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Pending Bills Settlement Framework: Verification, Eligibility, Phased Payment and Waiver of Interest for County Pending Bills

Why existing directives have not cleared county pending bills, and a single procedure that all 47 counties can apply, open for comment by government, oversight bodies and contractors

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Ksh 172 billion	Ksh 84 billion	3 years
County pending bills (trade payables) reported at 30 June 2026	Older than three years, of Ksh 156.84 billion reported at 31 March 2026	Proposed clearance period for verified eligible bills, in four phases

1. Why a framework, and why now

Counties reported Ksh 172 billion in pending bills (trade payables) at 30 June 2026[1]. Of the Ksh 156.84 billion reported at 31 March 2026, about Ksh 84 billion was more than three years old[2]. Both figures are from the Controller of Budget (CoB). The 2026 Budget Policy Statement (BPS) recorded a stakeholder request for exactly what is missing: a national framework for verification, time-bound clearance plans and enforcement[3]. The Treasury's reply pointed to accrual accounting and existing directives. Those are reporting measures, not a settlement mechanism.

The current approach has three gaps:

- **No closure on old bills.** The Auditor-General's special audit at 30 June 2020 found Ksh 48.13 billion eligible and Ksh 108.05 billion unsupported. The 2024 BPS reported that Ksh 106.2 billion of the ineligible bills was still neither verified nor rejected[4].
- **Figures that do not reconcile.** The CoB reports that county pending bills differ from the trade payables in county financial statements[5]. County pension arrears were reported at Ksh 90.3 billion by the Retirement Benefits Authority, against Ksh 40.5 billion by the Council of Governors[6].
- **Rules without consequences.** "First charge" directives, payment plans and oldest-first payment are already policy. Counties are still accumulating new bills.

The legal basis already exists. Under Section 94(1)(a) of the PFM Act, failure to pay when due may signal a serious breach. Article 225 of the Constitution and Section 96 of the PFM Act allow transfers to be stopped[7]. Section 140 of the Public Procurement and Asset Disposal Act (PPADA) requires interest on overdue amounts unless the contract says otherwise[8]. What is missing is a single procedure that applies these provisions the same way in all 47 counties.

2. Verification

Every claim goes through one independent verification process before it enters a payment schedule.

1. **Universe of claims.** Each county publishes on its website a single register of claims, using the IBEC-approved template. The register gives the claimant, contract reference, LPO/LSO, invoice date, amount and age band. Claims not lodged within a fixed window of 90 days go to a late-claims track and lose their place in the payment order.
2. **Independent panel.** A county verification panel chaired by an officer from outside the county finance function does the verification. The Office of the Auditor-General (OAG) samples its work, and IGRTC provides technical backstopping. Officers who approved the original commitment do not sit on the panel.
3. **Documentary test.** A claim is supported only by a contract or LPO/LSO, evidence of delivery or works (an inspection and acceptance certificate or engineer's certificate), an invoice, and a budget line in the year the commitment was made.
4. **Physical and value test.** Works above a set value undergo a site inspection. Prices are compared with the market rates prevailing at the time.
5. **Reconciliation.** The verified total is reconciled with IFMIS, the CoB returns and the audited financial statements. Any difference is explained in writing before the register is closed.
6. **Outcome notice.** Each claimant receives a written outcome (verified, partly verified or rejected) with reasons, and has 30 days to seek review before an appeals panel.

3. Eligibility

A claim is eligible only if it passes all four tests: **lawful procurement** under the PPADA, **budget cover** in the year the commitment was made, **accepted delivery**, and **a correct price**, with variations inside the PPADA s.139 limits[8]. Being verified is not enough; the commitment must also have been lawful.

Category	Treatment
Eligible: all four tests met	Enters the payment schedule in its age band
Partly eligible: delivery proven but a procedural lapse (e.g. late LPO)	Paid at verified value. The lapse is referred to the accounting officer for surcharge and disciplinary review; the supplier is not penalised
Ineligible: no evidence of delivery, no contract, or a price above market	Rejected. Referred to the OAG and EACC; not paid
Disputed or in court	Held at verified value pending a ruling or mediated settlement; not counted as eligible stock
Statutory deductions (pensions, PAYE, NHIF/SHA, SACCOs)	A separate priority track. They are staff money held in trust and are not supplier debt

Table 1. How verified claims are classified.

Bills inherited from the defunct local authorities and the transition period receive a one-time classification, so that they do not remain in the ineligible pool indefinitely.

4. Phased payment

Verified eligible stock is cleared over three financial years under a published schedule that the county assembly approves. It is a first charge on the County Revenue Fund before any new development commitment. The CoB approves withdrawals only against the schedule. Payments go directly to verified

suppliers, in line with the direct-payment arrangement the CoB is developing with the Central Bank of Kenya and the National Treasury[9].

Phase	Window	Who is paid	Rule
0	First 90 days	Statutory deductions; claims up to a small-value threshold (e.g. Ksh 1 million); AGPO firms (women, youth and persons with disabilities)	Clears many small claimants quickly at low cost
1	Year 1	Eligible bills older than three years	Oldest first (FIFO) within each age band
2	Year 2	Eligible bills one to three years old	FIFO; partly eligible claims once the surcharge review is complete
3	Year 3	Remaining eligible stock and resolved disputes	Register closed; any balance reported to the Senate

Table 2. Proposed payment phases.

Funding lines, in order: a ring-fenced share of each year's equitable share and own-source revenue, then savings from cancelled stalled projects. Securitisation or bond issuance (as used for national roads bills[3]) comes last, only with National Treasury approval under PFM Act borrowing rules. No new pending bill may be created while a county is in the schedule. Missing a phase triggers the Section 96 process.

5. Waiver of interest

Any waiver must be voluntary and given in exchange for a benefit to the supplier. Under PPADA s.140, a procuring entity owes interest on overdue amounts at the CBK mean commercial lending rate unless the contract says otherwise[8]. A county cannot cancel that right on its own, and attempting to do so would invite litigation costing more than the interest itself.

The offer to suppliers:

- **Option A: Waive and get certainty.** The supplier waives accrued interest and penalties in writing. In return the principal is paid on a fixed date in the published schedule, the supplier moves up within its age band, and the payment goes directly to its account.
- **Option B: Keep the claim.** The supplier keeps its statutory interest claim. The principal is paid in normal FIFO order. Interest is verified separately and paid after Phase 3.

The same exchange applies to penalties on statutory deductions. Retirement Benefits Authority data in the 2025 BPS shows that Ksh 75.0 billion of the Ksh 91.2 billion counties owed the three pension schemes at 31 October 2024 was accrued interest[10]. Counties remit principal in full on a fixed timetable, and in return the schemes and the Retirement Benefits Authority agree to a negotiated reduction of interest.

Safeguards:

- Each waiver is a signed deed, recorded in the register and disclosed in the financial statements.
- No officer may make payment conditional on a waiver outside this scheme.
- Court awards and arbitral awards are excluded unless the parties agree a settlement through mediation.

6. Governance and the ask

This works only if one institution owns the process and every county reports in the same format. The proposed roles:

Actor	Role
IGRTC	Convenes the framework under the Intergovernmental Relations Act, issues standard procedures, and runs the appeals panel
Council of Governors (Finance Committee)	Secures adoption by all 47 counties and agrees phase targets with each Governor
Controller of Budget	Links withdrawal approvals to schedule compliance and publishes a quarterly ageing report for each county
Office of the Auditor-General	Samples panel work and audits closure of the register
National Treasury / IBEC	Issues the template and decides any securitisation window
Contractor associations	Mobilise members to lodge claims, choose Option A or B, and report officers who demand facilitation

Table 3. Proposed roles.

Three questions for comment:

1. Should the waiver incentive be an earlier payment date, or a guaranteed date with direct payment?
2. Is three years realistic for Nairobi, which holds the largest share of county pending bills (Ksh 81.79 billion, per CoB records)[11]?
3. Should compliance with the schedule be a condition in the Division of Revenue and County Allocation of Revenue Acts?

About the author

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Comments are welcome at www.karagamconsultinglimited.com/contact/. This consultation draft is general information on a matter of public interest, not professional advice for any particular organisation.

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[8] Public Procurement and Asset Disposal Act, 2015, sections 139 and 140.

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