FACTORS AFFECTING IMPLEMENTATION OF VALUE FOR MONEY AUDITING AT CITY COUNCIL OF NAIROBI

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ABSTRACT

Value for money auditing is a recent expansion in the scope of auditing. None of the local and international studies reviewed has been done on the factors that affect the implementation of VFM auditing in the Kenyan context. This study therefore sought to explore the factors affecting the implementation of value for money auditing in the City Council of Nairobi. The attainment of value for money in the procurement and provision of services is now a global, corporate pursuit with increasing complexity and sophistication. The objective of this study was to determine the factors affecting the implementation of value for money auditing in the City Council of Nairobi. Specifically, the study reviewed four variables i.e. staff training, ICT, misuse of funds and government policy. Stratified proportionate random sampling technique was used to select the sample of 35 respondents of the City Council of Nairobi from their various levels of employment, that is, the top, middle and low level management.

Primary data was gathered using semi-structured questionnaires where the respondents were issued with the questionnaires. The questionnaires were self-administered. The questionnaires were distributed among the sampled employees employed by the City Council of Nairobi. Secondary data was gathered from past published scholarly articles explaining theoretical and empirical information on the factors affecting the implementation of value for money auditing. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. A multivariate regression model was applied to
determine the relative importance of each of the four variables with respect to the implementation of VFM auditing. The information was presented by use of bar charts, graphs and pie charts and in prose-form. Content analysis will be used to test data that is qualitative in nature collected from the open ended questions. The study had a response rate of 88.5%. The study found out that staff training affects value for money auditing at the City Council of Nairobi to a great extent. The study also found out that funding, misuse of funds and government policy affects value for money auditing. The study recommends the management of the City council of Nairobi to ensure the audit team has a good understanding of the concept of comprehensive auditing and also possesses knowledge of the fundamentals, elements and phases of value-for-money auditing.

**Keywords:** Staff training, Misuse of funds, Government policy and Value-for-money

**INTRODUCTION**

**Background information**

There are various types of audit, among them financial audit, compliance audit, operational audit, forensic audit, information system audit and value for money audit. The concept of value-for-money auditing has been around for centuries, where, such audits were conducted by English governmental auditors as early as 1180 and 1662. One article cited the Act of 1667, which required special auditors to examine the care, fidelity, and husbandry with which the management of the Royal Navy was carried out (Dewar, 1985). However, Value for money auditing is a recent expansion in the scope of auditing. Upto mid-1970, the role of auditors in the Public sector were concerned with regularity of expenditure and compliance with laws, rules and regulations. They reported to parliament on the deficiencies in revenue collections and any wastage of public funds (Beeler 1999).

Pollitt et al(1999) states that performance audit involves assessing whether government policies, programs, and institutions are well managed and are being run economically, efficiently, and effectively. This is a task of potentially great significance - at a practical level for citizens, and at a more abstract level for the health and vitality of democratic governance.

Institute of Internal Auditors (2006) through their practice guide *The Audit Role in Public Sector Governance* asserts, "Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government operations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders".

According to the RoK (2011), The Mandate of the City Council of Nairobi is to provide and manage basic social and physical infrastructure services to the residents of Nairobi. These
services include basic education, housing, health, water and sewerage, refuse and garbage collection, planning and development control, urban public transport and fire services among others. Its vision is to be recognized as one of the most attractive cities of the world. The mission of the City Council of Nairobi is to facilitate coordinated development and improved service delivery to stimulate economic activity, high quality of life and become one of the most attractive cities of the world (RoK 2011).

During the 1970s, public expenditure increased dramatically in the UK Public Sector, often by more than 10 percent per annum. This period was characterised by a period of high inflation. The Conservative Government came to power with a manifesto which resolved to improve efficiency and minimise waste in Public Sector expenditure. To do so, they attempted to put in place a strict financial policy including the use of cash limited budgets, cash planning, and the scrutiny and introduction of expanded audit mandates, at both Central and Local Government levels, to assess the efficiency of the public services (Glynn, 1985). As such, the word ‘audit’ began to be used frequently by politicians, regulators and consultants in many different fields: health and safety, medicine, education, intellectual property, environmental management as well as the traditional financial or commercial auditing areas. Consequently, VfM auditing emerged as a powerful tool with which to reform Public Sector institutions (Power, 2000).

**Statement of the Problem**

The objective of the Internal Audit Department's value for money audit practice is to provide the audited entity, the government at large with independent, objective and supportable information that they can rely on to examine the entity's performance and hold it to account. To achieve that objective, the Internal Audit Department has to establish a quality management framework to ensure that value for money audits are carried out in accordance with the guidelines, recognized standards of professional practice and with due regard for economy, efficiency and effectiveness. The Internal Audit Department is responsible for the design and effective operation of its value for money audit practice including the quality of the audit products. There is therefore need to determine whether the Internal Audit Department's value for money audit practice is suitably designed and operating effectively to achieve its objectives (Whisenant & Sankaraguruswamy, 2000).

According to *Standard Newspaper dated 18 June 2010, page 12*, the City Council of Nairobi has over 4,000 ghost workers according to a report by PricewaterhouseCoopers (PwC). The stunning revelations indicate that 46 employees had fake degree certificates, while 15 people on the council payroll could not be identified. The audit also revealed 145 people on the council payroll do not appear on the human resource records while 307 others are holding suspicious employment letters. The auditing firm was commissioned by the council early this year to determine the number of employees and their qualifications. PwC handed over the report that will help seal loopholes that have seen the council lose Sh60 million monthly. Ghost workers
nearly constitute 35 per cent of the 12,000 workforce. 3,026 employees did not take up medical cover offered by the council, raising concerns that they were non-existent. Another 500 employees failed to produce their national identity cards during the headcount. The audit was funded by the World Bank to the tune of Sh44 million. The audit also revealed that the council lacked critical professional staff including engineers, planners, architects and financial experts leading to poor delivery of services. The council spends Sh340 million monthly on salaries for 12,000 employees. He claimed a cartel running the parallel workers list has been receiving the money and allowances paid to the ghost workers.

In July 2012, it was confirmed that the much-criticized ISO certification given to the Nairobi City Council in April was not valid. The Kenya Accreditation Service (KENAS) said that DQS Kenya, the firm that issued the certification, has not been accredited as an authorized certification office in the country and due process was not followed in awarding the ISO 9001: 2008 Quality management System (QMS) certification. The purported ISO certification issued to the City Council of Nairobi was not valid and therefore is null and void. Even with the certification, CCN has been on the spot over poor service delivery in the city especially water and poor response mechanisms during disasters within the city. It has also been attributed to massive corruption cartels that have seen public assets misused for selfish gains.

Locally, studies focusing on auditing have also been carried out. Muting (1987) did a comparative analysis of judgmental & statistical sampling technical in auditing in Kenya. Chola (2000) studied the status of computer auditing in Kenya. Kariuki (2002) carried out a survey of the use of assessment centers in multinational auditing firms in Nairobi. However, none of these studies cited above has been done on the factors that affect the implementation of VFM auditing. Thus, there exists a knowledge gap in the factors affecting the implementation of VFM auditing.

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Objectives of the Study

General objective

To analyze the factors affecting the implementation of value for money auditing in the City Council of Nairobi

Specific objectives

i. To determine the effect of staff training on the implementation of value for money auditing in the City Council of Nairobi.

ii. To find out the effect of ICT on the implementation of value for money auditing in City Council of Nairobi.

iii. To assess the effect of misuse of funds on the implementation of value for money auditing in City Council of Nairobi.

iv. To establish the influence of government policy on the implementation of value for money auditing in City Council of Nairobi.

Public Choice Theory

With the (New Public Management) NPM reforms, the relative importance of the public accountability and public sector audit became prominent (Power, 2003). Hatherly and Parker (1998) in their early attempt to measure the theoretical structure and actual outcomes of the VFM audit had mentioned that there is a need for further research into the public sector audit and VFM audit practices.

In critiquing these arguments, what we could mention is that these are the problems of importing the private sector management principles into the public sector. Aucoin (1990) has described these tensions as paradoxes. He has explained these paradoxes had arisen due to combining of two different management schools of thought such as the public choice theory school and ‘managerislist’ school. Therefore Aucoins’ ideas have been confirmed by Lapsley by taking the examples from the UK public sector. Lapsley (2008) has argued that existence of the audit society as a constraint to the implementation of NPM reforms especially the VFM. However, Power (2003) argued audit explosion as emerging from a broader set of changes under the label of NPM. Lapsley (2008) concluded that the NPM movement is going to stay with evolving and developing nature. The positive side of this analysis is that Lapsley has cited numerous practical public sector examples and review of academic articles to support his propositions.

Social Theory

Hood and Peters (2004) have mentioned that the NPM has reached its middle age. Similar to Lapsley, Hood and Peters (2004) have explored the paradoxes of NPM reforms after about two
decades of NPM literature. They have used the social theory developed by R.K. Merton to analyse the unintended effects of social interventions. They have also used the cultural theories of surprise to learn the paradoxes of NPM reforms. Hood and Peters (2004) have also used the method of discontinuities and unexpected couplings in the operation of complex systems in relation to the implementation of the NPM reforms. Hood and Peters have divided the NPM literature in three ‘ages of NPM’. These three ‘ages of NPM’ are the literature from late 1980s to early 1990s, mid 1990s and late 1990s to current period.

Agency Theory

Agency theory explains how to best organize relationships in which one party determines the work, which another party undertakes (Eisenhardt, 1985). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard, (Eisenhardt, 1985). The primary agency relationships in public schools are either those between stakeholders and managers or between debt holders and stakeholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals on financial reporting and management practices. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature which widely discusses the financial reporting and management practices in the public institutions.

Agency theory seeks to explain the relationship in order to recommend the appropriate incentives for both parties to behave the same way, or more specifically, for the agent to have the incentive to follow the principal's direction. Agency theory also seeks to reduce costs in disagreements between the two. Jensen and Meckling (1976) defined the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this arrangement, the principal will delegate some or all of the decision-making authority to the agent.

Empirical Review

Staff Training

No consensus exists on the amount of money spent on or the incidence of training and development in U.S. organizations. Because surveys often present contradictory information, any numbers must be viewed with caution (Lynch and Black, 1996; Zemsky & Shapiro, 1996). However, figures on dollars being spent and amount of training and development from various sources indicate that employee training and development is big business and growing.
According to *Training* magazine’s (November) 1997 annual Industry Report, U.S.private organizations allocated approximately $58.6 billion in 1997 for formal training and development. That is over $6 billion more than reported two years earlier (*Training* magazine staff, 1995) and over $26 billion more than the $32 million Carnevale estimated was spent in1986 on firm-provided training and development (Carnevale, 1990). The amount of money allotted for training and development for Department of Defense civilians and civilian government agencies reportedly was $1 billion in 1992, the last year OPM collected figures (Telephone interview with OPM staff, 1995). Over half (57%) of the 1994 National Center on the Educational Quality of the Workforce National Employer Survey respondents reported an increase in formal training in their organizations over the previous three years (Zemsky and Iannozzi, 1996).

While the amount of money spent and the amount of training and development appear to be increasing, surveys and expert opinion suggest that spending for training and development is disproportionate across organizations and employee positions. Stone (1991) found that over half the money invested annually in training is spent by just 15,000 organizations, or merely 0.5 percent of all employers. Lynch and Black (1996) examined survey data and found the following about training and development opportunities for employees. 89% of U.S. employees had received no training. Small organizations, those with fewer than 100 employees were much less likely to provide formal training than large employers Also, organizations using high performance work practices such as Total Quality Management and benchmarking are more likely to offer training to their employees. Better educated workers and managerial and professional employees are more likely to receive employer based training than other employees (Lynch and Black, 1996).

Many analysts of training and development programs contend that much of the money being spent for training and development is not being well spent. Most organizations neither assess their training and development needs adequately nor evaluate the benefit of training to the organization (Brinkerhoff and Gill, 1994; Rothwell, 1994). Rothwell and Kazanas explain, “Training intended to equip learners for dealing with an uncertain future is based on past performance problems; past data about organizations, jobs, and individuals; and past competencies. In short, the training needs assessment process typically ignores the future”(Rothwell and Kazanas, 1994).

Brinkerhoff and Gill (1994) found that most organizations never assess whether the money spent on employee training and development has actually advanced the organization's overall productivity or improved individual performance.

**Information and Communication Technology**

In 2002 in the United States, over 780 billion dollars have been spend in IT projects but around 68% of them where declared out scope, budget or time, according to “Best Practices in IT Portfolio Management” (Leliveld, 2004). In 2008, for a total of 840 major ICT public projects
managed by U.S. government, 346 of them (for about 27 billion dollars) were not well planned and managed, according to the annual FY2008 report of U.S. Office on Management and Budget (Office of Management and Budget, 2008).

In 2010, Personal Democracy Forum2009 has been conducting a portfolio analysis for over 38 major IT projects. He was able to cut project portfolio total cost for around 3 billion dollars/year (Kundra, 2010).

According to an estimate of Corte dei Conti (Arganelli, 2012), corruption in Italy costs around 60 Billion Euros per year, against an estimate total of 120 Billion Euros per year in whole EU (Malmström, 2012). Corruption and lack of effectiveness in auditing processes are not issues concerning developing countries only; Italy has a perceived level of corruption equal to Ghana, FYR Macedonia and Samoa in Transparency International 2011 report (Transparency International, 2011).

There are two ways to fight against corruption in developing countries: “The first consists of international efforts to reform and restructure government systems and practices so as to strengthen their performance and accountability. The second focuses on strengthening public accountability through pressure from outside of governments, especially through civil society institutions” (Department of Economic and Social Affairs - United Nations, 2007).

Initiatives for opening public spending data conducted in USA and in UK (Government data to be opened up to the public) are turning points for Open Government, but they are not effective if civil society pressure on institutions is not facilitated. In authors’ opinion, a new generation of citizen-friendly Web 2.0 solutions must be provided for stimulating interest in public spending: not only data, but advanced services for helping residents to effectively interact with local municipalities and public bodies (Department of Economic and Social Affairs - United Nations, 2007).

In early 2008, Essex County Fire and Rescue (ECFRS) Services appointed Mouchel’s management consulting business to carry out a Strategic ICT Effectiveness Review, followed by an ICT Transformation programme, focused on enhancing the capability of the organisation to gain value from ICT. The work used the Strategic ICT Effectiveness toolset, identifying and addressing 14 priority areas determined to be the underlying causes of the problems being experienced. ECFRS has seen real improvements in the quality of services provided by its ICT department and in the security of data held within its systems. It now has a clear ICT strategy with strong ownership by business managers, a governance and gateway assurance process to guide projects towards successful outcomes, and an enhanced ICT department and management team. (Department of Economic and Social Affairs - United Nations, 2007)
Misuse of funds
High levels of corruption reduce economic growth. It can distort the allocation of resources and the performance of government in many ways. It has a pervasive and troubling impact on the poor, since it distorts public choices in favor of the wealthy and powerful, and reduces the state’s capacity to provide social safety nets (UNDP, 2000).

In an August 2002 audit of the Burbank, an HCD auditor noted that during fiscal years 1997-98, 1998-99, and 1999-2000, planning and administrative costs relative to total expenses were 34%, 29% and 35%, respectively. The auditor recommended that the agency repay the low- and moderate-housing fund $1.4 million that was “inappropriately expended” to cover the overhead costs of other city departments during those three years.

According to the Department of HCD (2008), the Marina Redevelopment Agency reported no housing activity to the state in the 13 years studied by the oversight office. Since 2001-02, its low- and moderate-income housing fund expenditures have been entirely for planning and administration. The agency’s situation, however, is unusual. In the late 1990s, the redevelopment agency took charge of a huge former military base in need of redevelopment. The amount of tax revenue flowing into its housing set-aside fund is relatively meager ($527,000 in 2007-08).

In a 2001 audit of the Covina Redevelopment Agency, the Department of Housing and Community Development noted that the agency’s planning and administration expenses totalled 65% of overall expenditures in three fiscal years from 1997 through 2000. HCD auditors found that while the Agency made annual determinations that such expenses were proportionate to actual housing production, improvement and preservation costs, the relative amounts appear to indicate otherwise California (Dept of HCD 2008).

In a local US corruption perception survey conducted by the Social Weather Station in 2009, the respondents believe that 49% of government resources are wasted due to corruption. Nonetheless, 42% of these respondents believe that the government is “somewhat sincere” in its anti-corruption efforts. In the same survey, it was also identified that public sector corruption is a result of bad regulation and implementation and that it is most prevalent in government revenue raising activities (Dept of HCD 2008).

Government policy
In 1993, the report of the Commission of Inquiry into the Public Service and Public Sector in British Columbia (known as the Korbin Commission) resulted in several major policy directives from the Provincial Government. The report called for value for money to the taxpayer, accountability and efficient utilization of resources, fair treatment of all employees and respect for the uniqueness of each community served by the organization (Korbin, 1993). This resulted in key changes: the creation of a Standing Committee on Evaluation and Accountability to measure institutional practices, dividing bargaining into provincial and local matters and the
creation of the Public Sector Employers’ Council (PSEC) responsible for coordinating labour relations policies and human management practices in the public sector and the Post Secondary Employers’ Association (PSEA) responsible for coordinating wages for non-unionized employees provincially, benefit administration, human resource practices and collective bargaining outcomes.

**METHODOLOGY**

The study adopted a descriptive research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issue to be described by the respondents about the problem.

The population of study was all internal auditors in City Council of Nairobi which was 116 in number according to the HRM staff list of auditors (CCN HR manual, 2009). For purpose of this study the target population was stratified through top management level, senior officer level and low level management.

The researcher perused completed questionnaires and document analysis recording sheets. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information has been displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS and MS Excel helped the researcher to analyse the data and determine the extent used. In addition, the researcher conducted a multiple regression analysis and ANOVA so as to determine the factors affecting the implementation of value for money auditing in the City Council of Nairobi.

Content analysis was used to test data that was qualitative in nature i.e. the data collected from the open ended questions. According to Baulcomb, (2003), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. A multivariate regression model will be applied to determine the relative importance of each of the four variables with respect to the implementation of VFM auditing.

The regression model was as follows:

\[ y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where:

- \( Y \) = Implementation of value for money auditing
- \( \beta_0 \) = Constant Term
- \( \beta_i \) = Beta coefficients
X₁ = Staff Training

X₂ = Funding

X₃ = Misuse of Funds

X₄ = Government Policy

= Error Term

Conclusions

The study concludes that staff training affects value for money auditing at the City Council of Nairobi to a great extent; that today, auditors need to be well trained and to pay more attention to all aspects of environmental problems; that it is necessary to have a good understanding of the concept of comprehensive auditing and also to acquire knowledge of the fundamentals, elements and phases of value-for-money auditing; that there is need for understanding the content and structure of the approach used in environmental auditing; that the Comptroller General/ Internal Audit Department should provide training in the environment and sustainable development areas; and that increasing globalization is leading to large, more complex business entities that demand to be more efficient and requires greater knowledge of environmental issues.

The study also concludes that funding affects value for money auditing at the City Council of Nairobi; that a major candidate of auditor changes is audit quality which depends on availability of funds, which concerns the ability of the auditor to detect problems and breaches in the accounting system; that the Infrastructure Operating Fund supports a portion of operations and maintenance of the infrastructure anticipated for the performance auditing; that the Government Auditor need to obtain and report high-quality information that will help parliament and stakeholders in their decision-making which faces many challenges due to lack of adequate resources; and that the amount of funding provided is limited and the City Council of Nairobi is expected to find this support from other sources of funds. The respondents indicated neutrality on whether the decline of resources is forcing many governments to work less effectively in VFM auditing due to lack of funding on the performance auditing.

It was observed that misuse of funds affects the value for money auditing at the City Council of Nairobi; that lack of supporting records affects the value of money auditing at the City Council of Nairobi to a great extent; that misuse of funds for purposes other than those aligned to project needs affects the value of money auditing at the City Council of Nairobi; that duplication of payments affects the value of money auditing at the City Council of Nairobi; that alteration of invoices affects the value of money auditing at the City Council of Nairobi to a great extent; that ineligible payments affects the value of money auditing at the City Council of Nairobi to a moderate extent; and that unauthorized payments affect the value of money auditing at the City Council of Nairobi to a great extent. It was also found that where internal controls are
insufficient and/or ineffective, public sector fraud can happen; that instances where value for money of infrastructure projects is questioned at the City Council of Nairobi includes projects which continue to be delayed despite several extensions and significant cost escalation, including additional expenditure to rectify defects not fully carried out during the defect-liability period and that in public spending, cost is not weighed against the benefits in order to obtain value for money for the City Council of Nairobi.

It was further observed that government policy affects the value for money auditing at the City Council of Nairobi; that government policy affects the value for money auditing at the City Council of Nairobi to a great extent; that the factors affecting the implementation of value for money auditing in City Council of Nairobi were, lacking of government policy, lack of funding, lack of policy on value for money audit, lack of manpower skills and knowledge by staff, lack of VFM audit standards and benchmark, lack of proper remuneration for auditors, lack of motivation and fear for change. In addition, the study found that accounting is seen as a means used by political groups, in the sense of identifiable power and influence groupings, to maintain and extend their ascendant position, that accounting is neither a neutral nor unbiased function of City Council of Nairobi and that instead of state audit legislation reflecting purely constitutional needs it has been the result of a vortex of social and political forces which have masked their intent under the convenient banner of constitutional propriety

**Recommendations**

From the study findings, the study recommends the management of the City council of Nairobi to ensure the audit team has a good understanding of the concept of comprehensive auditing and also possesses knowledge of the fundamentals, elements and phases of value-for-money auditing. Further the auditors need to be well trained and to pay more attention to all aspects of environmental problems.

The study also recommends that since the amount of funding provided is limited and the City Council of Nairobi is expected to find this support from other sources of funds, the government should allocate more money on the performance auditing. The Government Auditor needs to obtain and report high-quality information that will help parliament and stakeholders in their decision-making which faces many challenges due to lack of adequate resources.

The study also recommends the City Council of Nairobi to adopt strict financial management in its audit assignments to enhance efficiency and effectiveness. This will eliminate problems of misuse of funds

Further, to improve on the value for money auditing in City Council of Nairobi VFM audit standards and benchmarks and other policies on value for money audit should be put in place.
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