



Ref: MCG/REV/IA/VOL1/03

Date: 24th July, 2024

County Chief Officer, Revenue Service.

RE: INTERNAL AUDIT REPORT ON REVENUE MANAGEMENT FOR YR 2023/24.

1.0 Introduction

We have carried out an audit of revenue performance on efficiency of revenue collections, the audit was designed and planned to test if the financial and other records maintained conform to the PFM Act and other existing financial regulation and the effectiveness of controls in the management of the own source Revenue.

The internal audit assessed collections and management of revenue in various sections within the county and controls in place in revenue management.

2.0 Objectives of the Audit

The objectives of the audit were to;

- 1) To examine whether the County residents have realized value for money in relation to revenue they pay.
- 2) To assess the adequacy of measures put in place by the management to effectively and efficiently collect revenue including level of automation.
- 3) To establish whether policy and framework are adhered to in management of Revenue.
- 4) To examine the level of control of the revenue collected at every stream.

3.0 Scope and Methodology of the Audit

The audit focused on revenue collection within the county for the financial year 2023/24. The audit exercise took place between 15th to 22nd July 2024.

The audit tools and techniques used to gather information included physical verification, examination of collection control sheet, Mpesa paybill statement, cash book, bank statement and reconciliation.

4.0 Internal Audit Findings

4.1 Cash and Bank

A review of effectiveness of internal control of cash revealed that

- 1) The recording of the cash book was balanced, signed but was not countersigned by a senior officer for accuracy contrary to PFM (county government) Regulation, section 90(4).
- 2) The cash book balance was reconciled with the bank statement at the end of each month and reviewed for accuracy and completeness as appropriate, in accordance with PFM Act, 2012.
- 3) Receiver of revenue had maintained cash book and bank reconciliation as stated out in the government financial procedures.

Risk: Due to failure of senior officer's supervision, errors and misstatement may occur affecting cash book balance and consequently resulting in unreconciled figures between the cash book and bank statement.

Recommendation: Enhance the enforcement of internal controls by ensuring that senior responsible officer different from the officer who prepared the cash book to counter sign it for accuracy.

4.2 Revenue Performance shortfall.

The county collected total amount of ksh 168,750,741 for the financial year under review against the target amount of ksh 330,533,846 (as per table I) which is 51% of the projected amount. resulting to revenue shortfall of Kshs. 161,461,287.

The under-collection affected implementation of planned activities and programs and may have impacted negatively on service delivery to the county resident.

Table I: Revenue performance analysis by streams

S/no.	Streams	Target	Collection	Performance (%)
1.	Land rates	71,055,477	42,531,111	60%
2.	Health services	51,785,008	26,252,135	51%
3.	Plots Transfer fee	52,590,771	16,401,101	31%
4.	Single Business Permit	35,232,729	15,716,074	45%
5.	Barriers	10,601,096	13,809,823	130%
6.	Other sources	109,268,765	54,040,497	50%
		330,533,846	168,750,741	

In the circumstances, the residents of the County did not receive services equivalent to the revenue shortfall of Kshs 161,461,287 as at 30th June 2024.

Internal audit review of records noted that there was a commendable improvement in collection of 37% compared to Kshs.122.53 million realized in the last Financial Year 2022/23.

The increase in revenue collection attributed to improved collection due to enforcement, and automation system.

However, review of performance for the past three (3) years indicated a declining trend in actual own source revenue. Collections for the financial years 2020/21, 2021/22 and 2022/23 were kshs 143.31 Million, 132.9 Million and 122.53 Million respectively.

In addition, the County's OSR contributes less than Three (3%) of total County revenue, making it to heavily rely on transfers from the national government exchequer releases.

Further, The County does not have governing legislation on the operation of Appropriation in Aid (A-I-A) and facility improvement fund (FIF).

Risk:

- 1) The shortfall in revenue may indicate Poor revenue forecasting leading to unrealistic targets, thus underfunding of planned programs and service delivery.
- 2) Might leads to Increased dependency on external funding, thus weak fiscal sustainability

Recommendation: Management should:

- 1) Strengthen revenue forecasting frameworks using historical data and realistic assumptions.
- 2) Identify and expand revenue streams
- 3) Develop and enact legislation governing A-I-A and FIF
- 4) Enhance staff capacity through training in revenue mobilization and financial planning
- 5) Implement performance monitoring systems for all revenue streams.

4.3. Weak Revenue Collection System Controls.

The management collects revenue through an automated revenue collection system provided by a local Company.

Audit review note that the management did not updated the valuation roll and still uses valuation roll prepared by the defunct Town Council.

In the circumstances, the effectiveness of Management controls on the revenue collection and the reliability of the revenue collection system could not be confirmed.

Risk: There might be revenue leakage due to weak internal control leading to decline in revenue collection.

Recommendation:

1. Legal and Policy Frameworks

- Enact county legislation, including the County Rating Act, sector-specific laws and a harmonised Tariffs and Pricing Policy, with the County Finance Act and national frameworks.
- Develop dedicated legal frameworks for property rates, transport and parking, natural resource fees, public health, and physical planning to strengthen revenue anchoring.

2. Digitisation and Systems Integration

- Fully digitise and integrate all revenue streams including property registers, business and trader registers, parking systems, natural resource transport registers, public health fees, and planning approvals into the County Revenue Management System (CRMS) and GIS platforms.
- Automate billing, collection, receipting, and reporting processes, supported by real-time monitoring and reconciliation tools.

3. Revenue Base Expansion and Mapping

- Undertake continuous GIS-based mapping and registration of properties, businesses, natural resource activities, and transport corridors to capture emerging and informal economic activities.
- Regularly update valuation rolls, business registers, and OSR mapping to refine revenue potential and ensure completeness of the tax base.

4. Enforcement and Compliance Strengthening

- Enhance enforcement capacity through adequate staffing, training, supervision and provision of equipment, supported by inter-agency collaboration.
- Link compliance to service access, operationalise penalties, and implement consistent inspection regimes to address leakages and high default rates.

5. Institutional Capacity Development

- Build technical capacity in valuation, GIS, revenue administration, planning and compliance through targeted training, recruitment, and technical support.
- Strengthen facility-level and municipal revenue management structures with clear roles, accountability, and performance oversight.

6. Stakeholder Engagement and Public Sensitisation

- Institutionalise structured stakeholder engagement, including regular consultations with traders, transporters, and sector players.
- Undertake sustained public sensitisation to enhance voluntary compliance, transparency, and acceptance of county taxes and fees.

7. Sector-Specific Operational Reforms

- Formalise informal sector activities through zoning, licensing, and structured market management, including operationalisation of livestock and produce markets.
- Gazette and operationalise parking zones, planning controls, and development approvals to improve compliance and predictability.
- Strengthen health facility revenue systems, including SHA claims management, service line optimisation, and integration of all fee-based services.

8. Governance, Oversight, and Accountability

- Conduct periodic revenue audits and performance reviews to track progress and address gaps.
- Introduce integrity assurance measures and incentive frameworks for revenue staff to promote accountability and performance.
- Strengthen inter-departmental and inter-county coordination to harmonise enforcement and revenue collection mechanisms.

9. Infrastructure and Operational Support

- Invest in critical infrastructure and logistics including transport for enforcement teams, market facilities, inspection points, and digital systems to support efficient revenue mobilisation.

5.0 Conclusion.

The County has significant potential to improve Own Source Revenue. However, this requires: Strong commitment, Investment in systems and infrastructure, Enforcement of controls and compliance

The above audit findings could negatively impact on achievement of strategic/operational objectives if not addressed.

Management commitment to address the concerns raised will improve the effectiveness of risks management, control and governance processes and enhances delivery of better value for money.

Regards,



CPA. Abdinur A Edow
Head of Internal Audit Services.



Copy to: County Chief Officer Accounting & Financial services