictability and control in budget execution

The revenue administration was generally weak and the only source of information to taxpayers was the Finance Act. However, the Act does not include information such as revenue obligation areas and rights. In addition, the County had not put in place a comprehensive, structured and systematic approach for assessing and prioritizing revenue-related risks. There were also no system for revenue audit and investigation and for monitoring revenue arrears.

The county was relatively strong in terms of accounting for revenue since revenue collection had been automated and reporting was done on a daily and a monthly report prepared for all entities collecting revenue. Revenue collected was transferred into a County Revenue Fund (CRF) every week but revenue reconciliations were done monthly, but they did not include arrears.

More than 90% of procurement was done through competitive bidding. The number of contracts awarded through open tender decreased during the period of analysis. Besides, procurement plans, contract awards, data on resolution of procurement complaints and annual procurement statistics were not made available to the public. Although the procurement function was well managed, a major point of weakness was that contract awards, data on resolution of procurement complaints and annual procurement statistics were not made available.

Control in payroll administration was generally strong and supported by Integrated Payroll and Personnel Data (IPPD) system which integrates payroll and personnel database. Changes to the personnel records and payroll were updated at least monthly, in time for the following month's payments. Hiring and promotion of staff was controlled by a list of approved staff positions and subject to payroll audit. Only the County

Public Service Board and the County Assembly Service Board could change personnel records and payroll for County Executive and County Assembly through written approval of the County Secretary and the Clerk, respectively.

Internal controls on non-salary expenditures were generally effective. Segregation of duties was prescribed throughout the expenditure process. Responsibilities were clearly laid down for most key steps and IFMIS was used in all departments for budget execution. Internal audit was fairly strong given it had been recently created in the County. It applied international professional practice framework (IPPF) as stipulated in the PFM Act 2012 with a risk analysis approach and covered all the departments in the County Executive.

(f) External scrutiny and audit

Financial reports of County Government entities representing most total expenditures and revenues were audited using ISSAIs during the last three completed fiscal years. The audit reports contained recommendations to the executive for implementation. However, there were delays in audit reports as they took more than one year to be completed.

Hearings on audit findings were to be conducted in public but no evidence was provided on this. Although committee reports were provided to the full chamber of the County Assembly, they were not published on the official website. However, they were easily accessible to the public.

(g) Accounting and reporting

The County Treasury used IFMIS to facilitate transaction processes and reporting. System users had passwords and the system maintains a log of users together with their functions. Thus, use of IFMIS system and timely reconciliation of bank accounts enhanced financial data integrity.

Reconciliation of bank accounts of the County was done in a timely manner as required under the PFM Act 2012. Financial statements were submitted within 3 months after the end of the fiscal year. Advance and suspense accounts reconciliations were done monthly and cleared before the end of the year.

Financial reports for budgetary units were prepared annually whereas budget implementation reports were prepared each quarter. Accounting standards were consistent with IPSAS cash and were applied to all financial reports to ensure consistency of reporting over time. Coverage and classification of data allowed direct comparison to the original budget for the main administrative headings. They included information on revenue, expenditure and cash balances. According to the Office of the Auditor General (OAG) reports, there were concerns regarding data accuracy, which is useful for analysis of budget execution.

On-going and Outstanding Reforms

The County was undertaking the following reforms aimed at enhancing governance, administration and decision making for better service delivery:

To enhance budget reliability, strategic plans from respective departments and views from public participation forums were to be considered in subsequent budgets. To expand the revenue base, the County was in the process of developing the valuation roll as part of the reforms.

To strengthen transparency of public finances, the County was in the process of establishing a debt unit for effective management of debt related issues. In addition, a debt management strategy was being developed in accordance with Section 123 of PFM Act 2012. Furthermore, the County was to establish the County Integrated Monitoring and Integration framework with all-inclusive M&E reports which would reflect lower level M&Es at Sub-County, Ward, and Village levels.

To strengthen public investment monitoring and management, the County Government had developed standards for projects, for example cattle dips, ECD classes, dispensaries, etc. This was to reduce time taken to prepare bill of quantities (BQs) which lengthened the procurement process and in effect reduced absorption of development expenditures. Further, the County Government was developing a framework that would involve civil society groups and citizens in project monitoring. The budget implementation project was to be done on a quarterly basis in subsequent fiscal years. In addition, there were measures to improve project costing and involve technical evaluation of all projects suggested by citizens during public participation forums.

Conclusion and Policy Recommendations

There have been considerable efforts by the County Government towards establishing the foundations of a sound PFM system in West Pokot County. For instance, various PFM structures had been put in place, and timely preparation of budgets has been done as per the PFM Act 2012 guidelines and timelines. However, much more work is still required to ensure that PFM systems impact significantly on the achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery at local, regional and national levels. These include addressing institutional and human capacity constraints, and strengthening internal and external audit systems to provide full oversight of the effectiveness of the internal control system.

Considering the findings of the assessment, the following recommendations are suggested:

1) **Budget reliability:** There is need to enhance and improve own source revenue collections. This can be done by strengthening the revenue collection systems through automation. The county also needs to develop valuation rolls to help in determining

appropriate rates for land and other properties, thus expand the revenue base.

2) **Comprehensiveness and transparency in public finances:** There is need to enhance transparency in public finances by availing all budget documents to the public (posted on official websites) in a timely and user-friendly means of communication (e.g. radio, notice boards, loudspeakers, public barazas and civic education), packaging budgets in a user-friendly manner, and giving adequate notices. Besides, the County Government should prepare financial reports on extra-budgetary units in compliance with statutory obligations.

3) **Management of public assets and liabilities:** The County needs to develop standard operating procedures for disposal of assets and update its non-financial and financial asset register to capture the value, age and usage of existing assets such as land on a continuing basis. Digitalization should also be considered to ease storage of information and updating where necessary. There is need to strengthen monitoring and evaluation units to ensure effective implementation of various project activities and programmes. This will also help reduce the time taken to prepare bill of quantities which lengthen the procurement process and in effect reduce absorption of development expenditures and make it difficult to assess the output, outcomes and impact of investment projects.

4) **Policy based fiscal strategy and budgeting:** There is need for capacity building in macroeconomic forecasting and fiscal impact analysis. This will enable the County conduct own sensitivity analysis in budget making process, giving it a more reliable basis for budget projections and decision making.

5) **Predictability and control in budget execution:** The County Government should establish a risk profile and responses of the County functions to allow for risks evaluation. Furthermore, there should be a clear mechanism of complaints and more information on procurement for the public to allow for monitoring of procurement performance of public procurement entities.

6) **External scrutiny and audit:** There is need to ensure implementation of recommendations arising from audit scrutiny by the County Assembly, the Senate and the Parliament by various responsibility holders. Besides, publication of audit reports on the official websites would further facilitate public scrutiny and transparency within the stipulated time.

7) **Accounting and reporting:** There is need to carry out bank reconciliations with regard to extra-budgetary units. Besides, the capacity of the internal audit should be strengthened to facilitate effective verification of financial data integrity.

About KIPPRA Policy Briefs

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

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