



County Government of Nakuru



WORLD BANK GROUP

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT OF NAKURU COUNTY, KENYA

Final report

November 2018

Kenya - Nakuru County
Public Expenditure and Financial Accountability (PEFA) Assessment of Nakuru
County, Kenya - Based on PEFA methodology 2016



The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK**'.

PEFA Secretariat

November 15, 2018

Country's currency and indicative exchange rates
CURRENCY EQUIVALENTS (source: Central Bank of Kenya)

Currency unit: Kenya shillings (K Sh)
Euro 1 = K Sh 112 (as of end April 2017)
US\$1 = K Sh 103 (as of end April 2017)

Fiscal Year

June 1 - June 30

Table of Contents

List of Tables	6
Acronyms	7
Executive Summary	9
1. Introduction	14
1.1 Rationale and purpose	14
1.2 Assessment management and quality assurance	15
1.3 Assessment methodology	17
2. Background Information	19
2.1 Economic context.....	19
2.2 Fiscal and budgetary trends.....	20
2.3 Legal and regulatory arrangements for PFM	23
2.4 Institutional arrangements for PFM	25
2.5 Other important features of PFM and its operating environment.....	27
3. Assessment of PFM Performance	29
3.1 Subnational PEFA indicator HLG-1: Transfers from a higher level of government.....	29
3.2 Pillar I. Budget reliability	31
3.3 Pillar II. Transparency of public finances	35
3.4 Pillar III. Management of assets and liabilities	41
3.5 Pillar IV. Policy-based fiscal strategy and budgeting.....	47
3.6 Pillar V. Predictability and control in budget execution	55
3.7 Pillar VI. Accounting and reporting	68
3.8 Pillar VII. External scrutiny and audit	72
4. Conclusions of the Analysis of PFM Systems	77
4.1 Integrated assessment of PFM performance	77
4.2 Effectiveness of the internal control framework.....	81
4.3 PFM strengths and weaknesses	84
5 Government PFM Reform Process	86
5.1 Approach to PFM reforms.....	86
5.2 Recent and on-going reform actions	86
5.3 Institutional considerations	87
Annex 1. Performance Indicator Summary	88
Annex 2. Summary of Observations on the Internal Control Framework	95
Annex 3. Sources of Information by Indicator	98
Annex 4. Subnational Government Profile	104

Annex 5. Calculation Sheet Templates for PI-1, PI-2, and PI-3..... 107

List of Tables

Table 2.1: Basic economic data and indicators for the Nakuru County.....	19
Table 2.2: Overview of selected fiscal indicators.....	21
Table 2.3: Aggregate fiscal performance data for the last three fiscal years (in percentage of total revenue)	21
Table 2.4: Budget allocations by sector (as a percentage of total expenditures)	22
Table 2.5: Structure of the public sector (K Sh, millions) - FY2015/16	25
Table 2.6: Financial structure of county government budget estimates (K Sh, millions) - FY2015/16	26
Table 3.1: Aggregate expenditure outturn (in Ksh and in %).....	31
Table 3.2: Expenditure composition outturn by function (Ksh millions & %).....	32
Table 3.3: Expenditure composition outturn by economic type (Ksh millions & %)	32
Table 3.4: Aggregate revenue outturn (%)	34
Table 3.5: Nakuru sources of revenue for the last 3 FYs (Ksh millions & %)	34
Table 3.6: Categories of nonfinancial assets-2013	44
Table 3.7: Structure of the outstanding inherited debt as of 30th September 2016.....	45
Table 3.8: Detailed Nakuru County Budget Calendar for the FY 2016/2017	50
Table 3.9: Type of procurement methods, 2015/16.....	63
Table 3.10: Internal audits carried out over the last completed financial year	67
Table 3.11: Submission of audit reports to the legislature.....	73

Acronyms

ADP	Annual Development Plan
ADS	Authorized Data Sheet
AFS	Annual Financial Statement
AIE	Authority to Incur Expenditure
BAC	Budget and Appropriations Committee
CBIRR	County Governments Budget Implementation Review Report
CBK	Central Bank of Kenya
CBROP	County Budget and Review Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CO	Chief Officer
COB	Controller of the Budget
CoG	Council of Governors
CRA	Commission on Revenue Allocation
DMS	Debt Management Strategy
ECDE	Early Childhood Development Education
GDP	Gross Domestic Product
GHRIS	Government Human Resource Information System
IBEC	Intergovernmental Budget and Economic Council
ICT	Information and Communication Technology
IDRC	International Development Research Centre
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
IPPD	Integrated Payroll and Personnel Data
IPPF	International Professional Practices Framework
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards on Supreme Audit Institution
KADP	Kenya Accountable Devolution Program
KDSP	Kenya Devolution Support Programme
KENAO	Kenya National Audit Office
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KPI	Key Performance Indicator
KSG	Kenya School of Government
MCA	Members of the County Assembly
MDAs	Ministries, Departments, and Agencies
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget

PAC	Public Accounts Committee
PBB	Program-based budget
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMR	Public Financial Management Reforms
PPADA	Public Procurement and Assets Disposal Act
PPARB	Public Procurement and Administrative Review Board
PPP	Private-Public Partnership
PPRA	Public Procurement and Regulatory Authority
PSASB	Public Sector Accounting Standards Board
PwC	PricewaterhouseCoopers
RML	Road Maintenance Levy
SAI	Supreme Audit Institution
SCOA	Standard Chart of Accounts
SIDA	Swedish International Development Cooperation Agency
SOP	Standard Operating Procedure
SRC	Salaries and Remuneration Commission
TSA	Treasury Single Account
TTI	Technical Training Institute

Executive Summary

Background

The 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 organized, and to what extent they provide an entry point for PFM reform efforts at the level of Nakuru County. This Public Expenditure and Financial Accountability (PEFA) assessment will become a benchmark for the upgrade of the PFM system in the counties of Kenya which are still in early stage of development.

This assessment was organized and commissioned by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) in collaboration with the World Bank and involves other organizations as outlined in box 1.1. KIPPRA coordinated the actual survey and assessment and was responsible for management and monitoring of the exercise. It was also responsible for collecting the relevant data and obtaining evidence for the complete and appropriate assessment of all 31 indicators. The specific indicator HLG-1 applicable to subnational governments is also included in the assessment.

The assessment period covers three financial years, namely, FY2013/14, FY2014/15, and FY2015/16 and focused on various indicators and dimensions as defined in the PEFA assessment tools. The field work of the assessment took place in April 2017; this is the time of assessment, for those indicators for which a more up-to-date assessment period is required.

Main findings of the assessment

Fiscal discipline

Even though disbursements were made on time for the three financial years, the aggregate expenditure outturn was 90 percent and 92 percent. The revenue outturn (PI-3) shows that the change in revenue between the original approved budget and the end-of-year outturn was significant. This was due to over optimistic revenue forecasts that led to large expenditure planning and allocations. Further, variance in expenditure composition by economic classification was large for the last three fiscal years.

Management of assets and liabilities is ineffective because risks are not identified and monitored. Projects are selected by the County Assembly based on proposals made during public participation. The debt service function is relatively well managed. The county prepares a Debt Management Strategy (DMS) annually to cover a single financial year but the associated fiscal risks are not adequately analyzed. The county has only inherited domestic debt (matured pending bills) which is recorded but not regularly reconciled. With regard to public asset management (PI-12), there is a weakness in terms of nonfinancial assets, especially land, which is not recorded.

The budget is prepared in accordance with National Treasury guidelines which require budget proposals to be presented using administrative, economic, and the program-based approaches. However, no information about revenue outside financial reports is produced. The County Treasury uses an Integrated Financial Management Information System (IFMIS) to facilitate transaction processes and reporting. IFMIS users have passwords and the system maintains a log of users along with their functions. Any changes to reports must be approved by departmental heads to enhance financial data integrity. Budget documents such as the County Fiscal Strategy Paper (CFSP), County Budget and Review Outlook Papers (CBROPs),

annual development plans (ADPs), and budgets are prepared on time. Quarterly budget reports are also availed for the public, but not in good time, and they do not cover all public resources and expenditure.

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 is still not produced.

The county of Nakuru 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.

The county has not developed standard operating procedures (SOP) for disposal of assets because counties were prohibited from disposing public assets until full transition is effected. The debt management capacity of the county government is relatively good. There is a debt management unit and strategy covering only one year.

The county of Nakuru operated a well-managed automated payroll control system, that is, the integrated payroll and personnel data (IPPD) which integrates the 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 are 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 the County Executive and County Assembly through written approval of the County Secretary and the Clerk, respectively.

Strategic resource allocation

The policy-based fiscal strategy and budgeting are not prepared with due regard to the county government's fiscal policies, strategic plans, and macroeconomic and fiscal projections. Nevertheless, good fiscal forecast practices exist coupled with a clear budget preparation process and legislative scrutiny. The County Executive does not prepare its own macroeconomic forecasts and does not carry out any sensitivity analysis with assumptions; however, fiscal forecasts and budget for the medium-term expenditure framework (MTEF) period of three years are prepared. The county does not carry out any fiscal impact analysis (PI-15). Nonetheless, the county prepares a CBROP annually providing a review of fiscal performance, as well as a CFSP elaborating on fiscal goals and targets for the medium term. Expenditure budgets are developed for the medium term within budget expenditure ceilings (PI-16) though they are not submitted together with the budget circular. The county's revenue administration, which is an essential component of the PFM system, is weak (PI-19). There are inadequate channels for informing taxpayers about their rights and obligations as well as a clear understanding of procedures for seeking redress.

Revenue accounting is managed well (PI-20), with procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciliation of revenue accounts in place. No evidence was made available to show whether the county provides (PI-21) reliable cash commitment

forecasts and requirements and reliable information on the availability of funds to budgetary units for service delivery.

Efficient service delivery

The indicators measuring whether the budget and fiscal risks oversights are comprehensive and whether information is accessible to the public show that transparency of public finances is not comprehensive, consistent, and accessible to the public. The budget documentation (PI-5) prepared by the county does not contain most elements that should be provided in the budget documents, for example, current fiscal year budget presented in the same format as the budget proposal, and macroeconomic assumptions. Revenue and expenditures of extra budgetary units are also not reported in the annual financial statements (AFSs) (PI-6). Information on service delivery performance is not collected and recorded (PI-8). There are no independent evaluations on efficiency and effectiveness of service delivery. Public access to fiscal information is limited because of delay or non-publication of information such as the enacted budget, budget execution reports, and macroeconomic forecasts among others.

The budget preparation process (PI-17) is satisfactory but does not allow for efficient public participation. Civil society organizations are not informed in good time about the respective budget debates in the County Assembly. The county of Nakuru does not provide taxpayers with clear access to information on the main revenue obligation areas, rights, and redress processes and procedures. The transparency of the public procurement arrangements is far from being satisfactory (PI-24). Information on the county procurement plans and the contracts awarded are not made public.

There is regular feedback to management about the performance of the internal control systems (PI-26), through an internal audit function but it is slightly inadequate. The internal audit function does not use a risk-based approach and does not keep record of data on the percentage of audited budget entities in terms of total planned expenditure and revenue.

The external audit and scrutiny by the legislature as currently undertaken do not hold the county accountable for its fiscal and expenditure policies and their implementation. Public finances are independently reviewed but external follow-up on the implementation of recommendations for improvement by the executive has not been efficient. Independence of the Office of the Auditor General (OAG) is guaranteed by the Constitution and the Public Audit Act, 2015. The audit reports are issued with delay and are scrutinized late, and effectiveness of the hearings could not be determined. Thus, the external audit is not effective to enable adjustments and corrections in the PFM system. The scrutiny by the legislature does not result in actions to be taken up by the executive, nor is their work transparent to the public.

The assessment identified the following as ongoing key reforms that are aimed at enhancing governance, administration, and decision making for better service delivery at the county level: (a) Land Valuation Rolls aimed at proper revenue estimation; (b) bill on annual borrowing limit facilitating future borrowing; (c) development of procurement and disposal manual; (d) appointment of Internal Audit Committee members; and (e) preparation of financial statements. There are, however, other key reforms which are still outstanding and are related to deployment of the Treasury Single Account (TSA) at county government level; strengthening the strategic planning and budget formulation and implementing comprehensive cash management reforms by strengthening commitment control and reporting. There are two major reforms which are relevant to all counties in Kenya and they are related to the integration

of the IPPD with the IFMIS module at national level; and the design of a framework for all county governments to move to accrual-basis international public sector accounting standards (IPSAS).

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: Transfers from a higher level of government	M1	A	D	D*		D+
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	D*	D	A		D+
PI-3	Revenue outturn	M1	D	D			D
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	D	D	D
PI-9	Public access to fiscal information	M1	D				D
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
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	B	C		C
PI-16	Medium-term Perspective in expenditure Budgeting	M2	A	D	D	D	D+
PI-17	Budget preparation process	M2	A	D	A		B
PI-18	Legislative scrutiny of budgets	M2	A	A	C	C	C+
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	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	C	D	A	C+
PI-22	Expenditure arrears	M1	D	C			D+
PI-23	Payroll controls	M1	D	A	B	B	D
PI-24	Procurement management	M2	B	D	D	A	C+
PI-25	Internal controls on non-salary expenditure	M2	A	B	D*		B
PI-26	Internal audit	M1	D	D	D	D	D

PFM performance indicator		Scoring method	Dimension ratings				Overall rating
			i.	ii.	iii.	iv.	
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	D	D	B	C+
PI-28	In-year budget reports	M1	C	B	C		C
PI-29	Annual financial reports	M1	C	B	D		D
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

1. Introduction

The subnational Public Expenditure and Financial Accountability (PEFA) assessment seeks to ascertain the performance of the public financial management (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 the 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 an evidence-based reform agenda can be implemented simultaneously after areas that require improvements are identified. The subnational assessments, which covered 6 out of 47 counties, have been jointly financed by the World Bank and International Development Research Centre (IDRC) through the Kenya Institute for Public Policy Research and Analysis (KIPPRA).

1.1 Rationale and purpose

The main rationale of this assessment is to give a better understanding of the 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 existing capacity-building efforts, for example, the Public Financial Management Reform (PFMR) Strategy, National Capacity Building Framework, and the 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, 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 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 an early stage of development. Currently, the fiscal discipline and the efficient allocation of resources according to the priorities of the county of Nakuru are viewed as important prerequisites to deployment of a well-functioning public finance system.

Effective PFM institutions and systems in the county governments are important for successful implementation of devolution. PEFA assessments are founded on the principles of openness, accountability, and public participation in public finance that are contained in Section 201(a) of the Constitution of Kenya 2010. The assessments will provide a baseline of the current state of PFM within the county and for the entire financial system and indicate areas that require improvements. National and county PEFA assessments have been done almost concurrently. This is important because both levels of government share the same PFM system. This implies that an evidence-based reform agenda can be implemented simultaneously after areas that require improvements are identified.

This first subnational PEFA assessment has been undertaken in six counties in Kenya and Nakuru was one of the selected county. Nakuru 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 with other counties but to indicate the state of the PFM system in the county of Nakuru.

Objectives of the PEFA Assessments

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

- (a) Assess the state of financial management capacities in the county government;
- (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 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.

1.2 Assessment management and quality assurance

This PEFA report has been prepared as a collaboration of various persons and organizations who played various roles as part of the assessment: (a) the Oversight Team (members who are listed in Box 1.1) - who provided strategic guidance and the authorizing environment to facilitate the assessments to be undertaken, (b) the assessment teams (members who are listed in Box 1.1) who were technical staff involved in the actual data collection and scoring across the indicators, and (c) reviewers (as listed in Box 1.1) who provided a quality assurance/peer review role of both the concept note and versions of the draft reports. County governments formed part of each team, through representation from the Council of Governors (CoG) Secretariat.

KIPPRA and the World Bank led the process of the assessment. KIPPRA provided technical staff, the financial resources (to mobilize and facilitate the assessment teams to collect data in the counties), and procured venues to host workshops to write the draft reports. The World Bank then contracted the four consultants that provided the technical expertise for the process (this included facilitating the costs of their movement to and from the counties) and supported various sensitization/validation workshops with stakeholders. Development partners played a key role in the process as peer reviewers and as the source of funds used by the World Bank under the KADP Multi-Donor Trust Fund (contributing partners include Sweden, Finland, European Union, U.K. Department for International Development, Danish International Development Agency, and U.S. Agency for International Development).

The assessment teams collected the relevant data to obtain evidence for the complete and appropriate assessment of all 31 indicators. The data gathering stage of the assignment was carried out as a field work in the Nakuru County through meetings and interviews with local government officials. A detailed list of people with their position and organization is presented in Annex 3A.

The assessment is checked and quality assured by means of PEFA CHECK. It is a mechanism for confirming the adequacy of the quality assurance processes used in planning and implementing a PEFA assessment. The objective is to increase users' confidence in the findings of a given PEFA assessment and confirm that the assessment contributes to a pool of reliable information on PFM system performance. The PEFA CHECK verifies if good practices in both planning and implementing an assessment have been followed. It is a verification of compliance with practices commonly accepted and used in conducting PEFA assessments. Through PEFA CHECK, the Secretariat provides an independent evaluation of whether the quality assurance arrangements included adequate peer review processes that involved partner countries and engaged PFM institutions.

Box 1.1. Assessment management and quality assurance arrangements

(i) Oversight Team - Chair and Members

Organization name	Team member details
KIPPRA Executive Director (Chair)	Dr. Rose Ngugi
KIPPRA	Dr. Augustus Muluvi
KIPPRA	Dr. Christopher Onyango
KIPPRA	Benson Kiriga
KIPPRA	Dr. Simon Githuku
KIPPRA	Dr. Douglas Kivoi
World Bank	Christine Anyango Owuor
World Bank	Tim Williamson
CoG	Joseph Kung'u
PFMR Secretariat	Warui Maina/Joel Bett
Office of the Controller of Budget (OCOB)	Joshua Musyimi/Grace Kimitei
Office of the Auditor General (OAG)	George Nashon Otieno

Assessment Manager: Simon Githuku - KIPPRA

(ii) Assessment Team (Assessment Team A participated in the assessment of Nakuru)

Team A	Organization	Team B	Organization
Dr. Bernadette Wanjala (Team Lead)	KIPPRA	Dr. Simon Githuku (Team lead)	KIPPRA
Jean-Marc Philip (Lead Consultant)	World Bank	Elisaveta Teneva (Lead consultant)	World Bank
Samuel Kiautha (Consultant)	World Bank	Jeremiah Oliech (consultant)	World Bank
Duncan Mugo Ndirangu	National Treasury	Christine Owuor	World Bank
Meimuna Mohamed	Commission on Revenue Allocation (CRA)	Joshua Musyoka	National Treasury
Warui Maina	National Treasury	Juliah Muguro	KIPPRA
Fredrick Owino	KIPPRA	Macklin A. Ogolla	COB
Grace Kimitei	Controller of the Budget (COB)	Nickson Omondi	KRA
Silvanos Obondi	OAG	John Mose	CRA
Robert Ng'ang'a	Kenya School of Government (KSG)	Dr. Douglas Kivoi	KIPPRA
Kennedy Okoth	KRA	Paul Odhimabo	KIPPRA
Dr. David Waigwa	World Bank	Mathew Ngusya	OAG
Dr. Christopher Onyango	KIPPRA	Dr. Augustus Muluvi	KIPPRA
Manaseh Otieno	KIPPRA		

(iii) Review of concept note and/or terms of reference

- First round of comments was addressed in December 2016.
- Second and final round of comments were addressed February 2017.
- Invited reviewers: PEFA Secretariat, World Bank, OAG, and National Treasury.

- Reviewers who provided comments:

Name	Organization
Jens Kristensen	World Bank
Timothy Williamson	World Bank
Dr. Jane Kiringai	World Bank
Agnes C. Mita	OAG
Representatives of the County Assembly	Nakuru County Assembly
Representatives of the County Executive	Nakuru County Executive
Warui Maina	National Treasury

(iv) **Secretariat and date(s) of its review(s):** First review comments from the PEFA Secretariat on October 14, 2016, and second review comments from the PEFA Secretariat on January 10, 2017.

(v) **Date(s) of final CN and/or terms of reference:** March 17, 2017.

(vi) **Review of the assessment report**

- Date(s) of reviewed draft report(s):** November 2017 to October 2018
- Invited reviewers:** PEFA Secretariat; World Bank - Kathy Whimp, Oleksii Balabushko and Eric Enagnon; county government of Nakuru; development partners - Swedish International Development Cooperation Agency (SIDA) (Sweden); and government agencies - OAG, Intergovernmental Budget and Economic Council (IBEC), Office of the Controller of Budget (OCOB), CRA, and the National Treasury.
- Date of the first draft report: May 5, 2018
- Invited reviewers: County governments, World Bank, SIDA, PEFA Secretariat
- Reviewers who provided comments: World Bank, SIDA, PEFA Secretariat
- Date of the comments: June 8, 2018
- Date of assessment team's response: July 28, 2018
- Date of Secretariat's evaluation of response: September 14, 2018
- Date of assessment team's response: October 6, 2018
- PEFA CHECK received on November 15, 2018

1.3 Assessment methodology

Coverage of the assessment

This subnational PEFA assessment covers the county of Nakuru 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. There is no lower-tier subnational government.

Time of the assessment

Time period covered in the assessment was three fiscal years after the introduction of devolved system of government in Kenya. That is, FY2013/14, FY2014/15, and FY2015/16 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 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' indicators 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 mainly (a) Constitution of Kenya, 2010, (b) Government of Kenya Review of the PFMR Strategy 2013–2018 report (2016), and (c) the PFM Act, 2012. The exhaustive list of all documents and materials used and referred to in this PEFA assessment is contained in Annex 3.

2. Background Information

2.1 Economic context

Overview of Kenyan economy

Kenya has a unitary, but devolved system of government consisting of the national and 47 county governments. This is as provided in the Constitution. All the counties do not have detailed economic data such as gross domestic product (GDP) growth and inflation rates. However, the Kenya National Bureau of Statistics has developed county-specific statistical abstracts. The National Treasury and the World Bank are set to undertake compilation of county-specific GDPs.

The leading sectors in growth during 2017 included tourism, building and construction, transport, and information and communication technology (ICT). On the other hand, the agriculture sector declined tremendously to 1.6 percent from 5.1 percent the previous year due to drought coupled with pests and diseases.

The inflation rate in 2017 was 8 percent, a rise from 6.3 percent 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 2018 due to improved political stability and favorable macroeconomic environment. In addition, the ongoing investments in infrastructure, improved business confidence, and strong private consumption are likely to support a strong growth. Besides, the favorable climatic conditions are likely to boost agriculture production and the electricity and water sectors, and 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 favorable factors, resulting in better growth in 2018.

Overview of Nakuru County economy

Nakuru is densely populated, with agriculture and tourism as the main economic activities. Table 2.1 provides the basic economic data and indicators for Nakuru County.

Table 2.1: Basic economic data and indicators for the Nakuru County

Indicator	
Area (km ²)	7,496.5
Number of constituencies	11
Population	1,603,325
Population density per km ²	213.9
Main economic activities	Agriculture, dairy, and tourism
Early Childhood Development Education (ECDE) Centers:	1,465
Public	771
Private	694
Number of primary schools:	1,007
Public	468
Private	359
Number of secondary schools:	395

Public	294
Private	101
Number of health facilities	278
Doctor to population ratio	31,251

Source: CRA, County Integrated Development Plan (CIDP), and Nakuru County statistical abstract, 2015.

Apart from agriculture, other income-generating activities in the economy of Nakuru include hired labor, mainly in small towns, selling of charcoal and firewood, petty trading, selling of vegetables and food. The county's weather is conducive for large-scale farming, horticulture, and dairy farming. The produce is consumed locally and sold to consumers in neighboring towns and cities. Most of the residents of the county are into self-employment. The population is currently 1,603,325 and is projected to increase to 1,925,296 which implies that the county will have to invest in more social and physical infrastructure to match the needs of the growing population

The main challenges for growth and development of Nakuru County are defined in the priorities and objectives as outlined in their first CIDP, issued in 2014. They are related to increasing food production by 40 percent by 2017; upgrading existing roads; enhancing security surveillance; increasing the accessibility to clean/piped water by 40 percent by 2017; improving tourist sites; reducing the average distance to health facility by 50 percent by 2017 and awareness raising on prevention against malaria and other diseases; reducing incidence of new HIV infections by 80 percent by 2017; increasing the literacy level to 85 percent by 2017 from the current 79.7 percent; increasing income-generating activities and employment opportunities; and ensuring environmental sustainability.

Projects and programs identified in the medium-term expenditure framework (MTEF) generally fall within the development areas of the CIDP and they are as follows: (a) agriculture and rural development; (b) energy, (c) infrastructure and ICT; (d) health; (e) education; (f) environmental protection, (g) water and sanitation; (h) governance, justice, law, and order; (i) public administration and international relations and social protection; and (j) culture and recreation.

Economic performance data have been included as much as it is available for this county. There is no county-specific statistical economic data in Kenya such as GDP, consumer price index, inflation, growth, which 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's GDP data.

2.2 Fiscal and budgetary trends

According to Article 203 (2) of the Constitution of Kenya, 2010, a minimum of 15 percent of the total revenue collected by the national government should be disbursed to county governments every fiscal year. Counties are also supposed to collect their own revenue to fund their operations. Table 2.2 gives an overview of selected fiscal indicators which are currently available. The County Allocation and Revenue Act provides the amounts which are disbursed to county every year on the basis of the population rate. Nakuru County is among those receiving the largest share because of their relatively high population density. Population parameter in the revenue sharing formula by the CRA has a weight of 45 percent.

The available data shows that just like other counties, the county of Nakuru is faced with the challenge of budget absorption which is relatively high at 74.3 percent. As required by the PFM Act, development percentage is stipulated to be at least 30 percent and in this respect the county performs poorly with only

21 percent of their expenditure spent on development. The process of developing a conditional grant framework is under way to overcome challenges related to budgeting, accounting, and reporting.

The PFM Act, 2012, Article 132 defined the rules for the submission and consideration of the revenue raising measures in the County Assembly. Each financial year, the County Executive (Ministry of Finance [MoF]) shall pronounce the revenue-raising measures. This is formalized by submitting a County Finance Bill to the County Assembly, setting out the revenue raising measures together with a policy statement expounding on those measures. The approved Bill becomes the County Appropriation Act once enacted by the County Assembly and signed by the Governor.

The revenue collection strategies of Nakuru County include (a) automation of all receipts and cash management, (b) mapping out all county revenue sources, (c) online submission of building plans to ensure timely approval of building plan and enhanced revenue collection, and (d) automation of parking fee collection to enhance revenue collection and administration efficiency. In addition, the county endeavors to increase the ratio of development expenditure through prudent fiscal management as envisaged in the PFM law. The county also plans to develop private-public partnership (PPP) policies as well as an investment policy framework to prepare platforms for private sector involvement in the county growth and development.

Table 2.2: Overview of selected fiscal indicators

Budget performance	
Exchequer issues (K Sh, millions) (Transfers from the national government)	10,286.70
Expenditure to exchequer issues (%)	
<i>Recurrent expenditure</i>	105.3
<i>Development expenditure</i>	87.9
Expenditure to budget allocation (absorption rate %)	
<i>Recurrent expenditure</i>	94.8
<i>Development expenditure</i>	41.4
<i>Overall absorption rate</i>	74.3
Revenue	
Annual target (K Sh, millions)	2,944.13
Actual revenue (K Sh, millions)	2,295.34
Revenue performance (%)	78.0
Conditional grants	
Annual allocation (K Sh, millions)	856.10
Actual receipts (K Sh, millions)	727.29
% of actual receipts	85.0
Expenditure by economic classification	
Personal emoluments (%)	46.2
Operations and maintenance (%)	32.3
Development expenditure (%)	21.5

Source: OCOB County Governments Budget Implementation Review Report (CBIRR), September 2016.

Table 2.3 presents an overview of selected fiscal indicators for the last three fiscal years.

Table 2.3: Aggregate fiscal performance data for the last three fiscal years (in percentage of total revenue)

Economic head	2013/14	2014/15	2015/16
Total county revenue	100.0	100.0	100.0
(i) Equitable shares	81	77	72

Economic head	2013/14	2014/15	2015/16
(ii) Conditional Grants	—	1	7
(iii) Own source revenue	19	22	20
Total expenditure	78	89	100
Compensation of employees	48	46	44
Use of goods and services	14	25	20
Consumption of fixed capital	8	17	27
Interest	0	0	0
Subsidies	0	0	0
Other grants and transfers	5	1	8
Social benefits	0	0	0
Other expenses	2	0	1
Budget surplus	22	11	0

Source: Annual financial statements (AFSs).

Table 2.3 shows that aggregate fiscal discipline has been respected for the last three years, as the budget presented a surplus in two consecutive fiscal years. The county also inherited a debt from the previous government, but it did not generate any debt since its creation. The share of own source revenue is gradually increasing with a shortfall in the last fiscal year. The share of salaries is also getting lower with time, but it is still above the required maximum, whereas the development expenditure is steadily increasing but below the required minimum of 30 percent.

Allocation of resources

Table 2.4 shows the budget allocation by function for the three fiscal years assessed in this report. The trend of allocating higher budgets for the functions of strategic importance, which the county identified in the CIDP and the MTEF, is not clearly noticeable.

Table 2.4: Budget allocations by sector (as a percentage of total expenditures)

Functional heads	2013/14	2014/15	2015/16
Treasury	15	9	10
Agriculture	2	7	6
Health	9	33	34
Environment	5	5	6
Education	12	8	8
Land and housing	3	2	3
Transport	18	10	10
Public service management	12	6	8
Trade and tourism	7	3	3
ICT and E-Government	2	1	1
Office of the Governor and Deputy Governor	6	2	2
County Public Service Board	0	1	1
County Assembly	11	12	9
Total	100	100	100

Source: AFSs.

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 the county of Nakuru is derived from the Constitution and various acts and regulations outlined as follows:

- (a) **Chapters 11 and 12 of the Constitution on devolved governments and principles of public finance, respectively.** Institutional arrangement for PFM include the CRA (Article 216), the National Treasury (Article 225(1)), COB (Article 228), Auditor General (Article 229), Salaries and Remuneration Commission (SRC) (Article 230), Central Bank of Kenya (CBK) (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 the budget making process and public participation, Treasury Single Account (TSA), financial accounting and reporting, and internal auditing, among others. Section 103 creates the County Treasury whose general responsibilities and powers in relation to public finance are spelled 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 present them to the County Assembly.
- (c) **The PFM Regulations (2015) for county governments.** Some highlights include strengthening intergovernment fiscal relations, restricting wages to 35 percent of realized revenue, and mandating the development budget to be 30 percent of the total budget.
- (d) **The Public Procurement and Assets Disposal Act (PPADA) (2015).** The act provides for procedures for efficient public procurement and procedures for assets disposal by public entities. Regulations are under development.
- (e) **The Public Audit Act (2015)** provides for the organization, functions, and powers of the OAG spelled 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 fiscal 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 the nomination 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 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 lines to be adhered to.

Framework for the Devolved System of Government

The Constitution of Kenya 2010 introduced two levels of governments, the national and county governments. The legal and regulatory framework provided support for PFM in the county government of Nakuru, specifically Chapters 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 (Chapter 11, Articles 174–200). Part 2 of the Fourth Schedule enlists 14 roles and functions of the county governments:

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 centers 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 administrative capacity for the effective exercise of 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 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 include the CRA (Article 216), the National Treasury (Article 225(1)), COB (Article 228), Auditor General (Article 229), SRC (Article 230), CBK (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 carried out by the COB through the Integrated Financial Management Information System (IFMIS) while external control is performed by the OAG.

The legal framework under the PFM Act, 2012, and its regulations also apply to the county government. The Policy on Devolved System of Government (2015) has identified institutional, intergovernmental, and resource-related challenges to be overcome to improve implementation and service delivery.

2.4 Institutional arrangements for PFM

County governments

According to the County Government Act, 2012, a county comprises the County Executive headed by a Governor and a County Assembly comprising 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, CFSPs, 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 County Government Act, 2012, also outlines the structure and operation of county governments as comprising subcounties, wards, and villages. The structure of the public sector and public finances in Nakuru County is presented in Tables 2.5 and 2.6.

Table 2.5: Structure of the public sector (K Sh, millions) - FY2015/16

	Government subsector		Social security funds	Public corporation subsector	
	Budgetary unit	Extra budgetary units		Nonfinancial public corporations	Financial public corporations
County government	13,004	n.a.	n.a.	n.a.	n.a.
County Assembly	793	—	—	—	—

Source: AFS 2015/16.

There are extra-budgetary units which are semiautonomous. They do not prepare financial reports and they are not covered by the main budget of the county. Therefore, financial information about them was not provided. Examples of such units (discussed further in PI-6.1) include the following:

- (a) ECDE units.
- (b) Technical Training Institutes (TTIs) and Farmers Training Centre.

Table 2.6: Financial structure of county government budget estimates (K Sh, millions) - FY2015/16

2015/16	County government			
	Budgetary unit	Extra budgetary units	Social security funds	Total aggregated
Revenue	11,243	n.a.	n.a.	11,243
Expenditure	11,265	n.a.	n.a.	11,265
Transfers to County Assembly	872	n.a.	n.a.	872
Liabilities	n.a.	n.a.	n.a.	n.a.
Financial assets	2,084	n.a.	n.a.	2,084
Nonfinancial assets	3,061	n.a.	n.a.	3,061

Source: AFS 2015/16.

Table 2.7: Financial structure of county government-actual expenditure (K Sh, millions) - FY2015/16

2015/16	County government			
	Budgetary unit	Extra budgetary units	Social security funds	Total aggregated
Revenue	11,243	n.a.	n.a.	11,243
Expenditure	11,265	n.a.	n.a.	11,265
Transfers to County Assembly	872	n.a.	n.a.	872
Liabilities	n.a.	n.a.	n.a.	n.a.
Financial assets	2,084	n.a.	n.a.	2,084
Nonfinancial assets	3,061	n.a.	n.a.	3,061

Source: AFS 2015/16.

Key features of internal control

Internal control is performed through the IFMIS and reengineering of the IFMIS was a major improvement for the reinforcing of the control. Access to the IFMIS is now complete at the county levels, but the IFMIS office is still configuring aspects of the IFMIS to meet specific needs for ministries, departments, and agencies (MDAs) and the counties. Presently, the IFMIS is not comprehensively used at the county level. According to the 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 the IFMIS, instead of being prepared within the IFMIS on the basis of invoices and receipts of goods and services. The integration of systems within the IFMIS have not yet been completed for the following modules: (a) procurement - the module 'Procurement to Pay' available at the national level is not used by the county; (b) revenue - the county has its own IT-based tax administration system to collect some of the revenues which is not integrated with the IFMIS; (c) payroll – the county government uses the Integrated

Personnel Payment Database (IPPD) management system to for human resource management which is not integrated with the IFMIS; the payroll is prepared in IPPD and then manually extracted.

County-specific PFM documentation

CFSP. One of the key stages in the county budget cycle is the preparation of the 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 PFM Act, 2012, outlines the procedures and responsibilities of the county government with respect to 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 show changes from the forecasts in the most recent CFSP. The CFSP should be presented to the County Assembly by February 28 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 publicize the CFSP after its submission in the County Assemble (Section 117 (8) of the PFM Act).

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

The CIDP, 2013–2017, covers key challenges for consideration in all the sectors, which are the priorities as put forth in respective Annual Development Plans (ADPs). The purpose of the CIDP is to provide comprehensive baseline information on infrastructural and socioeconomic characteristics of the county. It would further be used in allocation of scarce resources to priority projects and programs, 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 programs 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, and land services. The devolution process is expected to reduce the level of corruption in this domain.

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 the government. Public participation in Kenya is especially important in the following processes: (a) budgeting - consultation is supposed to be held with civil societies on strategic development spending in the county; (b) legislative - public should have access to legislative scrutiny of the budget and the audit report at the County Assembly; (c) 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

- (a) County Public Participation Bill. In most counties the Bill is still at process of approval;
- (b) PFM Act, Sections 10, 35, 125, 175 provide for public participation at budget process, in the preparation of the strategic plan and the annual budget estimates;
- (c) County Government Act, Sections 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.
- (d) Urban Areas and Cities Act, 2011. Guidelines for public participation.
- (e) PPADA 2015 Section 68(3), 125(5), 138, and 179. Emphasizing 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 of Nakuru, the civil societies are organized in forums with the objective of participating in the formulation of the budget. To this purpose, working meetings are organized by the county. However, the representatives of the civil societies who the assessment team met still see this opportunity only as a formality required by the Constitution. The information provided to the public is not comprehensive and easy to follow so that the civil societies cannot effectively take part in the discussion. Citizen budgets are not prepared and the hearings at the County Assembly have been described as not accessible.

3. Assessment of PFM Performance

3.1 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 originally 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 of the 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 according to Section 17 of the PFM Act. The county governments' allocations are included in the budget estimates of the national government and are submitted to Parliament for approval. The County Treasury reports on the actual transfers received by the county government from the national government. Table 3.1 shows the actual transfers (equitable shares) from the national government that constitute the highest revenue source of the county, accounting usually for more than 95 percent of total revenues. This indicates the heavy reliance on national government resources in so far as the county government operations are concerned.

Table 3.1: Actual transfers for the last three fiscal years (K Sh, millions)

Source of revenue	2013/14			2014/15			2015/16		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Conditional grants	1,546	0	0	1363	116	9	856	831	97
Equitable share	5937	7,527	127	6,290	7,423	107	8,116	8,116	100
Total county revenue	7,483	7,527	101	7,653	7,539	99	8,972	8,947	100

Source: AFSs.

In FY2013/14, the outturn of transfers of Nakuru County was 101 percent in FY2013/14, 99 percent in FY2014/15, and 100 percent in FY2015/16.

In summary, actual transfers represented more than 95 percent of the original budget estimate in all three years of the assessment. The score is A.

HLG-1.2. Earmarked grants outturn

In addition to the transfers from the national government, there are conditional allocations from national government revenue to each county government to be utilized 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.

Table 3.2: Actual earmarked grants for the last three fiscal years (K Sh, millions)

Source of revenue	2013/14			2014/15			2015/16		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Conditional grants	0	0	0	88	116	131	23	128	562

Source: CBROP and AFSs.

The earmarked grants appear as proceeds from domestic and foreign grants in the budget documentation of the county. They are provided for specific development spending. In the first financial year FY2013/14 after the devolution, there were no grants released to the county. In the next two financial years, grants were provided for development mainly in the health and education sectors. In the second year FY2014/15, the outturn between budgeted estimate and actual received grants was 131 percent and in the third year it was five times higher than the budgeted. Though data exists, it appears to be rather unreliable for it cannot be traced across budget documentation. The data in the AFS for actual grant transfers could not be found in any other budget performance documentation. Therefore, it can be concluded that the available data is not comprehensive to make a reliable calculation for this component. The score is D.

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

According to the PFM Act, 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 the IFMIS.

The transfers that constituted the key element of the County revenue were disbursed from the National Treasury evenly across the year in two of the three years of the assessment. As indicated in PI-1, there was deviation in FY2013/14 due to delay in disbursement of equitable shares from the national government, which were provided only in June 2014. The transfers were made on time for FY2014/15 and FY2015/16, but the actual dates of transfers were not provided. In summary, transfers should be released quarterly across the year through the IFMIS, but the actual dates were not provided. The score for the component is D*.

Summary of scores and performance table

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 have been at least 95 percent of the original budget estimate in 2 of the last 3 years.
HLG-1.2 Earmarked grants outturn	D	No comprehensive data that could be traced to all budget documentation was obtained to allow reliable calculation.
HLG-1.3 Timeliness of transfers from higher-level government	D*	The actual transfers are supposed to be distributed quarterly across the year through the IFMIS, but the dates of actual transfers for FY2014/2015 and FY2015/2016 were not provided. The disbursement of equitable shares from the national government for FY2013/2014 were provided only in June 2014.

3.2 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, (a) aggregate expenditure outturn, (b) expenditure composition outturn, and (c) revenue outturn, were examined for FY2013/14, FY2014/15, and FY2015/16.

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 3.3 presents the budgeted and actual total expenditure for 2013–2015 (see details attached in Annex 5). It shows that the absorption rate of the approved budget was low at 82 percent during FY2013/14 but increased slightly in the two subsequent years. The deviation in FY2013/14 was due to delay in disbursements of equitable share from the national government, which were provided only in June 2014, thus affecting the implementation of the programs and projects. However, disbursements were made on time for FY2014/15 and FY2015/16. The score is B.

Table 3.3: Aggregate expenditure outturn (K Sh)

FY	Budget	Actual	Total expenditure deviations (%)
2013/14	8,903,425,749	7,264,395,392	82
2014/15	9,553,928,197	8,600,306,712	90
2015/16	11,883,404,098	10,989,186,080	92

Source: CBROPs.

Summary of scores and performance table

PI-1 Aggregate expenditure outturn (M1)	B	Brief justification for score
1.1 Aggregate expenditure outturn	B	The aggregate expenditure outturn was at least 90% in 2 of the assessed fiscal years.

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

The budget is prepared according to economic, program, and administrative classifications, but the budget execution follow-up is based on economic and administrative classification (see PI-4). Table 3.4 reports information available for FY2015/16, which was the basis of scoring. The county has not maintained this information for the two previous financial years. There was no baseline information for FY2013/14 due to long procurement processes and delays in transfers (exchequer releases) from the national government. Variance in expenditure composition by program, administrative, or functional classification was more than 15 percent in all three years. The score is D*.

Table 3.4: Expenditure composition outturn by function (K Sh, millions)

Functional head	2013/14		2014/15		2015/16	
	Budget	Actual	Budget	Actual	Budget	Actual
County Treasury	1,079		752		1,120	170
Agriculture, livestock, and fisheries	129		565		668	38
Health	632		2,804		3,728	415
Environment, water, and natural resources	364		421		662	157
Education, sports, youth, and social services	843		730		885	200
Lands, physical planning, and housing	211		204		289	83
Roads public works and transport	1,275		903		1,106	262
Public service management	842		518		900	167
Trade, industrialization, and tourism	475		286		285	69
ICT and e-government	162		68		89	23
Office of the Governor and Deputy Governor	418		210		219	6
County Public Service Board	0		70		80	35
County Assembly	834		1,067		956	154
Total	7,264		8,600		10,989	1,778
Composition variance (%)						16

Source: CBROPs and AFSs.

PI-2.2. Expenditure composition outturn by economic type

The county administers expenditures according to administrative, economic, and programming classifications. The budgeted economic items include (a) compensation of employees, (b) use of goods and services, (c) consumption of fixed capital, (d) interest, (e) subsidies, (f) grants, (g) social benefits, and (h) other expenses. The extent of variance between actual and budgeted expenditures by composition of expenditures is presented in Table 3.5. Actual expenditure deviated from the original budget appropriation by 96 percent, 30.3 percent, and 23.5 percent during FY2013/14, FY2014/15, and FY2015/16, respectively. The result is heavily influenced by fluctuations in consumption of fixed capital and compensation of employees, the two largest items in the budget. The score is D.

Table 3.5: Expenditure composition outturn by economic type (K Sh, millions)

Economic head	2013/14		2014/15		2015/16	
	Budget	Actual	Budget	Actual	Budget	Actual
Compensation of employees	2,055	4,501	4,369	4,430	4,919	4,918
Use of goods and services	2,950	1,331	2,216	2,412	3,382	2,266
Consumption of fixed capital	3,497	769	2,968	1,642	3,582	3,105
Interest	401	0	0	0	0	0
Subsidies	0	0	0	0	0	504
Grants	0	664	0	116	0	148
Social benefits	0	0	0	0	0	48
Other expenses	0	0	0	0	0	0
Total expenditure	8,903	7,264	9,554	8,600	11,883	10,989
Composition variance (%)	96		30		24	

PI-2.3 Expenditure from contingency reserve

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 relates to exceptional events that cannot be foreseen, such as earthquake, famine, civil war, and so on. This treatment holds true for both national and subnational levels. The county of Nakuru set up an emergency account in 2016. The guiding law was enacted only on March 24, 2016. The budget for emergency/contingency fund is under the responsibility of the Office of the Governor. The money budgeted for emergency fund during the three budget periods was never used given that the COB did not approve its utilization as the law establishing it was not available at the time. Therefore, the actual expenditure charged to a contingency vote was on average 0 percent for all the three years. 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*	The county did not prepare expenditure by department for FY2013/14 and FY2014/15. Data was only available for FY2015/16.
2.2 Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was 96%, 30%, and 24% for FY2013/14, FY2014/15, and FY2015/16, respectively. This is more than 15% in all 3 years.
2.3 Expenditure from contingency reserve	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 the 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 of Kenya 2010. The allocation should be at least 15 percent of national revenue based on the most recent audited accounts of revenue received, as approved by the National Assembly and guided by the County Allocation of Revenue Act (last issue No. 10 in 2015 for FY2015/16) and Division of Revenue Act (last issue No. 7, 2015).
- **Conditional grants:** This is provided for under Article 202 of the Constitution of Kenya and constitutes additional allocations from the national government's 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 and 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 labor.

This performance indicator is focused only on the own source revenue as it is the only revenue collected and retained by the county of Nakuru. The equitable shares and the conditional grants are covered in HLG-1 and HLG-2, respectively.

PI-3.1 Aggregate revenue outturn

The budgeted and actual revenue streams of the own source revenue are presented in Table 3.6.

Table 3.6: Aggregate revenue outturn (percentage)

Source of revenue	2013/14			2014/15			2015/16		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Own source revenue	3,077	1,800	59	2,556	2,106	82	2,911	2,295	79

Source: AFSs.

The own source revenue consists of various property rates and services charges imposed by the county. The actual own source revenue appears under 'other receipts' in the AFS of the county. The budgeted revenue was optimistic in all three years. The overall revenue performance over the three years FY2013/14, FY2014/15, and FY2015/16 was 59%, 82%, and 79%, respectively. The revenue performance for the three financial years was lower than budgeted. This could be attributed to various factors including unrealistic estimates, reduced compliance rates, and pilferages due to weak revenue collection systems. The score is D because the aggregate revenue outturn deviated from the originally approved budget far below the methodology criteria for a higher score.

PI-3.2. Revenue composition outturn

The usual process of revenue forecasting with preparation of a macroeconomic forecast with parameters such as GDP, inflation, exchange rate, important commodity prices, consumer spending, and so on does not exist at the county level. There is no practice to make forecast of the main sources of revenues because the better part is just a transfer.

The composition outturn indicator is to be computed using the value of revenue in the originally approved budget, by comparable classification, and the end-of-year outturn for the same categories for each of the last three completed fiscal years. According to the calculation sheet provided by the PEFA Secretariat, different categories of revenue should be used for the assessment, such as taxes on income, taxes on property, taxes on goods and services, grants from international organizations, sales of goods, fines, and so on.

The overall performance of the revenue composition outturn for the county is shown in Table 3.7. According to the results, the variance was rather high at 62 percent, 71 percent, and 38 percent in FY2013/14, FY2014/15, and FY2015/15, respectively. Own source revenue appears as 'other receipts' in the financial statements. The score is D.

Table 3.7: Nakuru sources of revenue for the last three fiscal years (K Sh, millions)

	2013/14	2014/15	2015/16
Composition variance (%)	62	71	38

Source: CBROPs and AFSs.

Summary of scores and performance table

PI-3 Revenue outturn (M2)	D	Brief justification for score
3.1 Aggregate revenue outturn	D	Actual revenue of budgeted revenue was 59% in the first year, 82% in the second year, and 79% in the third year. The actual revenue was below 92% in all 3 years.
3.2 Revenue composition outturn	D	Variance in revenue composition is less than the required for C score. It was more than 15% in all 3 years.

3.3 Pillar II. Transparency of public finances

There are six 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. There is one dimension for this indicator.

PI-4.1. Budget classification

The county budget classification is done in accordance with the national government legal framework, which is originating from the PFM Act, 2012. This act 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 Government Financial Standards (GFS). 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 program classifications. The National Treasury issues guidelines and the codes to be used for budgeting on the IFMIS by all county governments in Kenya.

The county budget is formulated, executed, and reported on administrative, economic, and functional classifications using GFS/COFOG standard (level 2). The Public Sector Accounting Standards Board (PSASB) has been established and prescribes to the international public sector accounting standards (IPSAS) compliant standards and formats to be progressively introduced from FY2013/14. The score is C.

The county departments prepare their budgets on Excel sheets and forward them to the County Treasury Budget Office that uploads them into the IFMIS. This reflects the challenges that county faces in preparing the budget directly on the IFMIS Hyperion module. Further, the county has not been using GFS standards for revenue instead revenues are collected off the IFMIS using LAIFOMS and ZIZI systems even though in the Finance Bill the revenues are coded in the IFMIS format.

¹ SCOA can be checked in the book printout on the subhead item-source-program geographical.

Summary of scores and performance table

PI-4 Budget classification (M1)	C	Brief justification for score
4.1 Budget classification	C	Budget formulation based on administrative, program, and economic classifications applies GFS codes issued by the National Treasury. They are based on every level of administrative, economic and functional classifications and are prepared using the GFS/COFOG standard (level 2).

PI-5. Budget documentation

This indicator assesses the comprehensiveness of 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 the PFM Act, 2012, provides deficit financing through borrowing, county governments were restrained from borrowing in the absence of a clear borrowing framework. This implies that the first basic criterion was therefore not applicable. The county operates on a balanced budget principle and therefore anticipates a nil deficit/surplus. There was evidence that forecasts of fiscal deficit or surplus or accrual operating results and macroeconomic assumptions are captured in the CBROP. The second criterion requires that previous year's budget outturn is presented in the same format as the budget proposal. However, only the previous year's budget estimates are presented in the same format in the CBROP. The county satisfies the third criterion—that is, revised budget final supplementary estimates of current year are presented in the same format as the budget proposal in the CFSP. Finally, aggregation of both revenue and expenditure is presented in the CFSP and CBROP, but not according to the main heads of the budget classification (program/administrative and economic).

Table 3.8" Basic Elements

No.	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 years with a detailed breakdown of revenue and expenditure estimates (budget classification is covered in PI-4.)	No

With regard to additional elements, the county did not accumulate any new debt because the borrowing framework was not in place. Consequently, the first criterion is not applicable. However, there is an inherited debt from the previous defunct local government. The macro-framework used in the CBROP forecast analysis is a replica of the national level. The county has a summary of the debt stock in the Medium-term Debt Management Strategy Paper 2016 although it does not provide analysis on the various debt scenarios. Fiscal risks have not been analyzed and therefore the contingent liabilities such as guarantees and contingent obligations have not been fully identified. Although the county prepares two outer years' fiscal forecasts, it is not clear whether they undertake budgetary implication analysis of new policy initiatives and major public investments. The County Finance Act, 2016, provides revenue-raising measures relating to county taxes, licenses, fees, and charges. In addition, Part VI of the act empowers the CEC member in charge of finance to issue tax relief, waivers, and other incentives. In June 2016, the

county provided waivers for accrued interest due from land rates; however, interests due to incentivized landowners have not been analyzed to determine the actual effect of the waiver, and other tax expenditures incurred have not been documented. The score is D.

The county is updating Land Valuation Rolls, which will help in identifying clearly the potential size of revenue from land rates.

Table 3.8: Additional Elements

NB	Additional elements	Criteria
5	Deficit financing, describing its anticipated composition.	NA
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 standards	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 standards	No
9	Summary information of fiscal risks, including contingent liabilities such as guarantees and contingent obligations embedded in structure financing instruments such as 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	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	The county fulfils 2 elements: 1 basic element and 1 additional element. The supporting evidence includes the budgets, CBROP, and CFSP.

PI-6. County 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 extrabudgetary in accordance with the International Monetary Fund’s GFS Manual 2014.

PI-6.1. Expenditure outside financial reports

There are few entities with individual budgets that are not covered by the main budget. These extrabudgetary units are semiautonomous and do not prepare financial report for scrutiny by the County Executive. Examples include the following:

- (a) **ECDE units** are attached to various primary schools and they receive development funding from the county. In addition, there are payments made by the pupils, but the county is not able to quantify the amounts collected.

- (b) **TTIs and Farmers Training Center** receive development funding but the fees collected from the users are not reported back to the county. The management boards of the TTI decide where the monies are spent without the input from the county.

In summary, there is no evidence that extrabudgetary units prepare financial statements, and therefore, the score is D*.

PI-6.2. Revenue outside financial reports

There was no evidence that extrabudgetary units prepare financial reports. The score is D*.

PI-6.3. Financial reports of extra budgetary units

No financial reports of extrabudgetary units were provided. The score is D*.

Summary of scores and performance table

PI-6 County government operations outside financial reports (M2)	D	Brief justification for score
6.1 Expenditure outside financial reports	D*	The extrabudgetary units do not prepare financial reports.
6.2 Revenue outside financial reports	D*	The extrabudgetary units do not prepare financial reports.
6.3 Financial reports of extra budgetary units	D*	The extrabudgetary units do not prepare financial reports.

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from the county government to subcounty governments with direct financial relationships to it. It considers the basis for transfers from the county government and whether subcounty 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 under the county government.

Summary of scores and performance table

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

PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive 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

The Department of Monitoring and Evaluation in the Ministry of Devolution and Planning has developed County Guidelines for the Development of County Integrated Monitoring and Evaluation System. However, this function is not involved in collecting information and monitoring the achievements for the service delivery.

The county prepares the budget by involving members through public participatory forums. The ADP for FY2016/17 outlines planned projects and programs, and this information is also included in the PBB. The PBB captures the implemented projects and programs including their achievements and challenges. Although the information about the ADP is usually uploaded on the county website, it is not regularly updated and therefore does not comply with the set guidelines. Information on policy or program objectives, key performance indicators (KPIs), outputs, and outcomes for most ministries, disaggregated by program or function, is not published. A framework of performance indicators relating to the outputs or outcomes of the majority of ministries is not prepared/published either. The score is D.

PI-8.2. Performance achieved for service delivery

There are no specific reports elaborating on consistency of performance, planned outputs, and achieved outcomes as well as explanations of any deviations. During preparation of the budget, the county departments (all nine ministries, the Office of the Governor, the County Treasury, the County Assembly, and the Country Public Service Board) are required to prepare sector reports. The reports outline the achievement made by the respective departments on the implementation of the previous year's budget. The reports also form the basis of allocation of funds or justification of additional funding during the budget preparation process. However, this information is neither published nor publicized. The ADP also contains strategic priorities, measurable indicators, and the targets for each project in all departments. Generally, the monitoring and evaluation function at the county level is weak. The closest tool of economic assessment and performance of the budget is the CBROP. The score is D.

PI-8.3. Resources received by service delivery units

Due to lack of capacity particularly in monitoring and evaluation function, information to corroborate resources received by at least two large departments was not provided. The score is D.

PI-8.4. Performance evaluation for service delivery

The county has not undertaken an independent evaluation of performance of service delivery units to determine the appropriateness, efficiency, and effectiveness of those services in the last three fiscal years. In addition, despite the few documents prepared by the county showing priority programs, the function to collect and monitor performance data is very weak. The score is D.

Summary of scores and performance table

PI-8 Performance information for service delivery (M2)	D	Brief justification for score
8.1 Performance plans for service delivery	D	Performance plans are not prepared and performance is not measured.

8.2 Performance achieved for service delivery	D	Sector reports/budget reviews are prepared by the respective county departments. However, up-to-date information on service delivery is not published. There are no KPIs, outputs, and outcomes to monitor performance.
8.3 Resources received by service delivery units	D	Survey has not been conducted in any of the last 3 fiscal years on resources received by the service delivery unit for at least 1 large ministry.
8.4 Performance evaluation for service delivery	D	Evaluation of the efficiency or effectiveness of the service delivery units have not been carried out for the last 3 fiscal years.

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, public access to which is considered critical. Article 35 of the Constitution and the PFM Act, 2012, emphasize 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”.

Table 3.9: Basic Elements

Elements	Compliance
Basic elements	
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within 1 week of the Executive’s submission of them to the legislature.	No
2. Enacted budget. The annual budget law approved by the legislature is publicized within 2 weeks of passage of the law.	No
3. In-year budget execution reports. The reports are routinely made available to the public within 1 month of their issuance, as assessed in PI-27.	Yes
4. Annual budget execution report. The report is made available to the public within 6 months of the fiscal year’s end.	No
5. Audited annual financial report, incorporating or accompanied by the external auditor’s report. The reports are made available to the public within 12 months of the fiscal year’s end.	Yes
Additional elements	
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least 4 months before the start of the fiscal year.	Yes
7. Other external audit reports. All nonconfidential reports on county government consolidated operations are made available to the public within 6 months of submission.	No
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 2 weeks of the executive budget proposal’s submission to the legislature and within 1 month of the budget’s approval.	No
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within 1 week of their endorsement.	n.a.

The county budget preparation process is participatory involving the public in the preparation of the ADPs and CFSPs. However, budget documents are not published within the stipulated time frame.

The in-year and annual budget execution reports (CBIRR) are normally published as guided by the PFM Act, 2012, and are available on the COB website, but the county does not publish them on its website. With regard to additional elements, the county adheres to the set guidelines of budget preparation process. The other three components, other external audit reports, and the summary of budget proposal and macro forecasts are not available to the public within the stipulated time lines. No abridged copies of the budget are prepared or translated into the local dialect. As indicated earlier, the county depends on macroeconomic forecasts at the national level.

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 fulfils only 3 elements: 2 basic elements and 1 additional element.

3.4 Pillar III. Management of assets and liabilities

PI-10. Fiscal risk reporting

This indicator measures the extent to which fiscal risks to the county government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subcounty governments or public corporations, and contingent liabilities from the county government’s own programs and activities, including extrabudgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters.

PI-10.1. Monitoring of public corporations

Public corporations for the purpose of this indicator are defined in accordance with GFS 2014. The county has not established public corporations and, therefore, has no direct ownership with any. This dimension is considered not applicable.

PI-10.2. Monitoring of subnational governments

There are supposed to be further devolved units below the county government level as per the Urban Areas and Cities Act 2011, but the act has not been operationalized. Currently, there are no subnational entities lower than the county that operate independently, and therefore, all financial statements are prepared at the county level. This dimension is considered not applicable.

PI-10.3. Contingent liabilities and other fiscal risks

The county has established Housing Mortgage and Car Loan Scheme administered by the County Assembly that qualify as contingent liabilities. However, they are not contained separately as a budget item and the county does not quantify their related fiscal risks. The score is D.

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	This is not applicable because the county is yet to institute any public corporations.
10.2 Monitoring of subnational governments	N/A	No further devolved units exist in this and all other counties.
10.3 Contingent liabilities and other fiscal risks	D	The county does not have contingent liabilities as a separate item within the budget because no loans have been taken by the current devolved government. The fiscal risks are mentioned in the CFSP, but they are not quantified.

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

There is no policy or law guiding public investment in the county. The only legislation on investment is Section 15 (2a) of the PFM Act, 2012, that requires that at least 30 percent of budget be allocated for development expenditure. Investment initiatives and projects undertaken by various departments in the county are not based on any analytical appraisal methods. The practice is that the County Assembly decides on the projects to be implemented after public participation and prioritization. There is no formal record of investment projects. The following are examples of some investment projects as covered in the first CIDP for 2013–2017: (a) Fertilizer Cost Reduction Investment, (b) Fish Farming Enterprise and Productivity Project, (c) Housing Technology Centers, (d) Rural Electrification Programme, and (e) Itare Dam Water Project.

In summary, technical analytical methods are not employed by the ministries to assess investment proposals. The score is D.

PI-11.2. Investment project selection

Public participation plays a key role in identification and prioritization of investment projects. After public consultations, project proposals are submitted to the County Budget Office for harmonization. Final selection of projects is based on discretion rather than formal criteria for investment project selection.

Investment projects are prioritized by a central entity though without a standard criterion for project selection. However, the County Assembly in most cases has a final say on projects that will sail through. Their decisions are not based on any economic analysis. There are no records of major investment projects; therefore, it cannot be ascertained which and how many of them are prioritized. The score is D.

PI-11.3. Investment project costing

Project costs are not included in the budget process for recurrent spending but rather in capital spending. The county does not prepare medium-term projections on investment or undertake any other comprehensive financial analysis of the investment projects. As such, there is no information about the projected budget plans over the lifetime of the investment project. The score is D.

PI-11.4. Investment project monitoring

Project monitoring and evaluation function is usually carried out by the Directorate of Economic Planning under the County Treasury. The Department of Roads and Public Works normally oversees the implementation of major investment projects. Due to lack of formal procedure and weak institutional capacity, the county does not undertake monitoring and evaluation across the life cycle of specific projects. Therefore, value for money of the investment projects as well as their work in progress and eventual impact on the society cannot be determined. The score 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	Economic analysis of investment projects falls within the mandate of the various ministries. None of them employ technical analytical methods to assess investment proposals. There is no economic analysis of investment projects.
11.2 Investment project selection	D	The decisions on selection of investment projects are not based on any economic analysis but rather on discretion of the County Assembly after public consultations.
11.3 Investment project costing	D	Investment costing is based on ceilings set by the County Treasury and Budget and Appropriation Committee (BAC). Each ward is allocated a development ceiling (block figure) to projects based on public participation. There is no technical methodology for project costing.
11.4 Investment project monitoring	D	Monitoring and evaluation of projects is supposed to be performed by the Directorate of Economic Planning under the MoF. However, there are no standard procedures and guidelines for project monitoring developed and applied.

PI-12. Public asset management

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

PI-12.1. Financial asset monitoring

The only financial assets held by the county are cash and cash equivalents as evidenced in bank reconciliation statements. The county is yet to invest in major forms of financial assets such as securities, bonds, loans, receivables, and so on. As such, there was no established system to manage, monitor, and report on financial assets. The score is C.

PI-12.2. Nonfinancial asset monitoring

The county keeps an asset register but does not undertake age and value analysis. The challenge in age analysis is attributed to the fact that most of the assets were inherited from the national government or the defunct local authority. The register on nonfinancial assets is not published. Table 3.11 provides categories of nonfinancial assets held by the county. The score is D.

Table 3.10: Categories of nonfinancial assets-2013

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings and structures	Audit Report on Assets and Liabilities	The age and value of assets are not captured in the document.
	Machinery and equipment	Audit Report on Assets and Liabilities	The age and value of assets are not captured in the document.
	Other fixed assets	Audit Report on Assets and Liabilities	The age and value of assets are not captured in the document.
Inventories	—	n.a.	n.a.
Valuables	—	—	—
Non-produced assets	Land	Audit Report on Assets and Liabilities	The age and value of assets are not captured in the document.
	Mineral and energy resources	n.a.	n.a.
	Other naturally occurring assets	n.a.	n.a.
	Intangible non-produced assets	n.a.	n.a.

Source: Audit Report on Assets and Liabilities as of June 30, 2013.

PI-12.3. Transparency of asset disposal

The PPADA (2015) establishes procedures and rules for the transfer or disposal of financial and nonfinancial assets. There are no supplementary procedures established by the subnational county government. Asset disposal is the responsibility of the Asset Disposal Committee in the County Treasury. The assets to be disposed are identified by the Asset Disposal Committee and approval for disposal is sought from the County Assembly. However, the county has not disposed of any asset and this fact is not showing in budget documentation. The score is D.

Summary of scores and performance table

Public asset management (M2)	D+	Brief justification for score
12.1 Financial asset monitoring	C	The only financial assets held by the county are cash in hand and at bank. Bank reconciliation statements provide information on the above.
12.2 Nonfinancial asset monitoring	D	Assets are listed but information on age and value is not provided. It is difficult to assign age because most of the assets were acquired way before devolution and establishment of the county government.
12.3 Transparency of asset disposal	D	The county has not disposed of any asset and this is not showing in budget documentation.

PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify 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 the county's PFM Regulations, 2015 (176–196). In addition, Section 140 (d) of the PFM Act, 2012, requires county governments to develop a Debt Management Strategy (DMS). The borrowing framework exists, but there is currently an administrative moratorium on county borrowing

The debt management in the county is guided by Section 123 of the PFM Act, 2012. As of June 30, 2013, the total debt inherited from the former defunct local authorities was approximately K Sh 1.2 billion, consisting of statutory funds, (pension contribution owed to both the County Pension Fund and Local Authority Pension Fund), salary arrears, banks loans, and legal fees. Table 3.12 presents stock of outstanding debt as of September 30, 2016.

Table 3.11: Structure of the outstanding inherited debt as of 30th September 2016

Description	Debt outstanding (K Sh)
Statutory debt	295,415,852
Salary arrears	44,355,311
Payroll deductions	10,823,164
Suppliers and contractors	49,686,678
Bank loan	112,136,916
Legal fee	304,057,453
Total	816,475,374

Source: Medium-term Debt Strategy, 2016.

The legal fee element of the debt relates to a court judgment in favor of dismissed local government staff who were later reinstated by a court decision. The total stock of debt as of September 30, 2016, amounts to K Sh 1.9 billion. It consists of

- (a) Inherited debt amounting to K Sh 816 million and
- (b) Pending bills arising from all ministries on a commitment basis amounting to K Sh 1.09 billion.

The shortfall of funds to settle the debt necessitates reprioritization of debt repayment in FY2017/18. Given the limited fiscal space, all departments will be required to reprioritize their programs and align their expenditure to cash flow forecasts and availability of funds to reduce the huge recurrent pending bills. The county has a medium-term DMS (2015) that outlines how pending bills will be cleared. The debt is recorded, managed, and reported annually by the Debt Management Unit within the County Treasury. The score is D.

Due to the nature and the origin of the debt, any debt value reconciliations with the credit institution would have been done by the national government. It has been recognized that there are delays by the National Treasury to release fund for debt servicing in time, and thus, the outstanding debt and payment of creditors leads to accumulation of debt for a long period.

PI-13.2. Approval of debt and guarantees

According to Article 212 of the Constitution on Public Finance Management and Devolution, county governments are allowed to borrow only if

- Guaranteed by the national government and
- Approved by the County Assembly.

According to Article 213 of the Constitution, guarantees by the national government must adhere to the following:

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

The county has not taken any loans because of the borrowing moratorium. There is an agreement by the CoG through the IBEC restricting borrowing of loans by counties. The restriction was yet to be lifted as at the time of the assessment. External borrowing must be approved and guaranteed by the National Treasury. The counties are not allowed to borrow, and therefore, this dimension is not applicable.

PI-13.3. Debt management strategy

Section 123 of the PFM Act, 2012, requires counties to develop DMSs to guide in collating debt-related information including (a) the total stock of debt on the date of the statement; (b) the sources of loans; (c) the principal risks associated with those loans; (d) the assumptions underlying the DMS; and (e) an analysis of the sustainability of the amount of debt, both actual and potential. The strategy should be submitted to the County Assembly and published and publicized. A copy of the same should be submitted to the CRA and the IBEC.

The county developed its first medium-term DMS in 2015. At the time of the assessment, the county was implementing its third strategy and the documents were published on the county’s website. The county continues to build capacity of the Debt Management Unit to effectively handle matters relating to borrowing and servicing of debt. The DMS contains information on the total stock of debt, sources of loans, and the principal risks associated with those loans and an analysis of sustainability of the amount of debt. The strategies employed to deal with the debt are debt servicing, debt restructuring, prioritization of programs, and recruitment of more lawyers in the county government. The DMS does not cover evolution of risk indicators such as interest rates and refinancing. This information is published on the county website. 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 declined to take up some of the debt inherited from local authorities due to lack of clarity on their origin. Bank loans and salary arrears were taken over from the defunct local authority alongside other pending bills. These records are updated annually, but it is not clear if there are annual reconciliations.
13.2 Approval of debt and guarantees	N/A	There is moratorium on borrowing. Majority of the debt emanates from expenditure arrears.

13.3 Debt management strategy	D	The county has DMS papers. The strategy should cover the medium term but the current one is prepared to cover a single financial year. It does not indicate interest rates, refinancing, and foreign currency risks.
-------------------------------	---	--

3.5 Pillar IV. Policy-based fiscal strategy and budgeting

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial for 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

Presently, the county adopts the macroeconomic indicators from the national government for forecasting. This is allowed by the PEFA Secretariat’s subnational government guidelines. The county provides a situational analysis of the economic outlook, which is prepared in accordance with the PFM Act, 2012. 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 forecasts of revenue (by type), expenditure, and budget balance for the MTEF period of three years and provides an explanation of differences in forecasts. The information is available in the CFSP, CBROP, and the budget estimates. The fiscal forecasts are provided as part of budget documentation submitted to the County Assembly. However, the county does not carry out sensitivity analysis with underlying assumptions. The score is C.

PI-14.3. Macro fiscal sensitivity analysis

The county lacks technical capacity and resources to carry out any macro fiscal sensitivity analysis. The score is D.

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 Treasury adopts the macroeconomic indicators from the national government that guide the preparation of the CBROP, CFSP, and budget estimates.
14.2 Fiscal forecasts	C	The county prepares forecasts of revenue (by type), expenditure, and budget balance for the MTEF period of 3 years and provides an explanation of differences in forecasts. The information is available in the CFSP and CBROP, but the budget estimates are not accompanied by underlying assumptions.
14.3 Macro fiscal sensitivity analysis	D	The county does not carry out any 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 has an approved CIDP that guides the overall development agenda. On a yearly basis, the county prepares an ADP, CBROP, CFSP and budget estimates as required by the PFM Act, 2012. There are deviations on expenditure and revenue forecasts provided in the ADP and the CBROP. In addressing these deviations, Section 132 (c, e) of the PFM Act, 2012, stipulates submission and consideration of the revenue-raising measures. Each year, the County Executive is expected to pronounce the revenue-raising measures and submit a County Finance Bill for approval by the County Assembly setting out the revenue-raising measures together with a policy statement expounding on the same. Although it is required that a fiscal impact analysis is undertaken by the County Treasury, the analysis is not undertaken. The score is D.

PI-15.2. Fiscal strategy adoption

The county prepares a CFSP annually that contains clear fiscal goals and targets for the medium term (budget year and two following years). The CFSPs for FY2014/15 and FY2015/16 are available online at www.nakuru.go.ke after adoption by the County Assembly.

The CFSP outlines the broad strategic and economic issues and framework together with county government spending plans as a basis for the FY2015/16 budget and for the medium term. The strategies identified in the last completed year fiscal reports are related to enhancement and promotion of social and economic environment such as (a) creating an enabling environment for business and private sector participation in county economic growth and development, (b) development of county physical and social infrastructure, and (c) promotion of health services through investing in quality and affordable health services. The programs targeting the implementation of the strategies are specified. The revenue collection strategies are outlined with anticipated rate growth for the next fiscal year. The same goes for the total expenditures with an average growth of 7.8 percent. There is a general recurrent expenditure growth of 5 percent each year in the projections. The fiscal policy generally adheres to medium-term debt targets as provided in the medium-term DMS that aims at ensuring public debt sustainability. The score is B

PI-15.3. Reporting on fiscal outcomes

According to the PFM Act, 2012 (section 118), county governments should prepare the CBROP that 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 CFSP together with proposals to address the deviation and the time it would take to address the deviations

The county prepares a CBROP annually that contains a review of the past year's performance (by comparing the budget estimates and actual performance without explanation of deviations). The report is submitted to the County Assembly together with the budget for approval. The CBROPs for FY2014/15 and FY2015/16 are available online at www.nakuru.go.ke. The score is C.

Summary of scores and performance table

PI-15 Fiscal strategy (M2)	C	Brief justification for score
15.1 Fiscal impact of policy proposals	D	The county government does not carry out any fiscal impact analysis.
15.2 Fiscal strategy adoption	B	The county prepares a fiscal strategy paper annually that contains clear fiscal goals and targets for the medium term (budget year and two following years).
15.3 Reporting on fiscal outcomes	C	The county prepares a CBROP annually that provides a review of fiscal performance but no explanation of deviations. It is usually submitted together with the budget to the County Assembly for approval.

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.

PI-16.1. Medium-term expenditure estimates

The guidelines for the preparation of the medium-term expenditure estimates are provided in the budget circular. The county prepares annual budget estimates for the budget year and the two following years allocated by administrative, economic, and functional classifications. A PBB is also submitted to the County Assembly for approval. The score is A.

PI-16.2. Medium-term expenditure ceilings

The preliminary medium-term expenditure ceilings are provided for in the CBROP, which is submitted in September every year. This is after the issuance of the budget calendar, which is issued by August 30. The approved medium-term budget ceilings are provided for in the CFSP and are submitted to the County Assembly by February 28. The score is D.

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

The county had not prepared any Sectoral Strategic Plans but was in the process of preparing the overall County Strategic Plan. The score is D.

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

The deviations in the medium-term budgets at the department and county levels are not explained. For instance, the budget estimates for the second year in the FY2015/16–FY2017/18 MTEF period (which is FY2016/17) are different from the estimates of the first year of the FY2016/17–FY2018/19 MTEF period. 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 prepares annual budget estimates for the budget year and the two following years allocated by administrative, economic, and functional classifications.
16.2 Medium-term expenditure ceilings	D	The preliminary medium-term expenditure ceilings are provided for in the CBROP, which is submitted after the issuance of the budget calendar.
16.3 Alignment of strategic plans and medium-term budgets	D	The county government has not prepared any Sectoral Strategic Plans but is preparing the overall County Strategic Plan.
16.4 Consistency of budgets with previous year's estimates	D	There is no consistency between the last and the current medium-term budgets both at the ministry and the aggregate levels, and no explanations are given for the deviations.

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 to Parliament, by February 15 each year. This Budget Policy Statement sets out the broad strategic priorities and policy goals that will guide the national government and 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 Budget Policy Statement includes the amount of indicative transfers of funds from the national government to the county governments. The Budget Policy Statement must be published not later than 15 days after submission of the statement to Parliament.

The county has a budget calendar which is in line with the PFM Act, 2012. It is included in the CBROP and is generally adhered to. The 2015/16 CBROP budget calendar presented in Table 3.13 shows the steps of budget formulation by all parties involved with the respective deadlines. All line ministries are supposed to submit to the Sector Working Group their budget proposals by December 10. Thus, they have more than six weeks to complete their detailed estimates. Table 3.16 shows the required deadline and actual submission of key budget documents for all three fiscal years of the assessment. No information on when exactly the budget estimates were submitted by all line ministries to the Treasury was shared, and therefore, materiality and actual submission for FY2016/17 cannot be ascertained. Information was provided only on the final submission of the county budget to the County Assembly. The county budget was submitted on time by April 30, 2016. The budget calendar shows that the budgetary units are given more than six weeks from receipt of the budget circular on August 30, 2015, to meaningfully complete their detailed estimates by December 10, 2015. Even though information on adherence is not available, that is, the actual submission dates of budget estimates of all budget users, it is assumed that they all submitted their estimates to the Treasury in time, which did not affect the final submission of the county budget to the County Assembly in time, that is, on April 30, 2016. This justifies score A.

Table 3.12: Nakuru County Budget Calendar for the FY2016/17

Activity	Responsibility	Deadline
----------	----------------	----------

1	Performance review and strategic planning	Treasury	July–August 2015
2	Develop and issue county budget guidelines	Treasury	August 30, 2015
3	Launch of sector working groups	Treasury	August 30, 2015
4	ADP submitted to the County Assembly	Treasury	September 1, 2015
5	Determination of fiscal framework.	Micro working group	September 20, 2015
	Draft CBROP	Micro working group	September 20, 2015
	Submission and approval by the Cabinet	Micro working group	September 30, 2015
	Tabling of CBROP to the County Assembly	Micro working group	October 7, 2015
	Circulate the approved CBROP to accounting officers	Micro working group	October 14, 2015
6	Preparation of county budget proposals	Line ministries	
	Draft Sector Report	Working group	November 15, 2015
	Submission of the Sector Report to the County Treasury	Sector working group	December 10, 2015
	Review of the proposal	Treasury	December 15, 2015
7	Public participation	Treasury	January 2016
8	Submit the supplementary budget to the county assembly	Treasury	January 30, 2016
9	Submission of the CFSP to the County Assembly for approval	Treasury	February 16, 2016
10	Submission of the DMS to the County Assembly for approval.	Treasury	February 28, 2016
11	Issue final guidelines on preparation of 2016/17 county budget	Treasury	March 15, 2017
12	Submission of budget proposals to Treasury	Line ministries	March 30, 2016
13	Consolidation of the draft budget estimates	Treasury	April 10, 2016
14	Submission of draft budget estimates for the county government to the County Assembly	Treasury	April 30, 2016
15	Review of draft budget estimates by departments	County Assembly	May 15, 2016
16	Report on the BAC's draft budget estimates from the County Assembly	County Assembly	May 30, 2016
17	Annual cash flow	Treasury	June 15, 2016
18	Submission of the Appropriation Bill to the County Assembly	Treasury	June 15, 2016
19	Resolution of the County Assembly on estimates and approval	Treasury	June 25, 2016

Source: CBROP 2015.

Table 3.13: Actual submission of budget documentation of Nakuru County

Document	Year	Timelines	Actual date of submission
Budget circulars	2014		September 26, 2013
	2014		December 16, 2013
	2014		March 18, 2014
	2014		Supp. Budget – November 3, 2014
	2015		August 11, 2014
	2015		March 20, 2015
	2016		August 28, 2015
	2016		March 18, 2016
CBROP	2013	September 30	
	2014	September 30	
	2015	September 30	
	2016	September 30	
CFSP	2013	February 28	February 28
	2014	February 28	February 28
	2015	February 28	February 28
	2016	February 28	February 25
	2017	November 11	November 24
DMS	2014	February 28	
	2015	February 28	
	2016	February 28	February 25
	2017	February 28	November 24
County budget	2013/14	April 30	April 30
	2014/15	April 30	April 30
	2015/16	April 30	April 30
	2016/17	April 30	April 29
	2017/18	April 30	February 27

PI-17.2 Guidance on budget preparation

The county government submits a comprehensive budget circular that includes the following:

- (a) The budget calendar
- (b) Strategies that inform the budget
- (c) Instructions for expenditure reviews
- (d) Criteria for project identification
- (e) Preparation and submission of sector reports
- (f) Requirements of PFM regulations and standing orders
- (g) The format of all strategy documents

(h) Linkages of planning documents

Budget circulars are issued by the CEC member in charge of finance. The approved medium-term budget ceilings are per the ministry and are provided for in the CFSP, which is usually submitted to the County Assembly by February 28 each year. The budget ceilings are issued after the budget circulars. The score is D.

PI-17.3 Budget submission to the legislature

The County Executive submitted the annual budget proposals to the County Assembly on April 30, 2014, for the FY2014/15 budget; on April 30, 2015, for the FY2015/16 budget; and on April 29, 2016, for the FY2016/17 budget. Therefore, the set time lines were consistently adhered to. The score is A.

Summary of scores and performance table

PI-17 Budget preparation process (M2)	B	Brief justification for score
17.1 Budget calendar	A	The county has developed a clear annual budget calendar that is usually presented as an annex to the budget circular and the CBROP. It shows, for FY2016/17, that the budgetary units had more than 6 weeks to complete their detailed estimates, so that the county budget was submitted to the County Assembly on time.
17.2 Guidance on budget preparation	D	The county government submits a comprehensive budget circular that includes guidelines on budget preparation but does not include ministry ceilings.
17.3 Budget submission to the legislature	A	The annual budget proposals have been submitted to the legislature by the April 30 deadline for the last 3 years, which is 2 months before the start of the fiscal year.

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 scrutinizes, 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 legal framework for budget scrutiny of the county budget by the County Assemblies is set in the PFM Act Section 125 (1). 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 documents (ADP, CFSP, CBROP, and detailed budget estimates) that are submitted to the County Assembly for consideration and approval. The submitted documents are debated, commented, and voted. The score is A.

PI-18.2. Legislative procedures for budget scrutiny

Section 130 of the PFM Act, 2012, and Standing Order No. 210 provide for the formation of the BAC. The order also provides for discussion of budget estimates by sectoral committees within 21 days after being

tabled in the County Assembly. The BAC discusses and reviews estimates (with technical support from fiscal analysts) and makes recommendations by considering recommendations from sectoral committees, views of the CEC member in charge of finance, and the general public (public consultations). Generally, the procedures for budget scrutiny are adhered to as evidenced by records from the County Assembly sessions and decisions. The score is A.

PI-18.3. Timing of budget approval

The time allocated to the legislature for budget review, including time allowed for revision by the executive, is two months—that is, between April 30 when the County Executive submits the budget to the County Assembly and June 30 when the County Assembly is expected to approve the budget. The legislature approved annual budgets by June 30 in one of the previous three fiscal years. The dates for budget approval were June 30 in FY2014/15, July 2 in FY2015/16, and August 2 in 2016/17. The delay in the third year was occasioned by disagreements on allocations at ward levels as evidenced by the County Assembly Hansards. The score is C.

PI-18.4. Rules for budget adjustments by the executive

The rules for budget adjustments are defined in Sections 135 of the PFM Act, 2012, and County Assembly Standing Order No. 218. Section 154 of the PFM Act, 2012, states that an accounting officer may reallocate funds, but the total reallocation shall not exceed 10 percent of the total approved expenditure vote for that particular program. Thus, the rules are allowing extensive administrative reallocations and expansion of total expenditure up to 10 percent. Materiality is provided by the supervision of the COB. 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 Regulation No. 37(1), 2015, provides that the County Assembly can approve any changes in the budget estimates but shall not exceed 1 percent of the vote ceiling. The County Department of Finance and Economic Planning also issues guidelines on capital project reallocation. The score is C.

Summary of scores and performance table

PI-18 Legislative scrutiny of budgets (M1)	C+	Brief justification for score
18.1 Scope of budget scrutiny	A	The legislature’s review covers all budget documents (ADP, CFSP, CBROP, and budget estimates) including budgetary priorities and medium-term revenue and expenditure estimates and forecasts. These documents are discussed and voted at the County Assembly.
18.2 Legislative procedures for budget scrutiny	A	The legislature’s procedures to review budget proposals are provided in Standing Order 210 that gives guidance on formation of budget committees and process of budget scrutiny (which includes public participation).
18.3 Timing of budget approval	C	The legislature has approved the annual budget within 1 month of the start of the year over the last 3 fiscal years and delayed by 2 months in the third year.
18.4 Rules for budget adjustments by the executive	C	Clear rules exist as per the PFM Act, 2012, and they allow administrative reallocation and expansion of expenditures.

3.6 Pillar V. Predictability and control in budget execution

Indicators of this pillar assess 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 and customs administration and social security contribution. 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 Finance Act, 2016, provides for revenue raising measures relating to county taxes, licenses, fees, and charges while the County Revenue Administration Act, 2016, provides for the general administration of raising revenue, laws, and related purposes. Information about the rights and obligations of taxpayers is provided in the County Finance Act, 2016, and is disseminated through circulars, public brazes, radio announcement, churches, and websites. In addition, the taxpayers are involved in its preparation through public participation forums. The Revenue Department of the county is responsible for the administration and management of the subnational revenue. The county does not have a formalized redress handling mechanism, but common interest groups do present written memoranda on charges and fees, which are submitted to the CO of Finance and Economic Planning Ministry.

The information on tax obligations—such as (a) registration, (b) timely filing of declarations, (c) payment of liabilities on time, and (d) complete and accurate reporting of information in declarations provided to taxpayers—is not customized to meet stakeholder needs. The revenue of the county is collected mostly at the cash points of the county administration. Table 3.15 shows the various own source revenue streams for FY2015/16 as accounted in the audited AFS. The score is D.

Table 3.14: Receipts from Revenue Streams

	Revenue stream	Amount in K Sh
1	Rents	47,475,050
2	Other property income	404,399,026
3	Receipts from administrative fees and charges	75,537,677
4	Fines penalties and forfeitures	897,581
5	Business permits	430,281,392
6	Cesses	45,563,418
7	Plot rents	17,479,814
8	Various fees	18,449,891
9	Market/trade centre fee	67,139,546
10	Vehicle parking fees	292,414,437
11	Social premises use charges	1,345,440
12	Other education revenues	946,875
13	Public health services	599,598,919
14	Public health facilities operations	7,217,614
15	Environment and conservancy	168,780,867
16	Slaughter houses administration	17,935,295
	Total	2,295,462,842

Source: ASF 2015/16.

PI-19.2. Revenue risk management

There is no risk management system for revenue collection. The county uses a computerized system (ZIZI) for collection of market and parking fees. The system generates a Z-report daily whose totals equal the total collection for the day for each revenue collector. The other measures that have been put in place to minimize revenue leakage include the establishment of a special team for “revenue enhancement, target setting, and inspection team” whose main role is to facilitate enhanced revenue collection from the subcounties through enforcing compliance with the existing rates/charges. If an incident of noncompliance is noted, then appropriate measures are taken including, but not limited to, levying of penalties and pressing charges on the payers of revenue. The score is D.

PI-19.3. Revenue audit and investigation

The Revenue Department conducts revenue audit and fraud investigation. At the time of the assessment, one case was ongoing in which a payer had submitted a fake banking slip. The case has since been forwarded for prosecution and a report on the same case has been prepared. However, the county lacks a documented compliance improvement plan through which fraud investigations are managed and reported. The Internal Audit Department also conducts audit of the revenue in every subcounty through the conventional audit process of planning, field work, and interviews with the auditee and discussion with management. The score is D.

PI-19.4. Revenue arrears monitoring

The available information on revenue arrears only relates to land rates and housing rents. The figures are reported without disaggregation by age. The total land rate arrears amounted to K Sh 3.05 billion while the house rent arrears amounted to K Sh 144.3 million. These arrears date from the time the county governments came into existence and include inherited arrears from the defunct local authorities.

Therefore, extracting the stock of revenue arrears for the last completed fiscal year to compute the percentage of the total revenue was not possible. 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	Comprehensive and up-to-date information on the rights and obligations of the payers is provided in the Finance Act. This information is however not available on the official website. Instances of advertisements through multiple channels including newspaper and public forums have been noticed. The civil society indicated lack of a clear channel of redress process and procedure.
19.2 Revenue risk management	D	There is no documented risk management approach for assessing and prioritizing compliance risk. The county does not maintain a register of identified compliance risk for each payer segment.
19.3 Revenue audit and investigation	D	The county undertakes revenue audits and fraud investigations. However, this is not reported on according to a documented compliance improvement plan due to nonexistence of such a document and practice.
19.4 Revenue arrears monitoring	D*	Information on the stock of revenue arrears for the last completed fiscal year was not available for computation of percentages of the total revenue collected. The revenue arrears were reported cumulatively from the time the county government came in place and were not disaggregated by age.

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 nontax revenues collected by the county government.

PI-20.1. Information on revenue collections

The sources of revenue for the county include property tax, ground rent, business permits, market and parking fees, building approvals, royalties, agriculture produce fees, water and sewerage, health fees, and fire brigade fees. The revenue collectors submit information to the revenue officer daily to compile and submit a monthly report to the head of Revenue. The revenue report is then submitted to the County Assembly each quarter. All the information is broken down by revenue types as all revenue types are covered. The score is A.

PI-20.2. Transfer of revenue collections

In accordance with Article 207 of the Constitution, a County Revenue Fund is established under Section 109 of the PFM Act, 2012. All monies raised or received by or on behalf of the county government are paid into the County Revenue Fund. The revenue collectors deposit money collected daily in the collection accounts maintained at commercial banks. This is swept to the County Revenue Fund account held at the CBK every fortnight. The revenue collectors present the daily banking slips to the County Revenue Office for recording. The score is A.

PI-20.3. Revenue accounts reconciliation

Most of the charges and fees are paid through the commercial banks and the banking slips are presented to the Revenue Office for records. The automation of parking and market/charges fees enables daily totaling of the amounts collected. The reconciliation is done on a monthly basis when the bank statement is generated and is reconciled with the receipts. This was evidenced by a sample of Revenue Account Reconciliation issued in February 2017 by the CBK and a Monthly Revenue Banking for all subcounties for the period of July 2016–Feb 2017. The score is C.

Summary of scores and performance table

PI-20 Accounting for revenue (M1)	C+	Brief justification for score
20.1 Information on revenue collections	A	The Revenue Department obtains revenue data daily (parking and markets) from the revenue collectors. This information is broken down by revenue type. The entire revenue collection report is consolidated into monthly and quarterly reports.
20.2 Transfer of revenue collections	A	The revenue collected is banked daily by the revenue collectors to the revenue collection account held at commercial banks. The funds are then swept every 2 weeks to the County Revenue Fund account held at the CBK.
20.3 Revenue accounts reconciliation	C	Revenue accounts reconciliations are done monthly immediately after the bank statements are received. The reconciliation entails assessment, collections, arrears, and transfers. However, reconciliation of arrears has never been done to date.

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. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

PI-21.1. Consolidation of cash balances

The county maintains 42 bank accounts, 5 of which are maintained at the CBK including (a) the recurrent account, (b) the development account, (c) the Revenue Fund account, (d) the Deposit Fund account, and (e) the Road Maintenance Levy (RML) Fund account. The other 37 accounts are maintained in local commercial banks and are mainly used for revenue collection. The evidence is provided in the Note 22 A of 2015/16 Financial Statements showing the materiality for all bank accounts (in the CBK and commercial banks) for FY2014/15 and FY2015/16, the cash position being K Sh 2,083,605,866 and K Sh 2,105,118,787, respectively. Cash and cash equivalents are consolidated every month and reports prepared on a monthly and a quarterly basis. In addition, the county consolidates bank and cash balances annually for external use. 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 COB.

The county prepares a budget based on equitable share of revenue and the projected revenue from own sources. The National Treasury prepares monthly disbursement schedules for 12 months. Based on the approved budget, the county prepares an annual cash flow projection. The inflows and outflows are monitored based on the requisitions to the OCOB on a monthly basis. The score is C.

PI-21.3. Information on commitment ceilings

Section 117 of the PFM Act, 2012, requires the County Treasury to prepare a CFSP by February 28 each year. Information on commitment ceilings is provided in the CFSP, which is submitted to the County Assembly for consideration and adoption with or without amendment. The ceilings are also reflected in the budget, which by law is supposed to be approved before the end of June and implemented through the County Appropriation Act.

The approved CFSP sets the ceiling and levels of commitments for the next financial year. The commitment ceilings (in the approved CFSP) are made available to the budgetary units one month before the deadline to submit their budget expenditure commitments. The cash flow projections and procurement plans are aligned to the budget appropriations. There is no evidence that all budgetary units are given reliable information on actual resources available for their budgetary commitments. The score is D.

PI-21.4. Significance of in-year budget adjustments

Section 135 of the PFM Act, 2012, provides that county government shall submit a supplementary budget if the amount appropriated for any purpose under the County Appropriation Act is insufficient or a need has arisen for expenditure purposes for which no amount has been appropriated by the act. The submitted supplementary budget is meant to request approval by the County Assembly of expected reallocations. Reallocations do not occur before the County Assembly approves the supplementary budget. During FY2015/16, the county undertook one in-year budget adjustment. The Budget Department issued a written circular to all the departments to submit their revised estimates. The in-year adjustments were then approved by the County Assembly through the County Supplementary Appropriation Act, 2016. 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. The size of the budget adjustments in the last year FY2015/2016 for both recurrent and development expenditure is K Sh 2,101,592,845. The score is A.

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	Based on the evidence provided, the county consolidates all the bank and cash balances monthly in internal reports and annually for external use.
21.2 Cash forecasting and monitoring	C	The county prepares an annual cash flow projection based on the approved budget.

21.3 Information on commitment ceilings	D	Commitment ceilings are made available to the budgetary units 1 month before the deadline for them to submit their budget expenditure commitments. There is not enough information to show that all budgetary units are given reliable information on actual resources available for their budgetary commitments.
21.4 Significance of in-year budget adjustments	A	<p>The county undertakes in-year budget adjustment once every year through a circular issued by the Budget Department to all departments.</p> <p>During FY2015/16, the county government made only 1 supplementary budget, which was done in a transparent way having been subjected to approval by the County Assembly through the County Supplementary Appropriation Act.</p>

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.

PI-22.1. Stock of expenditure arrears

Expenditure arrears in the context of the county governments are referred to as pending bills.² The percentage of stock of expenditure arrears to the total expenditure was 18.01 percent, 28.57 percent, and 27.63 percent for FY2013/14, FY2014/15, and FY2015/16, respectively. The accumulation of pending bills is mainly attributed to setting of unrealistic revenue targets and delays in exchequer releases. The county also inherited liabilities from the defunct local authorities that are still being serviced. The score is D.

PI-22.2. Expenditure arrears monitoring

The respective departments declare at the end of every month all their pending bills to the County Treasury, which is responsible for monitoring arrears. This information is monitored in the following month whether the payments have been made or not. A stock of expenditure arrears is then compiled by expenditure composition on a monthly, quarterly, and annual basis in the IFMIS. The unsettled bills are carried over to the following year. The generation of data on the stock and composition of expenditure arrears is performed at the end of each fiscal year during the preparation of the AFSs. The AFS for FY2015/16 provides recent information on expenditure arrear stock and composition but not the age profile. The score is C.

Summary of scores and performance table

PI-22 Expenditure arrears (M1)	D+	Brief justification for score
--------------------------------	----	-------------------------------

² Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the current year or in the past years. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

22.1 Stock of expenditure arrears	D	The stock of expenditure arrears was more than 10% of the total expenditure for all the 3 completed fiscal years. It stood at 18.01% in FY2013/14, 28.57% in FY2014/15, and 27.63% in FY2015/16.
22.2 Expenditure arrears monitoring	C	The county prepares stock of expenditure arrears by expenditure composition annually at the time of preparation of annual financial report. However, the monitoring is done monthly. All unsettled bills are carried over to the following reporting period.

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor 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 of Nakuru uses the IPPD management system to generate monthly payroll and staff pay slip. 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 pay slip database is uploaded to the Government Human Resource Information System (GHRIS), which is an online platform that enables staff 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 a need basis.

It is not clear if there is reconciliation of the payroll system (IPPD) with the personnel records (GHRIS) and how often both systems are reconciled. No documentation was provided on the procedures applied for dealing with changes to personnel records and reconciliation of payroll and personnel records. The score is D.

PI-23.2. Management of payroll changes

Amendments to personnel database and payroll changes are regularly done and reports are captured in the Authorized Data Sheet (ADS). This is however applicable to employees who are on the IPPD. A number of ADS have been reviewed against the IPPD payroll to confirm payroll changes. It has been established that adjustments are done on time to allow adjustments in the subsequent month’s pay. Officers who interact with the payroll have personal passwords to access the system to ensure a clear audit trail. The IPPD and the manual payroll have been reviewed and it was established that 97.5 percent of employees are on the IPPD. This meant that 2.5 percent changes in personnel database may not lead to a clear audit trail. The retroactive adjustments were negligible at 0.02 percent. 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. 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 in a manual, but the roles and responsibilities are contained in the job description. The score is B.

PI-23.4. Payroll audit

The payroll section undertakes partial periodic payroll audits to ensure only bona fide employees are in the payroll. There were also regular communications between the payroll section and departments on a number of issues: transfers, retirements, resignations, deaths, promotions, interdictions and reinstatements, and discharge from duty. Departmental heads are supposed to furnish the payroll with lists of employees working in their respective departments. This enabled the payroll section to compare the departmental lists with the one furnished to them by the board. This ensured that payroll was up-to-date. Payroll audit covering all county government entities has been conducted once in the last three completed fiscal years. As a result, ghost workers, data gaps, and control weaknesses have been identified. The score is B.

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	The county government uses the IPPD management system similar to the system used by the national government. The IPPD integrates personnel database and payroll. However, the IPPD system is not integrated into the IFMIS that has the budget module. Most importantly, there was no evidence of procedures applied for reconciliation of payroll and personnel records.
23.2 Management of payroll changes	A	Amendments to personnel database, GHRIS, and the payroll system are regularly done and are captured in the ADS. The retroactive adjustments were negligible at 0.02%.
23.3 Internal control of payroll	B	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. IPPD users are assigned an IPPD password to access the system. The ADS was also reviewed, which showed several persons are required to complete an action/amend a record. About 2.5% staff are paid through manual system, and hence change in records and payroll is not restricted.
23.4 Payroll audit	B	A payroll audit covering all county government entities has been conducted once in the last 3 completed fiscal years.

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 PPADA, 2015. Section 68 requires the procuring entity to have an accounting officer to keep records for each procurement. The Procurement Directorate is in charge of supply chain management. The directorate uses the IFMIS to monitor the procurement process.

Information on awarded contracts can be accessed through the IFMIS and the respective paper project files. Evidence of procurement monitoring records was provided for nine ministries. There are 10 ministries in the county government of Nakuru. The reports from the procurement records maintained by the ministries provide complete data and cover the following details: (a) tender number and description; (b) procurement method applied; (c) date on tender opening, evaluation, and outcome; (d) contact date, description of contract, and contractor details; (e) contact value. The score is B.

PI-24.2. Procurement methods

The PPADA, 2015, provides for different procurement methods. During FY2015/16, the county applied open tendering and request for quotations, both of which are competitive processes at 38.70 percent and 61.3 percent, respectively (Table 3.16). The score is D.

Table 3.15: Type of procurement methods, FY2015/16

Procurement method	Value	%
Open tender	545,271,439	39
Request for Quotation	863,640,627	61
Total	1,408,912,066	100

Source: County Executive.

PI-24.3. Public access to procurement information

The public can freely access the legal and regulatory framework (PPADA, 2015) for procurement 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. Table 3.17 summarizes the compliance with key procurement information that should be made available to the public. At least three elements exist, but it is not clear if they cover the majority of procurement operations. The score is D.

Table 3.16: Public access to procurement information

Key procurement information to be made available to the public	Compliance (Yes/No)
(1) Legal and regulatory framework for procurement	Yes
(2) Government procurement plans	No
(3) Bidding opportunities	Yes
(4) Contract awards (purpose, contractor, and value)	No
(5) Data on resolution of procurement complaints	Yes
(6) Annual procurement statistics	No

PI-24.4. Procurement complaints management

Procurement complaints are addressed by the PPARB under the PPRA. This is an external higher authority that is not involved in the procurement process. Section 27 of PPADA establishes an independent PPARB 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 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 30 days of the date of submission of an application for review. The PPARB report for FY2015/16 states that all cases filed were heard and determined within an average of 22.5 days.

Compliance of complaints reviewed by an independent body in accordance with the PEFA criteria is summarized in Table 3.18. The Procurement Directorate is developing a procurement and disposal manual and employees in the directorate are undergoing training to enhance their work performance. The score is A.

Table 3.17: Procurement complaints management

Complaints are reviewed by a body which	Compliance (Yes/No)
(1) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Yes
(2) Does not charge fees that prohibit access by concerned parties	Yes
(3) Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes
(4) Exercises the authority to suspend the procurement process	Yes
(5) Issues decisions within the time frame specified in the rules/regulations	Yes
(6) Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Yes

Summary of scores and performance table

PI-24 Procurement (M2)	C+	Brief justification for score
24.1 Procurement monitoring	B	Procurement data on what has been procured, value of procurement, and who has been awarded contracts is available. The data was accurate and complete for most procurement methods for goods, services, and works.
24.2 Procurement methods	D	The county applied noncompetitive procurement methods at 61.3% as opposed to competitive procurement methods at 38.7%.
24.3 Public access to procurement information	D	It was not ascertained if the majority of the procurement operations are made available to the public. Information on the county procurement plans, annual procurement statistics, and details of contracts awarded are not made public.
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 (a) the Constitution of Kenya of 2010; (b) the PFM Act, 2012; (c) Circulars from National Treasury; and (d) the PPADA, 2015. The different responsibilities about internal controls are (a) planning, (b) budgeting, (c) procurement, (d) accounting, (e) monitoring and evaluation, and (f) internal audit.

The county government uses the IFMIS that has various modules and different levels of access rights to ensure adequate segregation of duties in the expenditure process. Each stage is assigned to a specific officer with specific login credentials. No one officer can initiate a transaction and process it to completion without the approval of the other users.

The county has a mechanism to ensure segregation of duties as established in the PFM Act. They are electronically set up in the IFMIS due to the various authorization and roles given to different individuals. The county uses the IFMIS payment system similar to that of the national government, in which separation of duties is clearly introduced. The County Treasury is using National Treasury guidelines for counties on liabilities and assets. In the payment process, the user department raises a requisition. The requisition is approved by the CO of the department. The approved requisition is sent to the procurement director whose responsibility is to initiate a competitive procurement process. The procurement process is executed through different procurement committees in tender opening, tender evaluation, and tender award. A supplier is identified and delivers as required. The supplier invoices the county government through the user department. The department prepares a payment voucher with various sections for approval. The Authority to Incur Expenditure (AIE) (a document of the county that provides authority for specific expenditure) holder (the CO of the user department) approves the payment. The details of the payment are captured in the IFMIS by an invoicer (a person with unique rights to do invoicing in the IFMIS). After invoicing, an accountant from the user department validates the payment in the IFMIS. The CO of the user department approves the payment in the IFMIS and thereafter the payment is approved by the CO of finance.

The approved payments are uploaded to another online platform for Internet banking. In Internet banking, the payment is approved by the first approver in Internet banking and is then effected by the second approver. The payment process is structured with different officers performing different functions with specific rights and access to the IFMIS. The main responsibilities are segregated so that staff perform functions that are not in conflict. The score is A.

PI-25.2. Effectiveness of expenditure commitment controls

The county uses the IFMIS in which control commitment has been implemented that ensures that only expenses committed and budgeted for are paid. This limits payments of expenditure not budgeted for and amount of cash projected will be available for only expenses in the budget. The person signing checks confirms whether cash is available or not.

The county prepares the annual procurement plan that is aligned to the approved budget. Each line department also prepares monthly cash flow projections. The monthly expenditure is governed by issue

of AIE, a document issued from the County Treasury to all budget users. The AIE gives the respective COs (the AIE holders) authority to spend and it gives specific breakdown of expenditure to be incurred, which is in line with the approved budget and based on the monthly cash flow projections. Expenditure is generally not committed unless it is clearly provided for in the AIE document. However, there were cases of incurred expenditure that are accumulated in arrears. The score is B.

PI-25.3. Compliance with payment rules and procedures

In general, the prescribed procedures, regulations, and rules establishing the segregation of duties and payment procedures were complied with. However, the OAG audit report for FY2015/016 identified some areas of noncompliance, but available data was not adequate to compute the level of compliance. Further, the Auditor General indicated that there were cases where officers were issued with additional imprest in the Ministry of Health before accounting for previous ones. It was also noted that some imprest was issued without an itinerary/budget and approval by the AIE holder.

The National Treasury through MS Oracle (a consultant firm for the IFMIS) deployed its staff to the county government to train the county staff on the functionalities of the software system. However, it was noted that the Oracle staff not only trained the county personnel but also transacted through the system using other officers’ credentials.

Data was not provided to justify the level of compliance to the regular procedure of payment rules, and therefore, this dimension is scored D.

Summary of scores and performance table

PI-25 Internal controls on non-salary expenditure (M2)	B	Brief justification for score
25.1 Segregation of duties	A	Segregation of duties is prescribed throughout the expenditure process. The existing segregation of duties provides for different levels of authorization or approval, recording of invoice and reconciliation, and audit.
25.2 Effectiveness of expenditure commitment controls	B	The county uses the IFMIS. Expenditure commitment controls exist limiting commitments to approved budget allocations for most types of expenditure.
25.3 Compliance with payment rules and procedures	D*	No data was provided to verify how many of the payments made were compliant with regular payment procedures.

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 PSASB.

The county has an internal audit function performed by the Directorate of Internal Audit, established in 2014. The first Annual Audit Plan was prepared for FY2016/17 whose details are given in Table 3.19. However, there is no systematic approach to audit. The expenditure volumes of the audited entities are not quantified, and it was not possible to quantify the percentage of actual internal audit coverage against the planned audits. The score is D.

The County Assembly has also established an internal audit function that administratively reports to the County Assembly Clerk and functionally reports to the County Assembly Service Board.

Table 3.18: Internal audits carried out over the last completed financial year

No.	Type of audit	Audit topic
1	Compliance audit	Pending bills audit
2	Financial audit	Internal controls in cash management - imprest
3	Special audit	Revenue automation
4	Special audit	Building plans approval
5	Financial audit	Revenue collection - slaughter house
6	Special audit	Personnel promotions health services
7	Financial audit	Cash book management
8	Financial audit	Expenditure management
9	Special audit	Project implementation in the county
10	Financial audit	Audit report on revenue derived from trade licenses and markets charges
11	System audit	IT environment in Nakuru East subcounty

PI-26.2. Nature of audits and standards applied

The Internal Audit Services Department should be guided by the IPPF of the Institute of Internal Audit as stipulated under the PFM Regulation No. 154, 2015. The Internal Audit Services Department conducted a number of internal audits evaluating the adequacy of internal controls and compliance with governing regulations. However, 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 County Assembly's internal audit function conducted a compliance audit featuring human resource management, mortgages and motor vehicle management. However, there was no evidence of a systematic audit approach. The score is D.

PI-26.3. Implementation of internal audits and reporting

The first audit plan was for FY2016/17 and therefore it was not possible to measure the performance achievements at the time of the assessment. The score is D.

PI-26.4. Response to internal audits

There was no documented evidence to show that the management responded to internal audit findings. The county government is appointing Internal Audit Committee members. The County Assembly has also started the process of recruiting Internal Audit Committee members as provided for in the PFM Regulations No. 167, 2015. 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	The internal audit mandate of the County Assembly is not governed by any legislation. All other county government units are subject to internal audit by the main internal audit function as per the PFM Act. There is no data to estimate the percentage of audited budget entities in terms of total planned expenditure and revenue.
26.2 Nature of audits and standards applied	D	There was no systematic approach to audit as there were no properly documented audit working papers. Internal audit did not have a quality assurance process in place and there was no evidence of adherence to any professional audit standards.
26.3 Implementation of internal audits and reporting	D	There was no Annual Audit Plan for the completed fiscal year. Therefore, it was not possible to measure the performance of the internal audit function. This was the case for both the County Executive and the County Assembly.
26.4 Response to internal audits	D	There was no evidence that the management responded to internal audit findings.

3.7 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 pillar: 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

The PFM Act, 2012, 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.

The County Treasury prepares monthly bank reconciliations for all the key active bank accounts. These include the key accounts held in the CBK as well as the 37 others in commercial banks. These are bank accounts of budgetary and extrabudgetary units. Reconciliations of cash positions of the county accounts were carried out within the set time lines and in accordance with the County Financial and Procedure Manual. The score is B.

PI-27.2. Suspense accounts

According to the PFM Regulation No. 107(2b), 2015, and the PFM Act, 2012, the accounting officer must ensure that monthly reconciliations are performed to confirm the balance of each account. The county maintains a deposit account as the only active suspense account. This account holds funds on behalf of the contractors awaiting the end of defect liability period. Once the contractors complete their obligation

the retained 10 percent of the contract is paid to them. The reconciliation for this account is done at the end of the year when the AFSs are prepared. The deposit account is less than one year old, and hence the reconciliation is yet to be performed.

The other type of suspense account is the system-generated suspense. This is brought by incomplete accounting process in the IFMIS. This suspense account is supposed to be cleared on an ongoing basis. However, they are not cleared at the year-end, but they are only monitored. This is associated with inadequate technical support by the IFMIS directory in the county. The score is D.

PI-27.3. Advance accounts

The PFM Regulation No. 93(1&5), 2015, classifies imprests into temporary (safari imprests) that should be accounted for within seven days after returning to duty station and standing imprests. The county has an imprest account as the only advance account. The reconciliation of staff imprest account is performed and monitored on an ongoing basis. Imprest reconciliations are prepared monthly and accounted for at the end of the financial year and presented as a note to the financial statements. The challenge observed during the assessment was that the imprest had not been fully recovered at the end of the fiscal year. The score is D.

PI-27.4. Financial data integrity processes

The PFM Regulations No. 109 (1) and 110, 2015, require 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 IFMIS has various modules ranging from budgeting, payments, and reporting, and it is used for recording and processing budget data. All users are assigned passwords and the CO of 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 introducing new users in the system with the approval of the accounting officer. The score is B.

Summary of scores and performance table

PI-27 Financial data integrity (M2)	C	Brief justification for score
27.1 Bank account reconciliation	B	Bank reconciliations are prepared monthly by the 7th of the following month for all key active bank accounts.
27.2 Suspense accounts	D	Deposit accounts for procurement purposes are cleared at the year-end. However, suspense accounts generated by the inadequate support of the IFMIS are not cleared at the year-end but they are monitored
27.3 Advance accounts	D	Imprest accounts are reconciled annually, but the amounts are not cleared as the system of recovery through payroll is yet to be effected.
27.4 Financial data integrity processes	B	All users are assigned passwords and the CO of 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. However, there is no operational unit to verify financial 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 nonfinancial 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 overview of budget execution. They give comparisons between budget estimates and actual expenditures among departments and the County Assembly.

The county prepares quarterly budget monitoring reports that show budgeted expenditure against actual expenditure. The quarterly report is prepared using the template issued by the PSASB and allows comparison of the original budget with the expenditure at the main administrative headings. The report has all items of budget estimates presented in accounting terms. The IFMIS can also generate a report that shows expenditure against the budget and the variance, but the quarterly report is preferred. The score is C.

PI-28.2. Timing of in-year budget reports

Section 166 of the PFM Act, 2012, requires counties to prepare quarterly reports and deliver copies to the National Treasury, COB, and CRA while the County Treasury circular requires preparation of reports of performance of the entire budget during the implementation phase. Budget execution reports are prepared quarterly and submitted within one month from the end of each quarter. Copies of quarterly in-year budget reports have been obtained only for the fourth quarter of FY2015/16 with evidence of delay of five days.

In summary, quarterly budget execution reports are prepared within one month from the end of a quarter. The score is B.

PI-28.3. Accuracy of in-year budget reports

The in-year quarterly reports mainly capture actual payments while commitments are provided in a separate report; the IFMIS-generated reports though not utilized have a column for commitments. While the IFMIS allows for commitments to be monitored, it does not generate a report for commitment purposes, and this is important for monitoring budget implementation and utilization of funds released. However, no analysis of the budget execution is provided even on a half-yearly basis. The score is C

The National Treasury through the auditing firm PricewaterhouseCoopers (PwC) is providing technical assistance to the counties in the preparation of financial statements.

Summary of scores and performance table

PI-28 In-year budget reports (M1)	C	Brief justification for score
28.1 Coverage and comparability of reports	C	The county prepares quarterly budget reports. The reports show budgeted expenditure against actual expenditure and compare

		the original budget with expenditure at the main administrative headings.
28.2 Timing of in-year budget reports	B	In-year budget execution reports are prepared on a quarterly basis and are issued within a month after the end of the quarter. The submission of Q4 in FY2015/16 was 5 days late.
28.3 Accuracy of in-year budget reports	C	In-year quarterly reports are prepared mainly on actual payments. Commitments are prepared on a separate report monthly. Expenditure is captured at the payment stage, but there is no budget execution analysis on a half-yearly basis.

PI-29. Annual financial reports

This indicator assesses the extent to which AFSs 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 AFSs are prepared based on a template issued by the PSASB. The accounts are presented in a format that allows easy comparison of actual to the approved budget. They have all disclosures including revenue, expenditure assets, and liabilities. They are also accompanied by a balanced cash flow. The financial reports are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation. It was ascertained that they include full information on revenue, expenditure, assets, and liabilities; this information is incorporated into financial reports by way of notes as is done in a cash-based system. However, the AFSs do not contain guarantees and obligations. The score is C.

The external audit found some own source revenue unreconciled in the financial statements (for example, daily street parking fee).

PI-29.2. Submission of reports for external audit

Section 68 of the PFM Act, 2012, requires that all entities prepare AFSs for each financial year within three months after the end of the financial year and submit them to the OCOB and the OAG for audit. The consolidated set should be submitted within four months after the end of financial year, that is, by the end of October.

The consolidated AFSs for FY2015/16 were submitted to the Auditor General within the stipulated deadline. This information was verified with the stamps of actual submission of financial reports to the OAG. The score is B.

PI-29.3. Accounting standards

The PSASB adopted 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 the PSASB. The use of the IFRS and IPSAS was, therefore, formally adopted and applied for the first year ending June 30, 2014. FY2015/2016 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 standards.

The county prepares AFSs as per the IPSAS cash based standards according to the requirements of the PSASB. 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 implies 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.”

The standards used in the preparation of the statements are not disclosed and do not appear as notes in the AFS. The score is D.

With regard to reforms, the PSASB in Kenya is designing a framework for all county governments to move to the 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 AFSs are prepared based on a template issued by the PSASB. They disclose revenue, expenditure, and a balanced cash flow. There are no guarantees and long-term obligations.
29.2 Submission of reports for external audit	B	The consolidated AFSs were submitted to the Auditor General on October 30, 2016, which is within 4 months, as per the PFM Act.
29.3 Accounting standards	D	The county prepares AFSs as per the IPSAS cash based standards according to the requirements of the PSASB. The standards used in the preparation of the statements are not disclosed and do not appear as notes in the AFS.

3.8 Pillar VII. External scrutiny and audit

There are 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 the

OAG must, within six months after the end of the financial year, audit and report on the accounts of all county Government entities, covering revenue, expenditure, assets, and liabilities and using International Standards on Supreme Audit Institutions (ISSAIs) or consistent national auditing standards. In the case of Nakuru County, the OAG audits revenue, expenditure, and financial assets. The audit reports highlight relevant material issues and 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).

The OAG annually audits all county government entities that are linked to the IFMIS—these are all central government budgetary users. All county budget entities have been audited in the last three completed financial years with the exception of the extrabudgetary units discussed in PI-6.1 that do not appear in the AFS.

The OAG employs a 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 organization—the African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E). It assisted in the development of a Quality Assurance Manual, whereas the Quality Control Manual was developed by the OAG. The AFROSAI-E conducted its first peer review in 2003 and then in 2009, 2012, 2014, and 2016. Independent quality assurance reports are prepared by the reviewers. The score is C.

PI-30.2 Submission of audit reports to the legislature

According to the PFM Act, 2012, it is not the responsibility of the County Executive to forward audit reports to the County Assembly. This is done directly by the OAG. Table 3.20 presents dates for the submission of audit reports to the legislature (Senate and the County Assembly). In all cases, the audit reports were ready for legislative scrutiny much later than the deadline defined in the law. The score is D.

Table 3.19: Submission of audit reports to the legislature

FY	Date AFS submitted to OAG	Date received at County Assembly ^a	Date submitted by OAG ^b
2015/16	September 30, 2016	Not yet released by the OAG at the time of the assessment (April 2017)	August 30, 2017
2014/15	September 30, 2015	November 24, 2016	October 17, 2016
2013/14	September 30, 2014	September 15, 2015	August 18, 2015

Source: a. County Assembly of Nakuru; b. OAG.

PI-30.3 External audit follow-up

The Public Audit Act 2015 explicitly covers the audit process, including response and follow-up. The PSASB has prepared a template for this. 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 FY2013/14 and FY2014/15 have been received by the county and responded to but with a delay. With the revised Public Audit Act 2015 coming into force in January 2016, the follow-up process has become more formalized. However, it is too early to assess the effectiveness of this process. At the time of the assessment, the audit report for FY2015/16

was not issued, and therefore there were no follow-up activities. The information on follow-up of audit report recommendations was provided only for two fiscal years, and therefore, the score is D.

PI-30.4 Supreme Audit Institution 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 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 publicizing reports, and the approval and execution of the OAG’s budget. This independence ensures unrestricted and timely access to records, documentation, and information. The Public Audit Act 2015 confirms the OAG’s independence from the executive branch of the national government. Thus, OAG independence is ensured by the Constitution and law. Since the Public Audit Act 2015 came into force in January 2016, the follow-up process has become more formalized.

The PSASB (established in Sections 192–195 of the PFM Act, 2012) and elaborated on under Financial Regulation 111 of 2015. The Board, which is located in the National Treasury, prepared a template in FY2015/16 for preparing AFSs. Section 27 of the template (available on the 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 the 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 FY2016/17. The audit process is still ongoing, 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 the 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 is 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+	Explanation
30.1 Audit coverage & standards	C	All county budget entities have been audited in the last 3 completed financial years with the exception of the extrabudgetary units.
30.2 Submission of audit reports to the legislature	D	The audit reports for 3 financial years were submitted to the legislature with a significant delay.
30.3 External audit follow-up	D	A summary of external audit findings and a follow-up report for FY2013/14 and FY2014/15 have been obtained. The delay in

PI-30: External Audit (M1)	D+	Explanation
		response to audit issues has been brought about by delays in audit completion. The audit report for FY2015/16 was not completed at the time of assessment.
30.4 Supreme Audit Institution (SAI) Independence	A	The external audits of the county are executed by the OAG, which is an independent constitutional body with its own systems and procedures and is hence independent of the county.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the 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

It was not possible to verify the appropriate timing of the audit report scrutiny because documentation was not fully provided. The 2014/15 audit report was received on October 27, 2016, and had yet to be scrutinized by the legislature. It could not be appropriately ascertained what is the time frame for the scrutiny of audit reports. Evidence was not provided to verify the time of audit reports scrutiny, and therefore, the score is D*.

PI-31.2. Hearings on audit findings

The county confirmed that in-depth hearings on key findings of audit reports take place regularly with responsible officers from all audited entities. Once the report is received from the OAG, it is tabled in the County Assembly and submitted to the relevant committees that summon the relevant parties. The relevant committees follow up and prepare a final report within two and four weeks of submission to the County Assembly. However, the exact timing of the audit report scrutiny could not be verified because no documentary evidence was 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 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 with a copy to the OAG. The implementation of the recommendations is monitored by the implementation committee or the PAC. However, no evidence of recommendations made by the legislatures for actions to be taken was provided. 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, and a County Assembly shall conduct its business in an open manner and hold its sittings and those of its committees in public and facilitate public participation and involvement in the legislative and business of

the Assembly and its committees. 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. However, evidence for transmission of the proceedings by the mass media, radio, or TV was provided. In addition to this, no evidence was provided on the number of hearings on the audit reports and whether they were conducted in public or full chamber. 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*	No records have been provided to verify the timing of the audit report scrutiny.
31.2 Hearings on audit findings	D*	Because the procedure on audit findings hearings at the County Assembly of Nakuru has been extensively elaborated on by the interviewed officials, no records of such hearings have been provided.
31.3 Recommendations on audit by the legislature	D*	The Assembly has a process for monitoring the implementation of audit recommendations. However, no record of recommendations by the legislatures for actions to be taken up by the Executive has been provided.
31.4 Transparency of legislative scrutiny of audit reports	D	The committee reports are not published on the official website of the County Assembly, nor are they easily accessible to the public.

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 deviation of the actual aggregate expenditure from the originally approved budget because there was a delay in the disbursement of equitable share from the national government in the first year and overbudgeting. Even though disbursements were made in time in the consecutive fiscal years, the aggregate expenditure outturn was 90 percent and 92 percent. Such fiscal results may not undermine fiscal discipline but may limit the ability of the county government to control expenditure and manage fiscal risk. It can also affect the county's ability to effectively plan and allocate resources to strategic policy priorities. Variance in expenditure composition by economic classification was large in three financial years. Even when the county has not charged any expenditure to contingency vote during the assessment period, the overall score is low due to the huge variance in expenditure composition (PI-2).

The revenue outturn (PI-3) shows that the change in revenue between the originally approved budget and end-of-year outturn was significant. This was due to optimistic revenue forecasts of own source revenue and poor collection of budgeted revenue. This led to in-year budget reviews and reallocations on spending, given that borrowing was not an option.

Pillar II: Transparency of public finances

The transparency of public finances is still 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) to allow transactions to be tracked throughout the budget's formulation, execution, and reporting cycle according to administrative unit, economic category, or subfunction. The transparency of all government revenue and expenditure is low as there are no reports on the operation of the extrabudgetary units. The published information on service delivery performance and budget documentation is not readily accessible. Because of low transparency, the legislature and the civil society are deprived of getting the information they need to hold the County Executive accountable for its budget policy decisions and the management of public funds.

The budget documentation (PI-5), which is prepared by the county, does not cover enough elements to assess the comprehensiveness of the information provided in the annual budget documentation. Budget estimates do not present the previous year's budget outturn in the same format as the budget proposal. There are revenue and expenditures (PI-6) that are not reported in the county government financials. Extrabudgetary units are being established and do not report on their performance. This contributes to lower transparency of government operations and hence a gap in the analysis of whether county government policies and objectives are attained.

Information on service delivery performance is not collected and recorded (PI-8). 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 programs and services. The lack of performance analysis of planned economic activity as well as KPIs with estimated output and outcome prevents the legislature from making thorough and justified consideration of the County Executive's budget proposal.

Public access to fiscal information is limited (PI-9). Only audit reports are published within 12 months of the fiscal's year end. The civil society has access to information on budget proposals only hours before opening for public discussion. Information on planned investment activities is not published. Therefore, fiscal transparency is not provided because the information on government fiscal plans and performance is not easily accessible to the general public.

Pillar III: Management of assets and liabilities

Management of assets and liabilities is ineffective. The risks are not identified and monitored. Projects are selected by the County Assembly based on proposals made during public participation. The only financial asset that the county owns is in the form of cash. The asset maintenance practice was inherited from the previous local government structures, and asset disposal has not been effected yet even though clear rules exist. The debt service is managed properly, but the associated fiscal risks are not adequately analyzed.

The county does not face fiscal risks associated with the operations of public corporations and any lower level subnational government units because they do not exist. The county has not instituted procedures to assess the economic impact and viability of projects and no cost-benefit analysis has been undertaken (PI-11). It can therefore not be ascertained whether projects undertaken by the county would support the county government's social and economic development objectives.

Assessing the public asset management (PI-12) is rather difficult to do. There is no such type of management of assets in the sense that will result in support to aggregate fiscal discipline by ensuring that resources are controlled and used efficiently and effectively in the implementation of policy objectives. The assets that the county of Nakuru keeps record of are (a) cash in hand at the bank and (b) tangible fixed assets mostly inherited from the preceding local government structure that are not subject to age analysis and depreciation, and hence none have been disposed of at the time of this PEFA assessment. In such a circumstance, it is expected that there are assets that may not be used effectively and others that may not be fully utilized.

Although accurate revenue forecasts are a prerequisite for preparation of credible budgets, the county does not prepare macrofiscal forecasts due to capacity constraints and inaccurate mapping of revenue sources (PI-14). The county has only inherited domestic debt (matured pending bills) and during the assessment period was not eligible to borrow. The management practices are generally not very satisfactory (the debt is recorded but it is not regularly reconciled), and hence the control may not lead to efficient and effective arrangements of debt payment. This affects the country's capacity to maintain fiscal discipline. Effective management including regular reconciliation is necessary to ensure that the cost is minimized in the long term and that the county has the capacity to meet its obligations when they are due.

Pillar IV: Policy bases fiscal strategy and budgeting

Policy-based fiscal strategy and the budgeting are not prepared with due regard to the county government's fiscal policies, strategic plans, and macroeconomic and fiscal projections. However, good fiscal forecast practices coupled with clear budget preparation process and legislative scrutiny exist. Budget elaboration process is based on a comprehensive and clear budget circular. 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. Ceilings are established during the CFSP preparation but are fixed only after the budget calendar has been issued.

The County Executive does not prepare its own macroeconomic forecasts and does not carry out any sensitivity analysis with assumptions. Fiscal forecasts and budget for the MTEF period of three years are prepared. Sensitivity analysis, which is in essence a modelling on uncertainty, looking for options if unpredicted circumstance arises, is not prepared by the county. This had an impact on prioritizing expenditure and implementation of activities of strategic importance to the county government of Nakuru.

The county government does not carry out any fiscal impact analysis (PI-15). Best practice is that the county prepares a CBROP annually, providing a review of fiscal performance, and a 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. There is no alignment of strategic plans and medium-term budgets, to the previous year's estimates. Forward year estimates need to be linked to strategic planning 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 satisfactory with effective participation of relevant stakeholders. It is generally orderly and timely with clear annual budget calendar and timely submission to the legislature. A major weakness is that there are no budget ceilings, thereby making information provided in advance of preparing budget proposals insufficient.

The procedure for budget scrutiny is clear and allows for legislative debates as provided for in law. Public participation is not well effected because civil societies are not informed in good time about the respective budget debates in the County Assembly. The timing of the budget approval is generally good with the exception of the third year assessed. There are clear rules for in-year amendments.

Pillar V: Predictability and control in budget execution

Budget execution is still not well predicted and controlled though good practices exist in revenue accounting and internal control of non-salary expenditure. Effective management of policy and program implementation requires predictability of resources, controls, and compliance with laws and regulations during budget execution. The county's revenue administration, which is an essential component of the PFM system, is weak (PI-19). There are inadequate channels for informing taxpayers about their rights and obligations as well as clearly understanding procedures for seeking redress. Although revenue-collecting entities reportedly undertake audits and fraud investigations, this has not been documented as required by established procedures. Besides, it is not clear whether instances of noncompliance are revealed, reported, and rectified. Information on the stock of revenue arrears is not recorded, making it impossible to control and manage the arrears.

Revenue accounting is managed well (PI-20) with procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciliation of revenue accounts being in place. This indicates compliance with tax laws and strengthens the fiscal discipline and the administrative capacity to allocate budget resources to strategic priorities. However, reconciliation of arrears has not been done, and there is no monitoring of the difference between what is due and what has been paid. No evidence has been made available to show if the county provides (PI-21) reliable cash commitments forecasts and requirements and reliable information on the availability of funds to budgetary units for service delivery. Fiscal discipline requires that the resources are used effectively to achieve fiscal objectives.

The expenditure arrears (PI-22) covering stock of arrears and monitoring show a systemic problem that is not being addressed and brought under control. This is the accumulation of huge stock of arrears that is not reconciled and keeps accumulating. Carrying forward unsettled bills over time can cause huge and increasing cost to the government, undermining the fiscal discipline and affecting the service delivery.

Payroll controls (PI-23) have not been demonstrated to be strong. Ghost workers, personnel data gaps, and control weaknesses have been identified in the payroll audit. There is no evidence that the payroll system is reconciled with the personnel database even though both are reported to be regularly updated. The lack of retroactive adjustment and the existence of some internal control on the payroll seem to ensure certain degree of data integrity and audit trail.

The transparency of the public procurement arrangements is not satisfactory (PI-24). Information on the county procurement plans and the contracts awarded is not made public. The emphasis on the selection of procurement method is not in favor of the open and competitive procedures. The records of data exist for most procurement methods, even though the majority of the tenders are procured through noncompetitive methods. The transparency is additionally aggravated by the fact that the access to appeal and redress arrangements is not free of charge for those who complain.

The effectiveness of internal controls for non-salary expenditures is adequate (PI-25). There is segregation of duties even though there are some weaknesses. The majority of payments are compliant with regular payment procedures. Expenditure commitment controls are generally in place and mostly limit commitments to projected cash availability, but expenditures arrears do occur even with the current controls. The budget entities are not prevented from incurring unauthorized commitments through system controls, regulations, and procedures.

There is regular feedback to management about the performance of the internal control systems (PI-26), through an internal audit function. The internal audit practice, however, has been found to be still in process of development. The internal audit function does not use a risk-based approach and does not keep record of data on the percentage of audited budget entities in terms of total planned expenditure and revenue. In the public sector, the function is primarily focused on compliance audit but not on the adequacy and effectiveness of internal controls. There is a need for improvement in the focus of audit, the standard audit preparation, and audit process documentation. Quality assurance is not applied, and the internal audit is not sufficient to ensure sound functioning of the internal control environment.

Pillar VI: Accounting and reporting

The financial information is timely and relevant but not fully reliable. This triggers delays in providing correct financial information, which is needed to support fiscal and budget management and decision-making processes.

The key treasury accounts are reconciled at different times, even though they are not all cleared by the end of the fiscal year (PI-27). The accounting processes in place support integrity of financial data through the IFMIS only 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. This may affect the internal control system and make it break easily.

The budget execution reports (PI-28) are relatively comprehensive and accurate. While the information on budget execution is prepared in good time, reporting on commitments and payments is prepared separately and is not part of the in-year budget reporting. Information on budget execution including

revenue and expenditure data exists but is not presented in the format of the budget document. This does not facilitate performance monitoring and makes comparison between budgeted and actual data less traceable. 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.

AFSs (PI-29) are generally complete, timely, and consistent with generally accepted accounting principles and standards. They provide information on revenue, expenditure, assets, and liabilities and are accompanied by a balanced cash flow. They also provide a record of how resources were obtained and used and but do not allow easy comparison with plans. 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 as currently undertaken do not hold 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 County Executive has not been efficient. The audit reports are issued with delay. They are scrutinized with delay and effective hearings are not confirmed. Thus, the external audit is not effective to enable adjustments and corrections in the PFM system. The scrutiny by the legislature does not result in actions to be taken up by the County Executive, nor is their work transparent to the public.

4.2 Effectiveness of the internal control framework

Control environment

An internal control system is put in place is to ensure effective oversight in addressing risks and providing reasonable assurance that operations are sound. The analysis of the internal control system in the county of Nakuru has been done in view of the following four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage.

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. A national-level internal control framework is indicative to a large extent of the county operation because the subnational functions and operations mirror, in regulation and practice, the establishment at 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 (Section 3).

Risk assessment

The county decisions do not appear to be driven by risk assessment and management activities. 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 implies that no risk responses can be made to reduce the likelihood or downside outcomes for key operations. Potential future events that create uncertainty are not covered for. Risks that are not provided for exist in all stages of PFM:

- **Pillar II: Transparency of public finances.** The county is not able to capture expenditure and revenue outside financial reports (PI-6), which creates the risk of having incomplete budget environment, potential misuse of funds, and poor service to the public.
- **Pillar III: 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, there is a huge risk of abuse and loss of funds in loss making investment. There is no practice of debt reconciliation with creditors (PI-13).
- **Pillar IV: Policy based fiscal strategy and budgeting.** With no practice to provide for uncertain economic events and the lack of sensitivity analysis, the county generally fails to link policy formulation and programmed activities with the budget estimates. The risk of having inadequate resource allocations that are prone to amendments is not treated.
- **Pillar V: Predictability and control in budget execution.** The revenue administration practice does not have an integrated revenue management system in place to detect and arrest potential revenue risks and to manage arrears (PI-19). The county fails to keep proper accounting of expenditure arrears, leading to a risk of accumulation (PI-22). The approved staff establishment is not linked to the IPPD, which is also not linked to the IFMIS (PI-23). This creates a risk of ghost workers, even though payment controls are formalized and applied. Procurement practice shows that noncompetitive selection methods are mostly applied, which creates the risk of favoritism, 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 with non-salary expenditure that are electronically set up in the IFMIS with various authorization levels and roles assigned to different functions and operational staff. This arrangement provides for all phases of budget implementation to be executed in the IFMIS (PI-25).

Control activities

The lack of risk profile of the county and the failure to define responses to the risk lead to inadequate and insufficient control activities that can treat, share, avoid, or intercept the risk. The risk-related activities for both the budget process and the service delivery exist for the functions related to budget implementation, which are executed in the IFMIS with clear segregation of duties. There are risks that are not covered by appropriate control activities in the area of transparency of public finances and are related to non-captured expenditure and revenue outside financial reports (PI-6). Under management of assets and liabilities, there are no controls for the selection of investment activities (PI-11) and ageing of nonfinancial assets (PI-12). However, there are control activities in place for budget execution with clear control of payment rules for all operations captured by the IFMIS even though those outside the system are not all covered. The control is not sufficient for the record of actual staff in IPPD and human resources personnel records. Some staff are paid through the manual system that is outside the records and the

payroll. Weak internal control systems lead to unreliable financial records, resulting in loss of organizational integrity, which may affect the execution of the budget and implementation of projects.

Information and communication

This internal control element deals with the methods and records used to register, maintain, and report on facts and events of the entity, as well as to maintain accountability for the related assets, liabilities, and initiatives of the county.

There are inadequate channels for dissemination of budget-related documents to the public although it is a legal requirement. Internal information and communication is mainly through orders and management letters. None of the basic elements of fiscal information were made public with the exception of the external audit report that is issued with delay (PI-9). The county is adopting legislation on public participation, which will set the rules for interaction with the public at all stages of budget formulation and service delivery.

Monitoring

Monitoring involves assessment of the quality of internal control performance over time. In the context of the county government, this aspect can be expanded to encompass the monitoring practices of the PFM process. The assessment established that the monitoring framework at the county is weak, with the main tool being quarterly reports and the budget execution reports. The CBROP acts as an economic assessment tool. There are no specific reports on consistency of performance of planned outputs and outcomes as well as explanations of deviations.

The internal control framework is not efficient to safeguard against irregularities and errors. The areas ineffectively controlled include (a) performance information for service delivery, (b) public access to fiscal information, (c) monitoring of fiscal risk, (d) monitoring on public investment, and (e) poor public asset management information. In terms of assessment of the quality of internal control systems, the county has established an Internal Audit Department that is in process of preparing internal audit procedures or processes.

Presently, the focus of internal audit is mainly on compliance and regulatory issues and is yet to provide full oversight of the effectiveness of the internal control system. Meanwhile, the external audit system is much 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 practice. The interaction between the external and the internal audit as far as the oversight of the internal control system is concerned has not been evidenced during the field work and the respective indicators assessment.

The assessment of the oversight activities of the County Assembly (see PI-31) indicates that the control practice has been ineffective. The effectiveness of the County Assembly's role in building a sound internal control system is undermined by the lack of hearings of the external audit findings, no transparency of the external audit scrutiny, and no evidence of recommendations to the County Executive. This implies that the legislative scrutiny cannot serve as a reinforcing mechanism to the effectiveness of the internal control system of the county.

Lack of properly instituted internal control systems/procedures affects the financial reporting process and may ultimately lead to production of unreliable reports, which negatively affects the accountability of

management. Detailed findings concerning the main elements of the five internal control components are summarized in a table (Annex 2).

Weak internal controls encourage fraud, mismanagement of assets (Pillar 3), and loss of revenue and embezzlement of public funds (Pillar IV). There is inadequate internal control over external factors such as unexpected economic, social, and natural disaster events.

4.3 PFM strengths and weaknesses

Aggregate fiscal discipline

The County Assembly reviews the annual budget that includes estimates of expenditure for the MTEF period allocated by administrative, economic, and program classifications and the medium-term priorities. Large deviations in expenditure composition outturn (by function and economic classification) and revenue outturn composition and the inability of the county to capture expenditure and revenue outside financial reports undermine budget credibility.

Lack of macroeconomic forecasts and fiscal impact analysis and inability to link policy formulation and programming of activities to budget estimates impair medium-term perspective in expenditure budgeting. The county does not keep proper records of expenditure arrears with ageing analysis for effective monitoring.

Revenue administration is generally weak because risk management framework is not applied on matters related to revenue collection. However, revenue is collected and banked daily in most cases and consolidated monthly. Management of personnel records and the payroll is satisfactory as it is automated using the IPPD and any change is recorded and leaves an audit trail.

The county uses the IFMIS to execute the budget with a clear segregation of duties and separate levels of approval of different stages of payment. The system users have passwords and the system maintains an audit trail.

Strategic allocation of resources

The revenue collection is automated, and the collections are banked daily and swept into County Revenue Fund accounts on timely. However, the revenue department does not have an integrated revenue management system to detect and prevent potential revenue risks and manage arrears.

Revenues and expenditures are allocated within an MTEF and a budget ceiling. Forecasts of revenue and expenditure are not based on county-specific projections on those of the national government. Underlying assumptions are not considered.

There is no policy on public investment for selection of viable investment projects with key indicators for inclusion in the budget. The county has prepared only one supplementary budget in each of the past three years.

There is an Internal Audit Department that applies international internal audit standards, but it is yet to strengthen its practice. The Internal Audit Department does not have a comprehensive work plan to undertake sufficient coverage and review of internal control system. In addition, it could not be

established whether there are follow-ups on audit recommendations and implementation of audit plans. The Internal Audit Department focuses on regularity and financial controls, but not on systemic approach.

Legislative scrutiny of the OAG Audit Report has some weaknesses: no formalized procedures on timing, lack of procedures on documenting the hearing sessions and making recommendations to the County Executive, and no transparency in the legislative scrutiny process.

Efficient use of resources for service delivery

The efficiency and effectiveness in use of public services are not subject to systematic review by the County Executive. The county has not developed tools and capacity to prepare program budgets that are focused on service delivery. The objectives and targets of the CIDP are not translated into specific budget priorities. KPIs are not formalized to assess and select public service-oriented development projects.

While a database of procured contracts exists, the county applies a mostly noncompetitive method in selection of contractors. Tender bids are published on the website, but information on the county procurement plans, annual procurement statistics, and details of contracts awarded are not published. An important drawback in procurement is that complaints are handled at the national level and fees are charged for consideration of claims. There is no electronic portal for information on public procurement.

The role of the County Assembly in the use of public funds by the county government is not active. The practice of legislative hearings with observations, criticisms, and recommendations on the use of public funds has not been demonstrated to be efficient in the use of public resources.

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 (a) macroeconomic management and resource mobilization; (b) strategic planning and resource allocation; (c) budget execution, accounting, and reporting and review; (d) independent audit and oversight; (e) fiscal decentralization and intergovernmental fiscal relations; (f) legal and institutional framework; and (g) the IFMIS and other PFM systems.

The IFMIS has been implemented at the national and the county levels to reinforce accountability, but it still has room for improvement in terms of offering solutions to procurement-related challenges. At the county level, there is a need for a better appropriation and reinforced controls. More operations by-pass the IFMIS at the county level than at the national level. The implementation of a single treasury account should ensure that the national and county governments better monitor 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 the IFMIS is fully used at the county level and a business intelligence layer is implemented to facilitate data analysis and visualization.

5.2 Recent and on-going reform actions

The assessment identified the following as ongoing reforms that are aimed at enhancing governance, administration, and decision making for better service delivery at the county level. The county is updating the Land Valuation Rolls (this is a schedule of all leasehold landowners) and will therefore be able to quantify land rates payable compared to actual collections and possibly identify defaulters. Thus, the arbitrary nature of the land rates will be removed and this will also enable proper revenue estimation.

A bill on annual borrowing limit will be drafted and presented to the County Assembly for adoption. Considering the current level of debt, the 2017 Medium Term Debt Management Strategy will further reinforce measures to reduce county debt as proposed in 2016 MTDMS and will also formulate additional strategies to deal with future debt. The county government will continue to build capacity of the Debt Management Unit in terms of staffing and training to ensure that it can handle all matters relating to borrowing and servicing of debt. The County Treasury will continue to maintain effective linkages with the National Treasury to facilitate future borrowing and provision of technical advice.

The procurement directorate is developing a procurement and disposal manual. Plans are also under way to have all professionals obtain practicing certificate apart from being members of their respective professional bodies. In the meantime, employees in the directorate are undergoing training to enhance their work performance.

The county government is appointing Internal Audit Committee members. The County Assembly has also started the process of recruiting Internal Audit Committee members as provided for in the Article 167 of the PFM Regulations, 2015. The county is preparing the County Strategic Plan and a virement policy for reallocation across budget lines. The payroll section has conducted training for its staff to enhance their capacity to deliver services, and finally, technical assistance is being provided to the county in the preparation of financial statements by an audit firm

Other key reforms that are still outstanding and are relevant to this PEFA assessment are (a) deploying the TSA at the county government level; (b) strengthening the strategic planning and budget formulation by providing strong integrated results framework and costing of planning documents (Medium-Term Plans, Sector and County Strategies); (c) improving investment program management by strengthening the control and enhancing appraisal, selection, and monitoring procedures over projects; (d) improving efficiency in budget execution by introducing quarterly cash planning and cash flow practices in MDAs and counties; and (e) implementing comprehensive cash management reforms by strengthening commitment control and reporting and enhancing in-year budget monitoring and reporting both at the national and county government levels.

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 Nakuru 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

This annex provides a summary table of the performance indicators. The table specifies the scores with a brief explanation for each indicator and dimension of the current 2017 PEFA assessment.

County name: Nakuru		Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met
	Subnational PEFA indicator	D+	
HLG-1: Transfers from a higher level of	HLG-1.1. Outturn of transfers from higher-level government	A	The transfers have been at least 95 percent of the original budget estimate in 2 of the last 3 years.
	HLG-1.2. Earmarked grants outturn	D	No comprehensive data that could be traced to all budget documentation was obtained to allow reliable calculation.
	HLG-1.3. Timeliness of transfers from higher-level government	D*	The dates of actual transfers for FY2014/15 and FY2015/16 were not provided.
Budget Reliability	PI-1 Aggregate expenditure outturn	B	The aggregate expenditure outturn was at least 90% in 2 of the assessed fiscal years.
	PI-2 Expenditure composition outturn		
	(i) Expenditure composition outturn by function	D*	The county did not prepare expenditure by department for FY2013/14 and FY2014/15. Data was only available for FY2015/16.
	(ii) Expenditure composition outturn by economic type	D	Variance in expenditure composition by economic classification was more than 15% in all 3 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 actual revenue was below 92% in all 3 years.
(ii) Revenue composition outturn	D	Variance in revenue composition was more than 15% in all 3 years.	
Transparency of Public Finances	PI-4 Budget Classification	C	Budget formulation based on administrative, program, and economic classifications applies GFS codes issued by the National Treasury.
	PI-5 Budget Documentation	D	The county fulfils 2 elements: 1 basic element and 1 additional element.
	PI-6 Central government operations outside financial reports	D	
	(i) Expenditure outside financial reports	D*	The extrabudgetary units do not prepare financial reports.
	(ii) Revenue outside financial reports	D*	The extrabudgetary units do not prepare financial reports.
	(iii) Financial reports of extra budgetary units	D*	The extrabudgetary units do not prepare financial reports.
	PI-7 Transfers to subnational governments	N/A	There is no subgovernment under the county level.
(i) System for allocating transfers			

County name: Nakuru		Current assessment		
Pillar	Indicator/dimension	Score	Description of requirements met	
	(ii) Timeliness of information on transfers			
PI-8	Performance information for service delivery	D		
	(i) Performance plans for service delivery	D	Performance plans are not prepared and performance is not measured.	
	(ii) Performance achieved for service delivery	D	There are no KPIs, outputs, and outcomes to monitor performance.	
	(iii) Resources received by service delivery units	D	Survey has not been conducted in any of the last 3 fiscal years on resources received by the service delivery unit for at least 1 large ministry.	
	(iv) Performance evaluation for service delivery	D	Evaluation of the efficiency or effectiveness of the service delivery units have not been carried out for the last 3 fiscal years.	
PI-9	Public access to fiscal information	D	The county fulfils only 3 elements: 2 basic elements and 1 additional element.	
Management of assets and liabilities	PI-10	Fiscal risk reporting	D	
		(i) Monitoring of public corporations	N/A	The county is yet to institute any public corporations.
		(ii) Monitoring of subnational government	N/A	No further devolved units exist in this and all other counties.
		(iii) Contingent liabilities and other fiscal risks	D	The county does not have contingent liabilities as a separate item within the budget. The fiscal risks are mentioned in the CFSP, but they are not quantified.
	PI-11	Public investment management	D	
		(i) Economic analysis of investment proposals	D	There is no economic analysis of investment projects.
		(ii) Investment project selection	D	The decisions on selection of investment projects are not based on any economic analysis but rather on discretion of the County Assembly after public consultations.
		(iii) Investment project costing	D	There is no technical methodology for project costing.
		(iv) Investment project monitoring	D	There are no standard procedures and guidelines for project monitoring developed and applied.
	PI-12	Public asset management	D+	
		(i) Financial asset monitoring	C	The only financial assets held by the county are cash in hand and at bank.
		(ii) Nonfinancial asset monitoring	D	Assets are listed but information on age and value is not provided.
		(iii) Transparency of asset disposal	D	The county has not disposed of any asset and this is not showing in budget documentation.
	PI-13	Debt management	D	
	(i) Recording and reporting of debt and guarantees	D	Records on debt are updated annually but it is not clear if there are annual reconciliations.	

County name: Nakuru			Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met	
	(ii) Approval of debt and guarantees	N/A	There is moratorium on borrowing. Majority of the debt emanates from expenditure arrears.	
	(iii) Debt management strategy	D	The county has DMS papers. The strategy should cover the medium term but the current one is prepared to cover a single financial year.	
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 that guide the preparation of the CBROP, CFSP, and budget estimates.	
	(ii) Fiscal forecasts	C	The information is available in the CFSP and CBROP, but the budget estimates are not accompanied by underlying assumptions.	
	(iii) Macro fiscal sensitivity analysis	D	The county does not carry out any sensitivity analysis in relation to own source revenue.	
	PI-15 Fiscal strategy	C		
	(i) Fiscal impact of policy proposals	D	The county government does not carry out any fiscal impact analysis.	
	(ii) Fiscal strategy adoption	B	The county prepares a Fiscal Strategy Paper annually that contains clear fiscal goals and targets for the medium term (budget year and two following years).	
	(iii) Reporting on fiscal outcomes	C	Fiscal outcomes are reported annually but no explanation of deviations is provided.	
	PI-16 Medium-term perspective in expenditure budgeting	D+		
	(i) Medium-term expenditure estimates	A	The county prepares annual budget estimates for the budget year and the two following years allocated by administrative, economic, and functional classifications.	
	(ii) Medium-term expenditure ceilings	D	The preliminary medium-term expenditure ceilings are provided for in the CBROP, which is submitted after the issuance of the budget calendar.	
	(iii) Alignment of strategic plans and medium-term budgets	D	The county government has not prepared any Sectoral Strategic Plans but is preparing the overall County Strategic Plan.	
	(iv) Consistency of budgets with previous year's estimates	D	There is no consistency between the last and the current medium-term budgets both at the ministry and the aggregate levels and no explanations are given for the deviations.	
	PI-17 Budget preparation process	B		
	(i) Budget calendar	A	Budgetary units had more than 6 weeks to complete their detailed estimates.	
(ii) Guidance on budget preparation	D	The county government submits a comprehensive budget circular that includes		

County name: Nakuru			Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met	
			guidelines on budget preparation but does not include ministry ceilings.	
	(iii) Budget submission to the legislature	A	The annual budget proposals have been submitted to the legislature 2 months before the start of the fiscal year.	
	PI-18 Legislative scrutiny of budgets			
	(i) Scope of budget scrutiny	A	The legislature's review covers all budget documents (ADP, CFSP, CBROP, and budget estimates) including budgetary priorities and medium-term revenue and expenditure estimates and forecasts.	
	(ii) Legislative procedures for budget scrutiny	A	The legislature's procedures to review budget proposals are provided in Standing Order 210 that gives guidance on formation of budget committees and process of budget scrutiny (which includes public participation).	
	(iii) Timing of budget approval	C	The legislature has approved the annual budget within 1 month of the start of the year over the last 3 fiscal years and delayed by 2 months in the third year.	
	(iv) Rules for budget adjustments by the executive	C	Clear rules exist as per the 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	The information is not available on the official website. The civil society indicated lack of a clear channel of redress process and procedure.	
	(ii) Revenue risk management	D	There is no documented risk management approach for assessing and prioritizing compliance risk.	
	(iii) Revenue audit and investigation	D	Revenue audits are not reported on according to a documented compliance improvement plan due to nonexistence of such a document and practice.	
	(iv) Revenue arrears monitoring	D*	Information on the stock of revenue arrears for the last completed fiscal year was not available.	
	PI-20 Accounting for revenues	C+		
	(i) Information on revenue collections	A	Information on revenue collection is obtained daily. The entire revenue collection report is consolidated into monthly and quarterly reports.	
	(ii) Transfer of revenue collections	A	The revenue collected is swept every 2 weeks to the County Revenue Fund account at the CBK.	
	(iii) Revenue accounts reconciliation	C	Revenue accounts reconciliations are done monthly, however reconciliation of arrears has never been done to date.	
	PI-21 Predictability of in-year resource allocation	C+		

County name: Nakuru			Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met	
	(i) Consolidation of cash balances	C	Based on the evidence provided, the county consolidates all the bank and cash balances monthly in internal reports and annually for external use.	
	(ii) Cash forecasting and monitoring	C	The county prepares an annual cash flow projection based on the approved budget.	
	(iii) Information on commitment ceilings	D	Commitment ceilings are made available to the budgetary units 1 month before the deadline for them to submit their budget expenditure commitments.	
	(iv) Significance of in-year budget adjustments	A	The county undertakes in-year budget adjustment once every year through a circular issued by the Budget Department to all departments.	
	PI-22 Expenditure arrears	D+		
	(i) Stock of expenditure arrears	D	The stock of expenditure arrears was more than 10% of the total expenditure for all the three completed fiscal years.	
	(ii) Expenditure arrears monitoring	C	Monitoring is done monthly, and all unsettled bills are carried over to the following reporting period.	
	PI-23 Payroll controls	D		
	(i) Integration of payroll and personnel records	D	There was no evidence of procedures applied for reconciliation of payroll and personnel records.	
	(ii) Management of payroll changes	A	The retroactive adjustments were negligible at 0.02%.	
	(iii) Internal control of payroll	B	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.	
	(iv) Payroll audit	B	A payroll audit covering all county government entities has been conducted once in the last 3 completed fiscal years.	
	PI-24 Procurement	C+		
	(i) Procurement monitoring	B	The data was accurate and complete for most procurement methods for goods, services, and works.	
	(ii) Procurement methods	D	The county applied noncompetitive procurement methods at 61.3% as opposed to competitive procurement methods at 38.7%.	
	(iii) Public access to procurement information	D	Materiality was not ascertained for the majority of the procurement operations made available to public.	
	(iv) Procurement complaints management	A	The procurement complaint system meets all criteria.	
	PI-25 Internal controls on non-salary expenditure	B		

County name: Nakuru			Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met	
	(i) Segregation of duties	A	The existing segregation of duties provides for different level of authorization or approval, recording of invoice and reconciliation, and audit.	
	(ii) Effectiveness of expenditure commitment controls	B	Expenditure commitment controls exist limiting commitments to approved budget allocations for most types of expenditure.	
	(iii) Compliance with payment rules and procedures	D*	No data was provided to verify how many of the payments made were compliant with regular payment procedures.	
	PI-26 Internal audit effectiveness	D		
	(i) Coverage of internal audit	D	There is no data to estimate the percentage of audited budget entities in terms of total planned expenditure and revenue.	
	(ii) Nature of audits and standards applied	D	There was no systematic approach to audit as there were no properly documented audit working papers.	
	(iii) Implementation of internal audits and reporting	D	There was no Annual Audit Plan for the completed fiscal year.	
	(iv) Response to internal audits	D	There was no evidence that the management responded to internal audit findings.	
Accounting and Reporting	PI-27 Financial data integrity	C		
	(i) Bank account reconciliation	B	Bank reconciliations are prepared monthly by the 7th of the following month for all key active bank accounts.	
	(ii) Suspense accounts	D	Deposit accounts for procurement purposes are cleared at the year-end. However, suspense accounts generated by the inadequate support of the IFMIS are not cleared at the year-end but they are monitored.	
	(iii) Advance accounts	D	Imprest accounts are reconciled annually but the amounts are not cleared.	
	(iv) Financial data integrity processes	B	There is no operational unit to verify financial data integrity.	
	PI-28 In-year budget reports	C+		
	(i) Coverage and comparability of reports	C	The county prepares quarterly budget reports. The reports show budgeted expenditure against actual expenditure and compare the original budget with expenditure at the main administrative headings.	
	(ii) Timing of in-year budget reports	B	In-year budget execution reports are prepared on a quarterly basis and are issued within a month after the end of the quarter.	
	(iii) Accuracy of in-year budget reports	C	Expenditure is captured at the payment stage, but there is no budget execution analysis on a half-yearly basis.	
PI-29 Annual financial reports	D			

County name: Nakuru			Current assessment	
Pillar	Indicator/dimension	Score	Description of requirements met	
	(i) Completeness of annual financial reports	C	The AFSs do not disclose guarantees and long-term obligations.	
	(ii) Submission of reports for external audit	B	The consolidated AFSs were submitted to the Auditor General as per the PFM Act.	
	(iii) Accounting standards	D	The standards used in the preparation of the statements are not disclosed and do not appear as notes in the AFS.	
External scrutiny and audit	PI-30 External audit	D+		
	(i) Audit coverage and standards	C	All county budget entities have been audited in the last 3 completed financial years with the exception of the extrabudgetary units.	
	(ii) Submission of audit reports to the legislature	D	The audit reports for 3 financial years were submitted to the legislature with a significant delay.	
	(iii) External audit follow-up	D	The delay in response to audit issues has been brought about by delays in audit completion.	
	(iv) Supreme Audit Institution (SAI) independence	A	The external audits of the county are executed by the OAG, which is an independent constitutional body with its own systems and procedures.	
	PI-31 Legislative scrutiny of audit reports	D		
	(i) Timing of audit report scrutiny	D*	No records have been provided to verify the timing of the audit report scrutiny.	
	(ii) Hearings on audit findings	D*	No records of hearings have been provided.	
	(iii) Recommendations on audit by the legislature	D*	No record of recommendations by the legislatures for actions to be taken up by the executive has been provided.	
	(iv) Transparency of legislative scrutiny of audit reports	D	The committee reports are not published on the official website of the County Assembly, nor are they easily accessible to the public.	

Annex 2. Summary of Observations on the Internal Control Framework

Internal control components and elements	Summary of observations
1. Control environment	<p>There is a strong regulatory framework in the county that governs both the national and county governments such as the Kenya Constitution, 2010, the PFM Act, 2012, and the PFM Regulations 2015. Government circulars are issued periodically to ensure compliance with the laws.</p> <p>There are internal audit departments set up for all the county governments, and annual external audits are carried out by an independent OAG. The audit reports are submitted to the County Assembly when completed. There was, however, a noted delay in completion of the external audits. The last received audit reports were for FY2015/16 and the opinion was modified.</p>
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>Chapter 6 of the Kenya Constitution sets out the responsibilities of leadership of all public officers. This includes the oath of office of state officers, conduct of state officers, financial probity of state officers, restriction on activities of state officers, citizenship, and leadership, legislation to establish the ethics and anti-corruption commission, and legislation on leadership. These appear to be understood and internalized by the management and staff.</p> <p>The mission was not aware of any reported ethical and integrity issues.</p>
1.2. Commitment to competence	<p>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.</p> <p>The county has access to a pool of qualified professionals who would deliver excellence in service delivery. However, judging from the findings of the external auditor and lack of adequacy of the County Assembly oversight, the competence may not have been felt through results.</p>
1.3. The ‘tone at the top’ (that is, management’s philosophy and operating style)	<p>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 to promote efficient and effective use of the county's budgetary resources.</p> <p>This responsibility rests 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.</p>
1.4. Organizational structure	<p>The county has an organizational structure.</p> <p>From our discussions with management, the county structures have not been standardized. The staff expressed some concerns; for instance, the Revenue Department is not effective because the Revenue Officers are domiciled at the departments, and hence it is difficult for the director of revenue to monitor access and reward performance.</p>
1.5. Human resource policies and practices	<p>The county organization policies are management by the County Public Service Board. The board is responsible for recruitment, staff development, and discipline.</p> <p>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 mandates of this commission is to investigate, monitor, and evaluate the organization, administration, and personnel practices of the public service including the county government.</p>

Internal control components and elements	Summary of observations
2. Risk assessment	<p>The PFM Regulation No. 165 sets out role of the accounting officer in risk management.</p> <p>It requires the accounting officer to develop</p> <p>(a) Risk management strategies, which include fraud prevention mechanism and</p> <p>(b) A system of risk management and internal control that builds robust business operations.</p> <p>However, the county does not have a risk management policy and a risk register.</p>
2.1 Risk identification	<p>Several performance indicators are related to the extent to which risks are identified:</p> <p>11.1 Economic analysis of investment proposals—proposed capital investment projects are not submitted to the Public Investment Committee for economic appraisal before approval.</p> <p>13.3 Debt management strategy—3-year medium-term debt strategy are not updated annually with associated risk, exchange rate, and interest rate factors.</p> <p>21.2 Cash forecasting and monitoring—as cash flow forecasts are updated quarterly on a rolling basis, based on actual cash flows.</p> <p>19.2 Revenue risk management—this is rated D as it is currently not carried out.</p>
2.2 Risk assessment (significance and likelihood)	<p>This has not been considered. 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.</p>
2.3 Risk evaluation	<p>Risk-based Annual Audit Plans are approved by the entity’s Audit Committees (and copied to the accounting officer) and are designed to progressively secure key risks in the control environment in time.</p> <p>This is yet to be effected at Nakuru County.</p>
2.4 Risk appetite assessment	<p>No information available from the PEFA assessment.</p>
2.5 Responses to risk (transfer, tolerance, treatment, or termination)	<p>No information available from the PEFA assessment.</p>
3. Control activities	<p>The various functions of departments are set out in the PFM Regulations. In PI-25, internal control was examined. It was found that the Accounting Division, in charge of recording and keeping the books, is separate from the administrative role that normally handles the cashiering function.</p> <p>Procurement is also a separate function that works under the procurement committee.</p>
3.1 Authorization and approval procedures	<p>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.</p> <p>These procedures or activities are implemented to achieve the control objectives of safeguarding resources, ensuring the accuracy of data and enabling adherence to laws, policies, rules, and regulations.</p> <p>There is also an SCOA used by all county departments.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	<p>Segregation of duties is rated A in 25.1. Appropriate segregation of duties exists, in accordance with SCOA, IFMIS, and government circulars, which specify clear responsibilities.</p>

Internal control components and elements	Summary of observations
3.3 Controls over access to resources and records	<p>25.3 Compliance with payment rules and procedures is rated B. The degree of compliance is good and is improving, but some variations do occur and are reported.</p> <p>27.4 Financial data integrity processes is rated B. Access and changes to records are restricted and recorded.</p>
3.4 Verifications	<p>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.</p> <p>The verification procedures should be built into every transaction. This is an internal checking procedure to avoid errors or fraud.</p>
3.5 Reconciliations	<p>PI-27.1 Bank account reconciliation is rated D. While monthly bank reconciliation statements are prescribed per law, issues of nonpreparation, delayed submission, and nonrecording of reconciling items are substantial. Bank reconciliations are however prepared monthly.</p>
3.6 Reviews of operating performance	<p>No information available from the PEFA assessment.</p>
3.7 Reviews of operations, processes, and activities	<p>13.3 Debt management strategy is rated A. The county prepares a 3-year medium-term debt strategy, updated annually.</p> <p>24.1 Procurement monitoring which is rated C. This is comprehensive and is not published annually.</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	<p>No information available from the PEFA assessment.</p>
4. Information and communication	<p>All county governments are required to report quarterly and annually to the COB, the OAG, and the National Treasury through the production of financial reports in a template provided by the PSASB.</p>
5. Monitoring	<p>PI-26 Internal audit found that internal audit has been formally established that audit programs are largely completed, but with delays.</p>
5.1 Ongoing monitoring	<p>Ongoing monitoring in the county government involves checking the completeness of transaction documents and reports.</p> <p>Transaction documentation has to be complete to substantiate the transaction. Operational and financial reports are tools for monitoring performance, subsequent planning, and decision making.</p>
5.2 Evaluations	<p>Example of the evaluations that take place are found in the following performance indicators:</p> <p>8.4 Performance evaluation for service delivery is rated C. 11.2 Investment project selection is rated 'D'. Major investment projects are not evaluated before they are included in the budget.</p>
5.3 Management responses	<p>PI-26.4 examined response to internal audits and was rated B. Internal audit reports provide recommendations that are presented to the head of the audited unit. Management response is solicited to indicate corresponding action plan, and a formal response is received in most instances within 12 months. Due the lack of an audit committee and inadequate senior management support, there is no clear follow-up of the management actions.</p>

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 AFS, 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	<ul style="list-style-type: none"> Annual budget estimates approved by the legislature Annual budget execution report or AFSs AFSs for the three fiscal 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	<ul style="list-style-type: none"> Annual budget estimates approved by the legislature Annual budget execution report
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function	<ul style="list-style-type: none"> Annual budget estimates approved by the legislature Annual budget execution report or AFSs AFSs for the three fiscal years
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn 3.1 Aggregate revenue outturn	<ul style="list-style-type: none"> Annual budget estimates approved by the legislature Annual budget execution report or AFSs AFSs for the three fiscal years
3.2 Revenue composition outturn	
II. Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	<ul style="list-style-type: none"> Annual budget document for FY2015/16 GFS list Copy of an SCOA
PI-5. Budget documentation 5.1 Budget documentation	<ul style="list-style-type: none"> Last annual budget estimates and approved budget for FY2015/16. CFSP for 2015/16 ADP 2013/14, 2015/15, 2015/16, 2016/17
PI-6. Central government operations outside financial reports 6.1 Expenditure outside financial reports	<ul style="list-style-type: none"> Information from Treasury
6.2 Revenue outside financial reports	
6.3 Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments 7.1 System for allocating transfers	<ul style="list-style-type: none"> n.a.
7.2 Timeliness of information on transfers	
PI-8. Performance information for service delivery 8.1 Performance plans for service delivery	<ul style="list-style-type: none"> AFSs In-year budget execution reports
8.2 Performance achieved for service delivery	

Indicator/dimension	Data sources
8.3 Resources received by service delivery units	<ul style="list-style-type: none"> • CFSP • MoF • County Budget Outlook Paper • Approved estimates for three fiscal years
8.4 Performance evaluation for service delivery	
PI-9. Public access to fiscal information	<ul style="list-style-type: none"> • Information from MoF corroborated through availability at government websites, governance NGOs • Approved budget • Budget calendar 2014/2015
9.1 Public access to fiscal information	
III. Management of assets and liabilities	
PI-10. Fiscal risk reporting	<ul style="list-style-type: none"> • MoF • AFSs • Budget execution reports
10.1 Monitoring of public corporations	
10.2 Monitoring of subnational government	
10.3 Contingent liabilities and other fiscal risks	
PI-11. Public investment management	<ul style="list-style-type: none"> • Nakuru ADP 2014/2015 and 2015/2016 • Nakuru CFSP 2014/2015 and 2015/2016 • County Monitoring and Evaluation Project Report 2016 • County Projects Status 2015/2016
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	<ul style="list-style-type: none"> • Consolidated financial statements 2015/2016, including notes relating to the holdings of financial assets
12.1 Financial asset monitoring	
12.2 Nonfinancial asset monitoring	
12.3 Transparency of asset disposal.	
PI-13. Debt management	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Annual budget documents • CBROP 2014/2015 and 2015/2016
14.1 Macroeconomic forecasts	
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	<ul style="list-style-type: none"> • MoF • CFSP for FY2014/2015, FY2015/16, and FY2016/17
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	<ul style="list-style-type: none"> • Annual budget estimates • Budget circular • Ministry of Finance/Planning (or equivalent) • MoF • Annual budget documents
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	<ul style="list-style-type: none"> • 2016 CBROP • Budget calendar 2016/2017 • Budget submission 2014/2015, 2015/2016, 2016/2017
17.1 Budget calendar.	
17.2 Guidance on budget preparation	
17.3 Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	

18.1 Scope of budget scrutiny.	<ul style="list-style-type: none"> • SAI • MoF • County assembly standing orders
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	<ul style="list-style-type: none"> • Revenue Administration Act • Revenue collection authority records such as a documented report on the stock of revenue arrears • Sample of daily banking slip of revenue collection • Revenue Fraud Investigation Report • Cumulative revenue arrears for land rates • Cumulative revenue arrears for house rates
19.1 Rights and obligations for revenue measures	
19.2 Revenue risk management	
19.3 Revenue audit and investigation	
19.4 Revenue arrears monitoring	
PI-20. Accounting for revenues	<ul style="list-style-type: none"> • Annual Revenue Analysis FY2015/16 • Monthly Revenue Report for February 2017 • Daily Collection Register • Daily banking slips • Total transfer for all banks in February 2017 • Weekly sweeping of revenue to CBK • A sample of revenue account reconciliation February 2017 • Revenue account balances
20.1 Information on revenue collections	
20.2 Transfer of revenue collections	
20.3 Revenue accounts reconciliation.	
PI-21. Predictability of in-year resource allocation	<ul style="list-style-type: none"> • Treasury - list of bank account • Revenue report and bank balances consolidation • Bank balances for February 2017 • Cash flow projections 2013/2014 • Cash flow 2014 • County Appropriation Act, 2015 • Supplementary appropriation bill, 2016 • Supplementary Budget Guidelines
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.	
PI-22. Expenditure arrears	<ul style="list-style-type: none"> • Stock of pending bills for the three fiscal years • Total expenditure for the three fiscal years
22.1 Stock of expenditure arrears.	
22.2 Expenditure arrears monitoring.	
PI-23. Payroll controls	<ul style="list-style-type: none"> • Payroll analysis • Payroll and personnel records • Monthly payroll summary • Payroll ledger - IPPD extracts
23.1 Integration of payroll and personnel records.	
23.2 Management of payroll changes.	
23.3 Internal control of payroll.	
23.4 Payroll audit.	
PI-24. Procurement	<ul style="list-style-type: none"> • Procurement plans • Structure of Procurement Directorate • Procurement record for nine ministries
24.1 Procurement monitoring.	
24.2 Procurement methods.	
24.3 Public access to procurement information.	
24.4 Procurement complaints management.	
PI-25. Internal controls on non-salary expenditure	<ul style="list-style-type: none"> • IFMIS modules and segregation of duties • IFMIS changing rights request
25.1 Segregation of duties.	
25.2 Effectiveness of expenditure commitment controls.	
25.3 Compliance with payment rules and procedures.	
PI-26. Internal audit	

26.1 Coverage of internal audit.	<ul style="list-style-type: none"> • Internal Audit Work Plan 2016/2017 • Internal audit questionnaire • Sample Internal Audit Report - Executive • Internal Audit Report - County Assembly • Auditor General Management Letter
26.2 Nature of audits and standards applied	
26.3 Implementation of internal audits and reporting.	
26.4 Response to internal audits.	
VI. Accounting and reporting	
PI-27. Financial data integrity	<ul style="list-style-type: none"> • Budget directorate • Accounting directorate
27.1 Bank account reconciliation.	
27.2 Suspense accounts.	
27.3 Advance accounts.	
27.4 Financial data integrity processes	<ul style="list-style-type: none"> • Quarterly financial reports • CBROP, CFSP transmittal letters
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	<ul style="list-style-type: none"> • Annual financial reports 2013/2014, 2014/2015, 2015/2016
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.	
VII. External scrutiny and audit	
PI-30. External audit	<ul style="list-style-type: none"> • SAI - OAG Audit Reports 2013/2014, 2014/2015, 2015/2016 • Legislation on SAI • SAI
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.	<ul style="list-style-type: none"> • SAI
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.	

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 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. CBROPs.
6. CFSPs.
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 FY2016–17 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. COB quarterly, biannual, 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 FY2016/17.
21. 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 FY2014/15. (June 2016).
22. Integrated Fiduciary Assessment Report. Program for Results for the Kenya Devolution Support Operation (KDSP). December 21, 2015.
23. PEFA 2016. Framework for assessing PFM.
24. PEFA 2016. Supplementary guidance for subnational PEFA assessment.
25. KIPPRA Kenya Economic Report 2016.

Annex 3A: Lists of persons who have been interviewed and provided information

No.	Name	Function	Telephone	Email
1	Dan Odundo	Principal Accountant		danodundo@ymail.com
2	Charles Lwanga	Director, Budget		Ph_ulee@yahoo.com
3	Ashina Ashiku Wanga	Budget Officer		Asinah2009@yahoo.co.uk
4	Phillip Mbalwa	Principal Revenue Officer		phillipnaftali@yahoo.com
5	James Katiwa	Ag. Director, Internal Audit		Jameskatiwa@gmail.com
6	Margaret Wangari Samuel	Payroll Officer		Wangasam83@yahoo.com
7	Frankline Cheruiyot	Procurement Officer		kfranklyne@yahoo.com
8	Fredrick Omondi	Internal Auditor II		Kaimonde72@gmail.com
9	Samuel Munyeke	Internal Auditor - County Assembly		Samuel.munyeke@yaoo.com

Annex 4. Subnational Government Profile

1. Profile of Nakuru County

The subnational government structure of Nakuru 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 Nakuru consist of (a) Office of the Governor, (b) County Assembly, and (c) 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 COB 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. MCAs are elected by voters at the wards and some are nominated by political parties. The Governor as well the MCAs are independently elected in county elections. The county government has not yet developed a specific legal framework for its own structures.

The economic activity is mainly agriculture and tourism. The county of Nakuru serves a population of 1,603,325 spread over 11 constituencies on a total area of 7,496 km² with population density of 214 per km².

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

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

Table 4.1: Overview of subnational governance structure in Nakuru County

Government level or administrative tier	Corporate body	Own political leadership	Approves own budget	Number of jurisdictions	Average population	Percentage of public expenditure/total revenue	Percentage of public revenues	Percentage funded by transfers
Local	Yes	Yes	Yes	1	1,603,325	100	0	100

2. 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 such as water, health, agriculture, among others to the 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 Nakuru is as follows:

- I. Ministry of Agriculture
- II. Ministry of Education and ICT
- III. MoF
- IV. Ministry of Health
- V. Ministry of Infrastructure
- VI. Ministry of Lands
- VII. Ministry of Public Service
- VIII. Ministry of Trade
- IX. Ministry of Water and Environment
- X. Ministry of Youth

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 the county governments to perform their functions while the county governments will be responsible for service delivery at the county level in addition to other functions.

3. Subnational budgetary systems

The national government laws and regulations guide to a high degree the subnational budget cycle.

The CBK is the banker for the national and county governments thus monitoring to ensure the institutions are not at risk of overdraft and also advises the institutions on financial matters.

The county of Nakuru and its entities are supposed to hold and manage their own bank accounts in the CBK; 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 PPADA, 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 the national level by a PPARB, which is an external higher authority which is not involved in the procurement process.

4. Subnational fiscal systems

The composition of financial resources collected and received by the county of Nakuru 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 Nakuru County

is from various charges related to business permits, parking and market fees, and cesses. The collection of own source revenue, as well as the budgeting process for own revenue, has been improving in the three years of assessment. The county, however, does not show in its AFS a detailed breakdown of own source revenue as in the budget estimation documentation. The budgeted and the actually reported revenue streams are not easily comparable.

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 equitable shares and the earmarked grants transferred from the national government to the counties which constitute nearly 100 percent of the county revenue of Nakuru. These transfers are distributed quarterly across the year through the IFMIS. However, there are no transfers to any lower subnational administrative structure than the county government.

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 Nakuru has not accumulated debts this far but it has inherited debt from the defunct local authorities and it is supposed to set up a debt management function and prepare a DMS. These, however, have not been established yet.

Table 4.2: Overview of subnational government finances for 2016

Item	Total value K Sh	Value per capita K Sh	Percentage of total %
Wage and salary expenditure	4,917,531,516	3,067	0.0001
Nonwage recurrent administrative expenditure	2,966,179,328	1,850	0.0001
Capital expenditure	3,105,475,236	1,937	0.0001
Total expenditure	10,989,186,080	6,854	0.0001
Own revenue	2,295,462,842	1,432	0.0001
Intergovernmental fiscal transfers	8,947,076,176	5,580	0.0001
Other revenue sources	0	0	0.0000
Total revenue	11,242,539,018	7,012	0.0001
Borrowing	n.a.	n.a.	n.a.

Source: AFS.

5. 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 organized by the OAG. Nevertheless, the OAG has established local decentralized hubs of audit teams which perform the audits of a particular country but report to the headquarters at the national level. The chief administration officer, the chief financial officer, and the internal auditors are appointed and hired by county of Nakuru.

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 2013/14 (K Sh)

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
County Treasury	1,307,766,311	1,079,140,307	1,079,140,307	1,079,140,307	1,079,140,307	100
Agriculture, Livestock and Fisheries	156,644,021	129,259,238	129,259,238	129,259,238	129,259,238	100
Health	765,894,243	631,999,266	631,999,266	631,999,266	631,999,266	100
Environment, Water and Natural Resources	441,643,921	364,434,955	364,434,955	364,434,955	364,434,955	100
Education, Sports, Youth and Social Services.	1,021,724,703	843,104,995	843,104,995	843,104,995	843,104,995	100
Lands, Physical Planning and Housing	255,476,901	210,813,980	210,813,980	210,813,980	210,813,980	100
Roads Public Works and Transport	1,545,284,495	1,275,135,145	1,275,135,145	1,275,135,145	1,275,135,145	100
Public Service Management	1,020,004,816	841,685,782	841,685,782	841,685,782	841,685,782	100
Trade, Industrialization and Tourism	575,777,178	475,118,800	475,118,800	475,118,800	475,118,800	100
ICT and E-Government	196,065,844	161,789,269	161,789,269	161,789,269	161,789,269	100
Office of the Governor and Deputy Governor	506,595,485	418,031,572	418,031,572	418,031,572	418,031,572	100
County Public Service Board		0	0	0	0	—
County Assembly	1,010,547,831	833,882,084	833,882,084	833,882,084	833,882,084	100
Allocated expenditure	8,803,425,749	7,264,395,392	7,264,395,392	7,264,395,392	7,264,395,392	—
Interests	—	—	—	—	—	—
Contingency	100,000,000	—	—	—	—	—
Total expenditure	8,903,425,749	7,264,395,392	—	—	—	—
Overall (PI-1) variance						82
Composition (PI-2) variance						100
Contingency share of budget						0

Source: CBROP.

Table 3: Data for 2014/15 (K Sh)

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
County Treasury	831,913,973	—	752,025,365	-752,025,365	752,025,365	100
Agriculture, Livestock and Fisheries	625,276,018	—	565,230,830	-565,230,830	565,230,830	100
Health	3,102,353,840	—	2,804,435,140	-2,804,435,140	2,804,435,140	100
Environment, Water and Natural Resources	466,356,505	—	421,572,341	-421,572,341	421,572,341	100
Education, Sports, Youth and Social Services.	807,417,882	—	729,881,631	-729,881,631	729,881,631	100
Lands, Physical Planning and Housing	226,159,477	—	204,441,407	-204,441,407	204,441,407	100
Roads Public Works and Transport	998,742,300	—	902,833,186	-902,833,186	902,833,186	100
Public Service Management	572,692,465	—	517,696,870	-517,696,870	517,696,870	100
Trade, Industrialization and Tourism	316,320,266	—	285,944,065	-285,944,065	285,944,065	100
ICT and E-Government	75,766,411	—	68,490,571	-68,490,571	68,490,571	100
Office of the Governor and Deputy Governor	232,457,766	—	210,134,872	-210,134,872	210,134,872	100
County Public Service Board	77,193,432	—	69,780,555	-69,780,555	69,780,555	100
County Assembly	1,181,277,862	—	1,067,839,878	-1,067,839,878	1,067,839,878	100
Allocated expenditure	9,513,928,197	8,600,306,712	8,600,306,712	-8,600,306,712	8,600,306,712	—
Interests	—	—	—	—	—	—
Contingency	40,000,000	—	—	—	—	—
Total expenditure	9,553,928,197	8,600,306,712	—	—	—	—
Overall (PI-1) variance						90
Composition (PI-2) variance						100
Contingency share of budget						0

Source: CBROP.

Table 4: Data for 2015/16 (K Sh)

Functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
County Treasury	1,206,045,091	950,422,287	1,120,003,494	-169,581,206	169,581,206	15
Agriculture, Livestock and Fisheries	720,159,382	706,288,857	668,781,814	37,507,044	37,507,044	6
Health	4,014,454,753	4,143,393,167	3,728,055,759	415,337,408	415,337,408	11
Environment, Water and Natural Resources	713,072,421	504,989,998	662,200,451	-157,210,452	157,210,452	24

Education, Sports, Youth and Social Services.	953,065,378	684,775,925	885,071,844	-200,295,919	200,295,919	23
Lands, Physical Planning and Housing	311,472,306	372,016,946	289,251,267	82,765,679	82,765,679	29
Roads Public Works and Transport	1,191,424,135	1,368,351,426	1,106,425,625	261,925,801	261,925,801	24
Public Service Management	969,577,136	733,752,823	900,405,622	-166,652,799	166,652,799	19
Trade, Industrialization and Tourism	307,170,204	353,901,362	285,256,086	68,645,277	68,645,277	24
ICT and E-Government	95,514,215	111,660,465	88,700,046	22,960,419	22,960,419	26
Office of the Governor and Deputy Governor	236,360,492	213,493,566	219,498,076	-6,004,510	6,004,510	3
County Public Service Board	85,643,635	44,592,002	79,533,652	-34,941,650	34,941,650	44
County Assembly	1,029,444,948	801,547,255	956,002,347	-154,455,092	154,455,092	16
allocated expenditure	11,833,404,098	10,989,186,080	10,989,186,080	0	1,778,283,256	—
Interests	—	—	—	—	—	—
Contingency	50,000,000	—	—	—	—	—
Total expenditure	11,883,404,098	10,989,186,080	—	—	—	—
Overall (PI-1) variance						92
Composition (PI-2) variance						16
Contingency share of budget						0

Source: CBROP.

Table 5: Results Matrix

Year	For PI-1 total exp. deviation	For PI-2.1 composition variance	For PI-2.3 contingency share
2013/14	82%	100.0%	0.0%
2014/15	90%	100.0%	
2015/16	92%	16.2%	

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 2013/14 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Compensation of employees	2,055,354,955	4,500,934,004	1,676,984,959	2,823,949,045	2,823,949,045	168.4
Use of goods and services	2,950,149,667	1,330,873,422	2,407,057,042	-1,076,183,620	1,076,183,620	44.7
Consumption of fixed capital	3,497,359,390	769,075,791	2,853,531,006	-2,084,455,215	2,084,455,215	73.0
Interest	400,561,737		326,822,385	-326,822,385	326,822,385	100.0
Subsidies			0	0	0	
Grants		663,512,175	0	663,512,175	663,512,175	
Social benefits			0	0	0	
Other expenses			0	0	0	
Total expenditure	8,903,425,749	7,264,395,392	7,264,395,392	0	6,974,922,440	
Overall variance						122.6
Composition variance						96.0

Source: AFS.

Table 3: Data for 2014/15 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Compensation of employees	4,369,173,012	4,429,938,345	3,564,852,585	865,085,760	865,085,760	24.3
Use of goods and services	2,216,446,035	2,412,398,083	1,808,420,805	603,977,278	603,977,278	33.4
Consumption of fixed capital	2,968,309,150	1,642,008,330	2,421,873,548	-779,865,218	779,865,218	32.2
Interest			0	0	0	
Subsidies			0	0	0	
Grants		115,961,954	0	115,961,954	115,961,954	
Social benefits			0	0	0	
Other expenses			0	0	0	
Total expenditure	9,553,928,197	8,600,306,712	7,795,146,939	805,159,773	2,364,890,210	
Overall variance						111.1
Composition variance						30.3

Source: AFS.

Table 4: Data for 2015/16 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Compensation of employees	4,919,199,048	4,917,531,516	4,013,624,407	903,907,109	903,907,109	22.5
Use of goods and services	3,382,442,185	2,265,880,928	2,759,768,893	-493,887,964	493,887,964	17.9
Consumption of fixed capital	3,581,762,865	3,105,475,236	2,922,396,658	183,078,578	183,078,578	6.3

Interest			0	0	0	
Subsidies		504,466,129	0	504,466,129	504,466,129	
Grants		147,869,379	0	147,869,379	147,869,379	
Social benefits		47,962,893	0	47,962,893	47,962,893	
Other expenses			0	0	0	
Total expenditure	11,883,404,098	10,989,186,080	9,695,789,958	1,293,396,123	2,281,172,052	
Overall variance						108.1
Composition variance						23.5

Source: AFS.

Table 5: Results Matrix

year	total expenditure deviation	composition variance
2013/14	122.6%	96.0%
2014/15	111.1%	30.3%
2015/16	108.1%	23.5%

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

Table 1: Fiscal years for assessment

Year 1 =	2013/2014
Year 2 =	2014/2015
Year 3 =	2015/2016

Table 2: Data for 2013/14 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Property Tax	1,120,000,000	230,169,891	655,017,384.2	-424,847,493.2	424,847,493.2	64.9
Single Business Permit	300,000,000	345,189,270	175,451,085.0	169,738,185.0	169,738,185.0	96.7
Market Fee	170,000,000	69,381,684	99,422,281.5	-30,040,597.5	30,040,597.5	30.2
Building Approval	85,000,000	35,258,693	49,711,140.8	-14,452,447.8	14,452,447.8	29.1
CESS	100,000,000	49,077,348	58,483,695.0	-9,406,347.0	9,406,347.0	16.1
Royalties	120,000,000	25,643,131	70,180,434.0	-44,537,303.0	44,537,303.0	63.5
Stock/Slaughter Fees	16,547,812	3,660,539	9,677,771.9	-6,017,232.9	6,017,232.9	62.2

House Rent	50,000,000	32,136,014	29,241,847.5	2,894,166.5	2,894,166.5	9.9
Advertising	85,000,000	69,142,288	49,711,140.8	19,431,147.2	19,431,147.2	39.1
Parking Fees	235,000,000	233,601,312	137,436,683.3	96,164,628.7	96,164,628.7	70.0
Liquor Licensing	30,000,000	6,633,000	17,545,108.5	-10,912,108.5	10,912,108.5	62.2
County Park Fees	25,000,000	0	14,620,923.8	-14,620,923.8	14,620,923.8	100.0
Water and Sewerage	5,000,000	219,280.0	2,924,184.8	-2,704,904.8	2,704,904.8	92.5
Other Local Revenue	522000000	427,340,768.0	305,284,888.0	122,055,880.0	122,055,880.0	40.0
Other Fee and Charges	213,190,461	271,937,010.0	124,681,659.0	147,255,351.0	147,255,351.0	118.1
Total revenue	3,076,738,273.00	1,799,390,228.00	1,799,390,228.0	0.0	1,115,078,716.8	—
Overall variance						58.5
Composition variance						62.0

Table 3: Data for 2014/15 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Property Tax	894,720,000	324,982,918	523,265,316	-198,282,398	198,282,398	37.9
Single Business Permit	254,300,000	327,139,634	148,724,036	178,415,598	178,415,598	120.0
Market Fee	132,770,000	77,759,357	77,648,802	110,555	110,555	0.1
Building Approval	66,385,000	58,127,531	38,824,401	19,303,130	19,303,130	49.7
CESS	78,100,000	42,196,617	45,675,766	-3,479,149	3,479,149	7.6
Royalties	93,720,000	115,814,409	54,810,919	61,003,490	61,003,490	111.3
Stock/Slaughter Fees	12,923,841	10,518,254	7,558,340	2,959,914	2,959,914	39.2
House Rent	39,050,000	59,373,470	22,837,883	36,535,587	36,535,587	160.0
Advertising	66,385,000	90,982,257	38,824,401	52,157,856	52,157,856	134.3
Parking Fees	203,875,000	271,556,391	119,233,633	152,322,758	152,322,758	127.8
Liquor Licensing	23,430,000	337,500	13,702,730	-13,365,230	13,365,230	97.5
County Park Fees	19,525,000	194,500	11,418,941	-11,224,441	11,224,441	98.3
Water and Sewerage	3,905,000	3,237,055	2,283,788	953,267	953,267	41.7
Other Local Revenue	500,000,000	505,779,098	292,418,475	213,360,623	213,360,623	73.0
Other Fee and Charges	166,501,750	218,200,395	97,376,376	120,824,019	120,824,019	124.1
Total revenue	2,555,590,591.00	2,106,199,386.00	1,494,603,807.1	611,595,578.9	1,064,298,015.0	—
Overall variance						82.4
Composition variance						71.2

Table 4: Data for 2015/16 (K Sh)

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
Property Tax	620,000,000	319,171,789	488,847,341.5	-169,675,552.5	169,675,552.5	34.7
Single Business Permit	420,000,000	384,962,894	331,154,650.7	53,808,243.3	53,808,243.3	16.2
Market Fee	105,000,000	63,614,650	82,788,662.7	-19,174,012.7	19,174,012.7	23.2
Building Approval	80,325,859	36,928,134	63,334,004.2	-26,405,870.2	26,405,870.2	41.7
CESS	125,910,000	46,262,249	99,275,433.5	-53,013,184.5	53,013,184.5	53.4
Royalties	103,092,000	163,641,687	81,284,274.4	82,357,412.6	82,357,412.6	101.3
Stock/Slaughter Fees	20,000,000	4,716,120	15,769,269.1	-11,053,149.1	11,053,149.1	70.1
House Rent	50,000,000	47,475,050	39,423,172.7	8,051,877.3	8,051,877.3	20.4
Advertising	288,000,000	100,842,351	227,077,474.8	-126,235,123.8	126,235,123.8	55.6
Parking Fees	265,000,000	282,619,325	208,942,815.3	73,676,509.7	73,676,509.7	35.3
Liquor Licensing	85,000,000	43,326,840	67,019,393.6	-23,692,553.6	23,692,553.6	35.4
County Park Fees	5,000,000	58,600	3,942,317.3	-3,883,717.3	3,883,717.3	98.5
Water and Sewerage	4,500,000	0	3,548,085.5	-3,548,085.5	3,548,085.5	100.0
Other Local Revenue	189,321,839	287,035,278	149,273,351.1	137,761,926.9	137,761,926.9	92.3
Other Fee and Charges	550,000,000	514,680,179	433,654,899.7	81,025,279.3	81,025,279.3	18.7
Total revenue	2,911,149,698	2,295,335,146	2,295,335,146.0	0.0	873,362,498.2	
Overall variance						78.8
Composition variance						38.0