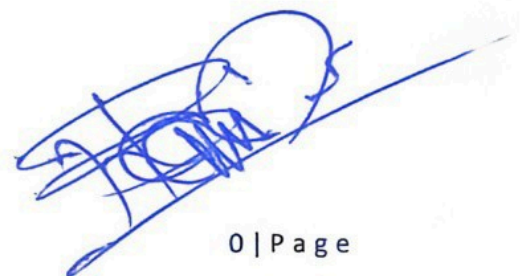




COUNTY GOVERNMENT OF NYANDARUA

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INTERNAL AUDIT REPORT ON OWN SOURCE REVENUE (OSR) FOR THE FINANCIAL YEAR 2024/2025



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*INTERNAL AUDIT REPORT ON OWN SOURCE REVENUE (OSR)
FOR THE FINANCIAL YEAR 2024/2025*

1.0 Introduction

The Department of Internal Audit conducted an audit of Own Source Revenue (OSR) for the Financial Year 2024/2025 in line with its mandate to provide independent assurance on revenue management, internal controls, and compliance with applicable laws and regulations.

The audit focused on key revenue streams which form a significant portion of the County's internally generated revenue.

2.0 Objective of the Audit

The objective of the audit was to:

- Evaluate the adequacy and effectiveness of internal controls in revenue collection
- Assess compliance with the Public Finance Management Act, County Finance Act, and other relevant laws
- Identify revenue leakages and operational inefficiencies
- Provide recommendations to enhance revenue performance and accountability

3.0 Scope of the Audit

The audit covered the following revenue streams:

- Single Business Permits (SBP)
- Cess Collection
- Parking Fees
- Land Rates
- Market Stall Rent

The review examined processes relating to assessment, billing, collection, recording, reconciliation, and reporting of revenue.

4.0 Methodology

The audit was conducted through:

- Review of revenue records, system reports, and registers
- Analysis of collection trends and reconciliations
- Physical verification and spot checks at revenue collection points
- Interviews with revenue officers and relevant departmental staff

5.0 Summary of Key Findings

The audit identified several control weaknesses cutting across revenue streams as outlined below:

5.1 Incomplete Revenue Databases

The audit established that the County Government did not have comprehensive, accurate, and up-to-date databases for key Own Source Revenue streams, particularly in relation to:

- Registered businesses under Single Business Permits (SBP)
- Market stalls and traders operating within County markets
- Rateable properties under land rates

It was noted that existing records were fragmented, partially manual, and in some cases not aligned with the County Revenue Management System. In addition, there was lack of periodic validation and updating of records, resulting in outdated or missing data.

Further, the audit observed that:

- Some businesses were operating without being captured in the County database
- Certain market stalls were occupied without formal registration or allocation records
- A number of developed properties had not been incorporated into the valuation roll and billing system
- There was weak coordination between departments (Revenue, Trade, Lands) in maintaining synchronized datasets

This situation was largely attributed to:

- Absence of a comprehensive enumeration exercise across revenue streams
- Limited integration between revenue systems and other County data sources
- Inadequate data management controls and ownership across departments

Implication:

The absence of a reliable and complete revenue database exposed the County to significant risks, including:

- Revenue leakages, as unregistered businesses, stalls, and properties were not billed or subjected to revenue collection
- Under-assessment of revenue potential, leading to suboptimal Own Source Revenue performance
- Inequitable revenue administration, where compliant taxpayers bear a disproportionate burden compared to non-compliant operators

- Weak planning and forecasting, due to lack of accurate data to inform revenue projections
- Increased risk of fraud and manipulation of records, particularly in manual or loosely controlled environments

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Recommendation:

Management should:

- Undertake a comprehensive countywide enumeration and registration exercise covering all revenue streams
- Develop and maintain a centralized and integrated revenue database within the County Revenue Management System
- Establish mechanisms for continuous data update and validation, including periodic audits of the database
- Enhance inter-departmental coordination (Revenue, Lands, Trade, ICT) to ensure data consistency and integrity
- Leverage technology such as GIS mapping and system integration to improve identification and tracking of revenue sources

5.2 Weak Enforcement and Compliance Mechanisms

The audit established that enforcement of revenue compliance across key Own Source Revenue streams—particularly Single Business Permits (SBP), parking fees, cess, and market stall rent—was inadequate and not sufficiently structured to ensure optimal revenue collection.

It was observed that the enforcement function was constrained by:

- Inadequate staffing levels within the enforcement unit, resulting in limited coverage across trading centres, markets, and revenue collection points
- Over-reliance on a few enforcement officers, leading to inefficiencies and inability to sustain continuous enforcement operations
- A disconnect between enforcement officers and revenue officers, where:
 - Enforcement actions were at times undertaken without proper coordination with the Revenue Department
 - Revenue officers lacked real-time support from enforcement teams during compliance operations
 - There was no clear reporting and command structure aligning enforcement activities with revenue objectives

Further, the audit noted that:

- Enforcement operations were largely reactive rather than planned, with limited use of compliance data to guide targeting of defaulters
- There was absence of joint operations and structured deployment schedules between enforcement and revenue teams
- Some enforcement actions were undertaken without adequate reference to revenue system records, resulting in inconsistencies
- In certain instances, enforcement officers issued directives independently, leading to duplication of roles and operational conflict

The above weaknesses were attributed to:

- Lack of a clear enforcement framework and standard operating procedures (SOPs)
- Absence of integrated coordination mechanisms between Revenue and Enforcement departments
- Inadequate resource allocation to support enforcement activities

Implication:

The weaknesses in enforcement resulted in:

- Low compliance levels among traders and revenue payers
- Accumulation of arrears, particularly in stall rent and business permits
- Revenue leakages, as some defaulters continued operations without enforcement action
- Operational inefficiencies and conflicts between departments, weakening overall revenue administration
- Reduced deterrence effect, encouraging non-compliance among revenue payers

Recommendation:

Management should:

- Strengthen enforcement capacity by deploying adequate enforcement personnel aligned to revenue zones and streams
- Establish a clear coordination framework between the Revenue Department and Enforcement Unit, including defined roles, reporting lines, and joint operations
- Develop and implement Standard Operating Procedures (SOPs) for enforcement activities
- Institutionalize joint enforcement operations between revenue and enforcement officers to ensure alignment and efficiency
- Utilize revenue system data to guide targeted enforcement on defaulters and high-risk areas
- Enhance supervision and accountability of enforcement officers through structured reporting mechanisms

5.3 Manual Revenue Collection Processes

Some revenue streams, especially cess and parking, relied partly on manual collection methods.

Implication:

Manual processes exposed revenue to pilferage, underreporting, and lack of accountability.

5.4 Weak Reconciliation Controls

The audit established that there were significant weaknesses in reconciliation processes across multiple Own Source Revenue streams, particularly in relation to cess collection, parking fees, Single Business Permits (SBP), and market stall rent.

It was observed that there were inconsistencies between:

- Revenue collected as per field collection records and receipts issued
- Amounts recorded in the County Revenue Management System
- Actual amounts banked and reflected in bank statements
- Revenue figures reported in IFMIS and County financial reports

Further review revealed that:

- Reconciliations were not conducted on a regular or timely basis, with some revenue streams lacking daily or weekly reconciliation practices
- Where reconciliations were performed, they were often manual, delayed, and not independently reviewed
- There was lack of standardized reconciliation procedures, resulting in inconsistencies across departments and revenue streams
- Variances identified during reconciliation were not promptly investigated or resolved, leading to accumulation of unexplained differences
- Supporting documentation such as bank deposit slips, system reports, and receipt registers were not consistently matched and verified
- There was limited segregation of duties, with some officers involved in collection, recording, and reconciliation processes

The audit further noted that:

- Some revenue collected through manual or semi-automated processes was not promptly captured in the system, creating discrepancies
- There was weak linkage between the revenue system and IFMIS, affecting the accuracy of reported figures
- Supervisory review of reconciliation reports was inadequate or undocumented

These weaknesses were largely attributed to:

- Absence of a formalized reconciliation framework and timelines
- Inadequate capacity and training of staff handling reconciliation processes
- Limited automation and integration between revenue collection systems and financial reporting systems

Implication:

The weak reconciliation controls exposed the County to several risks, including:

- Financial misstatements, arising from inaccurate or incomplete revenue reporting
- Increased risk of fraud, pilferage, and revenue diversion, particularly where discrepancies are not detected timely
- Loss of revenue, where unaccounted collections are not identified and recovered
- Weak audit trail, making it difficult to verify completeness and accuracy of revenue
- Reduced management oversight and decision-making effectiveness, due to unreliable financial data
- Potential non-compliance with the Public Finance Management Act, 2012, which requires proper accounting and reporting of public funds

Recommendation:

Management should:

- Establish and enforce a formal reconciliation framework, requiring daily, weekly, and monthly reconciliations for all revenue streams
- Ensure reconciliation is conducted between:
 - Revenue system reports
 - Bank statements
 - IFMIS records
- Automate reconciliation processes where possible to minimize manual intervention and errors
- Enforce proper segregation of duties, ensuring that collection, recording, and reconciliation functions are handled by different officers
- Require timely investigation and resolution of variances, with documented explanations and approvals
- Strengthen supervisory review by requiring sign-off on reconciliation reports by responsible officers
- Enhance integration between revenue systems and IFMIS to improve accuracy and real-time reporting
- Build staff capacity through training on reconciliation procedures and financial controls

5.5 Inadequate System Integration

The audit established that key County systems, particularly the land records system and the revenue management system, were not fully integrated. As a result, data relating to properties, ownership, and billing was not seamlessly shared across systems.

It was observed that updates in land records, such as new developments, ownership changes, and property subdivisions, were not consistently reflected in the revenue system in a timely manner. This created gaps between actual rateable properties on the ground and those captured for billing purposes.

Further, the lack of integration limited the ability of the County to automatically generate accurate demand notices and maintain a reliable revenue database, requiring manual interventions which are prone to errors.

Implication:

This resulted in:

- Inaccurate and incomplete billing of land rates
- Revenue leakages due to unbilled or under-billed properties
- Inefficiencies in revenue tracking and reporting
- Increased reliance on manual processes, exposing the system to errors and inconsistencies

Recommendation:

Management should prioritize the integration of land records with the revenue management system to ensure real-time data sharing, accurate billing, and improved tracking of land-based revenues.

5.6 Low Public Awareness and Compliance

The audit noted that there was limited and inconsistent public sensitization on County revenue obligations across key revenue streams, including Single Business Permits, land rates, parking fees, cess, and market stall rent.

It was observed that many revenue payers lacked adequate information on:

- Applicable fees and charges as per the County Finance Act
- Payment procedures and available payment channels
- Compliance requirements and associated penalties for non-payment

Additionally, public engagement initiatives such as stakeholder forums, public participation, and awareness campaigns were not conducted regularly or were not sufficiently targeted to reach all categories of revenue payers.

Implication:

This resulted in:

- Low compliance levels among traders and residents
- Resistance to payment, often due to lack of clarity rather than unwillingness
- Increased enforcement burden on the County
- Potential disputes and negative perception of County revenue measures

Recommendation:

Management should enhance structured and continuous public sensitization programs, including stakeholder engagement forums, use of digital platforms, and dissemination of clear information on revenue obligations to improve compliance levels.

6.0 Recommendations

The audit recommended the following measures to address the identified weaknesses:

- Conduct comprehensive enumeration and registration of all revenue sources
- Strengthen enforcement and compliance mechanisms
- Fully automate revenue collection processes
- Implement regular reconciliation controls between collections and bank deposits
- Integrate revenue systems with other County systems such as land records
- Enhance public awareness and stakeholder engagement

7.0 Management Response

Management acknowledged the audit findings and committed to implementing the recommendations within the Financial Year 2024/2025.

A detailed action plan was developed outlining:

- Specific actions to be undertaken
- Responsible departments
- Implementation timelines

8.0 Conclusion

The audit concluded that while the County Government of Nyandarua has established functional structures and systems for Own Source Revenue collection, there exist notable control weaknesses that expose revenue streams to leakages, inefficiencies, and operational gaps.

However, the audit also recognizes the significant efforts and commitment demonstrated by the Department of Revenue and other supporting units in enhancing revenue performance during the Financial Year 2024/2025. These efforts include:

- Adoption of digital revenue collection systems and payment platforms
- Strengthening of enforcement and compliance mechanisms
- Initiatives towards data improvement and registration of revenue sources
- Continuous engagement with the public through sensitization and stakeholder forums

These measures have contributed to improved revenue administration and increased accountability, forming a strong foundation for further enhancement of Own Source Revenue.

Notwithstanding the progress made, there remains a need to strengthen internal controls, enhance system integration, and institutionalize key processes such as reconciliation, enforcement coordination, and data management to fully optimize revenue collection.

Implementation of the recommendations outlined in this report is expected to significantly improve:

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Notwithstanding the progress made, there remains a need to strengthen internal controls, enhance system integration, and institutionalize key processes such as reconciliation, enforcement coordination, and data management to fully optimize revenue collection.

Implementation of the recommendations outlined in this report is expected to significantly improve:

- Revenue collection efficiency and coverage
- Integrity and reliability of internal control systems
- Compliance with the Public Finance Management Act and County Finance Act

The County is therefore well positioned to achieve sustainable growth in Own Source Revenue through continued commitment to strengthening systems, processes, and accountability frameworks.

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9.0 Reference to Implementation

The agreed actions and timelines arising from this audit are detailed in the:

Internal Audit Implementation Matrix on Own Source Revenue (FY 2024/2025)

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10.0 Appreciation

The Internal Audit Department appreciates the cooperation, support, and timely facilitation extended by the CECM for Finance, Chief Officer responsible for Revenue, the ICT Directorate, and the Revenue Staff during the audit process. Their collaboration, availability of information, and commitment to strengthening revenue management greatly contributed to the successful completion of the audit.



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Director Internal Audit, Compliance and Risk Assurance

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