COUNCIL OF GOVERNORS

Public Finance Management
Steps to a clean financial audit report

Report on an inter-county Peer Learning Mission to Nyandarua County

4-5 November 2019

About the Council of Governors

The Council of County Governors (COG) is a non-partisan organization established under Section 19 of the Intergovernmental Relations Act (IGRA 2012). The Council of Governors comprises the Governors of the forty-seven Counties. main functions are the promotion of visionary leadership; sharing of best practices and; offer a collective voice on policy issues; promote inter – county consultations; encourage and initiate information sharing on the performance of County Governments with regard to the execution of their functions; collective consultation on matters of interest to County Governments.

Our Vision

Prosperous and democratic Counties delivering services to every Kenyan

Our Mission

Benchmark of excellence in devolution that is non-partisan; providing a supporting pillar for County Government as a platform for consultation, information sharing, capacity building, performance management and dispute resolution.

Maarifa Centre

Established by the Council of Governors, the Maarifa Centre is a knowledge sharing and learning platform for capturing of lessons and experiences from the 47 County Governments.

Table of Contents

Acknowledgements ... 4
Foreword ... 5
Acronyms ... 6
Definitions ... 7
Executive Summary ... 8
Introduction ... 11
Understanding the County Audit Process in Kenya ... 12
  Challenges faced by counties in the audit process ... 14
  Mitigating strategies adopted by counties ... 18
  Recommendations to address other challenges identified ... 19
Demystifying the Auditor General's report ... 20
Results from PEFA assessment of six counties ... 24
  Assessment highlights ... 24
The Open Government Partnership Initiative ... 27
Closing Remarks ... 31
  Remarks by CECM Finance, Nyandarua County ... 31
  Remarks by Ms Christine Owuor Onyango, World Bank ... 32
  Remarks by Hon. Peter Gathungu Kamau, PICPAC Nyandarua County ... 32
  Remarks by Uganda Team ... 32
  Closing remarks by H.E. Francis T. Kimemia, Governor, Nyandarua County ... 33
  Closing remarks by H.E. Wycliffe Wangamati, Governor, Bungoma County ... 35
  Vote of thanks ... 36
Exhibitions & Project visits ... 37
Conclusion ... 37
Pictorial ... 38
Appendices ... 39
  Appendix I: Communiqué ... 39
  Appendix II: Nyandarua Peer Learning Program ... 39
  Appendix III: Presentations ... 39
  Appendix IV: Speeches ... 39
  Appendix V: Counties & institutions represented at the Nyandarua Peer Learning ... 40

Acknowledgements

The Council of Governors is grateful to the World Bank for providing financial and technical support towards holding the successful peer learning mission to Nyandarua County on public finance management. The Council is also most grateful to Nyandarua County, under the leadership of HE Governor Amos Kimemia, for graciously hosting the mission, and providing extensive, well-coordinated support to the event. We also thank all other counties that participated in the learning event, and who shared their various experiences and challenges towards obtaining a clean financial audit.

The content of this report derives from the concept note and the meeting deliberations. It was written and reviewed by a team from the World Bank and Council of Governors staff. We are grateful to Jane Kimbwarata and Monica Wanjiru, consultants at Maarifa Centre, for writing this report. They received support from World Bank consultant, Diana Mwikali Nzioki, and internal staff of Maarifa Centre (Dorah Wawuda, Erick Mwirigi and Esther Njagi, and Stephen Osingo); COG Finance Committee (Mercy Wangui & Joseph Kung'u); ICT Department (Kennedy Kamau); Communications Department (Ruth Chitwa, Liz Wambui & Gerald Muka) & Protocol (Sereina Sombol).

Special thanks to John Kinuthia of International Budget Partnership (Kenya), who served as the moderator/facilitator during the mission. Also to the World Bank's team which included Christine Anyango Owuor, Annette Omolo, Rose Wanjiru, Sam Kiautha, Mumbi Ndungu and Ephantus Ng'ethe.

© Council of Governors, 2019.

All rights reserved. This report may be found on the websites of Maarifa Centre, Council of Governors, and the World Bank.

The Council of Governors exercises copyright over its information to make sure it is used following its principles. Extracts of the Centre's/Council's may be used for learning and knowledge as well as for private study and educational purposes without permission. Wider use requires permission to be obtained from the Council.

All photos ©Council of Governors

Foreword

It gives me great pleasure to introduce this report on a county learning event on *Steps to a Clean Financial Audit Report* that took place in Nyandarua County in November 2019. As the Chair of the CoG Committee on Finance, Planning, Economic affairs and ICT, my vision is to see well-resourced counties delivering services to citizens and at the same time applying prudent financial measures in utilizing the resources.

The Fourth Annual Devolution Conference, 2017, recommended that counties should set up peer review mechanisms (auto-criticism) and partner with civil society to ensure that vibrant structures are put in place. To this end, the Council of Governors collaborated with Nyandarua County and the World Bank to organize a learning event on prudent financial management, and what it takes to get a clean audit report, to help counties improve their auditing processes. This event was significant because it provided opportunity for counties to examine common challenges in the financial planning and budget implementation and to learn from best practices applied by counties that have had successful audit processes. This activity was in line with the Council's mandate of facilitating sharing of information on the performance of counties in the execution of their functions, with the objective *of learning and promotion of best practices, and where necessary, initiating preventive or corrective action.*

I would like to thank the Counties that participated in this event, as well as the Commission on Revenue Allocation, the Office of the Auditor General, the Office of the Controller of Budget and the World Bank for the roles that they played supporting this event. We have strong institutions in this Country and it is important that we make good use of them to ensure we deliver services to the citizens effectively and efficiently and remain accountable at the same time.

H.E Hon. Wycliffe Wafula Wangamati
Chair, Finance, Planning, Economic Affairs and ICT Committee
Council of Governors

Acronyms

ADP	Annual Development Plan
CBIRRs	County Budget Implementation Review Reports
CBROPs	County Budget Revenue and Outlook Papers
CECM	County Executive Committee Member
CFSR	County Fiscal Strategy Paper
CIDPs	County Integrated Development Plans
CoG	Council of Governors
CRA	Commission on Revenue Allocation
IFMIS	Integrated Financial Management Information System
KIPPRA	Kenya Institute of Public Policy Analysis
MCA	Member of County Assembly
MTEF	Medium Term Expenditure Framework
OAG	Office of the Auditor General
OCoB	Office of the Controller of Budget
OSR	Own Source Revenue
OG	Open Government
PBB	Program-Based Budgeting
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
RMS	Revenue Management System

Definitions

Unqualified/ clean opinion where the auditor is convinced that funds were managed properly and that there were no problems with the documentation.

Qualified opinion where the auditor's opinion could have been considered clean but for a few audit queries. In this case queries are not pervasive or systemic and the problems identified can be rectified easily.

Adverse opinion where there are pervasive (systematic) problems with the financial operations of a county government. Here problems require considerable changes to be rectified. An adverse opinion should be of concern to oversight bodies such as county assemblies and the public.

Disclaimer opinion when there is shoddy financial reporting by counties and the auditor is unable to fully review the county government's documentation to form an opinion.

Executive Summary

Six years after the start of devolution, the public finance space has grown and there is a progressively growing field of practices within and outside government. Therefore, this peer learning among county technical public finance officials provided an opportunity to build on good practices across counties, try and find practical solutions to common challenges and building a team spirit among officers involved in planning and budgeting. Therefore, the meeting in Nyandarua County not only provided other counties with an opportunity to learn from the hosts but also build on the knowledge of the other 46 counties. Below is an overview of the learning.

What has worked and led to improved audit reports

Analysis of audit opinions between 2013/14 and 2017/18 shows that counties have progressively improved from disclaimer and adverse opinions to more qualified and finally a few unqualified opinions in the last year. From the discussions, there are some notable contributors to this trend:

- The capacity of reporting officers has improved over time in terms of their numbers and technical capabilities.
- This capacity change seems to be coupled with improving relationships with independent offices such as the Office of the Auditor General, Office of the Controller of Budget, as well as the National Treasury.
- There were mixed observations on IFMIS. Some members felt that the new e-procurement module in IFMIS has simplified the process of procurement and capturing transactions. However, others felt that IFMIS was still not usable and understood and that leads to the challenges of disbursement between the financial statements and IFMIS records.
- There are creative ways that some counties have come up with to ensure there are better processes of reporting on their government budgets. For example, some counties have forwarded technical County Treasury officers to other departmental offices to support them in complying with different financial management requirements. This means there is a uniform approach to reporting, and it has made preparation for audits much easier. Also, Nyandarua, for example, has come up with a staff motivation plan that has pushed county officials to do their work with more diligence and that has contributed to fewer PFM-related issues in the county.
- In some cases, good relationships between the county executive and the county assemblies have made oversight more objective and this has improved the overall PFM performance.

There are still challenges:

- The changing regulatory space seems to have created some confusion about the transition from the old way of doing things to new requirements. For example, the place of pre- and post-audits was a discussion where there were varied views on its usefulness and whether it still had a place in the current PFM structure.
- Audit committees also seemed lost in the conversation, especially in terms of giving guidance on audit queries that come up in counties. This may partially explain why the lack of or poor operationalization of audit committees comes up often in the Auditor General's report each year. While in some counties there were some successes, the story is quite mixed.
- The reporting structures within counties seemed varied and that came out as a barrier to effective internal audits and engagement on audit reporting within counties. For example, the requirement in some counties that auditors and accountants report to the Chief Officer for Finance on all issues of audits was highlighted as a challenge on the independence of these offices.
- Audit reports are not an end to themselves. Their recommendations are supposed to be implemented to improve accountability mechanism and clarity on the value for money for citizens. There are two key aspects of these issues that came up but were not discussed:
    - Are the recommendations given in audit reports clear and practical?
    - Are they implemented, and who is responsible to ensure that happens?

What next for counties?

1. There is an opportunity for better engagement with the National Treasury, especially on issues related to IFMIS such as the procurement module. Counties that have been using it more diligently reported to having an easier time when it came to generating reports needed for audits. The same can be said about other national agencies that have a very direct impact on PFM work at the county level.
2. While there was an agreement that capacity among finance staff has improved over time, there are still gaps in human capital and capacity in existing staff, especially within the departments outside the National Treasury.
3. There is room in future learning forums to show the connection between Program-based Budgets and audits, especially when it comes to non-financial information that is best placed to show value for money. This is critical if audits and their findings are to make sense to the public.
4. Regulations and guidance from different agencies should be shared to all counties as a way to ensure there is a standardized approach to PFM in the counties. Some counties seemed to have certain directives from the National Treasury on how to handle differences in IFMIS and financial statements, while others did not have the same guidance.

Possible topics for the future

1. *Public Expenditure and Financial Accountability (PEFA).* The session on PEFA is a critical example of what counties can do to improve their public finance management. During this learning forum, the PEFA session was short, and probably in future, it can be a whole learning session on its own.
2. *Program-based Budgets.* What is unique about them and how can counties prepare better PBBs?
3. *Budget implementation and reporting.* Budget credibility is a key issue that has often been highlighted in the audit reports from the OAG due to frequent cases of underspending.
4. *Own-source revenue* and its challenges came up often during this session and it would be good to see the possibility of coming back to it from several angles. First, how to set the targets in a predictable format, how to handle spending at source and how to deal with earmarked revenues.

Introduction

Public Finance Management (PFM) involves resource mobilization and expenditure management. Since Kenya adopted devolution in 2013, county governments have made considerable effort to strengthen their internal PFM systems in line with the PFM Act, 2012 and the Constitution. These efforts are geared towards enabling counties to meet their development agenda and other county needs as well as to perform the devolved functions allocated to them. Institutions such as the Office of the Auditor General and the Office of the Controller of Budget, development partners as well as higher institutions of learning, have over the years helped to build PFM capacity in county governments.

The Office of the Auditor General (OAG) is required by law to produce audit reports within six months after the end of each financial year. These reports give an independent evaluation of whether counties exercised prudence in their use of public resources and whether the public got value for money. Furthermore, the audit looks into the internal financial controls in the counties and whether there are sufficient safeguards in place to protect public resources. A robust internal audit system means strong internal controls to protect public resources from misuse, and proper utilization of county resources.

The OAG gives either of four types of audit reports — an unqualified or "clean" opinion; a qualified opinion; adverse opinion; or disclaimer. Of the 47 counties, only two counties — Makueni and Nyandarua — have ever received unqualified audit reports (for County Executive, in FY 2017/2018), while Kericho County Assembly was the first to earn an unqualified audit report in the same period.

To address this challenge, the Council of Governors with support from the World Bank organized a peer-learning and experience-sharing mission to Nyandarua County to provide a forum for county staff responsible for budget and financial management to share experiences, lessons learnt and best practices and explore ways of strengthening the PFM processes, specifically in audit. Peer learning supports the implementation of the Performance Management Framework for County Governments and is significant for the successful realization of the Big 4 Agenda, whose implementation is being done by the Counties. Prudent public finance management is also a key strategy for corruption risk mitigation, which is critical in making devolution work for all sectors and services to citizens.

The mission was also in line with the following:

- The Council of Governors' mandate of sharing information on the performance of counties in the execution of their functions, with the objective *of learning and promotion of best practices, and where necessary, initiating preventive or corrective action.* The Council implements this function under the Fourth Pillar of its Strategic Plan 2017–2022, through the Maarifa Centre, which supports systematic sharing of knowledge, experiences and best practices among counties. Peer learning is one of the strategies for realizing improved county performance.

- The Fourth Annual Devolution Conference (2017) recommendation that counties should set up peer review mechanisms and partner with civil societies to ensure that vibrant governance structures are put in place. To this end, the Council of Governors, in consultation with the NEPAD/APRM Secretariat, is developing a County Peer Review Mechanism, indicating that county governments have embraced the concept of peer review, which is embedded in the Public Expenditure and Financial Accountability (PEFA) framework, as well as in Open Government and other bilateral and multi-county initiatives that seek to improve county performance through peer learning.

- The Sixth Annual Devolution Conference 2019 resolutions that:
    - Constitutional Commissions and Independent Offices shall ensure provisions on prudent financial management procedures are enforced.
    - Article 203(3), providing that audited accounts be approved by National Assembly shall, in not more than one (1) year, be amended to ensure timely approval of audited accounts.
    - The Penal Code and the Anti-Corruption and Economic Crimes Act, among other laws, shall in the next one (1) year be amended to strengthen enforcement of laws and enhance collaboration and coordination of all agencies in the war against corruption.

This report summarises the proceedings of the peer Learning event in Nyandarua County, and the key recommendations drawn, to guide counties in observing prudent management of public funds.

Understanding the County Audit Process in Kenya

The learning event moderator noted that there have been tremendous developments in Kenya in the six years of devolution, with major improvements in counties' annual budget reporting. The public finance space has grown and there is a progressively growing field of practices within and outside government. An analysis done by IBP indicates that the performance of audits has been improving consistently over the past 5 years. Table 1 below shows the results of the audit from Financial Year 2017/18. There were two counties (Makueni and Nyandarua) that got an unqualified audit opinion, while nearly half (46%) got disclaimers.

Table 1: Results of audit reports for FY 2017/18

County Executive	Disclaimer	Adverse	Qualified	Unqualified
Number of Audits	109	51	73	2
Proportion of Total Audit Opinion	46%	22%	31%	1%

Source: IBP Kenya

Table 2: Results of a five-year analysis of audit reports

Year	Disclaimer	Adverse	Qualified	Unqualified	Total
2013/14	83%	13%	4%	0%	100%
2014/15	53%	36%	11%	0%	100%
2015/16	57%	26%	17%	0%	100%
2016/17	28%	26%	47%	0%	100%
2017/18	11%	9%	77%	4%	100%

Source: IBP Kenya

According to the International Standards of Audit 705 (ISA 705 (Revised[1])), *a disclaimer of opinion* is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive or when in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

On the other hand, *an adverse opinion* is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements (ISA 705 (Revised)). *A qualified opinion* is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive (ISA 700). This opinion is better than a disclaimer of opinion and an adverse opinion. The most favorable opinion is the *unqualified opinion*, which is issued when an independent auditor's judgment is that a company's financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles.

Table 2 shows that all counties have improved significantly and that there has been positive progress in the performance of audits. The proportion of those getting a disclaimer opinion declined from 83% in FY 2013/14 to 11% as at FY 2017/18. The instances of adverse opinion have also decreased from 13% to 9% over the 5 years analyzed, although the proportion increased significantly between 2014/15 and 2016/17, with a majority of the counties moving from having a disclaimer of opinion to an adverse opinion. The proportion of counties getting a qualified opinion increased from 4% to 77% between FY 2013/14 and FY 2017/18.

[1] International Standard on Auditing 705 (Revised): Modifications to the Opinion in the Independent Auditor's Report (Effective for audits of financial statements for periods ending on or after December 15, 2016)

These results provided a good foundation for the counties at the meeting to begin the discussion on what they had all been working on to continue to improve accountability in Public Finance Management. The discussion that followed addressed the following crosscutting issues/challenges that counties face in the audit process, and the mitigating strategies they have adopted and the lessons learnt.

Challenges faced by counties in the audit process

a) Revenue Management Systems (RMS): Revenue management was identified as one of the key PFM issues facing counties, which affects the outcome of the audit report. The challenges revolve around revenue leakages, flow of information on revenue to the residents and stakeholders, and inadequate transparency and control mechanisms in the revenue collection process, and spending at source. In FY 2014/15, the Commission on Revenue Allocation (CRA) issued County Revenue Automation guidelines to all 47 counties, requiring them to implement Revenue Management Systems to help counties streamline fiscal management. The guidelines recommend automation of fiscal management to reduce revenue leakages that accrue along the budget planning, implementation and reporting process, such as spending own-source revenue (OSR) at source. The guidelines further seek to ensure timely flow of information; maximize revenue collection, while ensuring transparency in the collection process; and embedding control mechanisms, data security and reliability.

A presentation by **Joseph Kuria, CRA's Director of ICT Services**, showed that as at July 2017, a survey of 15 counties[2] showed that counties were severely lagging behind in passage of relevant legislation and regulations necessary to duly enable the collection of OSR. While most had automated their systems, it was partially and inefficiently done, and less than 20% of the revenue streams were automated in the respective counties. The automation was also centered in main towns, implemented at a high cost, with the system vendors still in full control of their operations. This was further compounded by the existence of multiple systems, parallel systems functioning in silos controlled by different vendors, and multiple bank accounts to which funds were directed, hence causing inability to see and track the end-to-end flow of funds, and bringing confusion about which account holds which source of revenue. There have also been infrastructure and connectivity challenges.

Consequently, the counties failed to collect their own projected revenues between FY 2013/14 and FY 2017/18. Most counties have not been able to grow revenue and OSR is still marginal, less than 7% on average. Only 19% of counties grew their resources marginally. Nyandarua was one of the counties that grew revenue in FY 2018/19 where revenue collection was nearly equal (98%) to what had been projected. This failure by counties to grow revenue was attributed to several challenges, including:

---

[2] Siaya, Kisumu, Vihiga, Meru, Muranga, Garissa, Trans Nzoia, Isiolo, Lamu, Kwale, Machakos, Kiambu, Turkana, Nairobi and Kakamega.

- Utilization of funds at source
- Poor and inaccurate revenue forecasting
- Amorphous target-setting for revenue officers
- Poor/low enforcement — in some instances, enforcement officers double as revenue collectors
- Infrastructure challenges — unreliable power supply, lack of backup
- Connectivity challenges, especially in the sub-counties.
- Inadequate relevant skill sets due to limited training by the vendors and inheritance of non-digital staff from previous councils
- Political interference in the management of county revenue

In addition, even the counties that were automating systems were dogged by the lack of relevant laws and policies and were using outdated laws. Further, in some counties, systems that had been put in place by the previous government collapsed because the new government wanted a new system which they could 'trust', leading to lack of continuity and collapse. The findings of the CRA assessment also showed that the following also lead to revenue leakage:

- Provision for 'Miscellaneous Revenue' — any revenue stream that is not part of the automated revenues is clustered under 'miscellaneous revenue". This is a major avenue for revenue leakage.

- Real-time revenue information is only visible to the system vendors and not to the County Executives.

- Huge variance in the cost of the RMS even where only one vendor supplying the same system to several counties. This was attributed to the absence of standard pricing of the system.

- Lack of a regulatory framework to guide the Revenue Share Models between the Counties and Vendors. In the counties surveyed, the share ranged from 1% to 6% of the revenue collected. Additionally, banks are still playing a major role in the revenue collection process for a percentage of revenue share.

b) Pending Bills: While some counties have improved in own-source revenue (OSR), some have continued to underperform as pointed out in County Budget Implementation Review Reports (CBIRRs), which negatively affects the implementation of planned activities and results in pending bills. Pending bills have also been a great challenge to county governments, and this has been highlighted annually by the reports from the Auditor General, the Controller of Budget and in counties' budget implementation reports. In her presentation, **Sally Rono, Senior Internal Auditor** at the **Office of the Controller of Budget (OCOB)** reported that pending bills often arise as a result of counties' overstatement of OSR and subsequent underperformance on revenue collection, compounded by delays by the National Treasury to disburse funds to the counties in a timely manner. The pending bills not only affect suppliers but interfere with the counties' resource allocation in the Medium Term Expenditure Framework (MTEF) budget because subsequent resources are allocated to the existing commitments.

Other challenges observed in the OCOB's budget implementation presentation include the following:

- **Implementation without planning documents.** Section 104 of the County Government Act, 2012, provides that no public funds can be appropriated without a development plan. However, the OCOB notes numerous instances where there are delays in preparation and approval on the County Integrated Development Plan (CIDP), Annual Development Plan (ADP), and the County Fiscal Strategic Paper (CFSP) within the mandatory timelines.
- **Poor record-keeping and lack of supporting documentation.** One notable recurring audit issue is lack of supporting documentation. This has been a key issue from the Auditor General's reports, resulting in many counties getting an adverse opinion or disclaimer of opinion audit report. In some cases, the records are available, but the retrieval process can take long and by the time the report is submitted by the audit team, the documents have not yet been retrieved.
- **Delays in submission of financial reports:** The OCOB noted that in some cases, some county treasuries delay in submitting their financial reports, leading to delays in the preparation of County Budget Implementation Review Reports (CBIRR) and subsequent delays in providing oversight by the oversight institutions.
- **Strained relationships between the county executive and the county assembly members.** Cases of strained relationships between the County Executive and Assembly continue to be reported. Instead of the two wings of country government embracing a collaborative approach towards resolving issues, they have often ended up disagreeing, created a working environment that leads to delayed planning and budgeting. This subsequently leads to delayed service delivery to the citizens.
- **Capacity challenges.** Even though counties continue to invest in continuous training in their staff, there is still inadequate technical capacity in some key staff in the County Executive and Members of the County Assemblies on budget preparation and legislation, revenue management, financial reporting and procurement.
- **Staffing and teamwork.** Staff turnover is high in the counties, especially when there is a change in leadership. This affects continuity and institutional knowledge and vital capacities and processes are lost.
- **Value for money system.** Audit queries on 'no value for money' have been raised, for example, markets constructed but not being used. Counties should explain why such facilities are not being used and what the opportunity cost is.

- **Lack of audit follow-up.** There have been many instances of recurrent audit issues and lack of adequate follow-up by those charged with governance to ensure timely resolution of such issues. However, the OCOB noted that this has improved with the establishment of county audit committees. It was noted, however, that some counties had not yet established Internal Audit departments and Audit Committees, while in others, the Audit Committees had been established but are not fully operational while the internal audit departments remained ineffective.
- **Persistence of manual transactions.** Counties have access to the Integrated Financial Management Information System (IFMIS), which has the different modules necessary for transacting and processing transactions. However, there have been audit queries on financial statements because there are many situations where transactions are done outside IFMIS, creating incomplete reports and records.

As a discussant on the above highlighted issues, **John Mutua** of the **Institute of Economic Affairs** (**IEA**) weighed in as follows:

- A clear connection between the Internal Audit and the External Audit will see a reduction of recurring issues. There is need for effort by the executive (ministries, department and agencies) towards improving internal control systems and a proper strengthening of the functionality of the internal audit which is critical for helping in reduction of recurring audit queries.
- No value for money where projects were done but remain unutilized, e.g. markets.
- Opportunity costs — unutilized projects' money could have been used in other needy projects. There is need to link no-value-for-money audit questions, where spending or appropriation has taken place but for one reason or another projects are not been utilized (sunk cost), implying that the intended project objectives and expected services will not be realized. It creates an opportunity cost in the sense that may be these funds should have been used in meeting other priority needs. In some cases, some projects such as markets are under-utilized because of various reasons, location, lack of participation, poor design, etc.
- Revenue — spending at source and mismanagement of revenue are recurring audit query issues. Often, most examples of audit queries are related to expenditure but there are also questions related to revenue.

Mitigating strategies adopted by counties

Revenue Management. Nyandarua County shared their approach to revenue management to ensure financial prudence. The County Government maintains only two Revenue Fund Accounts, which ensures:

- easy tracking of the revenue collections and transactions from the entry point;
- accurate reconciliation of funds collected, banking and remittance to Central Bank; and
- proper control of local revenue;

The Kericho County Assembly also shared their experience, pointing out that to boost OSR projections and compliance, the County Government has changed tack and instead of using authoritative methods to enforce compliance or raising rates to boost collection, it encourages ratepayers to comply instead. The County Government also engages the key stakeholders to talk to the members of the business community to increase compliance.

Addressing pending bills. County governments should develop realistic own-source revenue targets and align procurement plans and cash flow projections to avoid unfunded commitment. In Nyandarua, the County tries to set realistic revenue targets and strives to achieve them, ensuring that the County does not accumulate hefty pending bills at the year end. In FY 2017/18, the County Government collected 86% of the total estimated own-source revenue, increasing to 98% in FY 2018/19.

Record keeping and appropriate documentation. An example was provided by Nyandarua County on how they overcame this audit challenge. The County Government has designated officers who are responsible for record-keeping and retrieval of data when needed by auditors or for management purposes. In Makueni, the County Government has a unit specifically charged with the responsibility of budget reporting and review of the financial statements. The unit staff attend annual training by the National Treasury. The County also seeks support from the National Treasury and private audit firms for audit quality reviews and observance of international audit standards.

Interdepartmental teamwork. Nyandarua County has, for example, adopted a cross-departmental teamwork culture where interdepartmental interdependence and coordination are the norms. Departments do not work in silos.

A cordial working relationship between the County Executive and the County Assembly. Examples were provided by Makueni and Nyandarua of how they resolve conflicts between the Executive and the County Assembly (CA). In Nyandarua, the Chair of the County Public Investments/Public Accounts Committee (PIC/PAC), **Gathungu Kamau, (Member, County Assembly)** said that the Nyandarua County Assembly plays a critical role in checking the executive through a consultative, collaborative process, calling attention to where money is being misused/misdirected, and holding contractors to account. He emphasized that the CA and PIC/PAC see their role as supporting the County Government to deliver services, rather than merely criticizing and hampering implementation of programmes.

Cordial working relationship with CRA, OCOB, OAG. The County Budget Controller checks everything to ensure 100% compliance with these agencies at all times.

Capacity building. Counties can get support from the National Treasury on how to set realistic revenue projections, budgeting process, and financial reporting. Seconding accountants and procurement officers to all departments was also identified as a good way of ensuring that there is consistent knowledge transfer and units can get help on financial and procurement matters respectively.

Staffing and staff motivation. Nyandarua County did not send staff home when the new governor took over in 2017. This ensured that there was continuity and institutional memory was not lost during the transition process. Rewarding staff was based on performance as a form of motivation.

Value for money. Planning and budget should be done well to ensure it is realistic and involves public participation. Also, as was the case of Nyandarua County, there is no implementation of activities outside the budget framework.

Automation. Counties need to embrace technology as this helps in reducing risks of error and/or fraud and saves time while ensuring proper institutional memory. The Kericho County Assembly provided an example of what they have done in this area, fully automating the procurement system. The County Government has taken measures to implement the 25 steps in e-procurement as per guidelines provided by the National Treasury.

Citizen Engagement and Participatory Planning and Budgeting. To overcome the challenges observed related to 'no value for money', and poor priorities in planning, Makueni explained that they engage the public to secure their contribution in the planning, budget, policy and legislative processes. This way, the County Government's priorities reflect the interests of the public. On its part, the Kericho County Government has entrenched citizen engagement in its decision-making process around service delivery, right from Ward to County level, which ensures projects are fully implemented.

Tight internal control measures. For example, Nyandarua County does thorough reconciliations weekly and monthly; requisitions are only done every 10^{th}, 20^{th} and 30^{th} of the month; all revenue is banked and not used at source; and there is a reward system for the best performers.

Audit Committee in place in line with the PFM Act Audit Committee Guidelines for County Governments. Nyandarua and Makueni have working committees.

Recommendations to address other challenges identified

1. *Revenue Management:* County governments should implement the Presidential Directive for a multi-agency committee to spearhead the development of a single, integrated revenue management system. This will need harmonized teamwork and input from the National Treasury to ensure that the process is synchronized and efficiently implemented. There is also a need to propose a bill to the Senate that

establishes licensing and regulatory standards for providers and operators of county revenue collection systems. CRA will review and update the automation guidelines in line with findings from its assessment as well as recommendations emanating from the multi-agency engagement.

2. *Planning and budgeting:* Counties should follow the right procedures and also seek to involve members of the public, and all stakeholders during the development of county budgets and development plans. There should be a full representation of every department/unit, in every public meeting to ensure that there is full articulation and addressing of all issues raised by the county assembly and also members of the public.
3. Counties should demand that the National Treasury *improves disbursement of funds/revenue* to avoid delays in implementation of the budget activities and pending bills.
4. The Inter-Governmental Relations Technical Committee should take measures to *strengthen the partnerships between counties and the national government*, to support improved service delivery.
5. A connection between internal audit and external audit will to a reduction of recurring issues.

PFM best practices: How Nyandarua County manages the budgeting and planning process

a) *Involvement of all departments in the planning processes:* Each department has a procurement officer, accountant and an economist to streamline the PFM process.

b) *Observance of the mandatory guidelines and timelines*: Budgets are derived from the County Fiscal Strategic Paper, which is itself derived from the Annual Development Plan. The ADP is based on the CIDP. This ensures that budgeting and spending are done according to the planning framework and no implementation is done outside the budget, i.e. no deviation from fiscal plan objectives.

c) *Enhancement of procurement processes:* The County Government ensures adherence to the provisions of the PFM Act, PFM Regulations and Public Procurement and Disposal Act, 2005, and provides proper training and support to the procurement staff.

d) *Enhanced Treasury management and proper scrutiny of payments processed through IFMIS.* All payments must be on completed works, on partial certificates and must be in the budget. There are internal controls for approval and verification processes, including strict monitoring of all payments by the Executive. All requisitions are scheduled and departments are aware of the specific dates, which ensures proper planning and cash flow management.

e) *Enhanced internal controls:* In addition to the prescribed payment process, the County has created a Unit that scrutinizes the mandatory documents which have to be attached to the payment vouchers to ensure that no document is left out. A checklist is used and signed off by the accounting officers.

f) *Financial report:* Each department observes thoroughness, timely preparation and delivery of in-year reports, and observes strict adherence to the Public Sector Accounting Standards.

g) *Auditing project verifications*, conducting thorough departmental audits, annual work plans which are strictly followed throughout. Continuous assessments and advisories to the County Treasury are pivotal. These are supported by the Audit Committee, which also conducts field visits to verify project implementation.

Demystifying the Auditor General's report

This session focused on counties' experiences with the audit process and the lessons they have learnt in the process.

a. *Planning/Procurement:* In many counties, procurement has not been decentralized to the sub-county level. Nyandarua County, for instance, reported that the County's procurement unit operates in a semi-decentralization mode in the 10 departments at The County Government — some have two procurement officers others have only one. The departments can procure goods and services up to KES 2 million without involving the Director of Procurement.

Procurements beyond this level require the Director's involvement, and all requisitions above KES 6 million must be procured by open tender.

b. *Financial accounting and reporting:* It was noted that while the quality of financial statements in the counties has improved over time, it remains a key challenge for the counties, especially reconciling differences between the financial statements submitted to the Auditor General and the IFMIS. Counties need to improve on this.

c. *Planning and budgeting:* The groups observed that lack of proper planning of the budget execution process and preparation of mandatory reports causes delays in the implementation of activities. The OCOB has reported numerous instances where there are delays in preparation and approval on the CIDP, ADP, and CFSP within the set timelines. There were concerns raised concerning the mismatch in strategic direction between the CIDP, ADP and CFSP.

d. *Internal audit and controls:* Internal auditing is an independent, objective assurance activity designed to help an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It has brought in new dimensions from the risk assurance type of audit to broadening the audit process to do things like pre-audits. However, its effectiveness in the counties has been undermined by lack of capacity or staff resistance and the structure of the internal audit office, and whether it has the clout to 'flex its muscles' in the county system. Involvement and establishment of Audit Committees have helped to improve the system. To be effective, counties need to ensure that the internal audit function is independent and has its budget, as is the case of Kisumu County.

Clarification on the role of the internal audit function in the pre-audit was sought in the plenary and the subsequent discussion appeared to suggest that internal auditors should not do pre-audits because they become part of the process. Their mandate is to review the internal processes and strengthen them.

The participants then broke into groups to discuss in depth, some of the issues raised in the plenary session and explore solutions to challenges. The feedback received from the groups is summarized in the following sections.

Group 1:

1. Counties are now preparing better for the audits. Officers were not responding to the queries on time previously, but this has changed now.
2. Institutional memory: counties that maintained staff have an added advantage, like in the case of Nyandarua County.
3. Audit committees that have qualified members are now able to identify issues that are critical for follow-up.
4. Having designated staff for record-keeping and retrieving information was useful in supporting an efficient audit process in Nyandarua County.
5. County executives in Nyandarua have ensured prudence in resource allocation.

Group 2:

1. Training on realistic revenue projections with CRA earlier in the year has helped the counties in setting realistic revenue projections. As a result, most counties this year achieved their targets.
2. Involving the public through public participation is key in identifying areas of focus in the allocation of limited resources. Samburu County found it useful to participate in the Kenya Devolution Support Programme (KDSP)/Public Expenditure and Financial Accountability (PEFA) assessment.

Group 3:

1. Pending Bills: the Group noted that at the onset of the County Government, there were a lot of pending bills, but this has been improving over time.
2. The monitoring and evaluation process needs to be enhanced in the counties by building the capacity of the technical staff.
3. Better record-keeping and retrieval of information has helped most counties to move from adverse to qualified/unqualified reports. Proper archives/safes and designated officers ensures that supporting documentation is kept well and can be easily retrieved.

Group 4

1. The group noted that there had been challenges in the transition period after elections, which may have affected some counties' financial performance. Most counties had since recruited technical staff in PFM, who were up to the task and reporting had improved.
2. Embracing IFMIS had also contributed to bringing improvements.
3. Support received from the National Treasury on training and capacity building had helped the counties perform better.
4. Using CIDPs and annual plans allowed the public to be part of the budget and planning process.
5. Staff motivation is important, to keep the morale and professional conduct up. For instance, Samburu County sends staff for training at KSG based on their job performance and was considering giving staff paid holidays in recognition of hard work.
6. Separation of power between the different arms of government is important. For instance, the example provided by Nyandarua showed that each arm of government performs better when supported by the other and that working together they can achieve a lot. In Nyandarua County, a fair system has been put in place to ensure that each ward gets a flagship programme each budget year.

Group 5:

1. The group noted that most counties have improved dialogue and teamwork between the executive and the oversight team (County Assembly and Senate)
2. They noted that the County Assembly provides oversight during implementation on a volunteer basis without allowances.

3. They noted that differences have been observed between county audited financial statements and IFMIS and that in most cases, reconciliations are done before reporting.

Group 6:

1. The group noted that old, unpaid invoices add to the audit challenges faced by counties. As a solution, they cited the example of Nyandarua County, which engaged the National Treasury to conduct an ageing analysis to clear data from the previous years, i.e. removing invoices that had been captured and not paid.
2. Another challenge arose if bank reconciliations in IFMIS were not done.

Results from PEFA assessment of six counties

Assessment highlights

The Public Expenditure Financial Accountability (PEFA) framework is an internationally recognized tool for providing PFM assessment to inform a credible PFM Reform Agenda. It is based on 7 pillars of the PFM Cycle: budget reliability; transparency of public finances; management of assets and liabilities; policy-based fiscal strategy and budgeting; predictability and control in budget execution; accounting and reporting; and external scrutiny and audit. Participating counties were scored according to the information they provided in the assessment format and within the specified time.

The World Bank and the Kenya Institute of Public Policy Analysis (KIPPRA) conducted an assessment of six counties (Kajiado, Baringo, Nakuru, West Pokot, Kakamega and Makueni) in 2017, and published the report in 2018 showing the strengths and the weaknesses in the PFM system. The analysis was based on three complete fiscal years at the time — 2013/2014, 2014/2015 and 2015/2016. The highlights on the 7 Pillars were as follows:

1. *Budget reliability.* This assessed whether the budget was realistic and was implemented as originally intended. Overall, aggregate expenditure outturn in all the counties assessed was 85% –115% except for West Pokot County which was 80%–92% B of approved budget in the last 2–3yrs (D score). This means that the budget is almost equal to expenditure. Revenue outturn was generally below average. The major contributor to this result being the inability of county governments to attain revenue forecasts in each revenue category as envisioned in the budget.

2. *Transparency of Public Finances.* This pillar assesses whether the budget and fiscal risks oversights are comprehensive and whether the fiscal and budget information is accessible to the public. All the counties assessed fulfilled at least three basic elements of the information required for annual budget documentation. Half of the counties, i.e. Makueni, Kakamega and West Pokot, performed well in attaining additional elements (i.e. deficit financing, macroeconomic assumptions, debt stock and financial assets). Evidence indicated that no county reported government revenue and expenditure outside central government financial reports and none of the counties had established further devolved units and therefore transfers were non-existent to these government levels. Besides, there is little information on performance evaluation carried out across the board. County governments have developed websites and uploaded documents such as ADP, CFSP, CIDP, and County Budget Review and Outlook Papers (CBROPs). Key documents missing, include budget and financials.

3. *Management of Assets and Liabilities.* This pillar assesses the management of assets and liabilities focusing on fiscal risk, public investment, public asset management and public debt. The management of assets and liabilities in the counties is characterized by very little monitoring of public corporations for counties that had established them and non-reporting of contingent liabilities. Major features of public investment management were absent in most counties, including the absence of economic analysis of investment proposals, absence of standardized criteria in projects selection, exclusion of recurrent costs in investment costing and poor monitoring and evaluation strategies except in Makueni County. Financial assets were well monitored and reported in the financial statements and books of account for all the counties. Even though there is a borrowing framework for county governments, they are yet to borrow, with only 3 counties having a debt management strategy.

4. *Policy-based fiscal strategy and budgeting.* This pillar assesses if the budgets and fiscal strategies are prepared with due regard to government policies, strategic plans, and adequate macroeconomic and fiscal projections. Most counties could not demonstrate the macroeconomic focus of their investment. There should be, for example, an investment analysis, impact analysis of policy proposals, and consistency in Medium Term estimates for the different periods.

5. *Predictability and control in budget execution.* This assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources (revenue) are obtained and used as intended. The revenue administration framework in the counties was noted to be weak. However, the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue in the counties was relatively good. There was a lack of complete revenue accounts reconciliations in terms of assessments, collections, arrears, and transfers to Treasury. Some counties, for example, Makueni, did not have a functional internal audit for FY 2015/16 and the newly established unit had not concluded any audit. This was however subsequently corrected in the year FY 2016/17. Most of the audit functions were focused on adequacy and effectiveness but not on quality assurance — there is no International Professional Practices Framework (IPPF) of internal audit. Most counties did not perform well in this Pillar V because of pending bills.

6. *Accounting, Recording and Reporting.* This pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. There was good financial data integrity in the counties, characterized by manual bank reconciliation, recording and processing budget data using IFMIS. Audited Financial Statements are generally complete, but they don't contain full information on tangible assets and liabilities. They were submitted on time but no county was able to produce financial statements directly from IFMIS.

7. *External Scrutiny and Audit.* This pillar assesses whether public finances are independently reviewed and there is an external follow-up on the implementation of recommendations for improvement by the executive. A key finding under this pillar was that there existed good coverage and standards of external audits across all the counties. Material weaknesses were highlighted in the management letters, cases of late submission of the audit reports to the legislature beyond the three months PEFA threshold, delays in response to audit issues and no evidence of follow-up by the audited entity on areas that required follow-up.

In summary, the major challenges identified in the counties assessed are expenditure and revenue deviations, poor management of assets and liabilities as highlighted in the findings, and capacity constraints around macro forecasting, sensitivity analysis, and economic analysis. Likewise, pending bills, weak linkages around policymaking, planning and budgeting, and low levels of public transparency are also major constraints observed.

The six counties were urged to use the findings to understand how well they were doing towards achieving the three budgetary outcomes (aggregate fiscal discipline; strategic resource allocation; efficient service delivery). They should also use the results to plan and inform policy dialogue with development partners on priorities and use of county systems.

The Open Government Partnership Initiative

In 2011, government leaders and civil society advocates came together to create a unique partnership—one that combines these powerful forces to promote accountable, responsive and inclusive governance. To join OGP, members must meet eligibility criteria, identify a lead ministry and commit to creating action plans, containing concrete reforms – in consultation with civil society.

Since its founding in 2011 OGP has grown to 79 country- and 20 local members that work alongside thousands of civil society organizations. Every two years, each member submits a two-year action plan co-created with civil society that outlines concrete commitments across a broad range of issues to enhance transparency, accountability and public participation in government. This model allows civil society organizations to help shape and oversee governments. The Independent Reporting Mechanism (IRM) tracks the progress of OGP members, providing public accountability on the implementation of commitments. Monitoring progress promotes strong accountability between member governments and citizens. Kenya is currently implementing 6 commitments from its 2018–2020 action plan. These commitments are beneficial ownership, open contracting, open geo-spatial data for development, public participation, improving public sector performance through governance indices, and building open government resiliency. The OGP initiative is anchored in the Office of the Deputy President, with only two counties — Vihiga and Elgeyo Marakwet — enrolled.

For citizens to meaningfully get involved in county governance, counties must proactively and promptly provide the relevant documents.

Below is IBP's summary of Kenya's OGP commitments (Table 3), and a March 2019 analysis (Figure 1) of how much budget information counties are availing to citizens.

Table 3: Summary of Kenya's OGP commitments from its 2018–2020 action plan

Commitment number and title	Commitment summary	Lead implementing organisation(s)	Other actors involved – government	Other actors involved - CSOs, private sector, working groups, multilaterals, etc.

1 Beneficial Ownership	We will publish a central public register of company beneficial ownership information operating in the Republic of Kenya	Office of the Attorney General (AG)	Ministry of ICT, ICT Authority	INFONET Africa, Transparency International (K) and Humanistic Institute for Cooperation with Developing Countries (Hivos) East Africa.
2. Open Contracting	We will implement the Open Contracting Data Standard (OCDS), to improve transparency and reduce opportunities for corruption by enhancing openness and accessibility of the Public Procurement Information Portal	The National Treasury, Public Procurement Oversight Authority	Ministry of Public Service, Gender and Youth Affairs, Ministry of Labor and Social Protection, Ministry of ICT, ICTA County Government of Makueni	Infonet Africa Local Development Research Institute (LDRI) Humanistic Institute for Cooperation with Developing Countries (Hivos) East Africa, Article 19, ICJ-Kenya
3. Open Geo-Spatial Data for Development	We will lower the barrier and increase access to geospatial data to support Health, Disaster Management, Food and Nutrition Security.	Kenya Space Agency Ministry of Defence	Ministry of Agriculture and Irrigation Ministry of Environment County Government of Vihiga	Development Initiatives (DI), Institute of Public Finance Kenya (IPFK), International Budget Partnership (IBP), Strathmore University, Local Development Research Institute (LDRI), Global Partnership for Sustainable Development Data (GPSDD), ESRI, Group on Earth Observations (GEO), Digital

				Earth Africa (DEA), East Africa Institute at the Aga Khan Foundation
4. Public Participation	We will work together to improve public participation in development decision making for better and responsive service delivery	The Senate Office of the Deputy President	Office of the President, Ministry of Devolution NEPAD/APRM Council of Governors (CoG)	Mzalendo, INFONET Africa, CRECO, International Budget Partnership (IBP), Katiba Institute, Well Told Story, Institute of Public Finance Kenya (IPFK), TISA, KARA, IEA Kenya,
5. Improve public sector performance through governance indices	To provide a comparative analysis of five key governance indices for their veracity and reliability to allow the society to evaluate and possibly redefine its perception towards performance of public sector and its specific institutions.	NEPAD/APRM	Office of the president – Performance Contracting. Office of the Deputy President, Council of Governors (CoG)	Infonet Africa Local Development Research Institute (LDRI) Transparency International (K) International Budget Partnership (IBP),
6. Building Open Government Resiliency	We will build political support across National, County Government, Civil Society, Private sector, Pan African Institutions and other OGP participating Countries in Africa to share skills, knowledge, resources and expertise.	Office of the Deputy President Ministry of Foreign Affairs	Senate National Assembly Africa Peer Review Mechanism (APRM)	Development Partners Forum United Nations in Kenya Local Development Research Institute (LDRI), Africa Open Data Network (AODN), IDRC

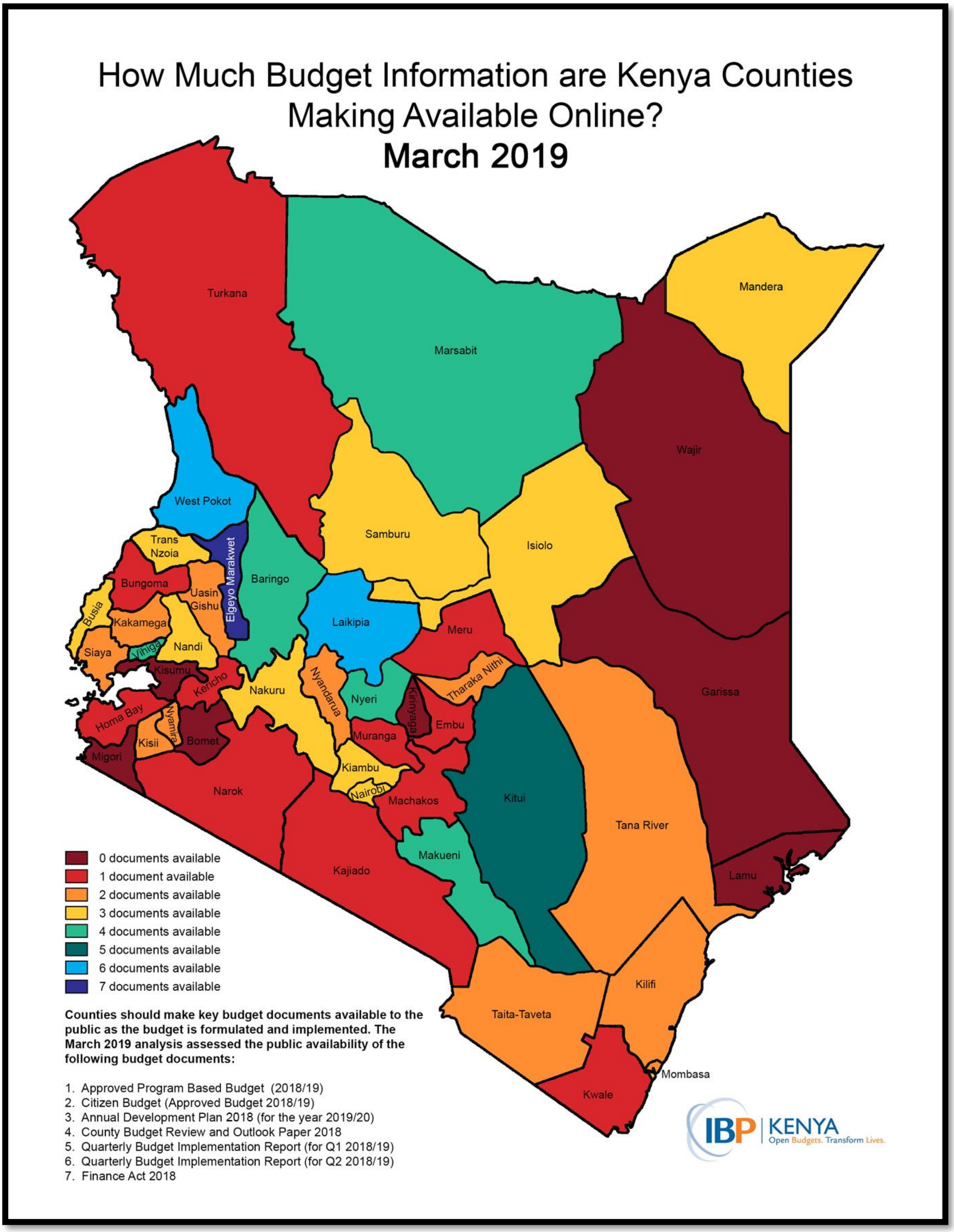

Figure 1: A March 2019 analysis of how much budget information counties are availing to citizens

Closing Remarks

The learning event was closed officially by the Chair, CoG Finance and ICT Committee, H.E. Dr. Wycliffe Wangamati, and the Nyandarua Governor, H.E. Francis Kimemia, EGH, CBS, HSC. The two governors also signed a Communiqué indicating counties' commitment to taking action from the event to improve their management of public finances (Appendix 1).

Remarks by CECM Finance, Nyandarua County

Dr. James Karitu, CECM for Agriculture, Livestock & Fisheries made remarks on behalf of Hon. Mary Mugwanjwa, the CECM for Finance, Nyandarua County who was absent. Dr Karitu thanked the Council of Governors through its Maarifa Centre for the timely event which brings together Kenya's best brains to share experiences on how they use existing legal frameworks to ensure public resources are efficiently used for the benefit of Kenyans. Instruments such as the County Governments Act (2012), Public Finance Management Act (2012), Public Procurement and Asset Disposal Act (2015) and Regulations are instrumental for any output and outlook of public finance management and performance. For example, financial plans are one of the major mechanisms through which Governments can effect improvements in the quality of life of citizens. We need to ensure our budgeting is brought into greater alignment with the wishes of the people we serve. Also, Public Finance Management processes must be transparent and can easily link into accountability mechanisms to ensure development progress and public confidence in the governance process.

Remarks by Ms Christine Owuor Onyango, World Bank

Ms Onyango observed that there was evidence of PFM improvement in counties. When the World Bank's Kenya Accountable Devolution (KDSP) program started in 2016, only a few counties qualified; now 33 counties are in the program. It is thus important to celebrate the achievements of Nyandarua & Makueni. The peer learning mechanism is an excellent initiative, and in this particular one, participants talked about steps to achieving a clean audit and how a clean audit helps to improve service delivery. The World Bank is proud to be part of the event and will continue supporting Maarifa Centre to host such forums. The World Bank commends all the counties that are making great strides in improving service delivery.

Remarks by Hon. Peter Gathungu Kamau, PICPAC Nyandarua County

Hon. Kamau thanked organizers for recognizing Nyandarua County, noting that the County's clean audit achievement did not come easy, rather it was through the commitment to serve and through credible oversight and accountability. The Nyandarua County PICPAC is a strong non-partisan committee, established under Standing Order 188 exercises oversight over the County Executive Committee and any other County Executive organ. It conducts oversight on the expenditure of public funds to ensure value for money is attained and to warrant adherence to government financial regulations and procedures. The Committee scrutinizes annual audit reports prepared by the Office of the Auditor General. The Committee focuses on its core purpose of being *Wanjiku's* [citizens'] watchdog. It involves residents from project conceptualization to completion, proactively raises issues of concern before reporting is done, and thus works hand in hand with the Executive to serve *wananchi.*

Hon. Kamau challenged county governments to work on reducing pending bills and to avoid setting unrealistic Own-Source Revenue targets, leading to budget deficits. He admitted that while devolution is working, there are teething problems here and there, and called for the prosecution of county heads and others once declared unfit to hold public office.

He concluded by stating that the Nyandarua County Assembly appreciates the Executive which is very cooperative and appears before the Assembly when summoned, which is the secret for Nyandarua County's development. He opined that the County is "a sleeping giant waking up through prudent PFM".

Remarks by Uganda Team

Hon. Wanyoto (NEPAD Uganda), who was leading a team of 7 APRM/NPA members from the Ministry of Finance in Uganda, said the team was happy and honored to be present to witness a very important exercise, that of sharing experiences in handling issues of budgeting, accounting and reporting, having been invited through the NEPAD Kenya Secretariat. The team has learnt from the different experiences on the gains and challenges. Inclusive budgeting is a sign that people involved. Accountability through individual lifestyle audits is key because when a public officer does not deliver services, the resources go to personal lifestyles. APRM is geared towards service delivery in Africa, thus the quest to localize APRM in Africa. She congratulated civil service in Kenya for according women the space to contribute to national development at very high levels.

Hon. Okupa (MP, Kasilo County, Uganda) who once served in the Public Accounts Committee of the Ugandan parliament revealed that listening to participants for the two days, tackling challenges faced in the Kenyan parliament PAC and county will help sort out many problems. In Uganda, failure to explain issues of qualified audit leads to arrest. He congratulated the COG for the peer-learning initiative and thanked the World Bank for supporting it, urging it to continue supporting it because we all want a clean audit report, and the economy also grows because the money goes where it is supposed to go, and service delivery is enhanced. Besides, the work of politicians becomes easy. He promised to request Kenya to go to Uganda to share on this experience. **Mrs Olive Kigenyi,** Vice Chairperson of the National Governance Council, APRM Uganda, who is also Head of the APRM Secretariat in Uganda, added that the Uganda team had learnt a lot and will share with the rest of their colleagues back home.

Closing remarks by H.E. Francis T. Kimemia, Governor, Nyandarua County

In his remarks as the host, Governor Kimemia congratulated CoG/Maarifa and the World Bank for organizing the learning event, noting that the audit function is a dynamic governance mechanism that should be enhanced. He challenged counties to professionalize the audit process and create a culture of shared values to enhance service delivery. Noting that the PFM sector is highly regulated in Kenya through several policies and laws, he said that it is important for all public entities, including county governments, to balance between legal compliance, ethics and entrenching efficiency in their processes. He cautioned that in the past, many public entities had acted in very good faith in undertaking public procurement by observing efficiency and effectiveness, only to end up on the wrong side of the law due to non-adherence to the laid down laws. He challenged the COG to help counties build structures to sustain the culture of efficiency. He proposed that audit of goods, services and projects should be part of the AG's audit.

Regarding his own County, Gov. Kimemia said that Nyandarua County had set up structures and systems essential in ensuring financial prudence and adherence to the existing laws, regulation, policies and directives. For example, senior citizens help audit projects and give their opinion on whether the projects have been done to their satisfaction. Also, the County doesn't engage contractors if there is no money for the projects. He noted the County's unique character in the management of public finance and the audit processes, which includes the following:

a) A close working relationship between the County Executive and the County Assembly, each respecting the other's independence;

b) Strict adherence to all existing laws, such as the PFM, County Government and PPAD Acts and regulations;

c) Close working relationship with independent bodies such as the OAG and others;

d) Capacity building and capacity assessment using a career development tool;

e) Use of an Operations Manual and a dynamic service charter which is monitored regularly;

f) Well established departments and directorates with clear mandates yet working interdependently with synergy;

g) Continuous automation of government service delivery; and having a competent and highly motivated county public service, through continuous capacity building and facilitation; recruitment of chief officers has greatly helped.

h) Public participation in planning, budgeting, implementation and auditing of county policies;

i) Proper monitoring, evaluation and reporting of budget implementation;

j) A vibrant oversight and facilitative agencies such as the Internal Audit Committee, the County Public Service Board, and the Municipal Board, among others;

k) A vibrant civil society and watchdogs, which check the Government and hold it to account.

l) Continuous own source revenue mobilization with over 26% increase in 2018/19 alone;

m) A culture of realistic target-setting and accountability;

n) Proper documentation and records management; the County sought capacity support from the National government. Gov. Kimemia urged the WB to support counties to preserve their institutional memory.

o) An effective grievance redress mechanism; and

p) Zero tolerance to unethical practices in service delivery. The County undertook a corruption risk assessment and all departments are in the process of developing corruption mitigation strategies. All officers are expected to sign a code of conduct committing themselves to embrace ethics and integrity as provided for in the Constitution, Public Officers Ethics Act, and the Leadership and Integrity Act, among others

The Governor finished by admitting that Nyandarua County still has its challenges and weaknesses, and as such, had also learnt a lot from other counties in the mission, and will continue benchmarking with them. He urged county officials to go back to our culture which was characterized by accountability, honesty and other great values, and apply these in devolution, noting that most counties' audit reports had improved. He was hopeful that the third phase of devolution will even be better.

He invited participants to take time after the event to explore the County, observing that it has rich flora & fauna.

(See Appendix IV for the full speech by H.E. Francis T. Kimemia).

Closing remarks by H.E. Wycliffe Wangamati, Governor, Bungoma County

Closing the two-day event as the Guest of Honor, Governor Wangamati who is the Chair of the Council of Governors' Finance, Planning, Economic Affairs and ICT Committee admitted that it was his first time to visit Nyandarua. And while congratulating Nyandarua County for a clean report from the Auditor General, he noted that counties have made progress in strengthening their internal capacity to implement the PFM Act (2012) as seen in the decreasing number of counties getting an adverse report from the AG. He noted that counties were now better placed to achieve their development agenda through improved financial management. He emphasized that prudent financial management is the foundation on which the success of devolution stands, and asked counties to take the lessons learnt from the Nyandarua event and apply them to improve their performance. He expressed hope that the issue of pending bills will be a thing of the past in the next three years but cautioned that the public service is sometimes weak in implementing resolutions arrived at in meetings.

Gov. Wangamati observed that it is important to align capacity building across counties and thus requested national ministries and development partners to support capacity building in counties, to ensure they are well equipped to deliver services and observe finance and procurement laws, through appropriate budgeting and other financial processes. He commended the World Bank's Kenya Accountable Devolution Program for its support to counties, and for facilitating the learning event, and gave his commitment as the COG Chair of the Finance Committee that he would ensure the issues discussed at the event are escalated to the full Council for deliberation. In closing, he said, “Devolution will fail if we do not manage public resources well, we must ensure devolution works!”

(See Appendix IV for the full speech by H.E. Wycliffe Wangamati).

Vote of thanks

Nyandarua County CECM Lands, Hon Lawrence Mukundi, thanked the organizers for choosing Nyandarua County to host the peer-learning mission and thanked participants for agreeing to come to Nyandarua, making it a success.

Exhibitions & Project visits

Throughout the event, a select number of Nyandarua entrepreneurs brought by the County Government of Nyandarua set up tents in the parking area where they showcased various locally made/grown products. Interested participants bought.

Additionally, at the end of the mission, the County Government of Nyandarua provided vans to take participants on a tour of some of their projects. Unfortunately, due to the rains, only the group that was to visit Lake Olbolosat managed to do so.

Conclusion

From the attendance and the deliberations that took place in the two days, this peer-learning mission was successful as it achieved its objective of learning and knowledge sharing among county financial management technical officers around the Auditor General's report. The COG will follow up with the Governors and the officials from their respective counties to ensure that the Communiqué is implemented and that measurable improvements are made in the audit space. Likewise, with the support of the World Bank, the COG will organize follow-up peer learning forums on the areas pointed out by participants and as highlighted in the Executive Summary under *Possible topics for the future.*

Pictorial


COUNCIL OF GOVERNORS
OUR VISION
have Prosperous and Democratic
Counties delivering
services to every Kenyan
OUR MISSION

Appendices

Appendix I: Communiqué

PEER LEARNING ON
PUBLIC FINANCE MA

Appendix II: Nyandarua Peer Learning Program

PFM Program - final
- 1st Nov.docx

Appendix III: Presentations

FINAL - County
PEFA Presentation C

presentation on
Audit Opinion Mak

Peer Learning OGP
presentation by IBP.

OFFICE OF THE
CONTROLLER OF BU

Appendix IV: Speeches

Kimemia final
speech 2 peer learni

Nyandarua CECM
Agric Opening Rem

Appendix V: Counties & institutions represented at the Nyandarua Peer Learning

A total of 20 counties attended, including:

1. Bungoma
2. Garissa
3. Kericho
4. Kilifi
5. Kisumu
6. Kericho
7. Laikipia
8. Lamu
9. Machakos
10. Makueni
11. Marsabit
12. Murang'a
13. Nakuru
14. Nandi
15. Nyandarua
16. Samburu
17. Taita Taveta
18. Tana River
19. Tharaka Nithi
20. Turkana

Other key stakeholders who attended included:

1. Council of Governors
2. Commission on Revenue Allocation
3. Institute of Economic Affairs
4. NEPAD/APRM Kenya Secretariat
5. NEPAD/APRM/NPA Ugandan delegation from the Ministry of Finance, Planning & Economic Development
6. Office of the Controller of Budget
7. World Bank
8. International Budget Partnership