1. Background

Counties are automating their revenue management processes to generate adequate revenues that can sustain their administrative and development obligations to the Citizens which currently cannot be met by the fiscal transfers from National Government.

The Local Authorities Integrated Financial Operations Management System (LAIFOMS) is a customized system that integrates financial and operational activities that was developed for the defunct local authorities before 2013. It consists of ten interlinked modules in three major components namely Budget and Financial Management, Expenditure and Revenue Component.

LAIFOMS was deployed in town councils and municipality offices. Several Counties such as Nairobi, Machakos, Kajiado and Nyeri are using the Local Authorities Integrated Financial Operations Management System (LAIFOMS) for revenue collection. Due to its deployment in various offices and inability to support modern technologies such as electronic payments, Counties are experiencing challenges in reconciliations between revenue collected and revenue banked in the County Revenue Fund.

As part of the initiatives of undertaking Public Financial Management reforms, The National Treasury in rolled out the Integrated Financial Management Information System (IFMIS) for use by the National and County Governments. IFMIS enhances efficiency in planning, budgeting, procurement, expenditure management and reporting processes. However, IFMIS does not have a Revenue Management module that can be used by County Governments.

This has necessitated Counties to acquire Revenue Management Systems to meet the gap that exists in LAIFOMS and IFMIS.

Some of the benefits of automating own source revenues are;

- The ability to provide the public with convenient and secure online transactions through a portal for different services offered and promote self compliance on tax payment.
- Revenue forecasting based on historical data as well as current transactions.
- Improved revenue enforcement procedures through real time verification of revenue transactions in analytic reports and dashboards.
- Visual view of properties, billboards and other revenue streams in real time through Geographic Information Systems.
- Enhanced transparency and integrity of the revenue collection process.
2. Gaps and Challenges

Guidelines for acquisition of Revenue Management Systems developed by the National Treasury and Commission on Revenue allocation (2014) summarize the revenue collection processes from the Public Financial Management Act (2012) as shown in Figure 1.

Thirty Four (34) Counties have acquired revenue management systems from various vendors. However, 97% of these Counties have only been able to utilize the Revenue Collection module and not other processes as depicted in Figure 1. Kiambu County acquired a front end system for revenue collection (Zizi revenue collection) and a backend system (CountyPro) with accounting, analysis and reporting modules. Kajiado County are running Zizi System and LAIFOMS which are both revenue collection systems that do not have accounting and reporting functions.
The challenges that these piece-meal automation of revenue management by counties portend are further elaborated below.

i. Multiple Revenue Systems

With LAIFOMS and other Revenue Collection Systems running in parallel, there are challenges of inconsistencies across the systems. This results to inaccurate reports due to manual entry by staff during reconciliation. Staff also lack knowledge of both systems.

Nairobi County utilizes E-Jiji Pay for revenue collection through various electronic payment platforms and LAIFOMS to generate bill numbers for structured revenue streams. A qualified report was issued by the Auditor General for the year ended 30 June 2016 for variance between LAIFOMS Reports and Financial Statements for a cumulative amount of Kshs. 907,339 at Veterinary and Fisheries departments.

E-Jiji pay and LAIFOMS are not integrated and do not function all processes of revenue management as recommended by guidelines developed by National Treasury and Commission on Revenue Allocation.

ii. Loss of Control

Majority of the Counties that have automated do not own the system. These agreements between the Counties and Vendors are signed up with an assumption that the status quo of an operational system will be maintained infinitely.

In the event of disputes between the Contractor and County that leads to termination of contracts, there is a risk of losing data.
iii. Technical Capacity

Counties lack the technical capacity to develop the terms of reference and manage complex projects such as Revenue Management Systems. The National Government which has vast experience has not offered sufficient technical assistance to County Governments.

As such, suppliers of revenue systems market to the county executive in the absence of competent ICT leadership. The suppliers indicate that they have a solution that adheres to all guidelines issued by the National Treasury and Commission on Revenue Allocation. There is a risk of vendors compromising the tendering process and altering the actual requirements of the Counties when there is lack of competent technical staff at the county level.

iv. Costs

There are no recommended guidelines by Public Procurement Regulatory Authority (PPRA) of the estimated costs of Revenue Management Systems posing a challenge on budgeting. This has led to vendors having an open field by inflating the acquisition costs of systems.

Maintenance costs of the systems vary across the Counties. There is a challenge in computing the actual return on investment and break even period.

The cumulative costs of acquisition and maintenance of Revenue Management Systems by all 47 Counties by different vendors are not sustainable.

v. Project Management

Counties fail to adhere to industry best practices on project management of Information Systems. There is lack of user involvement during the development of the terms of reference for the solution to be provided, inadequate estimation of the scope of work on time and costs and lack of project plans.

Counties do not setup a project governance team during a project to supervise from the steering committee level to project managers. This activity is usually assumed that it is the responsibility of the Revenue Systems Contractor which is a risk to the County.

vi. Department Structures

Most Counties place ICT directorate in ministries that do not cut across the entire County. This leads to lack of representation and inclusion by ICT during the process of automating revenue management. The staff may also be unskilled to support the solution provided due to lack of exposure.

In other instances, there are inter departmental wrangles on ownership of the system due to placement of revenue staff in different ministries. This also leads to lack of enforcement or full utilization of the features offered by the revenue management system.

<table>
<thead>
<tr>
<th>County</th>
<th>Ministry Placement of ICT</th>
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<tbody>
<tr>
<td>Nyeri</td>
<td>Education, Science and Technology</td>
</tr>
<tr>
<td>Machakos</td>
<td>Public Service, Labour, ICT &amp; Cooperative Development</td>
</tr>
<tr>
<td>Laikipia</td>
<td>Education, ICT &amp; Social Development</td>
</tr>
<tr>
<td>Nairobi</td>
<td>ICT &amp; E-Government</td>
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</tbody>
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Table 1: Counties placement of ICT Section

From table 1, Counties are at risk of not prioritizing ICT functions and budgets for automation of county own source revenue systems. Nairobi is one of the few Counties with a fully-fledged ICT Ministry.
vii. Legal

Section 109 (2) of the PFM Act states that “The County Treasury for each county government shall ensure that all money raised or received by or on behalf of the county government is paid into the County Revenue Fund”. This poses a challenge to the convenient electronic payment modes of mobile money and credit cards introduced by Revenue Management Systems. On the other hand, the electronic payment providers deduct their charges in advance which is illegal.

The procurement period as stipulated in section 80(6) of the Procurement Act states that evaluation has to be concluded within 30 days. This period is inadequate for procurement of revenue management systems. The evaluation process of bidders entails demonstration and proof of concepts of the proposed solutions which 30 days may not be sufficient.

Cloud computing technology has proved to be reliable and cost effective in hosting enterprise systems globally. Laws governing hosting government data in the public cloud or other jurisdictions outside the Country are not in place hence the reluctance of Counties to adopt this innovation.

Many Counties have not come up with Revenue administrative laws and this poses a challenge on how to implement Revenue Systems.

viii. Change Management

There is anxiety from County Employees who were used to manual processes of the risk of losing their jobs due to introduction of systems which leads to resistance of using the systems and in turn revert to manual processes. There is also limited training of the revenue management system offered to staff leading to resistance.

ix. Political

Reports from the Office of the Controller of Budget show that there was growth in revenue collection from Financial Years 2013/2014 to 2015/2016. This trend is common in Counties that have automated revenue collection such as Kiambu, Nairobi, Mombasa and Nakuru.

However, all the aforementioned Counties have reported low performance in Revenues for financial year 2016/2017. This is largely attributed to political interference. In some Counties, political leaders interfere with the implementation of automated revenue collection systems by inciting the public against the systems in favor of other projects which will give them political mileage against their opponents during the political year.

x. Infrastructure

Some areas in Counties are still having challenges with network infrastructure and power availability rendering the revenue management system availed unusable. There are areas in Counties where the mobile network infrastructure signal is weak resulting to inability of monitoring revenue collection through automation in such areas.

Connectivity to electricity has also posed challenges on the revenue collection as devices that require to be recharged regularly for receipting are rendered unusable once their charge is drained. Revenue collection officers fully switch to manual processes that may not be properly accounted.

Most Counties do not have reliable Server infrastructure with redundant electricity and cooling to host acquired revenue management systems. This forces Counties to host their systems with vendors that cannot fully guarantee integrity of the applications.
3. Recommendations

i. Policies

Section 12(1)(e) of the PFM Act defines the role of the National Treasury as “shall design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the Constitution”. The National Treasury has only issued guidelines on procurement of Revenue Collection Systems which have not been fully adhered to by the County Governments.

The National Treasury should prescribe a centralized system with standardized features that can be used across all Counties with the ability to customize at County Levels. This will minimize the cost of administration, licensing and political interference. To enhance transparency of the process, a consultative group and implementation committee that has representation of the County Governments should be formed.

The Public Procurement Regulatory Authority (PPRA) should review its regulations to extend the evaluation duration of specialized applications such as enterprise information systems which require a longer duration for due diligence prior to awarding the most competitive and qualified bidder.

The PFM regulations should be revised to include procedures on how to validly handle electronic payment service charges that are incurred prior to depositing revenue collections into the revenue fund.

The Ministry of ICT should develop a policy for management of Enterprise ICT projects and provide such services to Counties and other Government agencies.

The National Government should facilitate county governments on network and power infrastructure. Adequate funding for ICT awareness training and ICT systems should be provided.

ii. Legislative

An Act of Parliament should be enacted on ownership of Financial Management Systems and other Information Systems operated by Government. A framework should be developed by the Ministry of ICT guiding MDA’s and County Governments on Cloud Computing and leasing of enterprise application services which protect interests of the Republic.

County Governments should pass revenue administrative laws to ensure revenue management systems are well utilized.

iii. Governance

There is need for strengthening the Governance Framework in County Governments to fully realize benefits of automation of County Own Source Revenue. This can be done through;

- Establishment of a Revenue Steering Committee that comprises of all Chief Officers and County Executive Committee (CEC) Members. The Committee should oversee all revenue automation functions at the County. Through regular meetings, duplications of financial management systems and associated projects can be identified and action taken.

- Positioning of ICT Departments as an independent directorate or within the core ministries in the County that serve other departments with senior representation.

- Recruitment of competent ICT professionals.
4. Conclusion

Automation of County Own Source Revenue is a process that needs to be monitored and adjusted continuously to meet the current needs and eliminate loopholes that lead to revenue leakages. Ownership of Revenue Management Systems should be clearly defined and tested that they belong to County Governments. It is imperative that Legal Department should be involved at all stages from Procurement, Contracting and Project Management.

Systems are only as reliable and efficient as the Users who operate on them. The benefits are fully realized once all key stakeholders are identified, trained and involved to accept automation as an enabler for effective Revenue Management.
The Peer to Peer Learning Initiative by Centre for Economic Governance and supported by the Effective Institutions Platform. The project was implemented in collaboration with the Ministry of Devolution and Planning, State Department of Devolution.