



REPUBLIC OF KENYA

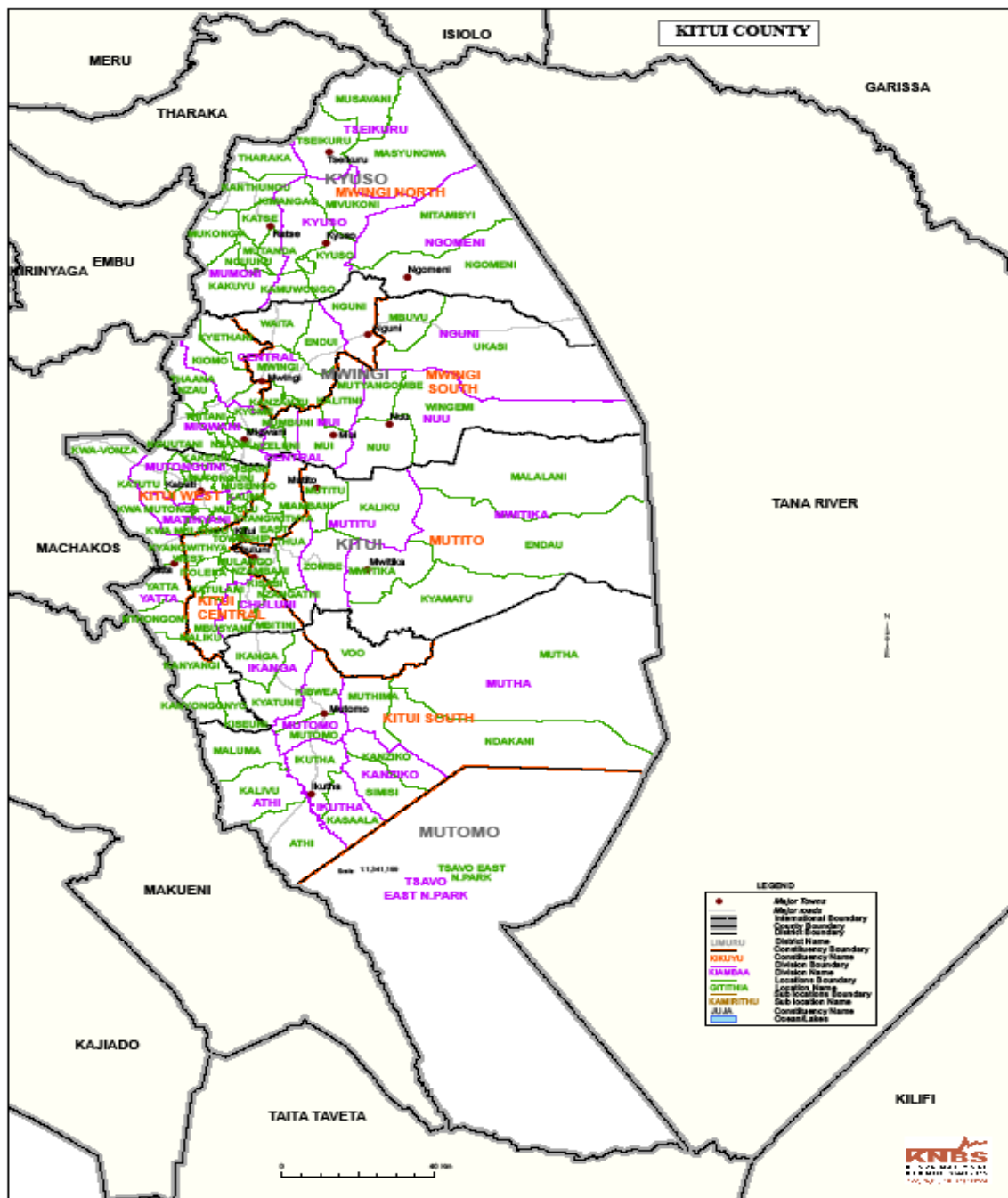
OFFICE OF THE CONTROLLER OF BUDGET

**KITUI COUNTY
BUDGET IMPLEMENTATION
REVIEW REPORT**

**FIRST QUARTER
FY 2014 /2015**

OCTOBER, 2014

Kitui County Budget Implementation Review Report



First Quarter

FY 2014/15

October, 2014



Kitui County Assembly



Ongoing construction of Kitui Government Office Block

Foreword

I am pleased to present the first quarter Kitui County Budget Implementation Review Report (BIRR) covering the period July to September 2014. This report has been prepared pursuant to Article 228(6) of the Constitution of Kenya, 2010 requiring the Controller of Budget to submit to Parliament a report on the implementation of the budgets of the national and county governments every four months. Further, this in-year reporting function is part of government's efforts to promote budget openness, transparency and credibility as key components of our public financial management.

The theme of the 2014/15 Kitui County Budget was “foundations for sustained social economic growth and development” that strategizes on ensuring a conducive business environment; investing in agricultural transformation and food security; investing in infrastructural development; investing in quality and accessible health care services and quality education; and cascading devolution to the lower units of governance.

High on the agenda of the OCOB in improving Kitui County budget implementation is to ensure withdrawals from public funds are done according to the Law. The rationales for budget monitoring are to strengthen oversight; identify challenges in service delivery; and to generate information to appraise public budgetary debates. This office will work with the Kitui County Government and other stakeholders to ensure sound public financial management system.

This report is intended to create awareness in budget implementation among legislators, policy makers, the public, and other stakeholders. It also invites them to interrogate use of public resources in line with underlying policy guidelines and priorities by the government. I urge all readers of this report to take keen interest in monitoring implementation of the budget and in scrutinizing the Kitui County Government delivery on promises. This will provide the necessary impetus for optimal utilization of public resources for the benefit of all Kitui Citizens.

Agnes N. Odhiambo (Mrs.)
Controller of Budget

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Acronyms

CBK	Central Bank of Kenya
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategic Paper
CIDP	County Integrated Development Plan
COB	Controller of Budget
CRF	County Revenue Fund
ECDE	Early Childhood Development and Education
FY	Financial Year
G-PAY	Government Payment System
ICT	Information & Communication Technology
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Payroll and Personnel Database
KMP	Kenya Municipal Programme
LAIFOM	Local Authority Integrated Financial Operations Management System
LATF	Local Authority Transfer Fund
MCA	Member of County Assembly
M&E	Monitoring and Evaluation
O&M	Operations and Maintenance
OCob	Office of the Controller of Budget
PE	Personnel Emoluments
PFM Act	Public Financial Management Act

Executive Summary

The Financial Year (FY) 2014/15 started on a low note with the County facing delays in closure of the previous FY 2013/14 and commencement of the new financial year. This led to delay in requisition of funds by the County Treasury from the Office of the Controller of Budget (OCoB). Also, there was delay in enactment of the County Allocation of Revenue Act, 2014 (CARA) which became effective on 5th September 2014.

The approved budget for the FY 2014/15 was Kshs.9.36 billion comprising of Kshs.4.58 billion (49.0 per cent) allocated for recurrent expenditure and Kshs.4.77 billion (51.0 per cent) for development expenditure. This budget will be financed by Kshs.6.32 billion (67.6 per cent) from the national equitable share, Kshs.650.00 million (6.9 per cent) from local revenue sources, Kshs.2.08 billion (22.3 per cent) being balance brought forward from FY 2013/14, and Kshs.299.72 million from donor funded projects/conditional grant (3.2 per cent). The equitable share in the budget estimate was Kshs.18.08 million less than the equitable share for Kitui County in the CARA, 2014.

During the first quarter of FY 2014/15, the County received Kshs.792.56 million as the national equitable share of revenue, collected Kshs.72.11 million from local sources and had Kshs.2.22 billion as balance brought forward from FY 2013/14. The local revenue raised in the first quarter was 11.1 per cent of the annual local revenue target, an improvement from Kshs.58.85 million collected in the same period of FY 2013/14.

Funds released to the County during the period under review for operations amounted to Kshs.1.55 billion, of which, Kshs.1.11 billion (71.8 per cent) was for recurrent expenditure while Kshs.438.61 million (28.2 per cent) was for development activities.

In the first quarter, the total expenditure was Kshs.808.10 million which was 52.0 per cent of the funds released. The expenditure for the period under review was an improvement from the Kshs.222.36 million spent in the first quarter of FY 2013/14. The County spent Kshs.637.17 million (78.8 per cent) on recurrent activities and Kshs.170.93 million (21.2 per cent) on development activities. Recurrent expenditure was 57.2 per cent of the funds released for recurrent activities while development expenditure accounted for 39.0 per cent of the funds released for development projects.

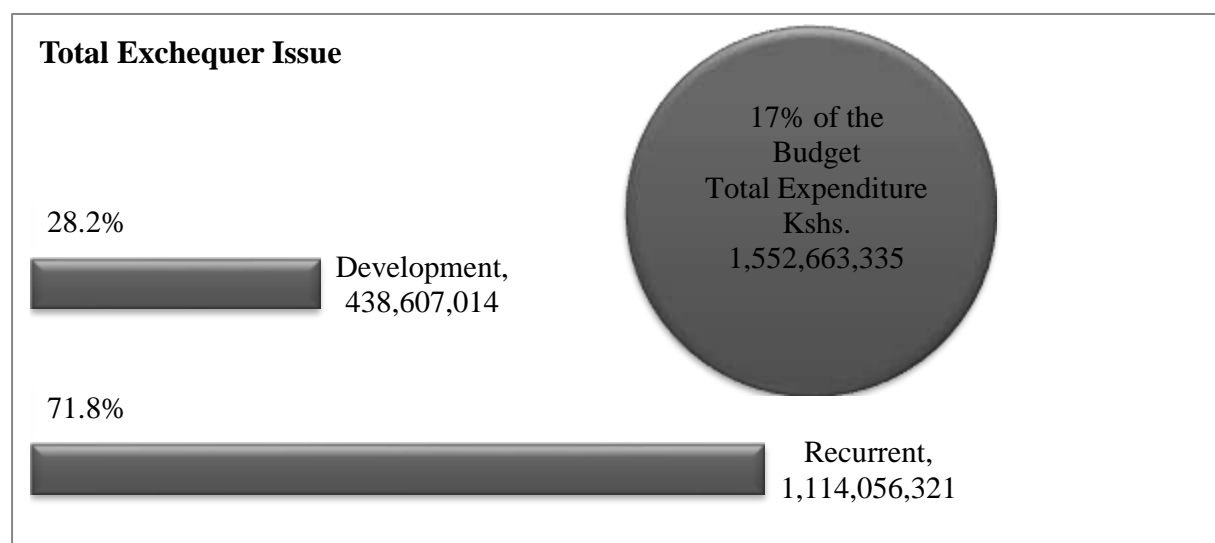
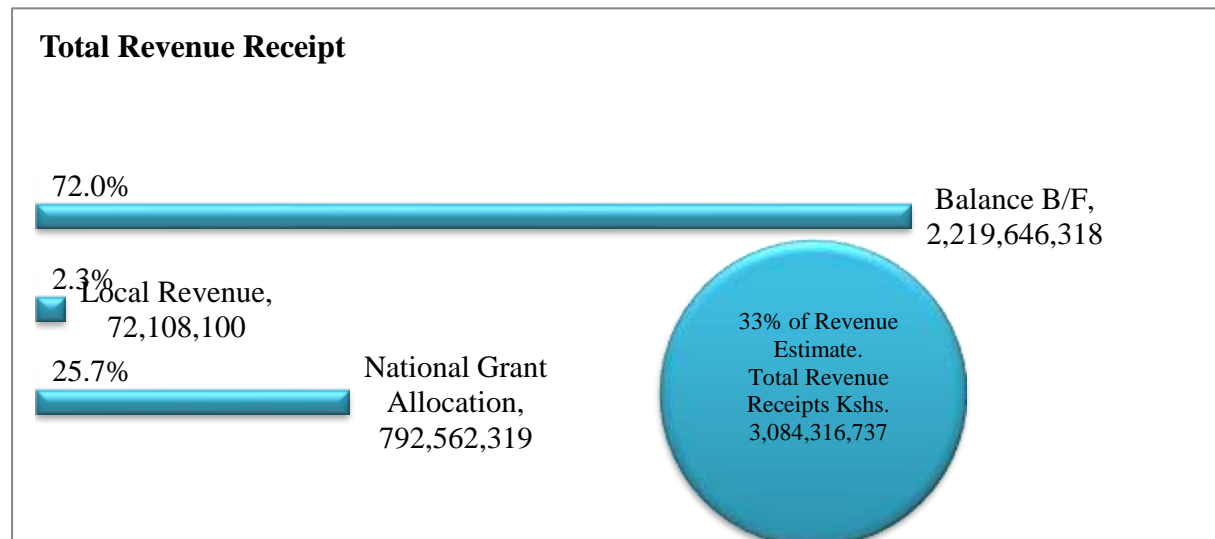
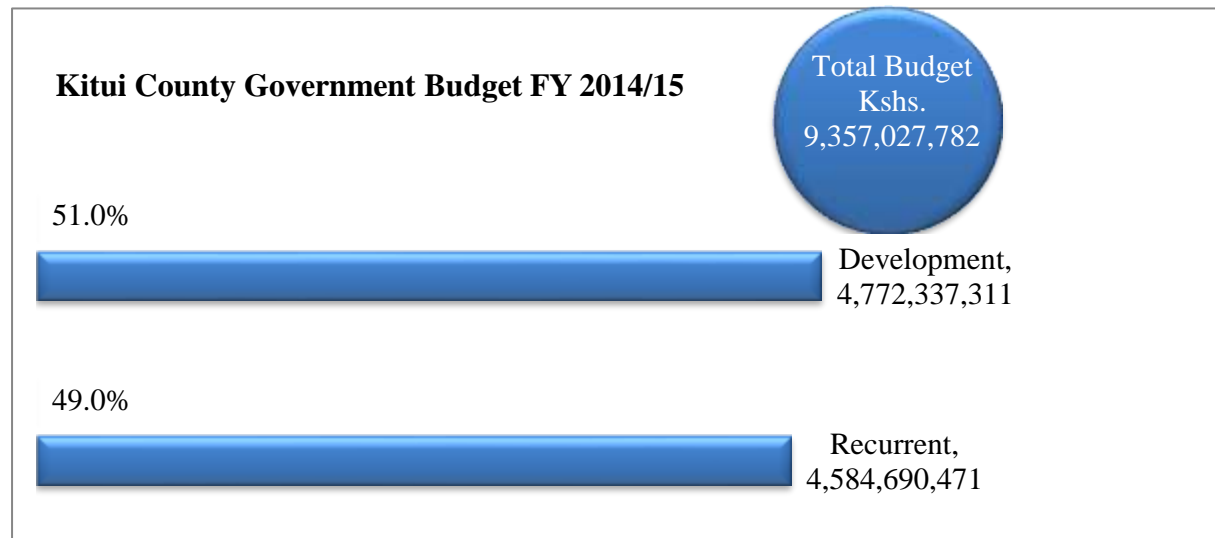
The recurrent expenditure for the period under review represented an absorption rate of 13.9 per cent of the annual recurrent budget, an improvement from an absorption rate of 5.9 per cent realized in the first quarter of FY2013/14. The development expenditure translated to an absorption rate of 3.6 per cent of the annual development budget, an improvement from absorption rate of 0.02 per cent recorded in the same period last financial year.

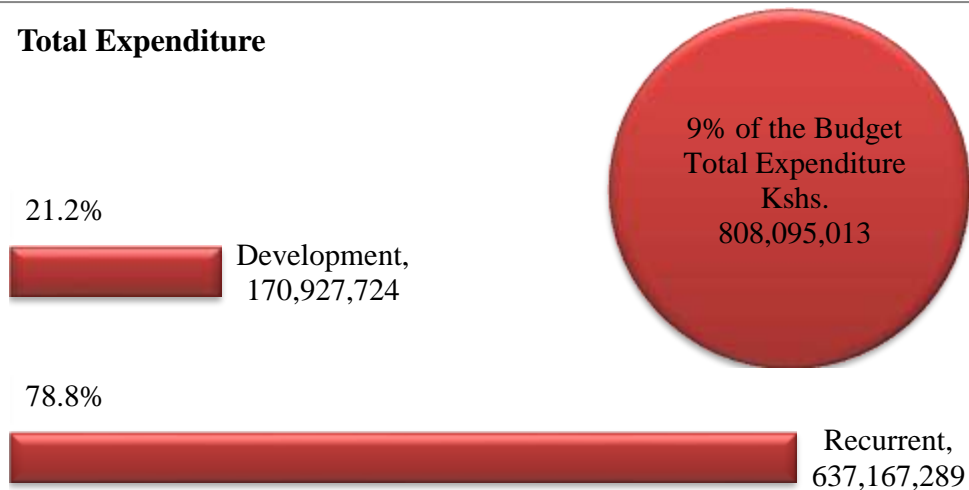
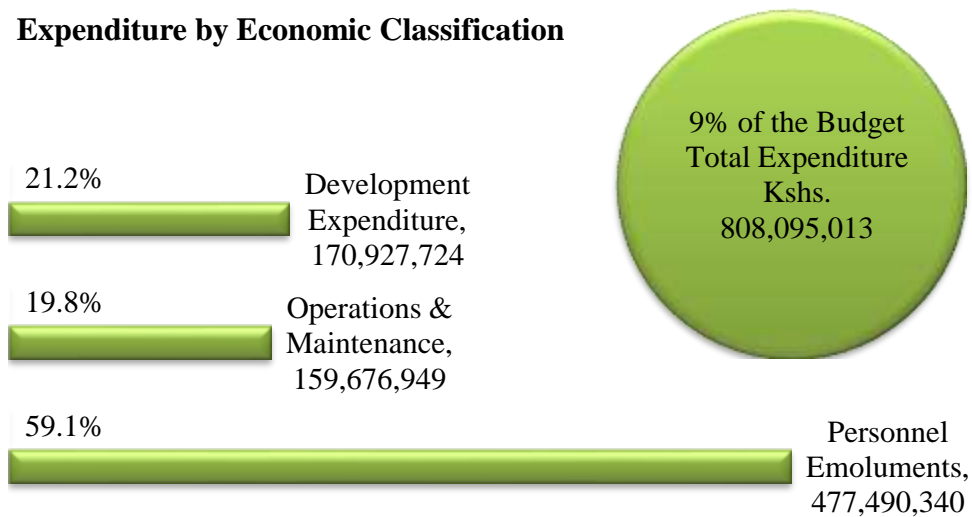
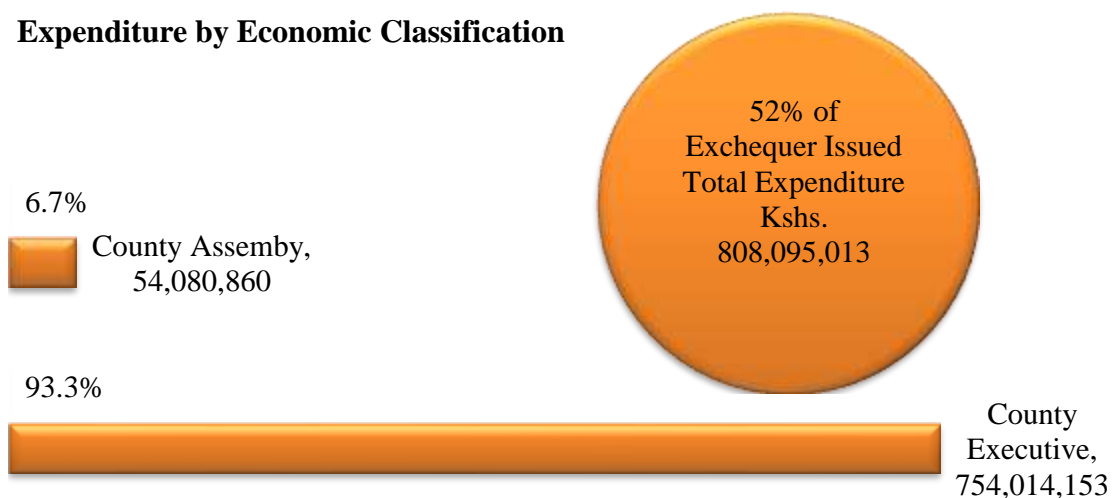
Analysis of the recurrent expenditure shows that the County spent Kshs.477.49 million on personnel emoluments which translates to 74.9 per cent of the total recurrent expenditure and Kshs.159.69 million on operations and maintenance expenditure which is 25.1 per cent of the total recurrent expenditure for the year.

The development expenditure for the first quarter of FY2014/15 was Kshs.170.93 million an improvement from Kshs.0.61 million spent in the first quarter of last financial year. Analysis of the development expenditure for the period under review shows that the County spent Kshs.109.32 million on construction of roads (i.e.Kshs.107.77 million on construction of access roads and Kshs.1.55 million on development of major roads), Kshs.33.35 million was spent on construction and civil works, Kshs.12.19 million on construction and refurbishment of buildings, Kshs.8.07 million on Research & Feasibility Studies under the Ministry of Basic Education, Kshs.5.33 million on Trade Shows and Exhibitions under the Department of Agriculture, Kshs.1.65 million on Purchase of tree seeds and seedlings under the Youth Investment Savings and Investment Programme and Kshs.1.01 million for purchase of motor vehicle under management of Kitui Town.

There were a number of challenges that affected budget implementation in the first quarter of the FY 2014/15. These included: some Ministries spent more funds than the amount issued to a particular vote, low absorption of development funds and average performance of locally collected revenue. The Office of the Controller of Budget recommends enhancement of financial controls in management of public funds, prioritization & implementation of development activities and establishment & implementation of local revenue improvement strategies.

Key Highlights



Total Expenditure**Expenditure by Economic Classification****Expenditure by Economic Classification**

1.0 INTRODUCTION

One of the major holdups in the last financial year (FY) 2013/14 was budget execution. The importance of budget execution in economic growth cannot be over-emphasized since efficient utilization of public funds has a high correlation to social-economic development. It is against this background that there is a great need to tackle the challenges related to budget execution to ensure that maximum benefits are received from public expenditures.

The Constitution of Kenya, 2010 established institutions to play oversight roles on budget execution. One of these institutions is the Office of the Controller of Budget (OCOB) established under Article 228 to oversee the implementation of budgets of both National and County Governments, authorize withdrawals from public funds and report on budget implementation every four months. Under Article 201, the Constitution calls for openness, accountability and public participation in financial matters; financial systems that promote equity in the society; equitable sharing of public resources between the present and future generations; use of public funds in a prudent and responsible way; and responsible financial management with clear financial reporting.

The Constitution of Kenya, 2010, and the Public Financial Management Act, 2012 (PFM Act, 2012) provide an elaborate framework for the formulation of County Government budgets. The framework assigns specific functions, duties and responsibilities to institutions such as the County Executive and County Assembly, and allocates time lines within which they should execute the tasks. The tasks that go into the budget formulation process include preparation and discussions with the various stakeholders; and approval of the County Integrated Development Plan (CIDP) (Section 126 of PFM Act, 2012), County Budget Review and Outlook Paper (CBROP) (Section 118 of PFM Act, 2012) and County Fiscal Strategy Paper (CFSP) (Section 117 of PFM Act 2012). Formulation of budgets in line with these frameworks affords them the comprehensiveness, credibility, transparency and inclusiveness through public participation to capture and operationalize the aspirations of the citizenry.

The current report presents the status of budget implementation by the Kitui County Government in the period July, 2014 to September, 2014. With a consolidated County budget estimate of Kshs.9.36 billion, the report starts by reviewing revenue performance for the financial year as reported by the County Treasury. Availability of revenue determines how

much exchequer will be issued which in turn determines the level of expenditure. Available funds have to be authorized by the Controller of Budget in form of exchequer issues before expenditure is incurred by the implementing County Entities.

The analyses focused on the revenue available to the County, the funds released and expenditure during the period under review. The revenue comprised of the national sharable revenue and the locally collected revenue while expenditure was broken into recurrent and development expenditure. Recurrent expenditure is disaggregated into personnel emoluments and operations and maintenance. The report further evaluates the performance of local revenue collections by comparing actual collections against annual revenue targets. The absorption rate by the County is computed by comparing the actual expenditure against the budget estimates. The report further highlights the key issues that affected budget implementation in the period under review and makes recommendation to mitigate them.

1.1 The Office of the Controller of Budget

The OCoB is an independent office established by the Constitution of Kenya 2010 under Article 228. The office has several roles as stipulated by various articles under the Constitution:

Oversight Role: One of the core mandates of the OCoB is to oversee implementation of the budgets of the National and County Governments by authorizing withdrawals from public funds in accordance to Article 228 (4) of the Constitution.

Reporting Role: The office is required to develop quarterly, annual and ad hoc reports to the legislature and executive on budget implementation matters of National and County Governments, (Article 228 (6) of the Constitution).

Advisory Role: OCoB gives advice to State Organs, Public Entities and County Governments. In addition it gives financial advice where a Cabinet Secretary has stopped transfer of funds to a State Organ or Public Entity and there is need to renew the decision to stop further transfer of funds, (Article 225 (2) of the Constitution).

Controlling Role: Before any withdrawal of Public Funds, in accordance to the law as stipulated under Article 228 (5) of the Constitution, OCoB is supposed to ensure that public funds are distributed equitable, distributed within the law and that the distribution does not exceed the budget.

Investigative Role: Under Article 252 (1) (a) of the Constitution the Controller of Budget has the power to conduct investigations on her own initiative, or following a complaint on financial and budget implementation matters made by a member of the public.

Mediation and Conciliation Role: Under Article 252 (1) (b) of the Constitution, the Controller of Budget has powers for conciliation, mediation and negotiation. In case of a dispute, the Controller is to hear and determine such matters as regards conciliation, mediation and negotiation. This could also arise from complaints filed under Article 252 (1) (a) of the Constitution.

1.2 Kitui County Profile

1.2.1 Position and Size of the County

Kitui County is one of the 47 Counties in the Country. It borders Machakos and Makueni Counties to the West, Tana River County to the East, Taita-Taveta County to the South, Embu and Tharaka- Nithi Counties to the North. It is located between latitudes $0^{\circ}10'$ and $3^{\circ}0'$ South and longitudes $37^{\circ}50'$ and $39^{\circ}0'$ East. It covers an area of 30,496.40 Km².

Location of Kitui County in Kenya



Table 1-1: Kitui County Fact Sheet

General Information (2009)	Kitui	Rank¹	Kenya²
Population	1,012,709	11	821,491
Surface area (Km ²)	30,496	6	12,368
Density (people per Km ²)	33	37	66
Poverty rate, based on KIHBS (%)	63.5	35	47.2
Share of Urban Population (%)	13.8	39	29.9
Health and Education Outcomes	Kitui	Rank	Kenya
Fully-immunized pop <1yr (% 2010/11)	59.8	25	64.0
HIV + ante-natal care clients (% 2010)	4.8	32	5.9
Population with primary education (%)	74.8	2	66.6
Population with secondary education (%)	10.0	33	12.7
Access to Infrastructure	Kitui	Rank	Kenya
Improved water (% households 2009)	27.2		56.1
Improved sanitation (% households 2009)	54.0		65.0
Electricity (% households 2009)	4.8	37	22.7
Paved roads (as % of total roads)	2.4	38	9.4
Good/fair roads (as % of total roads)	39.9	32	43.5
Others			
County Headquarters	Kitui Town		
Major Towns	Kitui Town, Mwingi Town		
No of Constituencies	8		
No of County Assembly Wards	40		
Major Language	Kamba, Swahili		
Mineral Resource	Limestone, iron ore, coal and sand		
Main Economic Sectors	Retail Trade, Agriculture (Livestock, Crop Farming)		

Source: Kitui County Statistics Office and Kitui County Development Office

¹ Except Poverty rate, malaria, TB & HIV all rankings are in descending order i.e. highest to lowest.

² All Entries in the 'Kenya' column show County averages.

1.2.2 Physiographic and Natural Conditions

The County lies between the altitude of 400m and 1800m above sea level. The central part of the County is characterized by hilly ridges separated by wide low lying areas and has slightly lower elevation of between 600m and 900m above sea level. The geology of the County is composed of basement metamorphic rocks whose various gneisses are exposed in the few hills found in the County. The soils, which are of various types, occur in wide zones running north/south, as determined by parent materials and climate

The County can be divided into four agro-ecological zones. These include: Semi-Arid farming zone, Semi-arid ranching areas, Arid-Agro-pastoral area and Arid-Pastoral Zone. Semi - Arid Farming Zone has good potential for agricultural development and is currently either cultivated or under woodlands. The Semi-Arid Ranching Areas are less fertile and are currently used for drought resistance crops and livestock keeping. The Arid-Agro-Pastoral areas are generally suitable for grazing. However, due to population pressure, the land is being put into crop production. Finally, the Arid-Pastoral Zones are suitable for rearing of livestock.

The climatic condition varies across the County in terms of rainfall and temperature. The rainfall pattern is bi-modal with long rains falling in the months of March to May. These are usually very erratic and unreliable rainfall. The short rains which form the second rainy season fall between October and December and is abit reliable. The annual rainfall ranges between 300mm-1050 mm per annum with 40 per cent reliability for the short rains and 66 per cent reliability for the long rains.

1.2.3 Administrative and Political Units

The promulgation of a new Constitution in Kenya, 2010, ushered in a new governance system envisioned to be transparent and accountable while providing an opportunity for citizen participation and involvement. Kitui County Executive is headed by the Governor, Deputy Governor and Ten County Executive Committee members. Moreover, the County has enhanced its administrative capacity by appointing Chief Officers, Deputy Directors, Assistant Directors, Sub-County Administrators, and Deputy Sub-County Administrators among other key positions. On the other hand, the County Assembly is composed of forty elected Members of County Assembly (MCAs), sixteen nominated MCAs and the County

Assembly Speaker. The administration of the County Assembly is championed by the Clerk to the County Assembly.

The new administrative units in the County are eight sub-counties which are also the constituencies, namely; Kitui Central, Kitui West, Kitui East, Kitui South, Kitui Rural, Mwingi North, Mwingi Central and Mwingi West

1.2.4 Demographic Features

Like other regions of Kenya, population dynamics form an integral part of socio- economic and cultural development. The County's population was projected to be 1,065,330 as at the end of 2013 with the male population projected to be 509,780 and female population projected to be 555,550 (Kitui County Statistics Office, 2014). The projected number of households was 205,491. Given that high population exerts pressure on social and natural resources it is imperative for the County to develop strategies in addressing this.

The population patterns and distribution in the County are influenced by availability and accessibility of water and the fertility of the soils. This explains the current trend where people tend to concentrate on the foot hills where agriculture is possible. Other settlements are concentrated near towns due to availability of reliable social amenities. Kitui Central Constituency/Sub County is the most densely populated with population density of 167 while Kitui East Constituency/Sub County is the least densely populated with population density of 24.

1.2.5 Economic Activities

The main contributors to household income include retail trade, agriculture, rural self-employment, wage employment and urban self-employment among others. Crop farming is a key economic activity with main storage facilities of crop outputs being dwelling houses, granaries, cribs and loft. Under livestock production, the main cattle bred in the County include Indigenous Zebu, Boran, Sahiwal and Dairy Cattles. Other than Cattle there are various breeds of Goat and Sheep that are being reared. Livestock keeping has led to various economic benefits through the production of milk, beef, mutton, eggs, poultry meat, honey, pork among others. Fish farming is also done with Tilapia and common carp being the main species of fish catch.

1.3 County Budget

Kitui County approved a balanced budget for the FY 2014/15 of Kshs.9.36 billion comprising of Kshs.4.58 billion (49.0 per cent) allocated for recurrent expenditure and Kshs.4.77 billion (51.0 per cent) for development expenditure. The budget will be financed by Kshs.6.32 billion (67.6 per cent) from the national equitable share, Kshs.650.0 million (6.9 per cent) from local revenue sources, Kshs.2.08 billion (22.3 per cent) being balance brought forward from FY 2013/14, and Kshs.299.72 million from donor funded projects/conditional grant (3.2 per cent). The equitable share in the budget estimate was Kshs.18.08 million less than the equitable share for Kitui County in the CARA, 2014. Table 1-2 shows budgetary allocations to various Kitui County Ministries.

Table 1-2: Summary of Kitui County Appropriation Act FY 2014/15

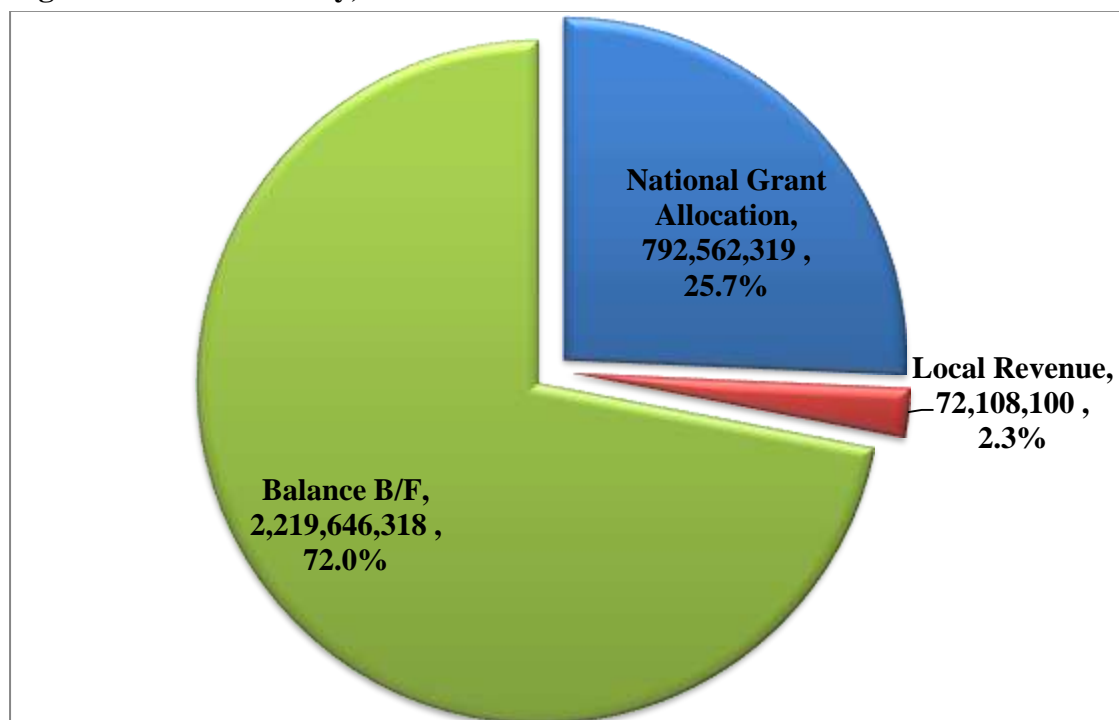
Vote	County Entity/Ministry	Approved Budget
Recurrent		
R101	Office of the Governor	436,613,464
R102	Ministry of Administration and Coordination of County Affairs	418,620,068
R103	Ministry of Agriculture, Water & Irrigation	412,759,720
R104	Ministry of Basic Education , Training & Skills Development	318,832,310
R105	Ministry of Lands, Infrastructure & Urban Development	502,839,804
R106	Ministry of Health & Sanitation	1,311,571,986
R107	Ministry of Trade, Industry, ICT & Co-operatives	75,027,106
R108	Ministry of Culture, Youth, Sports & Social Ser.	60,305,778
R109	Ministry of Environment, Energy & Mineral Inv. Dev.	46,793,778
R110	Ministry of Tourism and Natural Resources	31,935,778
R111	Ministry of Finance & Economic Planning	138,328,241
R112	County Public Service Board	55,253,860
R113	County Assembly	775,808,578
Total Recurrent		4,584,690,471
Development		
D101	Office of the Governor	1,025,474,030
D102	Ministry of Administration and Coordination of County Affairs	124,126,330
D103	Ministry of Agriculture, Water & Irrigation	894,267,312
D104	Ministry of Basic Education , Training & Skills Development	152,758,632
D105	Ministry of Lands, Infrastructure & Urban Development	1,260,950,095

D106	Ministry of Health & Sanitation	305,488,865
D107	Ministry of Trade, Industry, ICT & Co-operatives	331,755,346
D108	Ministry of Culture, Youth, Sports & Social Ser.	135,767,952
D109	Ministry of Environment, Energy & Mineral Inv. Dev.	380,179,211
D110	Ministry of Tourism and Natural Resources	27,500,000
D111	Ministry of Finance & Economic Planning	56,578,751
D112	County Assembly	77,490,787
	Total Development	4,772,337,311
	TOTAL	9,357,027,782

Source: County Treasury

2.0 COUNTY REVENUE PERFORMANCE

Figure 2-1: Kitui County, Revenue Received



Source: County Treasury

It can be observed from Figure 2-1 that from the total income of Kshs.3.08 Million balance B/F from 2013/14 contributed 72.0 per cent, followed by National Grant Allocation at 25.7 per cent and Local Revenue Collection at 2.3 per cent. . Table 2-1 breaks down further the revenue sources by period.

Table 2-1: County Revenue Sources by Period

Revenue Sources	Quarter 1 FY 13/14	Quarter 2 FY 13/14	Quarter 3 FY 13/14	Quarter 4 FY 13/14	Quarter 1 FY 14/15
National Grant	903,602,672	956,755,770	1,116,215,065	2,113,094,532	792,562,319
Locally revenue	58,854,784	44,263,595	75,441,700	76,681,502	72,108,100
Balance B/F	176,554,186	-	-	-	2,219,646,318
Total	1,139,011,642	1,001,019,365	1,191,656,765	2,189,776,034	3,084,316,737

Source: County Treasury

From Table 2-1 it can be observed that there was an increment of total revenue received during the first quarter of FY 2014/15 as compared to the other quarters of FY 2013/14.

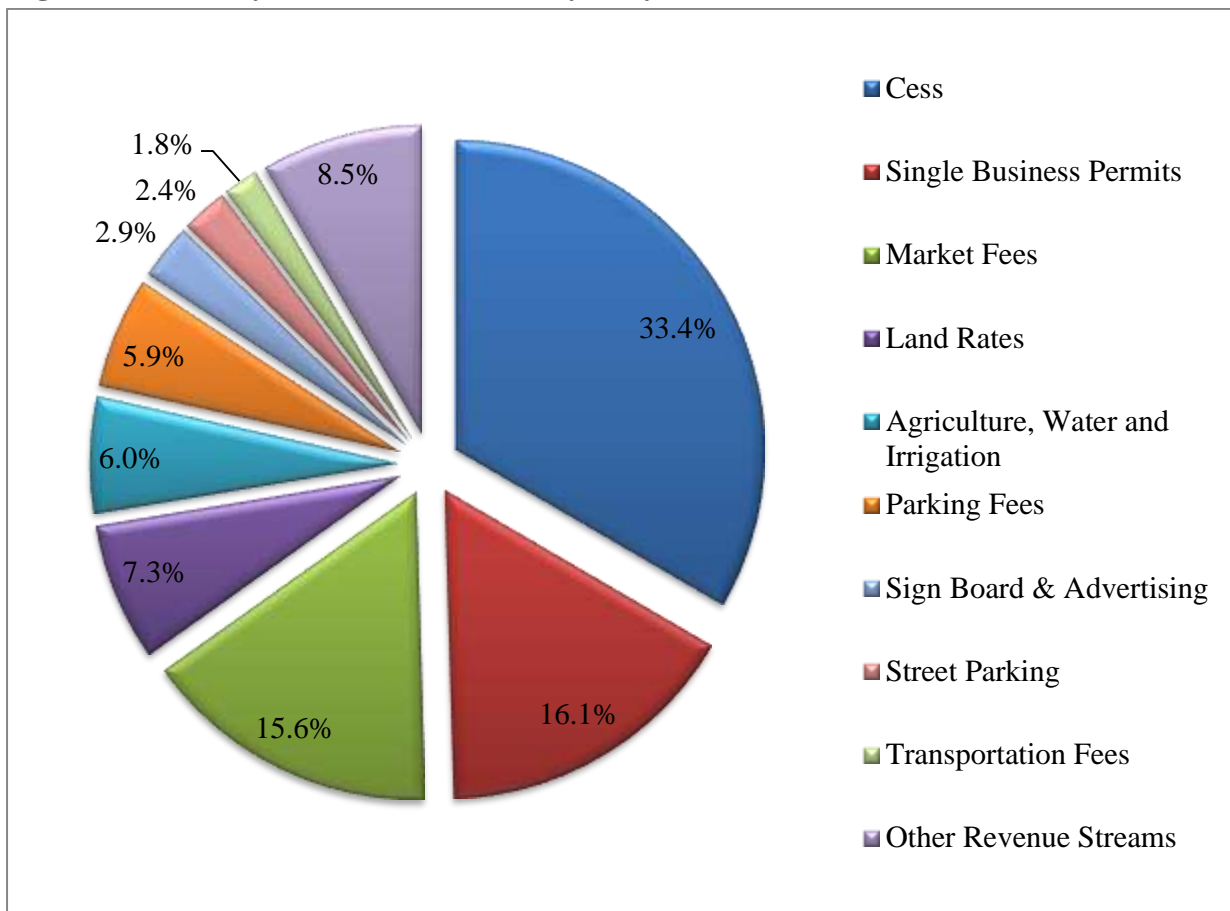
Table 2-2: Revenue Performance FY 2014/15

Revenue category	Targeted Annual Revenue	Actual Revenue Receipts	Performance rate % (actual/target)
Locally Raised Revenue	650,000,000	72,108,100	11.1%
Equitable Share	6,322,420,839	792,562,319	12.5%
Conditional Grant	299,716,518	0	0.0%
Re-voted Amount (Balance B/F)	2,084,890,425	2,219,646,318	106.5%
Total	9,357,027,782	3,084,316,737	32.96%

Source: County Treasury

As shown in Table 2-2, locally raised revenue had a performance of 11.1 per cent of its revenue estimates while National grant – equitable share had a performance of 12.5 per cent. Balance brought forward from FY 2013/14 had an aggregate performance of 106.5 per cent of its estimate. The equitable share in the budget estimates was under casted by Kshs.18.08 million as compared to the equitable share in the County Allocation of Revenue Act, 2014.

Local Revenue collections were banked in the Kitui County Revenue Collection Account, at a local commercial bank. The funds were then regularly swept and credited in the Kitui CRF Account at Central Bank of Kenya (CBK). Local Authority Integrated Financial Operations Management System (LAIFOM) was the main platform for accounting for locally raised revenue.

Figure 2-2: Locally Raised Revenue Analysis by Revenue Stream

Source: County Treasury

From Figure 2-2 it can be observed that cess, during the period under review, contributed 33.4 per cent of the overall locally revenue raised, followed by single business permits unit (16.1 per cent) and market fees (15.6 per cent). The first quarter target for local revenue, as per the annual cash flow statement, was Kshs.146.37 million. Hence, the County achieved 49.3 per cent of the first quarter local revenue projection.

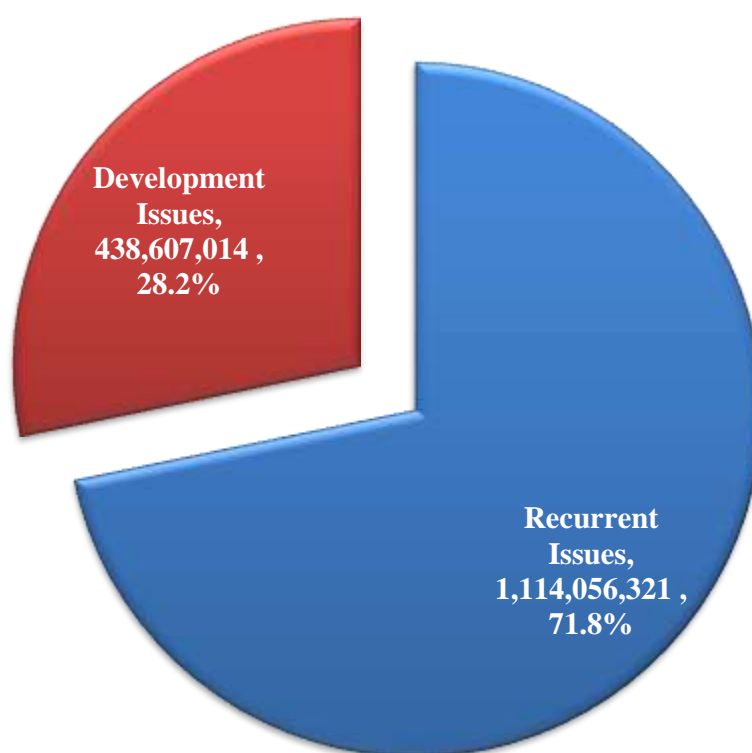
3.0 COUNTY EXCHEQUER ISSUES

County Exchequer Account also termed County Revenue Fund Account as per section 109 of the PFMA Act, 2012 and in accordance to article 207 of the Constitution of Kenya is an account which is paid all money raised or received by or on behalf of the county government except money reasonably excluded by an Act of Parliament. The approval of the Controller of Budget to withdraw money from the County Revenue Fund Account, as per article 228 (4) of the Constitution of Kenya, together with the written instructions from the County Treasury in accordance to section 109(6) of the PFM Act, 2012, requesting for the withdrawal is what in this report is termed as an Exchequer Issue.

During the period under review, the cumulative exchequer issues made totaled to Kshs.1.55 billion.

3.1 Exchequer Issues by Economic Classification

Figure 3-1: Exchequer Issues by Economic Classification



Source: Office of the Controller of Budget

As illustrated in Figure 3-1, total recurrent exchequer issue was Kshs.1.11 billion that represents 71.8 per cent of the total exchequer issues made during the period under review.

Total development exchequer issue was Kshs.438.61 million that represents 28.2 per cent of the total exchequer issues.

Table 3-1: Exchequer Issue by Economic Classification

Classification	Budget	Exchequer issues	Expenditure	Per cent of Budget Funded	Per cent of Expenditure over Budget
	I	II	III	II/I	III/I
Development	4,772,337,311	438,607,014	170,927,724	9.2	3.6
Recurrent	4,584,690,471	1,114,056,321	637,167,289	24.3	13.9
Totals	9,357,027,782	1,552,663,335	808,095,013	16.6	8.6

Source: County Treasury

As displayed in Table 3-1, development activities were funded up-to 9.2 per cent of the development budget while 24.3 per cent of recurrent budget was funded. The County implemented 3.6 per cent of development budget and 13.9 per cent of recurrent budget during the period under review.

3.2 County Exchequer Issues by County Entity

Table 3-2: County Exchequer Issues per Ministry

Recurrent Votes	Budget	Exchequer Issue	Per cent Funded
	I	II	II/I
R101 - Office of the Governor	436,613,464	118,038,473	27.0
R102- Admin. & Coordination of County Affairs	418,620,068	113,864,292	27.2
R103 - Agriculture, Water and Irrigation	412,759,720	86,054,006	20.8
R104 - Basic Educ., Training & Skills Development	318,832,310	73,608,580	23.1
R105 - Lands, Infrastructure & Urban Development	502,839,804	114,658,653	22.8
R106 - Health and Sanitation	1,311,571,986	305,890,202	23.3
R107 - Trade, Industry and Cooperatives	75,027,106	18,113,995	24.1
R108 - Culture, Youth, Sports and Social Services	60,305,778	15,989,091	26.5
R109 - Environment, Energy and Mineral Resources	46,793,778	12,101,808	25.9
R110 - Natural Resources and Tourism	31,935,778	6,227,433	19.5
R111 - Finance and Economic Planning	138,328,241	33,085,157	23.9
R112 - County Assembly	775,808,578	202,273,494	26.1
R113 - County Public Service Board	55,253,860	14,151,137	25.6
Total Recurrent	4,584,690,471	1,114,056,321	24.3

Development Votes	Budget	Exchequer Issue	Per cent Funded
D101 - Office of the Governor	1,025,474,030	885,425	0.1
D102 – Admin. & Coordination of County Affairs	124,126,330	0	0.0
D103 - Agriculture, Water & Irrigation	894,267,312	98,184,435	11.0
D104 - Basic Educ., Training & Skills Development	152,758,632	12,964,881	8.5
D105 - Lands, Infrastructure & Urban Development	1,260,950,095	292,027,825	23.2
D106 - Health & Sanitation	305,448,865	33,134,433	10.8
D107 - Trade, Industry & Cooperatives	331,755,346	0	0.0
D108 - Culture, Youth, Sports and Social Services	135,767,952	0	0.0
D109 - Environment, Energy and Mineral Resources	380,179,211	0	0.0
D110 - Natural Resources & Tourism	27,500,000	0	0.0
D111 - Finance & Economic Planning	56,578,751	1,410,015	2.5
D112 - County Assembly	77,490,787	0	0.0
Total Development	4,772,297,311	438,607,014	9.2
TOTAL	9,357,027,782	1,552,663,335	16.6

Source: County Treasury and OCoB

From Table 3-2 it can be observed that, the recurrent budget was funded 24.3 per cent of the total recurrent estimates. Hence, most recurrent votes were funded almost a quarter of their recurrent estimates.

Development budget, during the period under review, was funded up-to 9.2 per cent of the total development estimate. Ministry of Lands, Infrastructure & Urban Development was funded to a tune of 23.2 per cent of its development budget, followed by Ministry of Agriculture, Water and Irrigation and Ministry of Health and Sanitation each receiving 11.0 per cent of their development budget estimates.

Table 3-3: Utilization of funds issued per Vote

Recurrent Votes	Exchequer Issue	Expenditure	Per cent of funds utilized
	II	III	III/II
R101 - Office of the Governor	118,038,473	63,332,294	53.7
R102- Admin. & Coord.. of County Affairs	113,864,292	129,744,667	113.9
R103 - Agriculture, Water and Irrigation	86,054,006	37,616,048	43.7
R104 - Basic Educ., Training & Skills Dev.	73,608,580	58,570,498	79.6
R105 - Lands, Infrastructure and Urban Dev.	114,658,653	28,650,852	25.0
R106 - Health and Sanitation	305,890,202	210,082,114	68.7
R107 - Trade, Industry and Cooperatives	18,113,995	6,384,064	35.2
R108 - Culture, Youth, Sports & Social Svc.	15,989,091	4,256,234	26.6
R109 – Environ., Energy & Mineral Rcs.	12,101,808	3,376,436	27.9
R110 - Natural Resources and Tourism	6,227,433	3,197,935	51.4
R111 - Finance and Economic Planning	33,085,157	31,471,821	95.1
R112 - County Assembly	202,273,494	54,080,860	26.7
R113 - County Public Service Board	14,151,137	6,403,466	45.3
Total Recurrent	1,114,056,321	637,167,289	57.2
Development Votes	Exchequer Issue	Expenditure	Per cent Funded
D101 - Office of the Governor	885,425	1,647,826	186.1
D102 – Admin. & Coord. of County Affairs	0	0	0
D103 - Agriculture, Water & Irrigation	98,184,435	33,682,670	34.3
D104 - Basic Educ., Training & Skills Dev.	12,964,881	12,967,881	100.0
D105 - Lands, Infrastructure & Urban Dev.	292,027,825	115,286,229	39.5
D106 - Health & Sanitation	33,134,433	2,408,406	7.3
D107 - Trade, Industry & Cooperatives	0	0	0.0
D108 - Culture, Youth, Sports & Social Svc.	0	4,928,712	∞
D109 – Environ., Energy and Mineral Rsc.	0	6,000	∞
D110 - Natural Resources & Tourism	0	0	0.0
D111 - Finance & Economic Planning	1,410,015	0	0.0
D112 - County Assembly	0	0	0.0
Total Development	438,607,014	170,927,724	39.0
TOTAL	1,552,663,335	808,095,013	52.0

Source: County Treasury

As illustrated in

Table 3-3, Kitui County Government utilized 57.2 per cent of the recurrent funds released during the period under review, and 39.0 per cent of development funds released during the same period.

Under recurrent votes, Ministry of Administration & Coordination of County Affairs utilized 113.9 per cent of funds released followed by Ministry of Finance & Economic Planning at 95.1 per cent. Ministry of Lands, Infrastructure & Urban Development utilized 25.0 per cent of recurrent funds released. It is worth noting that Ministry of Administration & Coordination of County Affairs spent more than the funds allocated to it. The reason given by the County Treasury was that, county staff salary for one of the month of the first quarter was deducted from the Ministry of Administration & Coordination of County Affairs, recurrent vote, instead of being charged to respective votes.

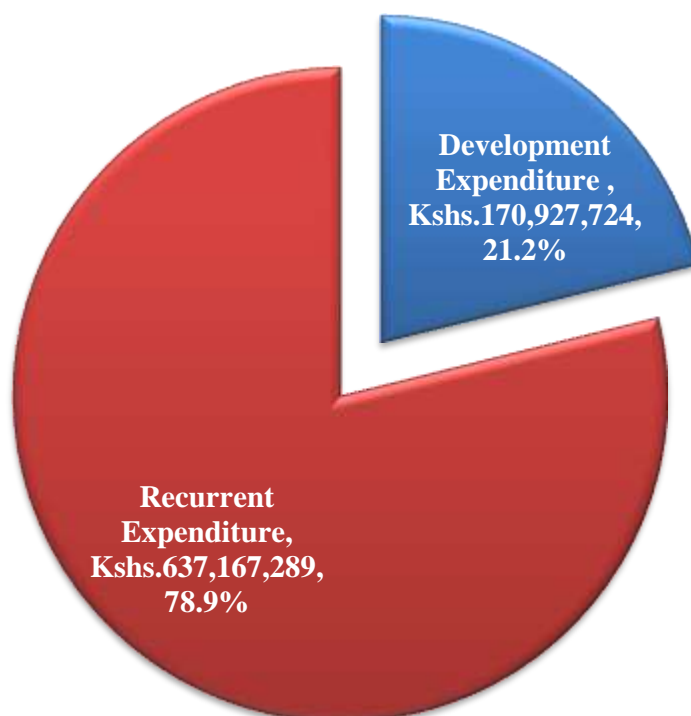
Under development votes, Office of the Governor utilized 186.1 per cent of its development funds released during the period under review. Ministry of Basic Education, Training and Skills Development utilized 100.0 per cent of funds released. Ministry of Culture, Youth, Sports & Social Services and Ministry of Environment, Energy & Mineral Investment Development incurred development expenditure even though they had not requisitioned for development funds.

It should be noted that over-expenditure of funds more than the funds released to an entity/ministry hinders the execution of activities that were to be implemented by the funds. Section 154 of the Public Financial Management Act, 2012, should be adhered for any re-allocation of funds. On the other hand, Ministry of Finance & Economic Planning did not utilize their development funds released during the period under review. The County Treasury should establish the reasons behind some Ministries/Entities not utilizing their development funds despite the funds being requisitioned and issued.

4.0 COUNTY EXPENDITURE PERFORMANCE

4.1 Economic Classification of County Expenditure

Figure 4-1: Recurrent and Development Expenditure



Source: County Treasury

Table 4-1: Recurrent and Development Expenditure

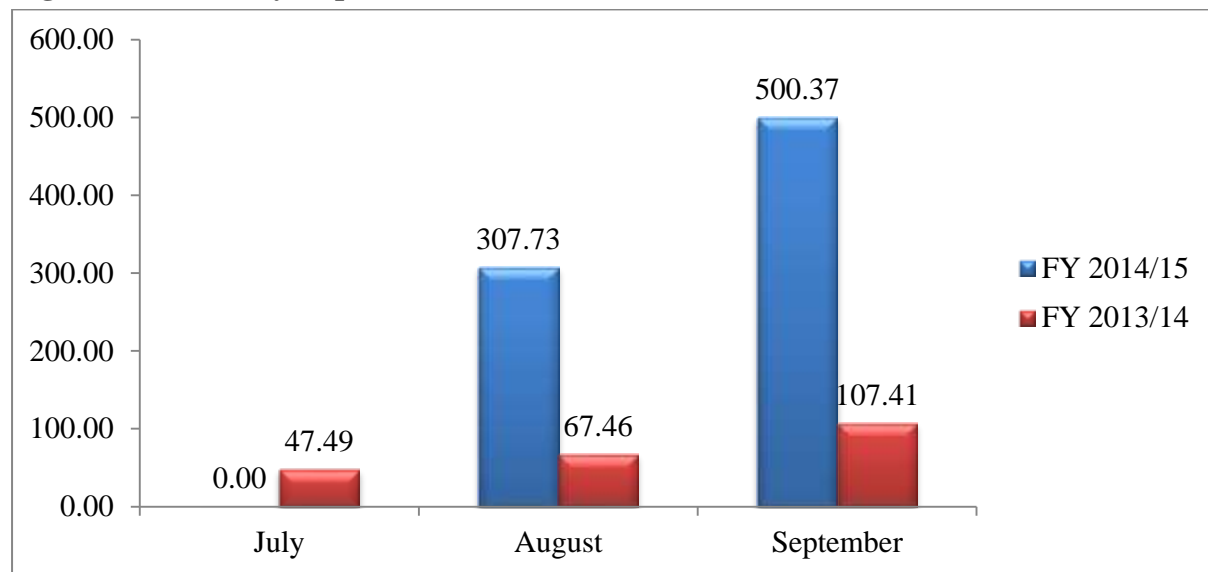
Economic Item	Budget Estimates	Per cent of Budget	Expenditure	Per cent of Expenditure
	I	I/Total	II	II/Total
Recurrent	4,584,690,471	49.0%	637,167,289	78.9%
Development	4,772,337,311	51.0%	170,927,724	21.2%
Total	9,357,027,782	100.0%	808,095,013	100.0%

Source: County Treasury

As revealed in Figure 4-1 and Table 4-1 the total expenditure by the County during the period under review was Kshs.808.10 million that was composed of recurrent expenditure of Kshs.637.17 million (78.9 per cent of total expenditure) and development expenditure of Kshs.170.93 million (21.2 per cent of total expenditure). The County allocated 51.0 per cent of the total budget to development activities and 49.0 per to recurrent activities.

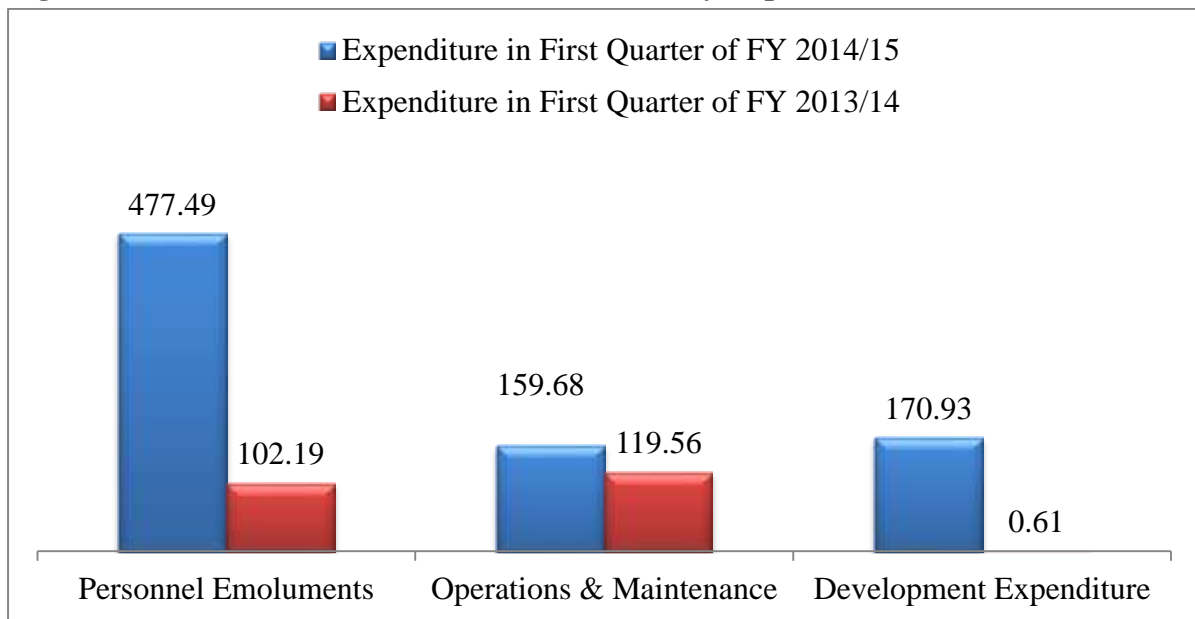
From the annual cash-flow projection submitted to the Office of the Controller of Budget, development activities, in the first quarter of FY 2014/15, were projected to incur a total expenditure of 1,931,634,909 while recurrent activities were projected to incur an expenditure of 1,244,987,897. Comparing these figures with the actual expenditure reveals that development activities undertaken were 8.9 per cent of the expected activities to be undertaken during the same period while recurrent activities represented 51.2 per cent of the targeted recurrent activities during period under review.

Figure 4-2: Monthly Expenditure (Kshs. Million)



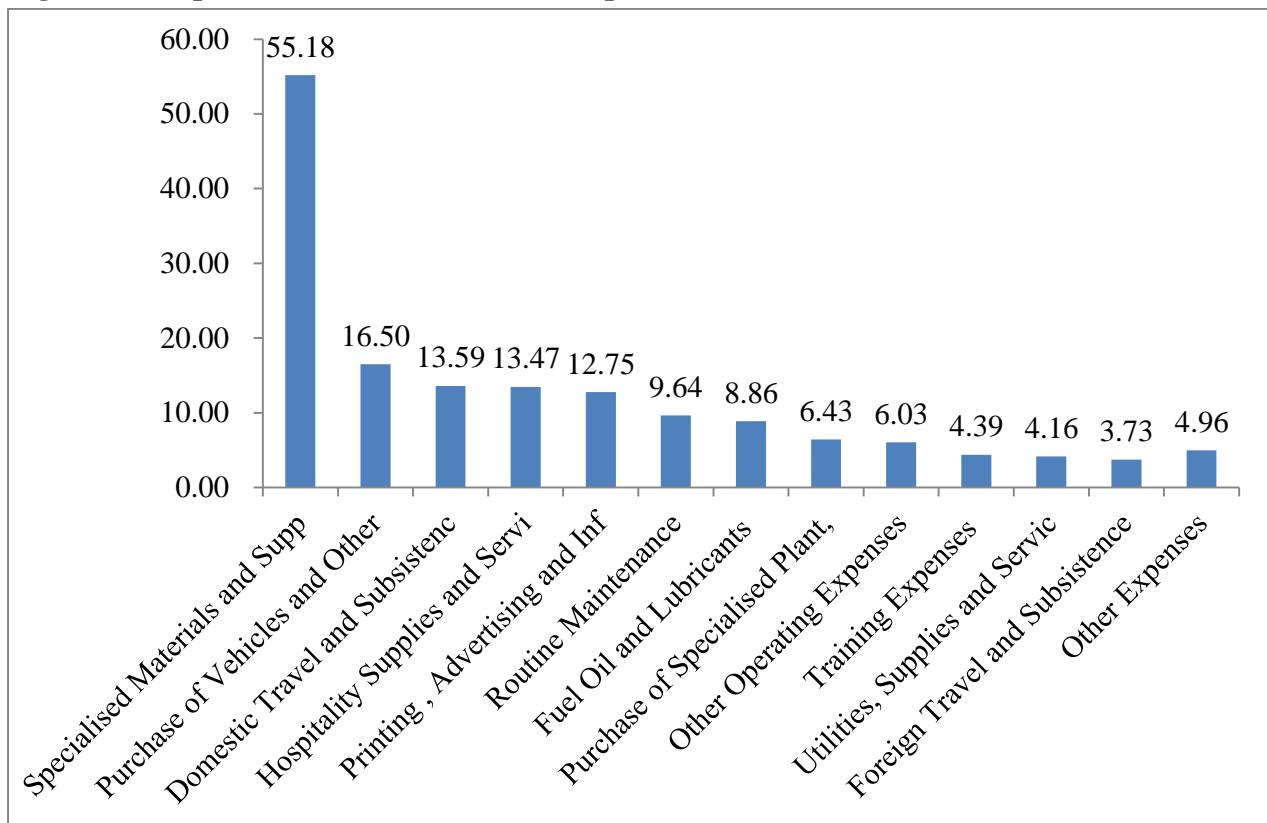
Source: County Treasury

From Figure 4-2 it can be observed that the County reported no expenditure during the month of July 2014, during the same month, in the previous FY 2013/14, the County incurred a cumulative expenditure of Kshs.47.49 million. Expenditure during the months of August, 2014, and September, 2014, were more compared to same period in the previous financial year.

Figure 4-3: Economic Classification of Kitui County Expenditure (Kshs. Millions)

Source: *County Treasury*

As revealed in Figure 4-3 there was an increase in Personnel Emoluments (PE) in FY 2014/15 as compared to FY 2013/14 due to staff employment and also seconded staff from the devolved functions previously working under the National Government. Operations and maintenance also, increased by Kshs.40.12 million. Development expenditure in the current FY 2014/15 had a remarkable increase in comparison to the previous FY 2013/14 mainly due to spill over of development activities that commenced towards the end of FY 2013/14.

Figure 4-4: Operations and Maintenance expenditure (Kshs. Millions)

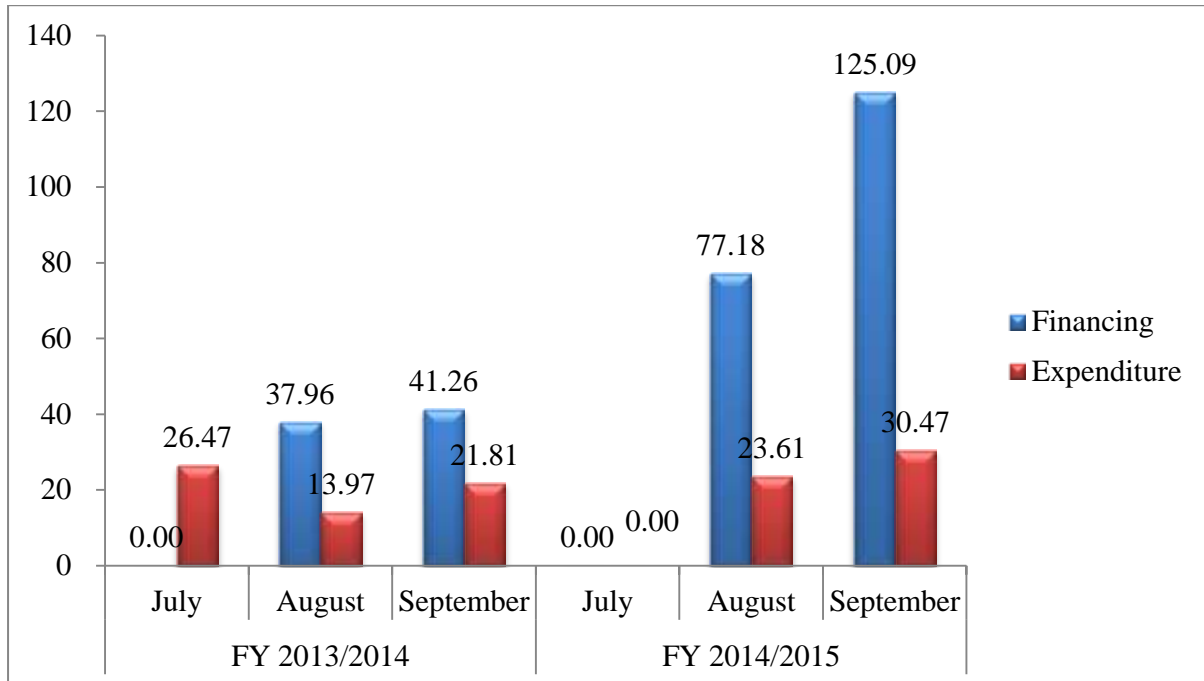
Source: County Treasury

As shown in Figure 4-4 expenditure under specialized materials and supplies was Kshs.55.18 million followed by purchase of vehicles and other transport equipment at Kshs.16.50 million. Expenditure incurred under domestic travel and foreign travel summed up to Kshs.17.32 million.

4.2 Analysis of County Assembly Expenditure

4.2.1 County Assembly Financing

Figure 4-5: County Assembly Financing and Expenditure (Kshs. Millions)



Source: County Treasury

Figure 4-5 shows a monthly time series of funds released and expenditure incurred by the County Assembly for FY 2013/14 and FY 2014/15. It can be observed that in FY 2014/15 the variance between financing and actual expenditure was enormous in comparison to the same period in the previous financial year i.e. the County Assembly requested for more funds as compared to the actual expenditure incurred. It can also be observed that expenditure incurred in the FY 2014/15 was lower than expenditure that was incurred in the same period of FY 2013/14.

IFMIS was operational at the County Assembly while G-Pay system was not operational during the period under review.

4.2.2 County Assembly Expenditure

Table 4-2: County Assembly Budget Performance

Details	CA Total Budget	CE Total Budget	MCAs		
			Elected	Nominated	Total
Total budget	853,299,365	8,503,728,417	40	16	56
Total expenditure	54,080,860	754,014,153			
Absorption rate (per cent)	6.3	8.9			

Source: County Treasury

As shown in Table 4-2, County Assembly of Kitui is composed of 40 elected Members of County Assembly (MCAs) and 16 nominated MCAs. County Assembly had a cumulative expenditure of Kshs.54.08 million out of a budget of Kshs.853.30 million leading to a budget implementation performance of 6.3 per cent. County Executive had a budget implementation performance of 8.9 per cent after having an expenditure of Kshs.754.01 million out of a budget of Kshs.8.50 billion.

Table 4-3: County Assembly Economic Classification

	Recurrent				Development
	PE	O&M	Sitting All.	Total Rec.	
Total Budget	301,885,596	378,550,982	95,372,000	775,808,578	77,490,787
Total expenditure	39,109,345	4,497,145	10,474,370	54,080,860	0
Absorption rate	13.0	1.2	11.0	7.0	0.0

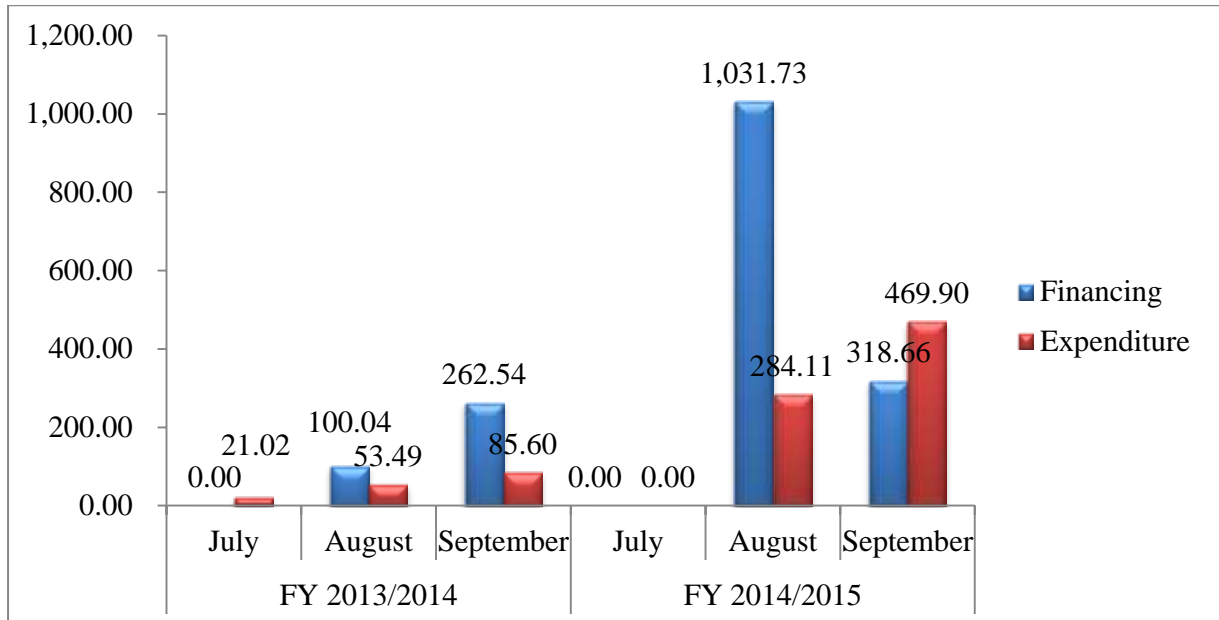
Source: County Treasury

From Table 4-3 it can be observed that personnel emoluments had the highest absorption rate of 13.0 per cent followed by county assembly attendance allowance at 11.0 per cent and operations and maintenance at 1.2 per cent. There was no development expenditure incurred by the Assembly during the period under review.

4.3 Analysis of County Executive Expenditure

4.3.1 County Executive Financing

Figure 4-6: County Executive Financing and Expenditure (Kshs. Millions)



Source: County Treasury

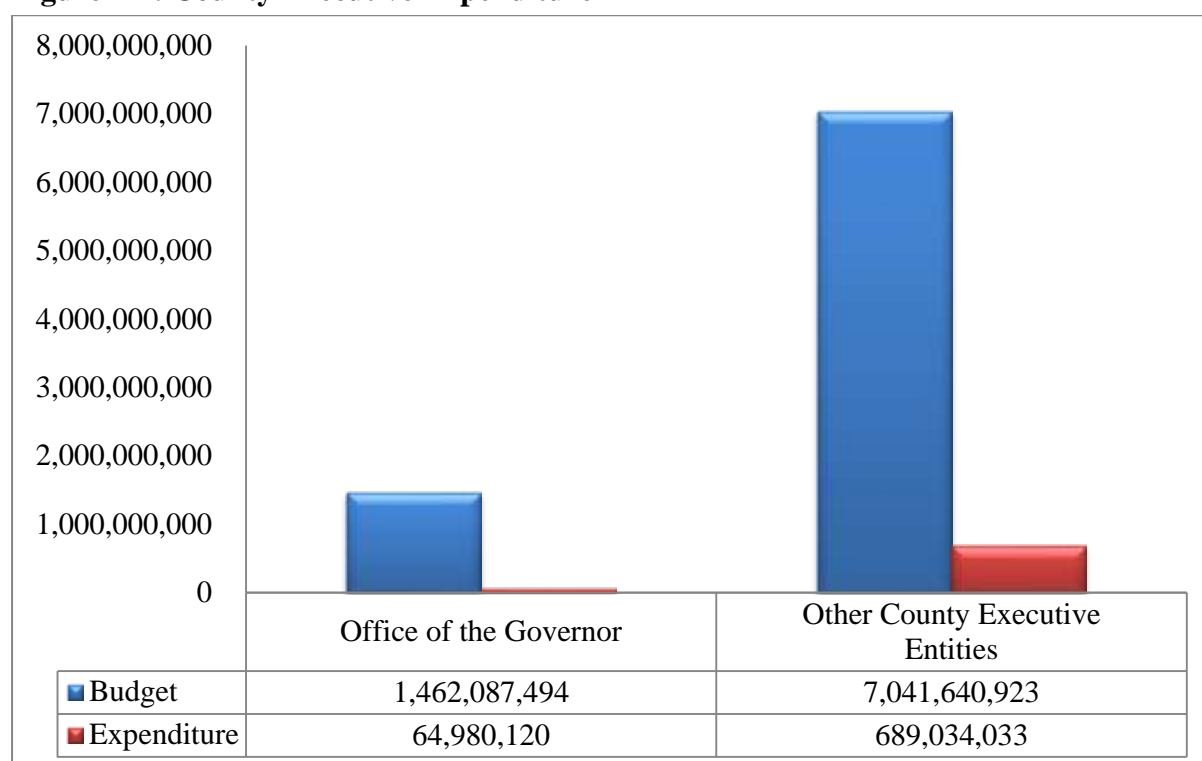
From Figure 4-6, it can be observed that the County Executive neither requisitioned for funds during the month of July 2014 nor reported any expenditure. In comparison to the previous FY 2013/14 there was an increase in both amount funded and amount spent.

The Integrated Financial Management Information System (IFMIS) and G-Pay were operational in the County Treasury during the period under review.

4.3.2 County Executive Expenditure

Office of the Governor

Figure 4-7: County Executive Expenditure



Source: County Treasury

As illustrated in Figure 4-7, Office of the Governor spent Kshs.64.98 million, during the period under review, from its budget of Kshs.1.46 billion. Other County Entities had an expenditure of Kshs.689.03 million out of a budget of Kshs, 7.04 billion.

Table 4-4: Economic Classification of Office of the Governor Budget & Expenditure

Details	Recurrent			Development Expenditure
	PE	O&M	Sub-total	
Total Budget	115,423,901	321,189,563	436,613,464	1,025,474,030
Total expenditure	15,973,806	47,358,488	63,332,294	1,647,826
Absorption rate (Per cent)	13.8	14.7	14.5	0.2

Source: County Treasury

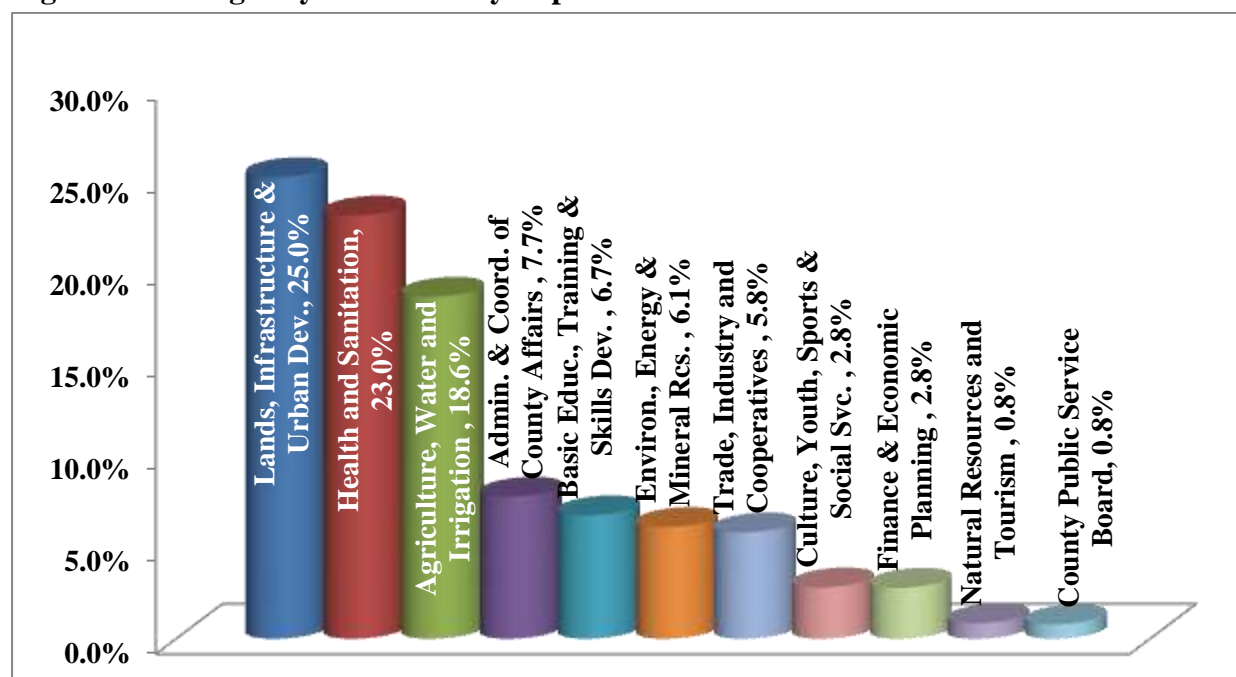
From Table 4-4, it can be observed that the Office of the Governor had a budget absorption rate of 13.8 per cent on personnel emoluments. Operations and maintenance had a budget implementation performance of 14.7 per cent while development activities had a budget implementation performance of 0.2 per cent.

*Other County Entities***Table 4-5: Economic Classification of County Entities Budget Allocation**

Department	PE	O&M	Development	Total
Admin. & Coord. of County Affairs	270,678,502	147,941,566	124,126,330	542,746,398
Agriculture, Water and Irrigation	284,195,533	128,564,187	894,267,312	1,307,027,032
Basic Educ., Training & Skills Dev.	276,081,538	42,750,772	152,758,632	471,590,942
Lands, Infrastructure & Urban Dev.	383,732,276	119,107,528	1,260,950,095	1,763,789,899
Health and Sanitation	835,562,013	476,009,973	305,488,865	1,617,060,851
Trade, Industry and Cooperatives	51,736,382	23,290,724	331,755,346	406,782,452
Culture, Youth, Sports & Social Svc.	24,521,962	35,783,816	135,767,952	196,073,730
Environ., Energy & Mineral Rcs.	24,939,895	21,853,883	380,179,211	426,972,989
Natural Resources and Tourism	11,677,734	20,258,044	27,500,000	59,435,778
Finance & Economic Planning	67,207,300	71,120,941	56,578,751	194,906,992
County Public Service Board	29,635,350	25,618,510	0	55,253,860
Total	2,259,968,485	1,112,299,944	3,669,372,494	7,041,640,923

Source: County Treasury

As illustrated in Table 4-5, Land, Infrastructure and Urban Development had the highest budget allocation of Kshs.1.76 billion consisting of development activities of Kshs.1.26 billion and recurrent activities of Kshs.502.84 million. A larger portion of the department's allocation was for development activities. Health and Sanitation had more budget allocation on recurrent activities than development with Kshs.835.56 million being allocated for personnel emoluments. County Public Service Board had an allocation of Kshs.55.25 million being composed of personnel emoluments estimates of Kshs.29.64 million and operations and maintenance estimates of Kshs.25.62 million.

Figure 4-8: Budgetary Allocation by Department

Source: County Treasury

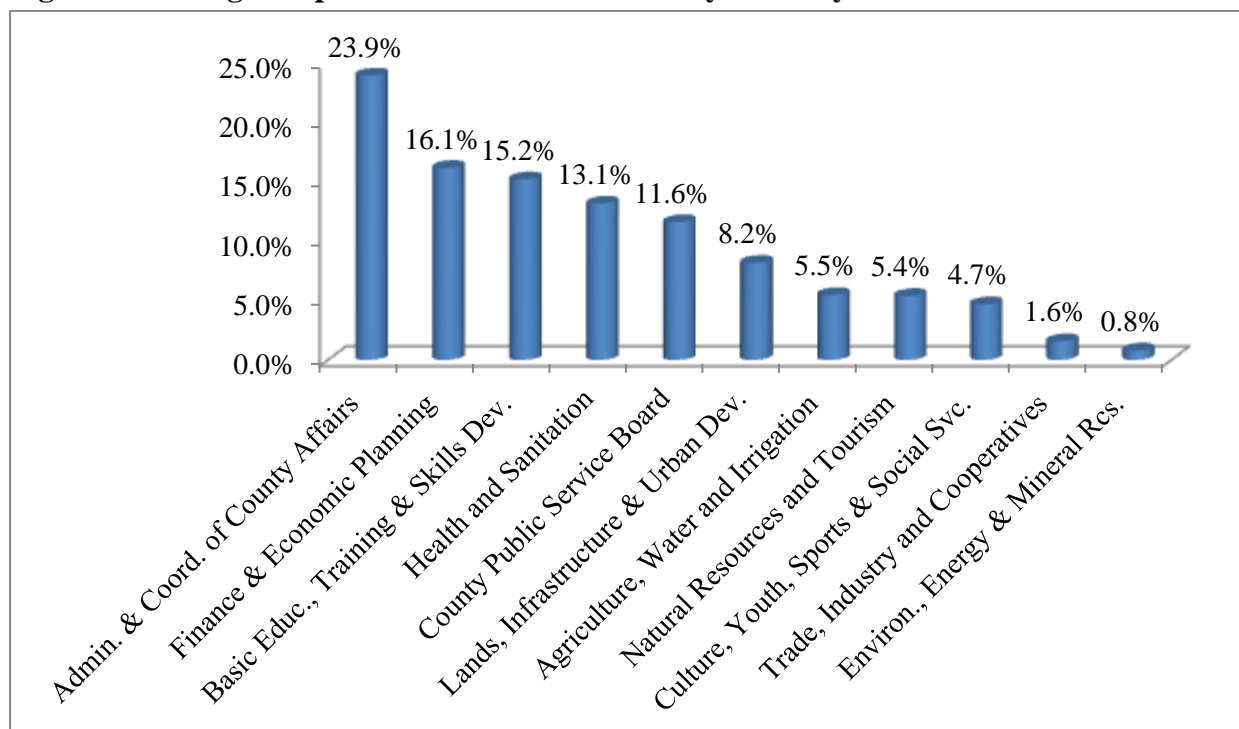
As depicted in Figure 4-8, it can be observed that from the budgetary allocation the major priorities of the County were in the Ministry of Land, Infrastructure & Urban Development; Health & Sanitation; Agriculture, Water & Irrigation; Administration & Coordination of County Affairs; and Basic Education, Training & Skills Development. As illustrated in Figure 4-8, the five ministries were allocated 81.0 per cent of the budget allocations.

Table 4-6: Economic Classification of County Entities Expenditure

Department	PE	O&M	Development	Total
Admin. & Coord. of County Affairs	128,168,684	1,575,983	0	129,744,667
Agriculture, Water and Irrigation	35,185,963	2,430,085	33,682,670	71,298,718
Basic Educ., Training & Skills Dev.	56,934,353	1,636,145	12,967,881	71,538,379
Lands, Infrastructure & Urban Dev.	23,475,712	5,175,140	115,286,229	143,937,081
Health and Sanitation	139,950,256	70,131,858	2,408,406	212,490,520
Trade, Industry and Cooperatives	5,723,629	660,435	0	6,384,064
Culture, Youth, Sports & Social Svc.	3,654,696	601,538	4,928,712	9,184,946
Environ., Energy & Mineral Rcs.	2,064,850	1,311,586	6,000	3,382,436
Natural Resources and Tourism	1,929,611	1,268,324	0	3,197,935
Finance & Economic Planning	21,966,630	9,505,191	0	31,471,821
County Public Service Board	3,352,805	3,050,661	0	6,403,466
Total	422,407,189	97,346,946	169,279,898	689,034,033

Source: County Treasury

As depicted in Table 4-6 Land, Infrastructure and Urban Development had the highest development expenditure of Kshs.115.29 million. On the other hand, Health and Sanitation had the highest expenditure under personnel emoluments and operations and maintenance, both adding up to Kshs.210.08 million. Natural Resources and Tourism incurred recurrent expenditure of Kshs.3.20 million.

Figure 4-9: Budget Implementation Performance by Ministry

Source: County Treasury

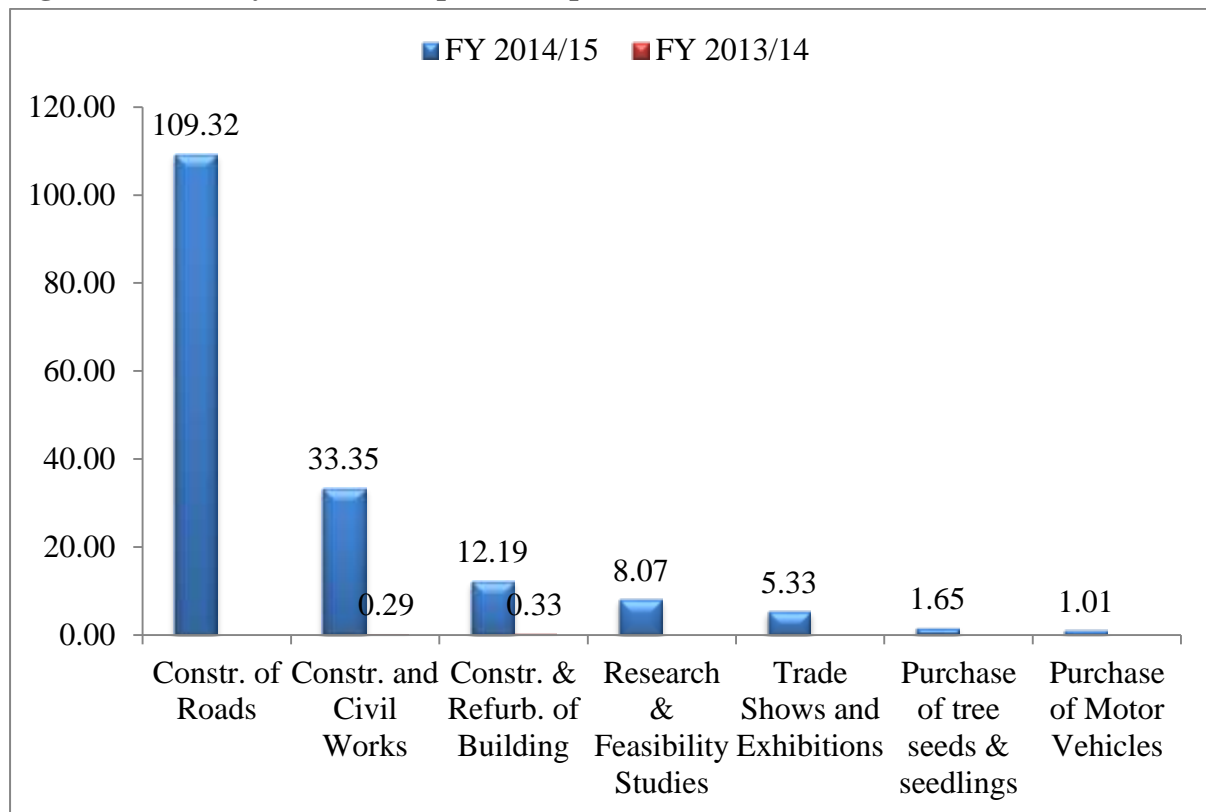
As illustrated in Figure 4-9, Ministry of Administration and Coordination of County Affairs implemented 23.9 per cent of its budget allocation followed by Ministry of Finance and Economic Planning at 16.1 per cent and Ministry of Basic Education, Training and Skills Development at 15.2 per cent. Ministry of Environment, Energy and Mineral Resources had a budget implementation performance of 0.8 per cent while Ministry of Trade, Industry and Cooperatives had a budget implementation performance of 1.6 per cent.

*Analysis of Development Expenditure***Table 4-7: Development Budget Implementation Performance**

Ministry	Development Budget	Expenditure	Development Budget Performance (Per cent)
	I	II	II/I
Lands, Infrastructure & Urban Dev.	1,260,950,095	115,286,229	9.1
Basic Educ., Training & Skills Dev.	152,758,632	12,967,881	8.5
Agriculture, Water & Irrigation	894,267,312	33,682,670	3.8
Culture, Youth, Sports & Social Scs.	135,767,952	4,928,712	3.6
Health & Sanitation	305,488,865	2,408,406	0.8
Office of the Governor	1,025,474,030	1,647,826	0.2
Environ., Energy & Mineral Rcs.	380,179,211	6,000	0.0
Admin. & Coord. of County Affairs	124,126,330	0	0.0
Trade, Industry & Cooperatives	331,755,346	0	0.0
Natural Resources & Tourism	27,500,000	0	0.0
Finance & Economic Planning	56,578,751	0	0.0
County Assembly	77,490,787	0	0.0
Total	4,772,337,311	170,927,724	3.6

Source: County Treasury

From Table 4-7, it can be observed, that each Ministry development budget implementation performance was below 10 per cent. Ministry of Lands, Infrastructure and Urban Development had a development budget implementation performance of 9.1 per cent followed by Ministry of Basic Education, Training and Skills Development with a development budget implementation performance of 8.5 per cent.

Figure 4-10: Analysis of Development Expenditure (Kshs. Million)

Source: County Treasury

The development expenditure for the first quarter of FY2014/15 was Kshs.170.93 million, an improvement from Kshs.0.61 million spent in the first quarter of last financial year. Analysis of the development expenditure for the period under review shows that the County spent Kshs.109.32 million on construction of roads (i.e.Kshs.107.77 million on construction of access roads and Kshs.1.55 million on development of major roads), Kshs.33.35 million was spent on construction and civil works, Kshs.12.19 million on construction and refurbishment of buildings, Kshs.8.07 million on Research & Feasibility Studies under the Ministry of Basic Education, Kshs.5.33 million on Trade Shows and Exhibitions under the Department of Agriculture, Kshs.1.65 million on Purchase of tree seeds and seedlings under the Youth Investment Savings and Investment Programme and Kshs.1.01 million for purchase of motor vehicle for Management of Kitui Town.

During the first quarter of the previous FY 2013/14 Kshs.0.29 million was utilized on construction and civil works and Kshs.0.33 million on construction of buildings. The main challenges encountered during the first quarter of FY 2013/14 were the set-up challenges of the County, and slow take-off of the execution of the 2013/14 budget by County Entities.

5.0 CONCLUSION AND RECOMMENDATIONS

The County Treasury did well in uploading the approved budget to IFMIS system accurately as compared to the previous FY 2013/14 where the approved budget differed with the uploaded IFMIS budget on several items. It is also worth noting that the County is maintaining up-to-date exchequer ledgers as per the recommendation of the OCoB. The previous FY 2013/14 was marked with low absorption of development funds, the current FY 2014/15 has shown improved performance on implementation of development projects in comparison to the first quarter of the previous financial year but still there is room for improvement.

5.1 Key Challenges and Recommendations

This section outlines the key issues and challenges identified in the process of monitoring the budget execution and provides recommendations on how the challenges should be addressed. Some of the challenges/issues that affected budget implementation during the period under review were:

i. Expenditure exceeding funds issued

Some Ministries spent more than the amount issued to a particular vote, for example, the development vote of Ministry Culture, Youth, Sports and Social Services utilized 4.93 million even though they had not requisitioned for development funds during the period under review.

Ministries should submit their exchequer requisitions as per their needs to the exchequer committee for deliberations and approval. Furthermore, County Treasury should strengthen the financial controls in management of public funds since it is part of their responsibility as stipulated in section 104 of the PFM Act, 2012.

ii. Low absorption of development resources

Even though there was an increase in development activities during the period under review as compared to the same period in the previous financial year, the development expenditure of Kshs.170.93 million was below the amount projected (Kshs.1.93 billion) to be employed during the same period as per the annual cash-flow statement 2014/15.

The County Government should establish the reasons slowing down the absorption level of development projects and work towards reducing such holdups.

iii. Underperformance of local revenue collections

Local revenue implementation performance stood at 11.1 per cent of the annual local revenue target. The actual amount received (Kshs.72.11 million) lagged behind the amount projected (Kshs.146.37 million) during the same period as per the annual cash-flow statement 2014/15.

The revenue department should establish the reasons encumbering achievement of the projected revenue targets and the revenue improvement strategies that were raised in the County Fiscal Strategic Paper should be timely implemented. In addition, the County Executive and County Assembly should work towards legislation and implementation of finance bill 2014 and revenue administration bill.

iv. Inadequate Budget Monitoring, Evaluation and Reporting Framework

During the period under review there was poor reporting on the status of on-going projects. This is an indicator of a weak monitoring and evaluation (M&E) framework to enable effective monitoring and evaluation of projects. Section 104 of the PFM Act, 2012, requires the County Treasury to monitor, evaluate and oversee the management of public finances and economic affairs of the County Government.

A monitoring framework ensures all on-going and new projects are monitored effectively to ensure they are implemented as per the budget and timeframe. The County Treasury should strengthen its M&E framework to ensure effective implementation of development projects.

5.2 Conclusion

The quarter was characterized by low absorption of funds. Also, the County Government did not report any expenditure during the month of July, 2014. There is need for improvement of closure of a financial year procedures and the commencement of a new financial year procedures so as to curb delays of exchequer requisitions by the County Treasury at the start of a financial year. As the financial year progresses, there is need to also focus on institutional capacity and systems at the County so as to improve budget implementation to the level that is consistent with desired outputs and goals. In addition, the Office of the Controller of Budget urges the Kitui County Government to dig deeper on factors leading to low absorption of development funds and come up with workable resolutions.

The off-target performance of locally generated revenue in comparison to the annual cash-flow statement is a matter of concern that requires immediate intervention to ensure that this does not adversely affect budget implementation. The County Treasury should review performance of local revenue collection and take corrective action to ensure that there will be no budgetary gap by end of the financial year.

The Office recommends that the County should consolidate and build on the gains made in FY 2013/14. The County should enhance staff capacity, consistently use IFMIS and G-Pay, strengthen internal financial controls, institute internal audit arrangements, and enhance efforts in budget execution. As the financial year progresses, the County should put more focus on development expenditure to enhance service delivery to the citizenry.