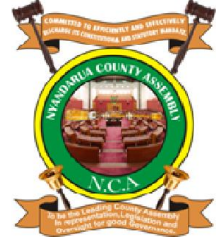




**REPUBLIC OF KENYA**



**NYANDARUA COUNTY ASSEMBLY**

**1<sup>ST</sup> ASSEMBLY THIRD SESSION – 2015**

**PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE**

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**REPORT ON COUNTY BUDGET IMPLEMENTATION FOR THE  
PERIOD JULY 2013 TO MARCH 2014**

**January, 2015**

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## LIST OF ACRONYMS

**OCoB-** Office of the Controller of Budget

**IFMIS-** Integrated Financial Information Systems

**CBROP-** County Budget Review and Outlook Paper

**PFMA-** Public Finance Management Act

**COK-** Constitution of Kenya

**LAIFOMS-** Local Authorities Integrated Financial Operations Management System

**CRA-** Commission on Revenue Allocation

**MCA-** Member of County Assembly

## **PREFACE**

**Mr. Speaker Sir,**

The Public Investments and Accounts Committee is a Select Committee established under Standing Order No. 182 and is responsible for the examination of the working of public investments.

### **Mandate of the Committee**

The Committee is mandated to:-

- (a) Examine the accounts showing the appropriations of the sum voted by the House to meet the public expenditure and of such other accounts laid before the House as the Committee may think fit.
- (b) Examine the reports and accounts of all county public investments
- (c) Examine reports, if any, of the auditor general on the public investments; and
- (d) Examine, in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices

The Committee shall however not examine:-

- (a) Matters of major Government policy as distinct from business or commercial functions of the public investments;
- (b) Matters of day-to-day administration; and,
- (c) Matters for the consideration of which machinery is established by any special statute under which a particular public investment is established.

The procedure of a Select Committee and other related matters thereto is covered under Standing Order No. 182. The Committee has power, under the provisions of the Constitution article 195 to summon witnesses, examine them on oath and receive evidence.

**Mr. Speaker Sir,**

The Public Investment and Accounts Committee is further given legal backing under the Public Finance Management Act, 2012, County Government Act and the Constitution.

On behalf of the Members of the Public Investments and Accounts Committee I hereby present to the House, the Committee's Report on County Budget Implementation which is a matter of concern to the House.

**Mr. Speaker Sir,** the Public Investments and Accounts Committee as currently constituted comprises of the following:-

1. Hon. Silvester Kagiri

-Chairperson

2. Hon. Suleiman Kihika	-Vice Chairperson
3. Hon. Dorcas. Kihara	-Member
4. Hon. Tiziana Mwangi	-Member
5. Hon. John Gachari	-Member
6. Hon. Nancy Ng'ang'a	-Member
7. Hon. Teresiah Kamau	-Member
8. Hon. Michael Kirumba	-Member
9. Hon. Peter Kairu	-Member

### **Secretariat**

1. Benard Gitonga	-Committee Clerk
2. Jayne Warwathia	-Hansard Reporter

### **Terms of Reference**

On receiving the budget implementation review report from OCoB, the Public Investments and Accounts Committee was charged with looking into following and making a report to this Honorable House:

- Confirm that the facts stated by the OCoB actually reflect the current status ;
- Investigate whether the budget was and is being implemented sustainably;
- Investigate whether there exists proper controls on expenditure;
- Investigate the nature and manner of reporting on expenditure;
- Inform on matters of budgeting following vote analysis;

- Recommend ways that can be used to reduce waste expenditure if any;
- Advise on measures that can be put in place to increase revenue collection from local sources; and
- Advice on how sum voted for development expenditure can actually be spent on development projects rather than remaining unused in the county revenue fund.

### **Acknowledgement**

**Mr. Speaker Sir,**

The Committee wishes to register its appreciation to all officers from the Executive and Legislative arms of the County government who provided the Committee with the necessary evidence. Further, the Committee is grateful to the Offices of the Speaker and the Clerk to the County Assembly for the support received as the Committee discharged its mandate.

**Mr. Speaker Sir,**

The Committee is greatly indebted to the Secretariat and Members of this Honorable House for their overwhelming participation in the entire process. It is as a result of their commitment and dedication to duty that the work of the Committee and production of this Report came to fruition.

**Mr. Speaker Sir,**

It is therefore my pleasant duty and privilege, on behalf of the Public Accounts and Investment Committee, to table the Report on County Budget Implementation for the period July 2013 to March 2014.

**THE HON. SILVESTER MWANGI KAGIRI, MCA**

**CHAIRMAN, PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

Date: 10<sup>th</sup> February, 2015



## **CHAPTER ONE**

### **OVERVIEW**

#### **1.1 Introduction**

**Mr. Speaker Sir,**

The Office of Controller of Budget (OCoB) is an independent office, established under Article 228 of the Constitution of Kenya, 2010. Pursuant to Article 228 (4) of the Constitution, the mandate of the office is to oversee the implementation of the budgets of both levels of government. The Controller of Budget, in implementing the oversight role regarding the budgets of the county governments, has to monitor their implementation, evaluate to ensure that the same is done in accordance with the law and recommend any corrective/remedial measures in case of deviation, with the approved budgets as the yardsticks.

In addition, OCoB is mandated to prepare quarterly, annual and special reports on budget implementation of the national and County Governments as provided for in Article 228 (6) of the Constitution of Kenya, 2010 and submit them to the legislature and executive. OCoB is also mandated to carry out investigations on its own initiative, or following a complaint on financial and budget implementation matters lodged by a member of the public and to take up mediation and/or

conciliatory role as stated under Article 252 (1) (b) of the Constitution; in case of a dispute, the Controller is to hear and determine such matters as regards conciliation, mediation and negotiation.

**Mr. Speaker Sir,**

This report is prepared in fulfillment of the constitutional mandate, Article 228(6), which requires the Controller of Budget to submit to each House of Parliament a report on the implementation of the budgets of the national and county governments every four months. Subsequently, the Nyandarua county government received reports of the Fiscal Year 2013/2014 which were indicative of the status of the county budget implementation. These reports were aimed at creating awareness in the assessment of the performance of the county government in the management of public resources, enhancing accountability on the use of public resources as well as inviting scrutiny on the delivery of the county government's agenda.

**Mr. Speaker Sir,**

On receipt of the reports, the Nyandarua County Assembly directed the Public Investments and Accounts Committee to examine them to ascertain the cogency of the observations, recommendations and conclusions made thereof with amendments where need be.

The objective of this budget implementation review report is to provide a synopsis on the status of the financial year 2013/2014 budget process and execution of plans in reference to the Nyandarua County Government.

**Mr. Speaker Sir,**

The report analyses the total exchequer revenue generated by the National Treasury in order to meet the Nyandarua County expenditure. In addition, the report provides information on how spending units have utilized the allocated funds on recurrent and development activities. The report then summarizes the key findings during the budget execution process providing the basis towards the realization of the County's objectives.

**Mr. Speaker Sir,**

The Nyandarua County Government had an initial budget of Ksh. 4.31 billion with a recurrent expenditure allocation of Ksh.1.69 billion and a development expenditure allocation of kshs. 2.6 billion. The recurrent expenditure translated to 39.21percent while development expenditure was 60.79 percent. This budget had a deficit of Ksh. 717.30 million. In the second quarter, the County Government revised its Ksh. 4.31 billion budget to Ksh. 3.64 billion in order to get rid of the deficit. The revised budget comprised Ksh. 1.76 billion for recurrent expenditure and Ksh.1.88 million for development expenditure accounting for 48.35 percent and 51.65 percent respectively. Later, the county government approved a supplementary budget of ksh. 3.38 billion with a recurrent expenditure of Ksh. 2.35 billion and a development expenditure of Ksh. 1.03billion accounting for 69.5 percent and 30.5 percent respectively of the budget.

**Mr. Speaker Sir,**

The National Government grant to Nyandarua County in the first, second and third quarters wereKsh.535.54 million, Ksh. 315.02 million and Ksh.915.56 million respectively.

The local revenue collected in the first, second and third quarters wasKsh. 22.72 million, Ksh. 19.89 million and Ksh. 40.25 million respectively. The trend in revenue collection indicated that it would be impossible to attain the target of Ksh. 174 million.

The total exchequer release for the first, second and third quarters wereKsh. 1.60 billion of which Ksh. 1.2 billion (74.4%) was for recurrent expenditure and Ksh. 408 million (25.6%) for development expenditure.

## **1.2 Definition Significant terms**

**Article 47 (1) (b) Grant:** financial or any other assistance by a development partner which is not repayable and

- (i) Under which public money is paid to or used by a grant recipient

- (ii) Which is intended to finance or facilitate the development of projects or delivery of services or otherwise assist the grant recipient to achieve goals that are consistent with the policy objectives of the national government; and
- (iii) Under which the grant recipient is required to act in accordance with any terms or conditions specified in a grant agreement

**Article 47 (1) (b) Grant recipient:** the national government or a national government entity authorized to control or spend money under the PFM Act, 2012 or an incorporated or unincorporated body not authorized to control or spend money under the PFM Act, 2012.

**Recurrent expenditure:** in relation to a County Government, means the expenditure that is incurred in operating the services provided by that County Government but does not include expenditure incurred in creating or renewing assets belonging to or managed by that County Government.

**Development expenditure:** expenditure for the creation or renewal of an asset.

**Vote:** money authorized by an appropriation Act for withdrawal from the consolidated fund or a County Revenue Fund.

**Internal auditing:** independent, objective assurance and consulting activity designed to add value and improve an organisation's operations, which helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Wasteful expenditure:** any expenditure that was incurred which could have been avoided had due care and diligence been exercised (PFMA, 2012)

### **1.3 Committee Proceedings**

**Mr. Speaker Sir,**

The Committee held forty two sittings in which it closely examined and heard evidence from witnesses. Some of the minutes of the Committee meetings are hereto annexed and the rest as well as copies of the Hansard Reports may be obtained from the Hansard Department.

In its inquiry into the County Budget Implementation Report, the Committee heard and received both oral and written evidence from the following officers: the County Budget Coordinator, the Chief Finance Officer, the Principal Finance Officer (Former Chief Officer), the County Human Resources Manager and the Clerk to the County Assembly (and her representatives).

The budget implementation review report from the OCoB, records of evidence adduced, documents and notes received by the Committee form the basis of the observations and recommendations as outlined in the Report.

These observations and recommendations, if taken into account and implemented, will enhance prudence in allocation and utilization of public funds, improve on local revenue collection and resource mobilization, provide corrective measures on areas that require improvement as well as enable the government and its citizenry to assess the county government's delivery on its manifesto.

**Mr. Speaker Sir,**

Detailed examination of documents submitted to the Committee revealed huge deviations between expenditure reports stated by the Controller of Budget and that reported by the Nyandarua County Treasury. The Committee noted that the expenditure report document submitted by the Chief Finance Officer, Mr. Michael Kamau and the Principal Finance Officer, Mr. Jesse Mwangias the "correct" document (in July 2014) was not the one submitted to the Controller of Budget. It was after the discovery of huge deviations that the Committee requested the County Budget Coordinator to submit the expenditure report that was submitted by the County Treasury to him (and was subsequently submitted to the Controller of Budget).

**Mr. Speaker Sir,**

The County Budget Coordinator, Mr. Samuel Njihia, submitted an expenditure report similar to the one that had been previously submitted to the County Assembly in May 2014 by the Principal Finance Officer covering the first three quarters of financial year 2013/2014, and which the Committee deemed incorrect as it contained irregularities right from its onset. Mr. Njihia made submissions to the Committee intimating that the County Treasury kept revising expenditure reports that it had previously submitted, claiming that the previous documents contained errors that were discovered after submitting.

**Mr. Speaker Sir,**

The Committee invited the Principal Finance Officer, Mr. Jesse Mwangi to explain irregularities noted in the expenditure report for the first three quarters. Mr. Jesse claimed that the irregularities may have been occasioned by errors. When the Principal Finance Officer submitted the fourth quarter expenditure report, he stated, in the forwarding letter, that he submitted a full year 2013/2014 expenditure report, without errors discovered in the previous document he had submitted containing expenditure of the first three quarters.

The Committee, through the Chairman, reported the matter to this Honorable House, where it stated that it did not know which report it would rely on in its investigations. The House resolved that it was prudent for the Committee to work on both reports and recommend appropriately.

**Mr. Speaker Sir,**

The Committee's progress in its evidence collection came to a halt when the Committee was unable to determine the following matters with certainty:

- Which expenditure report was actually submitted to the Controller of Budget (which report the OCoB based its findings on)

- Which document on expenditure report is correct: one submitted on May 2014 and containing expenditure report for the first three quarters or the one submitted in July 2014 containing expenditure report for the whole year or neither
- Whether figures on expenditure report by the Controller of Budget are actually representative of data submitted by Nyandarua County

In light of the above challenges, the Committee resolved to seek advice from this Honorable House. The House resolved that the Committee scrutinizes the report from the OCoB against the two expenditure reports enumerating the similarities, discrepancies, irregularities, and inconsistencies.

**Mr. Speaker Sir,**

The above was quite a herculean task considering the unreliable data submitted to the Committee on several occasions. Ironically, the Committee realized that even part of the data submitted by the county treasury to the OCoB was misleading and subsequently, the analysis made by the OCoB was seriously flawed. The committee, therefore, concentrated its efforts on the macro aspects of expenditure that was supported by seemingly reliable data.

## **CHAPTER TWO**

### **ANALYSIS OF BUDGET IMPLEMENTATION DURING THE PERIOD JULY TO SEPTEMBER 2013**

#### **2.0 Introduction**

**Mr. Speaker Sir,**

The total approved 2013/14 budget (prior to revised and supplementary budgets) for Nyandarua County was Ksh 4.31 billion with a recurrent expenditure allocation of Ksh 1.69 billion and development expenditure allocation of Ksh 2.62 billion. The budget had a deficit of Ksh 717.30

million. This budgetary allocation was in line with the PFMA Act that provides that at least 30% of the budget allocation should be reserved for development.

**Mr. Speaker Sir,**

The projected revenue from local sources was grossly underestimated especially judging from the amount of revenue collected in previous years and considering the fact that the county government boasts wider coverage and ability to diversify sources of revenue.

The Table below indicates each department allocation.

<b>SUMMARY OF REVENUE AND EXPENDITURES</b>			
<b>Revenue</b>			<b>TOTALS</b>
Local			156,247,410.00
Transfers From Central Government			3,435,160,700.00
<b>Total</b>			<b>3,591,408,110.00</b>
<b>Expenditure</b>			
<b>Department</b>	<b>Recurrent Expenditure</b>	<b>Capital Expenditure</b>	<b>Expenditure</b>
Finance and Economic Planning Department	366,333,014.70	112,950,000.00	<b>479,283,014.70</b>
Agriculture and Fisheries	93,867,113.00	16,743,120.00	



			<b>110,610,233.00</b>
Health Services	109,487,043.40	376,552,524.00	<b>486,039,567.40</b>
Education, Youth and Children Affairs	150,568,921.90	181,724,000.00	<b>332,292,921.90</b>
Industrialization ,Cooperative Development	17,894,000.00	85,046,000.00	<b>102,940,000.00</b>
Roads Public Works and Transport	64,200,000.00	1,058,500,000.00	<b>1,122,700,000.00</b>
Land Housing and Physical Planning	88,753,754.20	8,400,000.00	<b>97,153,754.20</b>
Water, Environment and Natural Resources	11,800,000.00	161,500,000.00	<b>173,300,000.00</b>
Information, Communication and e- Government	800,000.00	62,800,000.00	<b>63,600,000.00</b>
Legal and Public Service	304,518,760.40	122,500,000.00	<b>427,018,760.40</b>
On- going donor funded projects		284,911,755.00	<b>284,911,755.00</b>
County Assembly	482,860,002.00	146,000,000.00	<b>628,860,002.00</b>
<b>Grand Total</b>	<b>1,691,082,609.60</b>	<b>2,617,627,399.00</b>	<b>4,308,710,008.60</b>
<b>(Surplus)/Deficit</b>			<b>(717,301,898.60)</b>

**Table 2.1: Summaries of Revenues and Expenditures**

Source: Nyandarua County Treasury

During the period July to September 2013 of fiscal year 2013/2014, the County Government's expenditure units were mainly the County Assembly, County Executive and the ten devolved units as per schedule 4 of the constitution of Kenya.

## **2.1 Analysis of County Sources of Revenue**

**Mr. Speaker Sir,**

The sources of revenue during the period under review were mainly National Government grants and revenue collected from local sources. The total revenue for the County during the period was Ksh. 620 million; comprising National Government grant of Ksh. 535.5 million, local raised revenue of

Ksh 22.72 million and unspent funds brought forward from financial year 2012/2013 amounting to Ksh. 62 million. Revenue collected dropped drastically from Ksh. 8.02 million in July to Ksh.6.62 million in September which was due to slowed economic activities.

<b>Revenue Sources</b>	<b>First Quarter</b>
National Grant	535,535,240
Locally Raised Revenue	22,718,666
Balance B/F 2012/2013	62,000,000
<b>Total</b>	<b>620,253,906</b>

**Table 2.2: Revenue available in the first quarter**

Source: Nyandarua County Treasurer

The total exchequer release for the recurrent expenditure for the period stood at Ksh. 277.92 million.

The County did not requisition any development funds during this period due to lack of elaborate procurement plans. This impacted negatively on the County's development agenda.

## 2.2 Departmental analysis on exchequer release

<b><i>Departments</i></b>	<b><i>2013/2014 Budget</i></b>	<b><i>Exchequer Release 1st Quarter</i></b>	<b><i>Expenditure</i></b>	<b><i>Performanc e %</i></b>
Finance and Economic Planning Department	479,283,014.00	107,695,000.00	9,406,430.00	8.73
Agriculture and Fisheries	110,610,233.00	2,222,000.00	1,531,585.00	68.93
Health Services	486,039,567.00	4,502,460.00	199,937.00	4.44
Education, Youth and Children Affairs	332,292,921.00	4,342,000.00	6,560,650.00	151.10
Industrialization ,Cooperative Development	102,940,000.00	575,000.00	443,800.00	77.18
Roads Public Works and Transport	1,122,700,000.00	6,012,000.00	10,027,824.00	166.80
Land Housing and Physical Planning	97,153,754.00	525,000.00	275,440.00	52.46

Water, Environment and Natural Resources	173,300,000.00	190,000.00		0.00
Information, Communication and e- Government	63,600,000.00	-		
Legal and Public Service	427,018,760.00	83,855,000.00	81,671,927.00	97.40
On- going donor funded projects	284,911,755.00			
County Assembly	628,860,002.00	67,998,540.00	41,434,295.00	60.93
<b>Grand Total</b>	<b>4,308,710,006.00</b>	<b>277,917,000.00</b>	<b>151,551,888.00</b>	<b>54.53</b>

**Table 2.3: Departmental analysis on exchequer release**

Source: Nyandarua County Treasury

**Mr. Speaker Sir,**

The total expenditure for the period was Ksh.151.55million. The absorption rate for the County government was 54.53%.

The Office of Controller of Budget (OCoB) noted the following key factors as having affected budget implementation:

- (i) Shortfalls in revenue collections
- (ii) Use of manual financial systems due to the delayed roll out of Integrated Financial Management Information Systems (IFMIS)
- (iii) Lack of the required capacity to perform county functions.
- (iv) Lack of offices for officers performing county functions.

Nyandarua County Government used the defunct local authorities' revenue collection points as their main sources of revenue. Both LAIFOMS and manual systems were used to record the revenue collected and deposited into the Nyandarua revenue collection account.

### 2.3 Economic Classification of County Expenditure

<b>Expenditure</b>	<b>Estimates</b>	<b>Actual Expenditure</b>	<b>% of total expenditure</b>
Personnel Expenses	945,631,304	74,820,791	7.91%
Recurrent Operations	745,441,303	76,731,097	10.29%
Development	2,617,627,399		0.00%
<b>Total</b>	<b>4,308,700,006</b>	<b>151,551,888</b>	<b>3.52%</b>

**Table 2.4: Economic classification of expenditure**

Source: Nyandarua County Treasury

**Mr. Speaker Sir,**

The table above groups the total county expenditures into three groups:

- i. **Compensation of Employees;** includes basic salaries paid to permanent and temporary employees and personal allowances paid as part of salary among other related costs.
- ii. **Operations & Maintenance;** includes utilities, supply and services, domestic travel and subsistence, and other transportation costs, training expenses, hospitality supplies and services, routine Maintenance among other related cost.
- iii. **Acquisition of Fixed Capital Assets;** includes refurbishment of buildings, purchase of vehicles and other transport equipment, purchase of office furniture and general equipment and purchase of specialized plant, equipment and machinery among other related costs.

### 2.4 Key Challenges and Recommendations by the OCoB

**Mr. Speaker Sir,**

County Budget implementation during the first quarter faced a lot of challenges and OCoB recommended the following:

- a) There were delays in submission of various periodic financial reports from the County Government. The main excuse provided for the delay was the reliance on manual financial system. Despite the challenges of manual financial system, the OCoB recommended that the County Treasury needs to improve on the financial framework so that accurate and reliable financial reports can be conveyed periodically. It must also issue guidelines and circulars to cultivate a culture of prudent financial management. A reliable report helps to monitor budget implementation.
- b) The Integrated Financial Management Information System(IFMIS) had not been fully rolled out in the county to facilitate tracking of expenditure. The slow implementation of IFMIS continues to pose serious challenges to effective management of public resources and threatens to hinder the achievement of the tenets of public finance as espoused under Article 201 of the constitution.
- c) During the first quarter, there were several issues that each County was expected to achieve as outlined in the PFM Act but the county continuously failed to achieve them in time. Some of them include the Finance bill (Article 133 of PFM Act), County Integrated Development Plan (CIDP) (Article 126 of PFM Act), County Budget Review and Outlook Paper (CBROP) (Article 118 of PFM Act) among others.
- d) County department's arrangement- Although county departments have been established in line with Article 179 of the constitution, activities and personnel had not been aligned with this structure. This has made it almost impossible to track expenditure to cost centers, affecting the implementation of the county budget as approved by the County Assembly.
- e) During the first quarter, there was low absorption of funds especially for development. This affected the proposed infrastructural developments within the county which is critical for the flourishing of the local economy. In order to increase absorption of available funds, there was

need to build capacity of technical staff in procurement and project management, adopt procurement plans and improve budgeting

- f) Financial management structures in the county were not in place and this has a direct negative impact on the absorption of funds. The county treasury should let departments handle their own budgets and expenditures by putting in place proper structures.

## CHAPTER THREE

### ANALYSIS OF BUDGET IMPLEMENTATION DURING THE PERIOD JULY TO DECEMBER 2013

#### 3.0 Introduction

Mr. Speaker Sir,

The County managed to revise its annual budget in order to get rid of the deficit it had was able to reduce it from Ksh 4.31 billion to Ksh 3.64 billion which includes recurrent expenditure of Ksh. 1.76 billion and a development expenditure of 1.88 billion as shown in the table below.

<b><u>2013/2014 BUDGET:REVENUE AND EXPENDITURES</u></b>			
<b>Revenue</b>			<b>TOTALS</b>
<b>Local</b>			204,700,039
<b>Transfers From Central Government</b>			3,435,160,700
<b>Total</b>			<b>3,639,860,739</b>
<b>Department</b>	<b><i>Recurrent Expenditure</i></b>	<b><i>Capital Expenditure</i></b>	<b><i>TOTALS EXPENDITURE</i></b>
Finance and Economic Planning Department	358,653,960	73,280,000	431,933,960
Agriculture and Fisheries	98,100,152	16,743,120	114,843,272
Health Services	97,992,668	319,552,524	417,545,192
Education, Youth and Children Affairs	141,068,922	152,924,000	293,992,922
Industrialization ,Cooperative Development	32,014,000	63,646,000	95,660,000
Roads Public Works and Transport	165,111,014	657,118,000	822,229,014
Land Housing and Physical Planning	70,753,754	8,400,000	79,153,754
Water, Environment and Natural Resources	6,800,000	86,500,000	93,300,000
Information, Communication and e- Government	800,000	50,300,000	51,100,000

Legal and Public Service	309,930,868	98,400,000	408,330,868
On- going donor funded projects		284,911,755	284,911,755
County Assembly	482,860,002	64,000,000	546,860,002
<b>Grand Total</b>	<b>1,764,085,340</b>	<b>1,875,775,399</b>	<b>3,639,860,739</b>

**Table 3.1: Budget revenue and Expenditures**

Source: County Government Treasury

### 3.1 Analysis of County Revenue Sources

During the period July to December 2013 offiscal year 2013/2014 the sources of revenue National Government allocation, local revenue and balance brought forward from the financial year 2012/13.

Revenue Sources	First Quarter	Second Quarter	Total
National Grant	535,535,240	315,020,729	850, 555,969
Locally Raised Revenue	22,718,666	19,895,326	42,613,992
Balance B/F 2012/2013	62,000,000	-	62,000,000
<b>Total</b>	<b>620,253,906</b>	<b>334,916,055</b>	<b>955,169,961</b>

**Table 3.2: Summary of the county revenue sources for the first quarter**

Source: County Government Treasury

**Mr. Speaker Sir,**

In the second quarter (October to December 2013), the National Government grant was Ksh. 315.02 million while revenue from local sources amounted to Ksh. 19.90 million. For the period between 1<sup>st</sup> July 2013 and 31<sup>st</sup> December 2013, total revenue available for the County was Ksh. 955.17 million comprising of Ksh. 850.56 National Government grant, Ksh. 42.61 million from local sources and unspent funds brought down from financial year 2012/2013 amounting to Ksh. 62 million. The total exchequer release for the period between 1<sup>st</sup> July 2013 and 31<sup>st</sup> December, 2013 was Ksh. 966.68 million.



### **3.2 Analysis of Local Revenue**

**Mr. Speaker Sir,**

Nyandarua County Government used the former local authorities revenue collection points as their main revenue collectors, both LAIFOMS and manual systems are used to record the revenue collected and deposited into the Nyandarua revenue collection account at Equity and Kenya Commercial Banks. A total of Ksh. 19.90 million was collected during the period as compared to Ksh. 22.72 million that was collected in the first quarter of the financial year 2013/14 showing a 12.4% drop in revenue collected.

Local Revenue for the months October, November, December were Ksh. 6.94 million, Ksh. 6.85 million and Ksh. 6.11 million.

**Mr. Speaker Sir,**

The declining trend of local revenue sources noted in the first quarter continued casting doubt in the County's ability to attain the county target. The low revenue collection in the county is attributed by various factors.

1. **Delay in the implementation of the Finance Bill**-The Finance Bill stipulates how the County Government is going to meet its budget requirements. The County Government passed the 2013/2014 budget and the Finance bill in time but the Finance bill passed was challenged by the Nyandarua residents in court of law. The court handed down its verdict against the Finance Bill and the County Government was required to continue using the bylaws of the defunct local authorities to guide its revenue collection. This dented the County Government's plans thereby hindering its ability to hit its local revenue collection target.
2. **Low Season**- The County Government has cited that the period between the months of July to December is a low season months in terms of revenue collection. Major county government revenue earners include single business permits and land rates which are paid

once at the beginning of the calendar year. The only running charges all year round include parking fees, market fees, and burial fees.

The County gross expenditure for the period was estimated at Ksh. 430.7 million which translates to 44.56% of the Exchequer releases (966.68 million)

Summary of revised budget estimates, exchequer releases and absorption rates for the period.

<b>Department</b>	<b>Revised Budget Estimates</b>	<b>Exchequer Release Semi Annual</b>	<b>Semi Annual Expenditure</b>	<b>Absorption</b>
Finance and Economic Planning Department	431,933,960	176,350,693	47,328,255	26.84%
Agriculture and Fisheries	114,843,272	75,575,500	12,389,395	16.39%
Health Services	417,545,192	160,001,660	10,299,775	6.44%
Education, Youth and Children Affairs	293,992,922	48,184,400	10,211,183	21.19%
Industrialization ,Cooperative Development	95,660,000	16,887,717	3,733,960	22.11%
Roads Public Works and Transport	822,229,014	145,732,004	29,403,198	20.18%
Land Housing and Physical Planning	79,153,754	8,804,950	755,115	8.58%
Water, Environment and Natural Resources	93,300,000	15,653,200	120,540	0.77%
Information, Communication and e- Government	51,100,000	5,757,000	5,743,521	99.77%
Legal and Public Service	408,330,868	174,926,018	210,157,691	120.14%
On- going donor funded projects	284,911,755		-	0.00%
County Assembly	546,860,002	138,807,278	100,584,887	72.46%
<b>Grand Total</b>	<b>3,639,860,739</b>	<b>966,680,500</b>	430,727,520	44.56%

**Table 3.3: Exchequer releases and department absorption rates**

Source: Nyandarua County Treasury

It is unclear why there was an amount set aside in the budget for on-going donor funded projects yet it was known at the time of budgeting that there were no such projects in the County.

The absorption rates for most departments were still below average for almost all departments compared to their budget and/or exchequer release. This may be an indication of lack of capacity for the technical staff in procurement and project management.

## CHAPTER FOUR

### ANALYSIS OF BUDGET IMPLEMENTATION DURING THE PERIOD JULY 2013 TO MARCH 2014

#### 4.0 Introduction

**Mr. Speaker Sir,**

During the period July 2013 to March 2014 of the FY 2013/14, the total revenue received in the County Revenue Fund (CRF) was Ksh 1.764 (92%) billion as allocations from the national government and Ksh 82 million (4%) was collected from local sources within the county. A further Ksh 62 million (3%) was brought forward from the previous financial year (FY 2012/13).

<b>Revenue Sources</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>TOTAL</b>
National Grant	535,535,240	315,020,729	915,560,114	1,766,116,083
Locally Raised Revenue	22,718,666	19,895,326	40,250,340	82,864,332
Balance B/F 2012/2013	62,000,000	-	-	62,000,000
<b>Total</b>	<b>620,253,906</b>	<b>334,916,055</b>	<b>953,810,544</b>	<b>1,910,980,415</b>

**Table 4.1: revenue received during the first three quarters**

Source: Nyandarua County Treasury

**Mr. Speaker Sir,**

In the third quarter, (January to March 2014), the National Government grant was Ksh. 915.56 million while revenue from local sources amounted to Ksh. 40.25 million. For the period between 1<sup>st</sup> July 2013 and 31<sup>st</sup> March 2014, total revenue available for the County was Ksh. 1.91 billion comprising of Ksh. 1.766 billion National Government grant, Ksh. 82.86 million from local sources and unspent funds brought down from financial year 2012/2013 amounting to Ksh. 62 million. The

total exchequer release for the period between 1<sup>st</sup> July 2013 and 31<sup>st</sup> December, 2013 was Ksh. 1.60 billion.

#### **4.1 Local Revenue Analysis**

**Mr. Speaker Sir,**

Local revenue collected during the period from July 2013 to March 2014 was Ksh. 82.9 million with the month of January recording the least collection of Ksh. 6.1 million and the month of March recording the highest collection of Ksh. 23.4 million. This performance represents 40.6% of the annual local revenue target of Ksh. 204 million. Local revenue collection in the third quarter improved to Ksh 40.25 million from Ksh 19.90 million collected in the second quarter and 22.72 million collected in the first quarter. The collection for the third quarter represented a 102.3 % of second quarter collections. **(See annexure 1)**

Further breakdown of the revenue collected during the period under shows that single business permits accounts for Ksh. 18.83 million (22.7%), produce cess & royalties accounts for Ksh. 17.03 million (20.5%), bus and matatu fees accounts for Ksh. 10.39 million (12.5%) while other sources account for Ksh. 36.62 million (44%).

#### **4.2 Exchequer Issues**

**Mr. Speaker Sir,**

The sum of Ksh 1.60 billion was requisitioned by the County Treasury and released from the County Revenue Fund to fund implementation of the county budget during this period. This consisted of Ksh 1.19 billion (74.4%) for recurrent expenditure and Ksh 408.7 million (25.5%) for development expenditure.

The Department of Health Services had the highest requisition Ksh. 296 million (71%) this was occasioned by the devolving of the payroll i.e. they had to pay salaries of devolved staff as from January 2014. The County Assembly requisitioned Ksh 239 million (44%) while the Departments of ICT and Lands, Housing & Physical Planning got the lowest allocation standing at Ksh. 6 million

(13%) and Ksh. 14 million (18%) respectively.

#### 4.3 Analysis of Expenditure

**Mr. Speaker Sir,**

The County gross expenditure for the 11 aforementioned County Departments during the period July 2013 to March 2014 was estimated at Ksh. 1.31 billion which translates to 81.9% absorption level of the exchequer releases. The County spent Ksh. 1.12 billion on recurrent expenditure and Ksh. 187.45 million on development expenditure. Further analysis of each category of expenditure shows that absorption rate for recurrent expenditure for the period was 93% of the Exchequer release while Development expenditure was 45% of the exchequer release.

<b>Expenditure category</b>	<b>Budget Estimates</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
Recurrent & Operations	2,352,220,381	1,189,959,000	1,117,592,771	93%
Development	1,034,728,603	408,777,900	187,449,347	45%
<b>Total</b>	<b>3,386,948,984</b>	<b>1,598,736,900</b>	<b>1,305,095,118</b>	<b>69%</b>

**Table 4.2: Nyandarua County Expenditure**

Source: County Government Treasury

**Mr. Speaker Sir,**

During this period, January 2014 had the highest expenditure Ksh 406.26 million (31.1%). This was occasioned by an increase in development expenditure that was brought about by rapid initiative to improve the state of rural access roads as stipulated by the Governor's manifesto and also partial refund of the devolved functions payroll amounting to Ksh. 191 million. In July 2013 the County had lowest expenditure Ksh. 20.25 million (1.5%).

### **4.3.1 Recurrent Expenditure**

**Mr. Speaker Sir,**

A breakdown of recurrent expenditure reveals that the County spent Ksh. 668.5 million on Personnel Emoluments which translates to 59% of the total recurrent expenditure while Ksh. 449.1 million was spent on operations and maintenance, accounting for 40% of recurrent expenditure. By 31<sup>st</sup> March, 2014, the County had not reimbursed to the National Government Ksh. 325.66 million for salaries paid to staff performing devolved functions.

A review of operations and maintenance expenditure for the County government for the period July 2013 to March 2014, indicates that Ksh. 140 million (31%) was spent on domestic and foreign travels, Ksh. 50.3 million (11.2%) was spent on purchase of motor vehicles and Ksh. 41 million (9.25%) on routine maintenance. Expenditure on conferences, hospitality and catering expenses amounted to Ksh. 34 million (7.68%), printing, advertising and information supplies & services amounted to Ksh. 14.9 million (3.3%), fuel oil & lubricants amounts to Kshs. 14 million (3.29%), Training and capacity building amounted to Ksh. 13 million (3.06%). Other operations expenditure included office and general supplies amounting to Ksh. 8 million (2%), Communication expenses amounting to Ksh. 4 Million (0.89%), utility supplies and services amounting to Ksh. 2.8 million (0.63%), and Ksh. 123 million (27.39%) was spent on other operations and maintenance expenses.

**(See annexure 2)**

### **4.3.2 Development Expenditure**

**Mr. Speaker Sir,**

As at 31<sup>st</sup> March 2014, a total Ksh 408.7 million had been released for the implementation of approved development projects in the county. Of the total amount released, Ksh 187.5 million (45%) had been utilized for grading and gravelling of rural roads. The committee recommends an external audit to investigate whether work done on County rural roads is worth Ksh. 187.5 million.

#### 4.4 Departmental Reports

This section outlines the mandate and priorities of the spending units and analyses budgetary performance by each department.

Department	Budget Estimates	EXPENDITURE FY 2013/14			TOTAL
		1st Quarter	2nd Quarter	3rd Quarter	
Finance and Economic Planning Department	343,454,004	9,406,430	37,921,825	60,121,248	107,449,503
Agriculture and Fisheries	356,334,633	1,531,585	10,857,810	109,328,041	121,717,436
Health Services	774,481,802	199,937	10,099,838	272,978,330	283,278,105
Education, Youth and Children Affairs	227,511,193	6,560,650	3,650,533	17,859,112	28,070,295
Industrialization ,Cooperative Development	60,919,063	443,800	3,290,160	6,389,439	10,123,399
Roads Public Works and Transport	600,219,826	10,027,824	19,375,374	202,867,367	232,270,565
Land Housing and Physical Planning	37,409,989	275,440	479,675	8,023,347	8,778,462
Water, Environment and Natural Resources	64,788,611		120,540	20,909,351	21,029,891
Information, Communication and e-Government	38,759,874		5,743,521	4,888,907	10,632,428
Legal and Public Service	291,209,987	81,671,927	128,301,956	70,316,769	280,290,652
On- going donor funded projects					-
County Assembly	591,860,002	41,434,295	59,337,400	100,682,687	201,454,382
<b>Grand Total</b>	<b>3,386,948,984</b>	<b>151,551,888</b>	<b>279,178,632</b>	<b>874,364,598</b>	<b>1,305,095,118</b>

**Table 4.3: Nyandarua County Departmental Expenditure**

Source: County Government Treasury



#### 4.5 Analysis of County Assembly Budget

Mr. Speaker Sir,

The County Assembly did not receive funding during the months of July, October, January and February of Fiscal year 2013/2014. There was a general increase in actual expenditure every month from July 2013 to March 2014. IFMIS and G-Pay systems were not operational in the County Assembly.

##### 4.5.1 County Assembly Expenditure

Mr. Speaker Sir,

The County Assembly of Nyandarua was composed of 25 elected Members of County Assembly (MCAs) and 15 nominated MCAs. The County Assembly had a cumulative expenditure of Ksh. 212.98 million out of a budget of Ksh. 591.86 million translating to a budget performance of 39%.

The table below shows the County Assembly expenditure against its budget. (See annexure 3)

	Recurrent				Development
	PE	O&M	Sitting All.	Total	
Total Budget	253,471,971	251,388,031	62,000,000	591,860,002	25,000,000
Total expenditure as of 31/3/2014	56,642,691	130,321,080	26,015,589	212,979,357	0
Absorption rate	22%	52%	42%	36%	0%

**Table 4.4: County Assembly's Expenditure**

Source: County Government Treasury

From the table above, it can be observed that operations and maintenance had the highest absorption rate at 51.84%, followed by the County Assembly sitting allowances at 41.96% and Personnel emoluments at 22.35% percent.

**Mr. Speaker Sir,**

The only foreign travel by the County Assembly was the educational tour to Malaysia and Singapore by all MCAs and few staff at a cost of Ksh.27.2 million further broken into Ksh.15.9 million paid to Kenfam International Limited (for freight, catering and accommodation expenses) and 11.3 million paid as per diem to the MCAs and staff respectively. The County Assembly and the County Executive arms of Nyandarua County Government contracted Kenfam International Limited to provide Freight Services. The question that remained unanswered is how Kenfarm was contracted; whether the due process was followed and if so, whether there was value for money. The minutes of the meetings of the County Assembly Service Board held on 10<sup>th</sup>, 11<sup>th</sup> and 24<sup>th</sup> December 2013 showing deliberations on matters of the foreign tour mentioned above did not help the Committee in its findings. **(See annexures 4, 5, 6, 7, 11 & 17)**

The only motor vehicle purchased by the County Assembly during the period in question was the Nissan Urvan KBY 479 C that was bought on 28<sup>th</sup> February 2013 but this purchase was recorded as expenditure in the month of April. On behalf of the Clerk to the County Assembly, the County Assembly Principal Finance Officer, Mr. Charles Wahinya told the Committee that the recording is consistent with accrual basis of accounting, stating that 28<sup>th</sup> February 2013 was when the LPO was accepted but delivery was made on April 2013. The Committee challenged this assertion citing that under accrual basis of accounting, the date of purchase should have been when the LPO was accepted; not necessarily when payment or delivery is made. **(See Annexures 4, 5, 8 & 9)**

The County Assembly spent Ksh. 10.25 million in training, workshops and inductions for the MCAs and staff. This expenditure is further broken into Ksh. 9.53 million spent on MCAs and Ksh. 715,040 on staff. Breakdown for amounts paid for (or paid to) Hon. James Gachomba on his training and induction was not availed to the Committee.

**Mr. Speaker Sir,**

The average monthly sitting allowances of a MCA for the period July 2013 to March, 2014 is Ksh.72, 260. This means that Ksh. 26 million was spent on sitting allowances for 40 MCAs for a period of nine months, against a budget of Ksh. 62 million, representing an absorption rate of 42%. Over the same period, the average monthly sitting allowances for the Members of County Assembly Service Board were Ksh. 114, 204. This means that Ksh. 5.14 million was spent on sitting allowances of 5 members of the County Assembly Service Board for a period of nine months against an annual budget of Ksh. 1.8 million, representing an overspending of Ksh. 3.34 million ( an absorption rate of 285.6%) (See annexures3, 4 & 5)

#### **4.6 County Executive Expenditure**

**Mr. Speaker Sir,**

The County Executive had an expenditure of Ksh. 1.092 billion out of a budget of Ksh. 2.795 billion translating to a budget performance of 36%.

The table below shows a summary of the County Assembly and the County Executive expenditure against their respective budgets.

<b>Details</b>	<b>CA Total Budget</b>	<b>CE Total Budget</b>	<b>MCAs</b>		
			<b>Elected</b>	<b>Nominated</b>	<b>Totals</b>
Total Budget	591,860,002	2,795,088,982	25	15	
Total expenditure as of 31/3/2014	212,979,357	1,092,112,761			
Absorption rate/total	36%	39%			

**Table 4.5: Nyandarua County Assembly & Executive Comparison**

Source: Nyandarua County Treasury

It is important to note that the Integrated Financial Management Information System (IFMIS) and G-Pay system have been operational in the County Treasury as from November 2013.

For the period July, 2013 to March, 2014 the Executive arm of Nyandarua County spent Ksh. 4.76 million on training, workshops and inductions for its staff. An amount of Ksh. 5.15 million was spent on international tours and travel. (See annexures10)

#### **4.7 Analysis of County Executive Budgets**

The County Executive exercises the executive authority of the County and is mandated to implement the policies of the County Assembly and National Government as may be required. It is also expected to supervise the delivery of services in the County. Key priorities for this departments include providing leadership in performance of allocated functions and budget implementation, and setting up structures and systems to ensure minimal disruptions in service delivery.

#### **The Finance and Economic Planning Department**

**Mr. Speaker Sir,**

This department is headed by CEC member of Finance and Economic Planning. This department comprises the CEC Member for Finance and Economic Planning, the Chief Officer and the department(s) of the County treasury responsible for financial and fiscal matters as spelt in Section 103(1) to (3) of the PFM Act, 2012. Subject to The Constitution of Kenya, 2010 and Section 104 (1) of The PFM Act, 2012 this department shall monitor, evaluate and oversee the management of the public county finances and economic affairs of the County government including developing and implementing financial policies in the county and mobilizing resources for funding of the budgetary requirements of the county Government and putting in place mechanisms to raise revenue and resources amongst others.

This department was allocated a gross estimate of Ksh.343.45 million representing 10% of the total county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department received

an exchequer issue of Ksh.202.90 million for recurrent services and Ksh. 16.25 million for development expenditure. The absorption level of funds for this department was 49.03%.

<b>Finance &amp; Economic Planning</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	202,898,693	107,449,503	52.96%
<b>Development</b>	16,250,000	-	0.00%
<b>Total</b>	219,148,693	107,449,503	49.03%

**Table 4.6: Finance & Economic Planning Expenditure**

Source: Nyandarua County Treasury

**Mr. Speaker Sir,**

During the period July 2013 to March 2014, the Controller of Budget (basing findings on returns submitted by the County Treasury) stated that expenditure for the motor vehicles amounted to Ksh. 50.3 million. Returns submitted to the County Assembly by the County Treasury indicated that expenditure on motor vehicles for the period in question was Ksh. 36.82 million. Explanations for the difference were sought from the County Budget Coordinator, Mr. Samuel Njihia (on behalf of OCoB) and the Principal Finance Officer, Mr. Jesse Mwangi. Each of the two officers provided a schedule supporting their totals, but the Committee, in its wisdom, requested Mr. Jesse Mwangi to reconcile the two figures and he attributed the Ksh. 13.48 million differences to errors of charging wrong expenditures to the Motor Vehicles account. **(See annexures 8, 11, 12, 13& 15)**

The County Treasury submitted expenditure returns that had numerous mistakes. Officers from the County treasury blamed those mistakes on the staff who worked in the Finance Department during the year 2013/2014, claiming that they were few, inexperienced and worked under immense pressure. The Committee requested the County Human Resources Manager, Ms. G. M. Maina to avail copies of academic and professional certificates of the said staff. The committee perused their certificates and concluded that the staff were qualified and experienced as most of them served in the Finance Department in the defunct local authorities. **(See annexure14& 16)**

#### **4.7.2 Agriculture, Livestock and Fisheries Department**

**Mr. Speaker Sir,**

This department's main objective is to accelerate the transformation of Agriculture, Livestock and Fisheries into a competitive and commercially orientated enterprise at the county to improve service delivery and development in line with national aspirations as articulated in the Vision 2030 Strategy, Jubilee Manifesto and County Integrated Development Plan. This aims to enhance fish & potato farming, bee keeping and construction of abattoirs, cattle dips, cereal driers and milk coolants. This department was allocated a gross estimate of Ksh.356.33million in total representing 11% of the county budget in the FY 2013-2014. In the period July 2013 to March 2014, the department received an exchequer issue of Ksh.137.90 million. The department had an absorption rate of 88.26%.

<b>Agriculture &amp; Fisheries</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	128,436,450	121,717,436	94.77%
<b>Development</b>	9,465,552	-	0.00%
<b>Total</b>	137,902,002	121,717,436	88.26%

**Table 4.7: Agriculture & Fisheries Expenditure**

Source: County Government Treasury

#### **4.7.3 Health Services Department**

**Mr. Speaker Sir,**

This sector aims to raise the health status by improving the efficiency, equity and quality of health care services and by promoting healthier lifestyles, through health Sector Reform Projects, restructuring and strengthening the organizational and regulatory capacity of the county and level of the public sector to plan, organize, produce, procure and deliver a high standard of care at a cost efficient basis as health functions have been fully devolved. These include running/construction/renovation of the county hospitals and health centers, having pediatric wings in all county hospitals.

This department was allocated a gross estimate of Ksh.774.48 million in total representing 23% of the county budget in the FY 2013-2014. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh. 282.93 million for recurrent services and Ksh 14.65million for development expenditure. Their absorption rate is 95.2% which included recurrent expenditure Ksh. 283.28 million.

<b>Health Services</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	282,925,431	283,278,105	100.12%
<b>Development</b>	14,650,000	-	0.00%
<b>Total</b>	297,575,431	283,278,105	95.20%

**Table 4.8: Health Services Expenditure**

Source: Nyandarua County Treasury

#### **4.7.4 Education, Youth, Culture, Sports and Children Affairs**

**Mr. Speaker Sir,**

This department's main aim is to improve the quality of education for county children at formative stages of life and promotes youth participation in democratic processes as well as in community and civic affairs.

This department was allocated a gross estimate of Ksh.227.51million in representing 7% of the total county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh.48.48 million for recurrent services and Ksh. 29.25 million for development. This department did not have any development expenditure. The total absorption level for the department was 36.11% which was basically spent on recurrent activities like subsistence allowances, boards and seminars and travelling expenses.

<b>Education Youth &amp; Children Affairs</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	48,475,852	28,070,295	57.91%
<b>Development</b>	29,251,000	-	0.00%
<b>Total</b>	<b>77,726,852</b>	<b>28,070,295</b>	<b>36.11%</b>

**Table 4.9: Education Youth and Children Affairs Expenditure**

Source: Nyandarua County Treasury

#### **4.7.5 Trade, Industrialization & Co-operative Development**

**Mr. Speaker Sir,**

This department is part of the devolved functions according to schedule 4 of the constitution of Kenya, 2010. It aims to promote and sustain industrialization in the county and offer its residents profitable avenues for enterprise development. This department was allocated a gross estimate of Ksh.60.92 million representing 2% of the total county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh.15.39 million for recurrent services and Ksh. 13.09million for development expenditure. The highest expenditure is majorly personnel emoluments, motor vehicle maintenance and the rest of the recurrent expenditure was spent on travelling and subsistence allowances and general office supplies.

This represented an absorption rate of 35.55%.

<b>Trade, Industrialization &amp; Co-op Development</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	15,391,642	10,123,399	65.77%
<b>Development</b>	13,087,300	-	0.00%
<b>Total</b>	<b>28,478,942.00</b>	<b>10,123,399.00</b>	<b>35.55%</b>

**Table 4.10: Industrialization & Co-operative Development Expenditure**

Source: Nyandarua County Treasury



#### 4.7.6 Roads, Public Works & Transport

**Mr. Speaker Sir,**

Kenya public road network has been categorized into the national trunk roads and the county roads by the Constitution. The current road classification system has six road classes i.e. Classes A to E and a Special Purpose Road class. Each class is defined by the functional criteria related to administrative level of centers the roads connect. County roads are defined as:

- (i) Roads within the counties that serve as linkages to City, Municipal, towns and markets
- (ii) Roads that serve social amenities such as schools, colleges, hospitals and dispensaries
- (iii) Roads that serve economic entities such as factories, industries and quarries and all other roads within County boundaries that have not been defined as National Trunk Roads.

This department had the highest allocation with a gross estimate of Ksh.600.22 million representing 18% in total county budget for the FY 2013-2014. This allocation is to cater for construction, repair, pavement of roads, building of bridges and county rural electrification projects. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh.94.73 million for recurrent services and Ksh. 191.79 million for development. This was the only department that had development expenditure, comprising Ksh.187.49 million which was for grading and gravelling of rural roads.

<b>Roads Public Works &amp; Transport</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	94,734,713	44,771,218	47.26%
<b>Development</b>	191,794,048	187,499,347	97.76%
<b>Total</b>	286,528,761	232,270,565	81.06%

**Table 4.11: Roads Public Works & Transport Expenditure**

Source: Nyandarua County Treasury

#### 4.7.7 Lands, Housing and Physical Planning Department

**Mr. Speaker Sir,**

The docket formulates local physical development policies, guidelines and strategies. It is also responsible for the preparation of all county physical development plans. This department was allocated a gross estimate of Ksh.37.41 million of the total county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh.11.65 million for recurrent services and Ksh. 9.1 million for development. This department had no development expenditure and its recurrent expenditure was spent on personnel emoluments travel and overnight allowances and fueling costs. The total recurrent expenditure was Ksh. 8.78 million which represented absorption rate of 42.13% of the Exchequer release.

	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	11,648,986	8,778,462	75.36%
<b>Development</b>	9,100,000	-	0.00%
<b>Total</b>	20,748,986	8,778,462	42.31%

**Table 5: Lands & Housing Expenditure**

Source: Nyandarua County Treasury

#### 4.7.8 Water, Energy, Environment & Natural Resources

**Mr. Speaker Sir,**

This department comprises of the following sectors: Water Sector; Environment and Sector; Energy Sector and Forestry Sector. This department was allocated a gross estimate of Ksh.64.79 million of the county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department received an exchequer issue of Ksh.21.00 million for recurrent services and Ksh 11.65 million for development. This department had an expenditure of Ksh. 21.03 million translating to an absorption representing 64.41% which was spent on travel and overnight allowances.

<b>Water &amp; Environment</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	21,000,394	21,029,891	100.14%
<b>Development</b>	11,650,000	-	0.00%
<b>Total</b>	32,650,394	21,029,891	64.41%

**Table 4.13: Water, Environment & Natural Resources Expenditure**

Source: Nyandarua County Treasury

#### **4.7.9 ICT & E-Government**

**Mr. Speaker Sir,**

The main objective of this department is to establish an effective and integrated information, communication and E-Government system through purchase and installation of ICT networking & other communication Equipment and promoting E-learning system through Construction of Resource Centre & E-Learning Library. This department was allocated a gross estimate of Ksh.38.76 million in total county budget for the FY 2013-2014. In the period July 2013 to March 2014 the department requested for development allocation of Ksh. 7.33 million and recurrent allocation of Ksh 2.30 million. The department classified most of items as development but they were recurrent in nature.

<b>ICT &amp; E- Government</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	2,299,628	10,632,428	462.35%
<b>Development</b>	7,330,000	-	0.00%
<b>Total</b>	9,629,628	10,632,428	110.41%

**Table 4.14: ICT & E-Government Expenditure**

Source: Nyandarua County Treasury

#### 4.7.10 Justice, Legal Affairs & Public Service

**Mr. Speaker Sir,**

This department includes all the employees of the defunct local authorities and the County Executive which implements county legislation, national legislation that applies to counties, manages and coordinates the county administration. The Executive Committee may also prepare legislation for consideration by the County Assembly. The department was allocated of Ksh 291.2 million of the 2013/14 County budget. This department had an expenditure of Ksh. 280.47 million translating to an absorption rate of 128.14%. There was an over expenditure of Ksh. 61.83 million. The department overspent its exchequer release for recurrent expenditure by Ksh. 117.79 million (72.40%).

<b>Legal &amp; Public Service</b>	<b>Exchequer Released</b>	<b>Expenditure</b>	<b>Absorption</b>
<b>Recurrent &amp; Operations</b>	162,686,575	280,474,460	172.40%
<b>Development</b>	55,950,000	-	0.00%
<b>Total</b>	218,636,575	280,474,460	128.28%

**Table 4.15: Legal & Public Service Expenditure**

Source: Nyandarua County treasury

#### 4.8 Issues that remained unsolved

1. Why payroll expenditure (salaries) for all departments were charged to the department of justice, legal affairs and public service.
2. The Controller of budget reported that motor vehicle purchase by the County Treasury cost Ksh 50.3 million yet the County treasury reported a figure of Ksh. 36. 82million. The County Treasury's claim that the Ksh. 50.3 million was wrong as it contained some items of motor vehicle expenses charged to motor vehicle vote is inadmissible.

3. Why routine maintenance expenditure during the period was considerably high (Ksh. 41.6 million) yet the main items maintained, furniture and buildings and motor vehicles, were new.
4. Why all errors in the recording and reporting expenditure were attributed to immense pressure on the staff owing to the fact that they were few and inexperienced. The Committee was informed by the County Human Resources Manager that most officers who worked in the Finance Department were seconded from the defunct local authorities and used to work in finance department. Copies of academic and professional certificates of these staff revealed that they were reasonably experienced and qualified to perform their roles.

## CHAPTER FIVE

### KEY CHALLENGES AND RECOMMENDATIONS

#### 5.1 Key Challenges

**Mr. Speaker Sir,**

- i) Delay in uploading the approved budgets on IFMIS led to incessant wrongful charging of expenses onto the **repealed** budget. This erroneous recording accounted for the notable discrepancies between the budget on IFMIS and the approved budget especially in amounts allocated to various votes. This renders the monitoring and charging of vote expenses in the system a grim, if not impossible task.
- ii) Some items that fall under the category of recurrent expenditure were erroneously classified under development expenditure in the county budget; Purchase of Vehicles, Vans, Office Furniture, and Furnishing of ward offices among others, should be categorized and reported as recurrent expenditure.
- iii) Local revenue has perpetually performed dismally and far below the expected local revenue target. The County Finance bill 2013 had not been enacted as at the end of the second quarter of the FY2013/14, contrary to the requirements of the PFM Act 2012 timelines. The County therefore relied on the defunct local Government By-laws and revenue sources. Despite devolution of functions that has increased local revenue collection potential, the County is yet to enhance and ensure all collectable revenue is effectively tapped.
- iv) The County Treasury had been delaying in submitting the expenditure reports to OCoB for the period July 2013 to March 2014. This was further complicated by uploading of the wrong budget on IFMIS system which required itemized scrutiny and verification of all expenses generated in IFMIS system.

- v) Delays in passing key legislations which include the finance bill, county budget review and outlook papers, education bursary funds and emergency funds.
- vi) It took so long to enact the Alcohol Act and enforce the same. The Liquor Licensing Board has not been constituted by the date of this report.
- vii) Erroneous expenditure reports were submitted both to the OCoB and the Public Investments and Accounts Committee hindering accuracy of the analysis made by the former and subsequent scrutiny by the committee.

## **5.2 Recommendations**

**Mr. Speaker Sir,**

- i) IFMIS secretariat should liaise with the County Treasury to ensure that future budgets to be implemented are immediately uploaded onto IFMIS.
- ii) The County Government should realign its vote heads in line with the PFM Act 2012. According to the PFM Act 2012, "development expenditure" means the expenditure for the creation or renewal of assets; while "recurrent expenditure" means the expenditure that is incurred in operating the services provided by that county government but does not include expenditure incurred in creating or renewing assets belonging to or managed by that government.
- iii) The County treasury, in conjunction with the internal audit department, should institute structures that support revenue monitoring, enhancement and reconciliation so as to redress the deficit before it becomes irreconcilable. To sustain any growth of revenue the County will be required to increase efficiency in their operations and technological progress which calls for deeper reforms.

- iv) There is need for proper planning especially on procurement so as to increase absorption rate of funds. An adequate procurement plan will assist in carrying out various procurement processes early enough even before funds are released from the exchequer. Therefore, various departments must communicate early enough on their procurement needs to the procurement department. In addition, the county treasury should adopt an annual cash-flow forecast for the subsequent periods to help in planning and controlling expenditures and incomes.
- v) **Non-compliance and adherence to imprest regulations:** County treasury should exercise strict approval, issuance and surrender of imprest as per financial requirements. Use of imprest should not contravene existing laws like Public Procurement and Disposal Act, 2005.
- vi) The County Treasury must devise ways of diversifying local revenue sources in order to improve on the collections. This is one of the areas where the County treasury must devote every effort in order to realize the potential that the County has. The CRA had recommended that the County must improve tourism attraction sites like Sasumua Dam. The County Government can also build livestock yard and more abattoirs. There must be measures to seal loopholes in revenue collection. Possible ways of increasing local revenue collected include:
- Increasing the number of staff to handle revenue collection so that each revenue collector covers a small area effectively.
  - The County Treasury should establish an alternative method of revenue collection other than cash. It should strive to automate revenue collection by embracing methods such as ‘Lipa na Mpesa’ and online payment services provided by mainstream banks.
  - Capacity building for revenue collection staff to ensure they are competent in their work. All staff should be issued with detailed and clear job descriptions



outlining their duties and responsibilities. There is also need for the management to establish a clear organizational structure with understandable reporting systems and chain of command.

- The County Treasury should be coming up with a Finance Bill soon after the Budget is passed and not necessary waiting for the 30<sup>th</sup> September deadline, and ensure that the Bill is implemented as soon as it is approved.
- Setting up revenue management system that connects all the sub-counties and the county finance department. The LAIFOMS that is currently used by the County does not have a revenue collection module. The County Government should acquire a revenue management system that integrates with LAIFOMS in order to track both revenue collection and expenditure.
- Reviewing existing internal controls and evaluate their effectiveness in ensuring integrity in the revenue administration procedures. This will ensure that all revenue is effectively collected and fully accounted for.
- Ensure that cash collected is banked promptly.
- Facilitate the enforcement officers to undertake their duties. This may take the form of provision of motor vehicles and allowances in case they have to work odd hours.

vii) **To improve budget execution for the County Government:** there is need for capacity building at the County level for proper execution of budget; the County Government should put in place proper financial systems to ensure smooth flow of information and necessary operation.

viii) The County Treasury should submit a copy of the monthly expenditure report to the County Assembly as it submits one to the OCoB.

ix) The Office of the Auditor General to audit the department of Finance and Economic Planning (and the County Treasury) and the finance department of the County Assembly on their

recording of transactions, justification for expenditure, authorization of expenditure and reporting on the same for the period July 2013 to March 2014.

### 5.3 Conclusion

**Mr. Speaker Sir,**

The County Treasury should review and take stern action to redress the low performance in revenue collection against the targets to ensure that there is no budgetary gap by end of the financial year.

The county treasury should institute measures to ensure that collected revenue is deposited in the County revenue collection account and promptly swept to the County Revenue Fund Account as per the set regulations. In addition, the county treasury should fast track upload of approved future budgets onto IFMIS and ensure an exhaustive data capture of past payments in to the system to monitor performances of each vote.

The county treasury should work on improving the financial framework so that accurate and reliable financial reports can be communicated to the various stakeholders. A reliable report helps to monitor budget implementation.

Members of the Public Investments and Accounts hereby append their signatures adopting this report:

- |                          |                   |       |
|--------------------------|-------------------|-------|
| 1. Hon. Silvester Kagiri | -Chairperson      | ..... |
| 2. Hon. Suleiman Kihika  | -Vice Chairperson | ..... |
| 3. Hon. Dorcas. Kihara   | -Member           | ..... |
| 4. Hon. Tiziana Mwangi   | -Member           | ..... |
| 5. Hon. John Gachari     | -Member           | ..... |
| 6. Hon. Nancy Ng'ang'a   | -Member           | ..... |
| 7. Hon. Teresiah Kamau   | -Member           | ..... |

- |                         |         |       |
|-------------------------|---------|-------|
| 8. Hon. Michael Kirumba | -Member | ..... |
| 9. Hon. Peter Kairu     | -Member | ..... |

## **LIST OF ANNEXURES**