# EFFECT OF INTERNAL CONTROLS ON REVENUE COLLECTION AT KENYA REVENUE AUTHORITY

**NURDIN ABDI IBRAHIM**

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POSTGRADUATE DIPLOMA IN TAX ADMINISTRATION, JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY (JKUAT).**

**2020**

## DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signature……………………………… Date………………………………………

This research project has been submitted for examination with my approval as the project supervisor.

Signature………………………………. Date…………………………………….

**Dr. Marion Nekesa PhD**

## DEDICATION

I dedicate this project to the Almighty Allah, my creator for giving me good health, sound mind and understanding in completing my project. I also dedicate this work to my loving father who has always been a strong pillar and supported me all through this project. To my mother for always being supportive and prayerful all though this Journey. This project is also dedicated to my lovely wife and my two boys for always giving me hope and always reminding me that hard work pays. Thank you. My love for you all cannot be quantified. God bless you.

## ACKNOWLEDGEMENT

I would like to express my Special thanks of gratitude to my project supervisor Dr. Marion Nekesa for guidance and constructive criticism that made the arrangement and flow of the project to be complete. To the Project Director KESRA, DR. Marion for the administrative support and all the offices at the school. To my teachers who taught me, fellow students who we shared the lessons and experience in the course of the seminar. To my friends who supported and guided me during my project. Thank you all.

# TABLE OF CONTENTS

**DECLARATION** ..... ii
**DEDICATION** ..... iii
**ACKNOWLEDGEMENT** ..... iv
**TABLE OF CONTENTS** ..... v
**LIST OF FIGURES** ..... vii
**LIST OF TABLES** ..... viii
**LIST OF ACRONYMS/ABBREVIATIONS** ..... ix
**DEFINITION OF TERMS** ..... x
**ABSTRACT** ..... xi
**CHAPTER ONE** ..... 1
**INTRODUCTION** ..... 1
1.1 Background of the study ..... 1
1.2 Problem Statement ..... 11
1.3 Objectives of the Study ..... 12
1.3.1 General objectives ..... 12
1.3.2 Specific objectives ..... 13
1.4 Research Questions ..... 13
1.5 Significance of the Study ..... 13
1.6 Scope of the Study ..... 14
**CHAPTER TWO** ..... 15
**LITERATURE REVIEW** ..... 15
2.1 Introduction ..... 15
2.2 Theoretical Framework ..... 15
2.3 Conceptual Framework ..... 17
2.4 Empirical Literature ..... 18
2.5 Critiques of the study ..... 22
2.6 Research Gaps ..... 24
2.7 Summary ..... 25
**CHAPTER THREE** ..... 26
**RESEARCH METHODOLOGY** ..... 26
3.1 Introduction ..... 26
3.2 Research Design ..... 26
3.3 Target Population ..... 26
3.4 Sampling Size and Sampling Procedure ..... 27
3.5 Data Collection Instrument ..... 28
3.6 Pilot Study ..... 29
3.6 Data Collection Procedure ..... 30
3.7 Data Analysis and Presentation ..... 30
**CHAPTER FOUR** ..... 32
**RESEARCH FINDINGS AND DISCUSSION** ..... 32
**4.1 Introduction** ..... 32
**4.2 Response Rate** ..... 32

**4.3 Reliability test results** ..... **32**
**4.4. Descriptive statistics** ..... **34**
**4.4.1 Monitoring** ..... **34**
**4.4.2 Internal audit** ..... **34**
**4.4.3 Records control** ..... **35**
**4.4.4 Revenue collection** ..... **36**
**4.5 Correlation Analysis** ..... **37**
**4.5.1 Correlation results on independent variables** ..... **37**
**4.6 Regression Analysis** ..... **38**
**4.6.1 Model Summary** ..... **38**
**4.6.2 Model Summary** ..... 42
4.6.3 Regression coefficients ..... 42
**4.6.4 Analysis of Variance** ..... 43
**4.7 Discussion of key Findings** ..... **43**
4.7.2 Internal audit and Revenue collection ..... 43
**CHAPTER FIVE** ..... **45**
**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS** ..... **45**
5.0 Introduction ..... 45
5.1 Summary of the findings ..... 45
5.1.1 Monitoring ..... 45
5.1.3 Records controls ..... 46
5.2 Conclusions ..... 46
**5.4 Recommendations** ..... **48**
**5.5 Suggestions for further research** ..... **49**
**REFERENCES** ..... **50**
**APPENDICES** ..... **54**
**APPENDIX I: LETTER OF INTRODUCTION** ..... **54**
**APPENDIX II: RESEARCH QUESTIONNAIRE** ..... **55**
**APPENDIX III: WORKPLAN** ..... Error! Bookmark not defined.
**APPENDIX IV: PROPOSED BUDGET** ..... Error! Bookmark not defined.

## LIST OF FIGURES

Figure 2.1: Conceptual Framework…………………………………………………….....17

## LIST OF TABLES

Table 3.1: Target Population........................................................................................27
Table 3.2: Stratified Sampling......................................................................................28

## LIST OF ACRONYMS/ABBREVIATIONS

| | |
|---|---|
| **DOPU** | Drop Off Pick Up |
| **KRA** | Kenya Revenue Authority |
| **NACOSTI** | National Commission of Science, Technology and Innovation |
| **NSE** | Nairobi Securities Exchange |
| **SME** | Small and Medium-sized Enterprises |
| **SPSS** | Statistical Package for the Social Sciences |

## DEFINITION OF TERMS

**Internal Controls: -** Systems and policies designed to provide the management with reasonable assurance that an organization goals and objectives are met (Aden, Aden, & Addow, 2015).

**Revenue Collection: -** This is collection of funds from various sources in order to make payments on the public expenses (Gituma, 2017).

**Staff Control Environment: -** This refers to the work environment, policies and procedures that govern staff conduct while at workplace ensuring proper conduct is maintained (Kamau, 2016).

## ABSTRACT

The collection of revenues by the Kenya Revenue Authority is key to the government being able to provide social amenities and support its expenditure from internally generated revenues. The lack of the Kenya Revenue Authority meeting its target leads to the Government of Kenya resorting to expensive loans to fund its activities. However, despite the importance of the Kenya Revenue Authority in meeting its revenue obligations, KRA has had challenges in meeting its revenue collection target. In the 2017/18 financial year, the KRA missed the tax collection targets by 25 billion through achieving 1.58 trillion in revenue collection compared to a target of 1.605 trillion shillings. One of the increasing focus of the KRA to achieve its tax targets is elimination of the tax evasion challenges The aim of the study was to examine the effect of internal control on revenue collection at Kenya Revenue Authority. The study was guided by the following specific objectives as follows:- to determine the effect of monitoring on revenue collection at Kenya Revenue Authority, to evaluate the effect of internal control on revenue collection at Kenya Revenue Authority and to find out the effect of records and control on revenue collection at Kenya Revenue Authority. The study adopted descriptive research design and 97 target population. The study target population was 97 and sample size was 78. The study adopted primary data and questionnaire as research instrument. The study collected data by use of inferential and descriptive statistics through SPSS version 4.0. The average overall standard deviation of 0.0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that monitoring, internal audit and records control had a positive and significantly related to revenue collection with p-value=0.00<0.05). The study recommends that Kenya Revenue Authority should recognize contributions of internal control systems. Additionally, the study recommends that the Kenya Revenue Authority should apply internal control systems in their operation to effectively ensure that revenue collected meets the targets set.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the study

Governments across the world provide diverse services to their citizens including water services, security, transport infrastructure, healthcare, and education amongst other aspects (Njagi & Mwangi, 2019). According to Harelimana (2018) revenue collection by tax agents are important for the governments to provide critical public utilities services and for the long term social economic developments. However, despite the importance of the tax collection aspects to the government functions, governments across the world are faced by tax collection challenges. Harelimana (2018) note that in developing countries, a majority of the countries collect less than 17% of the their Gross Domestic Product in tax revenues. Diverse scholars continue to document revenue collection performance challenges across the globe including Karanja (2018), Mosomi (2015), and Kiri (2016) amongst others. The embezzlement of funds from public institutions or organizations, particularly in essential services or monopolistic public institutions, is becoming more common. Such scandals have raised concerns about their internal control systems. Recent reports on the mismanagement of funds by the media coupled with exposure of the complex web of rot and poor control system has raised curtains on internal control system. These developments have called into question the internal control system found in public utility provider organizations. According to Gibbs, (1997) most public institutions do not have efficient internal control system on cash collection which has often accounted for poor financial management. Accordingly, it is no surprise that, some public service providers more often than not, views internal controls as unnecessary and irrelevant. Any entity of whichever form or size should put in place its own system of controls in order to achieve its objectives Mwindi (2008).

A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012).

### 1.1.1 Global perspective

The internal controls have been used across the world for the purpose of enhancing revenue collection amongst government bodies (Mutua, 2017; Sigilai & Njiru, 2016; Mwachiro, 2013; Ibrahim, 2017). According to Aden, Aden, and Addow (2015) internal controls refers to the systems and policies designed to provide the management with reasonable assurance that an organization goals and objectives are met. This view of internal control is consistent with the views provided by Gesare, Michael, and Odongo (2016) and Tian and He (2016) amongst others. Within the context of a revenue collection entity the goals and objectives of such an entity would be revenue collection. The internal control mechanisms would thus ensure that revenue collection objectives are met within the organization. On the other hand, Oguda, Odhiambo, and Byaruhanga (2015) posits that internal controls referred to as the processes affected by organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplice specific goals or objectives. Building on the views of Oguda *et al*., (2015) and Gesare *et al*., (2016), Nurohmandana and Ediraras (2019) views the internal controls as the processes put by the management in order to ensure compliance with the set rules and regulations of an organization. The staff internal control thus refers to the internal control that relate to the staff conduct within an organization.

Organizational levels, aimed at providing reasonable certainty regarding the achievement of the objectives of efficiency and effectiveness of operating activities, reliability of accounting information, compliance with laws and regulations. In the light of this definition, an internal control system is effective when it provides adequate protection against risks that can compromise the achievement of firm’s objectives.

Internal control is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in various categories. Internal control is a key element of the reliability of financial reporting, effective and efficient entity operations, and compliance with laws and regulations. Internal control increases the efficiency of operations by applying the standardized procedures; it adds value to control processes,

Standard definitions of processes, job definitions, and regulations therefore, contributes the promotion of management effectiveness and efficiency. Meanwhile, it helps to secure an entity's current assets through control mechanisms because it becomes a systematic approach to secure its assets as the entity grows.

Internal control provides the reliability of financial reporting; supports management in making right financial decisions and eliminates or identifies fraudulent acts within the entity. Internal control reinforces and ensures compliance with laws and regulations.In other words, it prevents the entity from any financial or property loss, inaccurate decision making, fraud, loss of income and assets. The role of internal controls, therefore, provides support for management in safeguarding company assets, elimination of any income and resource loss, making goal-oriented and accurate decisions, identifying and preventing fraud. To sum up, internal control is a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It provides reasonable assurance and is the responsibility of the entity management.

Apart from the problem of scarce resources, organizations run a high risk of fraud, errors, miss-appropriation funds and inefficient and ineffective operations. Steps are required therefore to minimize, if not eliminate completely, these risks, by establishing internal control system. For every organization, there are risks that the organizational goals and objectives are not achieved. All efforts aimed at preventing such risks or identifying and correcting such risks are viewed as internal control. Anthony (1998) defined internal control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization objectives. Garrison and Noreen (2000) suggested a different definition for internal control as "those steps taken by management that attempt to increase the likelihood that the objectives set down at the planning stage are attained and to ensure that all parts of the organization function in a manner consistent with organizational policies. He further defined internal control as those set of organizational activities which include: planning, co-ordination, communication, evaluation and decision making as well as informal processes aimed at enhancing the efficient and effective use of the organizational resources towards the achievement of the organizational objectives.

According to Hamed (2009), Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business. Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information .Hongming and Yanan (2012), adds that Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business.

According to Hamed (2009), Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business. Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information (Keitany, 2000). Hongming and

Yanan (2012), adds that Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business. Whittington (2001) has defined that a system of internal control extends beyond those matters which relate directly to the functions of accounting and the financial statements. In addition, he notes that internal control is a systematic procedure which will lead to evaluate the degree of correlation between those established criteria and the real results of the business. Internal Control, as defined from the APC (Auditing Practices Committee, 1980), is an independent examination and certification from an inspector appointed by the business to control the finances according to the legal framework established each time. From the forgoing therefore, the objective purpose of Internal Control is on the one hand, the allowance of specific and high level of services offered towards the management, and on the other hand, the allowance of assistance towards the members of the organization for the most effective practicing of their duties. Internal Control Systems are being implemented in businesses as tools that add up value to the company. In this way, we can achieve a systematic approach 3 towards the most effective operation of the organization, as a unity (Schleifer and Greenwalt, 1996). Finally, as mentioned by the COSO report internal control is defined as a procedure which offers fundamental security to the business concerning the credibility of financial affairs. The report defines internal control and describes a framework for internal control.

Internal Control provides reasonable assurance that the objectives of the organization are being achieved in the following categories: effectiveness and efficiency of operations including the use of the entity's resources. Reliability of financial statement and other report for internal and external use, compliance with applicable laws and regulation. Internal control was designed to provide reasonable assurance regarding preventions of or prompt detection of unauthorized acquisition, use or disposition of organizations assets. Internal Control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal control was recognized as integral parts of each system that management uses to regulate and guide its operations rather than as a separate system within an organization. Internal control is management tools that are built into the entity as a part of its infrastructure to help manager run the entity and achieve their aims on an ongoing basis.
Internal control is affected by people: people are what make internal control work. The responsibility for good internal control rests with all managers. Management sets the objectives, put the control mechanisms and activities in place, and monitor and evaluates the control. However, all personnel in the organization play important roles in making accountability happen. Internal control provides reasonable assurance, not absolute assurance; management design and implement internal control based on the related cost and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all organization objectives will be met.

Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting organization's objectives. Therefore, once in place, internal control should be reviewed periodically to ensure that loopholes are sealed immediately.

### 1.1.2 Kenya perspective

The staff control environment details the work environment, policies and procedures that govern staff conduct while at workplace ensuring proper conduct is maintained. According to Njagi (2018) relates to the aspects of integrity and moral qualities, competences and systems of internal controls touching on the staff conduct aspects. Other values include ethical values and commitment (Kamau, 2016). According to Mohamed (2018) the control environment is important to the revenue collection activities of an organization as it sets the tone and the direction of the staff conduct. Hamdani and Albar (2016) further states that an effective staff control environment creates working environment where staff are knowledgeable on their responsibilities, the level of their authority in work functions, and committed in doing their work the right way. The staff control environment is critical in the revenue collection performance as it ensures that there is no fraud and corruption related activities that would present income leakage in revenue collection activities.

The staff risk assessment relates to evaluating the risks posed by staff during their normal operational work in revenue collection capacity. Musya (2014) note that the risk assessment refers to the careful assessment of factors that affect the possibility of objectives of the organization not being achieved. The staff risk assessment will be examination of the staff conduct behaviors that hinder revenue collection productivity.

According to Mwachiro (2013) risk assessment involves three steps that is risk identification, risk analysis and evaluation, risk control and report. The staff risk assessment can be undertaken through various forms in a tax collection agency including through involvement of staff in internal controls, presence of laid down procedures on revenue risk identification, knowledge on the revenue leakage areas (Owidhi, Bogonko, & Ong'iyo, 2018). Musya (2014) identifies other risk assessment aspects identification of revenue risk and loss, mitigation mechanism for fraud activities, and documentation of the revenue collection procedures.

The control activities relate to the policies and procedures that help ensure that management's risk response is carried out (Msomi, 2018). The staff control activities will thus be the policies and procedures that help ensure that the management's risk responses are carried out. According to Tjiueza (2018) firms must develop control activities for the purposes of ensuring that policies and procedures are adhered to. There are diverse control activities that are utilized including approvals, authorizations, verifications, reconciliations, and reviews of operating performance, security of assets and allocation of duties (Mwazo, Weda, Omondi, & Njenga, 2017). The control activities ensures that the staff risk assessment and control environment are undertaken and therefore serves to operationalize the risk assessment and control environment aspects (Kamau, 2016).

### 1.1.3 Internal controls in revenue collection

Internal Controls in Revenue Collection in KRA was formed to develop and improve on revenue collection measures as well as making sure that all revenue leakages are closed. It was also to ensure that it expedites trade by putting in place those measures that allow controlled movement of goods and services. KRA therefore have put in place those measures to reduce the leakages. They invariably include segregation of duties, custody of assets, strict authorization procedures, internal audit, the use of passwords, proper record controls and management supervision. (Obat, 2010).

**a. Authorization**

The obligation to safeguard the revenue of KRA requires that transactions are entered into the systems once they have been authorized by the appropriate individual and that each transaction conforms to the terms of its authority. If an individual tries to enter unauthorized transactions in the system, the system would deny access due to lack of authority to execute the transaction in question. The use of passwords ensures that no one has the right to enter unauthorized information which might distort revenue generation. The use of Passwords discourages individuals to undertake corrupt activities as transactions are continuously monitored online. (Matamande, 2012).

**b. Internal Audit**

This is one important aspect of internal control is the internal audit. KRA carries out internal audits regularly and randomly in all departments. Internal audit is an effective tool in revenue management because internal auditors are employees by KRA hence they are better placed to understand the accounting systems, the control procedures and the control environment. It is believed that internal controls induce discipline in the organization's workforce. Risk resulting from failure to safeguard assets from theft and failure to maintain adequate controls to ensure adequate accounting records are mitigated or reduced. (Matamande, 2012).

**c. Records controls**

KRA's accounting records are such that all transactions that occur are timely recorded and correct values are properly accounted for in the accounting records. Where manual accounting systems is used accounting records consists of source documents on which details of transactions will be initially recorded. Transactions are recorded on receipts. To enhance control, KRA also perform the following tasks: The accuracy of information and amounts recorded on source documents are checked by independent person other than those responsible for their preparation before recorded. These independent persons perform checks and should sign source documents as evidence of having performed the task. There are also daily/monthly balancing and reconciliation of cash books and the bank statements to test the accuracy and reliability of the accounting records. (KRA Audit manual, 2008).

**d. Monitoring**

Monitoring is used to evaluate the quality of enterprise internal control performance by tracking and monitoring the internal control frame and operational status and take the necessary actions to ensure that internal control can operate effectively. Monitoring can be divided into continuous monitoring and individual assessment. Continuous monitoring activities usually are that the management department and each staff at various levels inspect, analyse and evaluate the effectiveness and efficiency of production and operating activities of their respective during execution of the internal control system. It is a kind of self-control mode. The higher the level is, the less individual evaluation need. Individual assessment is to evaluate the internal control system regularly and is usually done by the relatively independent internal audit department.

**f. Management supervision**

This involves monitoring that laid-down procedures are operating as they were designed to, and that delegated responsibilities have been properly discharged. Analyse error detected by internal controls and taking remedial action to prevent further similar errors and fraud from occurring in the future. Considering changes and improvements to internal controls systems where the weaknesses have been exposed. Conducting surprise counts of cash on roadblocks and tollgates comparing amounts with corresponding records. This helps minimizing revenue leakages. (Matamande, 2012)..

### 1.1.4 Revenue Collection

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. The Financial Accounting Standard Board(FASB) Concept Statement 6, Elements of Financial Statements (December 1985) have defined revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity’s ongoing major or central operations. In addition, Hongreen (2002) described revenue as inflows of asset (almost always cash or accounts receivables) received for products or services provided to customers. However, KRA have referred revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

## 1.2 Problem Statement

The incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the organization’s ability to effectively collect revenue but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating. For the enhancement of the attainment of the mission and goals of the institution, it is therefore necessary that these hindrances be removed.

Despite the internal controls that exist in Kenya Revenue Authority, collection remains below target and resources are poorly managed. This may be because the internal controls that are in the organization are weak or are undermined by the employees.

.It is in this backdrop that Kenya Revenue Authority in 2011 formally entered into a Memorandum of Understanding with the Kenya Anti-Corruption Commission in the fight against corruption. The Authority recognized corruption as a major threat to revenue collection and led to development of the KRA Integrity Action Plan, which laid emphasis on leadership, transparency and business reform and modernization with the aim of reducing and ultimately eliminating corruption in revenue collection

Public organizations in Kenya are faced with risks emanating from internal controls weaknesses which more often than not result to financial losses for the organizations Njoroge (2003). Weak internal controls also provide avenues for fraud in these organizations Wagacha, and Ngugi (2009). Thus, the purpose of this study is to examine and evaluate the internal control system in operation at Kenya Revenue Authority with a view of knowing whether strengthening of internal controls can have any effect of revenue collection

## 1.3 Objectives of the Study

The objectives of the study will include general and specific objectives as follows;

### 1.3.1 General objectives

The general objective of the study is to examine the effect of internal controls on revenue collection at Kenya Revenue Authority.

### 1.3.2 Specific objectives

The study will be based on the following specific objectives;

i. To determine the effect of monitoring on the revenue collection at Kenya Revenue Authority
ii. To evaluate effect of internal audit on the revenue collection at Kenya Revenue Authority
iii. To establish the effect of records controls on the revenue collection at Kenya Revenue Authority

## 1.4 Research Questions

The study was based on the following research hypotheses;

I. What was the effect of monitoring on revenue collection at Kenya Revenue Authority
II. What was the effect of internal audit revenue collection at Kenya Revenue Authority
III. What was the effect of records controls on revenue collection at Kenya Revenue Authority

## 1.5 Significance of the Study

### 1.5.1 Stakeholders

This study will be of importance to a diverse set of stakeholders including the Kenya Revenue Authority, public bodies, Institute of Certified Public Accountants of Kenya, county government officials and finance staff of various institutions as well as researchers in areas of revenue collection.

### 1.5.2 Future researchers

The researchers in the area of revenue collection will gain an understanding on the various ways in which the control activities influence revenue collection performance of

Kenya Revenue Authority. This information will then be consequently utilized in the development of their own literature review in their studies.

### 1.5.3 Kenya Revenue Authority

The study will also be of importance to the KRA, public bodies, Institute of Certified Public Accountants of Kenya, county government officials and finance staff of various institutions. The study will enable these organizations and their management to understand the link between the internal controls and revenue collection performance. The knowledge will then be utilized for the purpose of creating efficient internal control mechanisms in the respective institutions and departments in order to enhance revenue collection performance aspects.

## 1.6 Scope of the Study

The scope of the study was the head office of Kenya revenue authority. The study will be undertaken with the last quarter of 2019 and first quarter of 2020. This is due to the research being for academic exercise and as such limited to the timelines provided by the academic institution.

…..

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

The literature review chapter examines on the theoretical literature of the study that will examine the theories to be used for the study. The chapter will also examine the empirical review literature of the study that will examine other studies that have been undertaken focusing on the objectives of the study. The study will also present the conceptual framework of the study.

## 2.2 Theoretical Framework

### 2.2.1 Agency theory

This study is based on the principal agent theory also referred to as agency theory. The principal agent theory examines the challenges exists because of the existence of principal and agents within an organizational set up (Njagi, 2018). The principal are often the owner of the work in which they delegate their authority or certain tasks to the agents. This delegation is undertaken due to the principal lacking time, logistical challenges or limited technical know-how in relation to the aspects that they seek to delegate. The expectation is that the agent will pursue and undertake the delegated functions with diligence and as per the authority provided by the principal (Kamau, 2016). However, challenges that are referred to as principal agent challenges or agency challenges may present themselves in the execution of the delegated tasks. The principal agent challenges relates to the agent pursuing self-interest at the expense of the principal. This pursuit of self-interest occurs as result of information asymmetry and moral hazard challenges (Mohamed, 2018). The information asymmetry refers to the differences in the information held by the principal compared to the information held by the agent.

This occurs because the agent undertakes a day to day execution of the given tasks by the principal. The agent may use this information asymmetry to lead to a moral hazard which is the intention to defraud and pursue self-interest at expense of the principal (Wayua, 2017). In the context of this study, the principal will be the tax payer that mandates the KRA employees to collect the taxes on the behalf of citizens and for utilization by the citizens. However, due to moral hazard and information asymmetry challenges, the KRA employees may pursue their self-interest leading to challenges in revenue collection performance of Kenya Revenue Authority. The KRA management may put up measures that involve examining staff control environment, staff risk assessment and staff control activities amongst others.

.

### 2.2.2 Control Theory

The theory has been described as “an inter-disciplinary branch of engineering and mathematics that deals with the behavior of dynamical systems with inputs. The external input of a system is called the reference. When one or more output variables of a system need to follow a certain reference over time, a controller manipulates the inputs to a system to obtain the desired effect on the output of the system. The objective of a control theory is to calculate solutions for the proper corrective action from the controller that result in system stability, that is, the system will hold the set point and not oscillate around it. Systems have inputs and outputs to bring a product after processing and so inputs and outputs of a control system are generally related by differential equations. Setting objectives, budgets, plans and other expectations establish criteria for control. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components-such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements.

### 2.3 Conceptual Framework

The conceptual framework provides a diagrammatic representation of the variables and their interrelationship as well as their indicators. The independent variables of this study include staff control environment, staff risk assessment and staff control activities while the dependent variable will be the revenue collection aspects. The conceptual framework is illustrated below

**Independent variables** **Dependent**

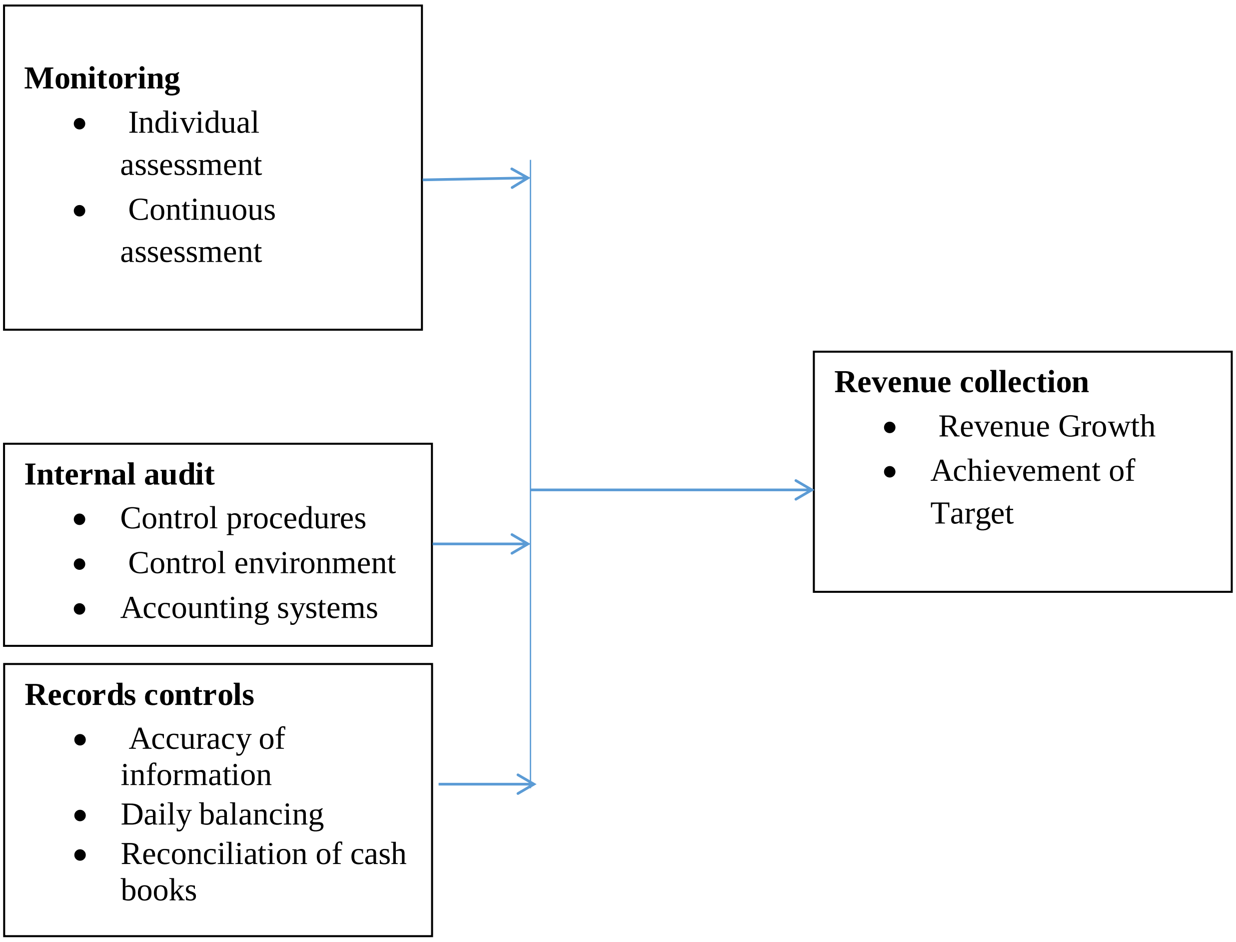


**Figure 2.1: Conceptual framework**

## 2.4 Empirical Literature

### 2.4.1 Monitoring and revenue collection

Monitoring is used to evaluate the quality of enterprise internal control performance by tracking and monitoring the internal control frame and operational status and take the necessary actions to ensure that internal control can operate effectively. Monitoring can be divided into continuous monitoring and individual assessment. Continuous monitoring activities usually are that the management department and each staff at various levels inspect, analyze and evaluate the effectiveness and efficiency of production and operating activities of their respective responsibilities during execution of the internal control system. It is a kind of self-control mode. The higher the level is, the less individual evaluation need. Individual assessment is to evaluate the internal control system regularly and is usually done by the relatively independent internal audit department. . Ndunda *et al.,* (2015) undertook a study to examine the factors influencing optimal revenue collection by the county government of Nakuru. The study found that various internal control activities must be undertaken in order to improve efficient on the revenue collection performance. Amongst the control activities that the study recommended should be undertaken include elimination of corrupt revenue clerks, and measures to improve on the accountability level of revenue clerks (Ndunda *et al.,* 2015).

### 2.4.2 Internal Audit and revenue collection

One important aspect of internal control is the internal audit. KRA carries out internal audits regularly and randomly in all departments. Internal audit is an effective tool in revenue management because internal auditors are employees by KRA hence they are better placed to understand the accounting systems, the control procedures and the control environment. It is believed that internal controls induce discipline in the organization’s workforce. Risk resulting from failure to safeguard assets from theft and failure to maintain adequate controls to ensure adequate accounting records are mitigated or reduced. (Matamande, 2012

The staff control environment is a critical factors leading to the improvement of the revenue collection performance. Njagi (2018) undertook a study that examined on the internal controls and revenue collection within the hospitals. Amongst the aspects that were examined were the control environment and how they influence the revenue collection performance aspects. The study utilized a descriptive research design and collected data using structured questionnaire. Amongst the staff control environment aspects that were observed to have an influence on the revenue collection performance include management ensuring integrity is maintained, management commitment to ethical practices, and management commitment to the people's consciousness of control aspects. Njagi (2018) further found that control environment has a positive and statistically significant influence on the revenue collection performance.

Mutua (2017b) undertook a study that sought to examine the influence of the Internal Controls and Revenue Collection for the commercial state corporations in Kenya. Amongst the aspects that were examined was the role of the control environment on the revenue collection aspects. The control environment aspects that were found to influence revenue collection included management establishment of policies and procedures for major operations, an organized chain of command in the organization, management being committed towards the control of the business, and Specific lines of responsibility and authority have been established to ensure compliance with procedures and policies.

The staff control environment details the work environment, policies and procedures that govern staff conduct while at workplace ensuring proper conduct is maintained. According to Njagi (2018) relates to the aspects of integrity and moral qualities, competences and systems of internal controls touching on the staff conduct aspects. Other values include ethical values and commitment (Kamau, 2016). According to Mohamed (2018) the control environment is important to the revenue collection activities of an organization as it sets the tone and the direction of the staff conduct. Hamdani and Albar (2016) further states that an effective staff control environment creates working environment where staff are knowledgeable on their responsibilities, the level of their authority in work functions, and committed in doing their work the right way. The staff control environment is critical in the revenue collection performance as it ensures that there is no fraud and corruption related activities that would present income leakage in revenue collection activities.

### 2.4.3 Record control and revenue collection

KRA's accounting records are such that all transactions that occur are timely recorded and correct values are properly accounted for in the accounting records in. Where manual accounting systems is used accounting records consists of source documents on which details of transactions will be initially recorded. Transactions are recorded on receipts. To enhance control, KRA also perform the following tasks: The accuracy of information and amounts recorded on source documents are checked by independent person other than those responsible for their preparation before recorded. These independent persons perform checks and should sign source documents as evidence of having performed the task. There are also daily balancing and reconciliation of cash books and the bank statements to test the accuracy and reliability of the accounting records. (KRA Audit manual, 2008).

Njagi (2018) further found that risk assessment had a positive and statistically significant influence on the revenue collection performance aspects. In a study undertaken to examine on the environmental factors influencing revenue collection in Kitui county, Wayua (2017) looked at the link between the staff risk assessment and revenue collection performance.

The study found that the country puts adequate measures to mitigate the risks associated with staff risks, there are measures to address the enforcement challenges, and ensuring adherence to the set risk management practices. In the study, Wayua (2017) had used a descriptive case study and structured questionnaire for data collection purposes.

Gituma (2017) in a study focusing on the determinants of the effective revenue collection at Embu county government indicated various staff risks. The study identified various staff risks that needed been examined and addressed in order to achieve effective revenue collection. These staff risks identification included revenue not being submitted to the risk office, Collusion among staff not to surrender revenue, collusion between staff and tax remitters not to surrender revenue, and Staff receives bribes from tax remitters. These activities were found to undermine the revenue collection performance of the county government of Embu.

The link between internal control and revenue fund management was further examined by Oyaro and Angwenyi (2016) in a study on the internal control and funds management amongst the county governments in Kenya. Amongst the staff risk assessment aspects included risk identification aspects, risk response, limits for risk tolerances, and checking of fraudulent risk activities. The study had utilized structured questionnaire and descriptive research design. The staff risk challenges and their influence on the revenue collection were examined by Mohamed (2018) in a study on the internal control system and financial management of selected local non-government. The study noted that amongst the staff risk assessment measures that are put in place include examining that material misstatement due to fraud is minimized in nature and actions being undertaken to eliminate staff fraud risks.

## 2.5 Critiques of the study

Sigilai and Njiru (2016) sought to link internal control activities to revenue collection at Nakuru level five hospital. The study using the descriptive research design and structured questionnaire found the various ways in which control activities influence revenue collection. In this context, Sigilai and Njiru (2016) noted that amongst the control activities included documentation of the policies and procedures, commitment of internal control systems, and good management systems aspects.

Ndunda *et al.,* (2015) undertook a study to examine the factors influencing optimal revenue collection by the county government of Nakuru. The study found that various internal control activities must be undertaken in order to improve efficient on the revenue collection performance. Amongst the control activities that the study recommended should be undertaken include elimination of corruption revenue clerks, and measures to improve on the accountability level of revenue clerks (Ndunda *et al*., 2015).

Mbuva, Rambo, and Oketch (2018) examined the influence of control activities on the project performance within SME projects. The study found that some of the control activities that can be undertaken included existence of systems to ensure ethical conduct amongst staff members, guidance by the top management on moral aspects, and top management ensuring fairness and truthfulness. These aspects have been linked to the project performance while this study was interested in the revenue collection performance hence creating a contextual gap.

In Uganda, Katusiime, Mabonga, Kirabo, and Arthur (2018) examined the role between control environment and control activities on financial performance of Kampala international University. The study found that the control activities improve on the consciousness of the employees within the organization and hence improving on the financial performance aspects. Amongst the activities that have been noted amongst the control activities include the segregation of duties, information control and physical control of critical equipment to enable only authorized officials to access those systems. Similar to Mbuva *et al* (2018), Katusiime *et al* (2018) presented contextual research gaps as it doesn't focus on the revenue collection performance like this study.

Oyaro and Angwenyi (2016) in a study on the internal control and funds management amongst the county governments in Kenya. Amongst the staff risk assessment aspects included risk identification aspects, risk response, limits for risk tolerances, and checking of fraudulent risk activities. The study had utilized structured questionnaire and descriptive research design. The staff risk challenges and their influence on the revenue collection were examined by Mohamed (2018) in a study on the internal control system and financial management of selected local non-government. The study noted that amongst the staff risk assessment measures that are put in place include examining that material misstatement due to fraud is minimized in nature and actions being undertaken to eliminate staff fraud risks.

In a study that was similar to Katusiime *et al* (2018), (Kinyua, Gakure, Gekara, & Orwa, 2015) undertook a study that sought to link the internal control environment and financial performance aspects. The study was based on the financial performance of listed firms at the Nairobi Securities Exchange (NSE). The study found that the internal control environment that was critical to the financial performance include integrity and ethical values, and the manner in which activities are delegated to staff within an organization. The study similar to that of Katusiime *et al* (2018) also presented a contextual gap as it didn’t link control environment to revenue collection performance aspects. This is what this study will focus on.

Njagi (2018) undertook a study that examined on the internal controls and revenue collection within the hospitals. Amongst the aspects that were examined were the control environment and how they influence the revenue collection performance aspects. The study utilized a descriptive research design and collected data using structured questionnaire. Amongst the staff control environment aspects that were observed to have an influence on the revenue collection performance include management ensuring integrity is maintained, management commitment to ethical practices, and management commitment to the people’s consciousness of control aspects.

Njagi (2018) further found that control environment has a positive and statistically significant influence on the revenue collection performance.

## 2.6 Research Gaps

The reviewed studies present various research gaps .Njagi (2018) undertook a study that examined on the internal controls and revenue collection within the hospitals. While the study linked internal controls with revenue collection, the study was based on hospitals while the current study is on revenue collection at the Kenya Revenue Authority. Mutua (2017b) study was also based on the Internal Controls and Revenue Collection for the state corporations in Kenya. The study presented contextual gap in the sense that it focused on the state corporations in Kenya while the current study will be based on Kenya Revenue Authority. In respect to the staff risk assessment, Njagi (2018), Wayua (2017), and Gituma (2017) had linked risk assessment to revenue collection within county governments and departments but not within a revenue collection body such as Kenya Revenue Authority. This study seeks to fill that gap.

## 2.7 Summary

The staff control environment is a critical factors leading to the improvement of the revenue collection performance. Amongst the staff control environment aspects that were observed to have an influence on the revenue collection performance include management ensuring integrity is maintained, management commitment to ethical practices, and management commitment to the people's consciousness of control aspects. Other control activities influencing revenue performance included management establishment of policies and procedures for major operations, an organized chain of command in the organization, management being committed towards the control of the business, and specific lines of responsibility and authority have been established to ensure compliance with procedures and policies. The staff risk assessment also influences revenue collection performance in diverse ways. Amongst the staff risk assessment aspects include putting adequate measures to mitigate the risks associated with staff risks, there are measures to address the enforcement challenges, and ensuring adherence to the set risk management practices. Other staff risks that needed to be catered for include revenue not being submitted to the risk office, Collusion among staff not to surrender revenue, collusion between staff and tax remitters not to surrender revenue, and Staff receives bribes from tax remitters. Staff control activities are key in ensuring revenue collection performance. Amongst the key staff control activities include elimination of corruption revenue clerks, and measures to improve on the accountability level of revenue clerks. Others were documentation of the policies and procedures, commitment of internal control systems, and good management systems aspects. Other control activities include existence of systems to ensure ethical conduct amongst staff members, guidance by the top management on moral aspects, and top management ensuring fairness and truthfulness.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The third chapter of the work examines on the research methodological aspects. This chapter examined the research design, target population, sampling and sample size, data collection processes and data collection procedures.

## 3.2 Research Design

Research design refers to an action plan that a researcher adheres to ensure that the research objectives are achieved in the most economical and efficient manner (Mugenda & Mugenda, 2019). In the context of the control of the variables, this study undertaken in an ex post facto manner. The researcher adopted descriptive research design type of the ex post facto design. The descriptive research design relates to the descriptions of the research phenomenon on the ground without any manipulation of the variables (Smith & Albaum, 2012). The advantage of the descriptive research design is that it has ability to collect factual information on the research phenomenon. The study collected factual and objective of the influence of the staff internal control on the revenue collection of Kenya Revenue Authority.

## 3.3 Target Population

The target population refers to the universal set of people or items that the researcher is interested in due to their ability to possess information on the research objectives (Rich, Brians, Manheim, & Willnat, 2018).

The target population comprised of KRA employees who were involved directly or indirectly in decision making and controls. The target population of this study is then the revenue collection staff, supervisors and internal audit team based at the Kenya Revenue Authority headquarters. The target population of the study was 97 staff comprises of 57 revenue collection staff, 25 supervisors and 15 internal auditors. The target population was as follows;

**Table 3.1:Target Population**

| | Staff Number |
|---|---|
| Revenue Collection Staff | 57 |
| Supervisors | 25 |
| Internal Auditors | 15 |
| **Total** | **97** |

## 3.4 Sampling Size and Sampling Procedure

The sampling refers to the selection of a small representative number of persons from the target population due to the financial and logistical challenges (Yin, 2018). The sampling was undertaken in this study due to the challenges of accessing all the target population within the time provided for undertaking this study.

### 3.4.1 Sample size

The sampling size is a fundamental cornerstone of the sampling process. The sampling size refers to the exact number of persons that need to be derived from the population to form the sample membership. This study utilized the Taro Yamane formula for the calculation of the sample size as follows;

$$\text{n} = \frac{N}{1+N(e^2)}$$

where n is the sample size, N is the target population and e is the margin of error (0.05)

Thus the target population of the study is;

$$n = \frac{N}{1+N(e^2)} = \frac{97}{1+97(0.05^2)} = 78\,respondents$$

The study sample size was 78 respondents for the study as the sample size for the study. Purposive sampling is where the Researcher consciously decides who to include in the sample. It was used simply because the study was targeting custodians of the internal control systems. It also ensured that only people with relevant information are sampled.

**Table 3.2: Sample size**

| | Staff Number |
|---|---|
| Revenue Collection Staff | 46 |
| Supervisors | 20 |
| Internal Auditors | 12 |
| **Total** | **78** |

### 3.5 Data Collection Instrument

The data collection instrument refers to the tool that will be utilized for the purposes of the data collection process. This study utilized the questionnaire for data collection. A questionnaire refers to a set of written questions about the research objectives that are to be answered in writing. In particular the study utilized the structured questionnaire for the data collection process. The closed structured questionnaire refers to a set of questions in which the potential respondents have been issued with the response alternatives from where they must choose their options from(Miller, Acton, Fullerton, & Maltby, 2017). There are several advantages associated with the structured questionnaire which forms the basis of their usage in this study. The closed structured questionnaire is associated with the ease of data collection, higher response rates, and ease of analysis using statistical softwares (Cohen et al., 2017). The closed structured questionnaire was five sections that is section 1 having demographic questions, section II to IV having the variables of the study. The study utilized the likert scale for the measurement scale of the study. The likert scale is used for the purposes of measuring the opinions of the respondents in respect to the various research variables. The study utilized a five point likert scale composed of 1. No Extent 2. Small Extent 3.Moderate Extent 4.Large Extent and 5.Very Large Extent.

### 3.6 Pilot Study

The pilot study refers to a mini study undertaken for the purpose of addressing the logistical aspects of the data collection process, validating the questionnaires and testing of the reliability of the questionnaire (Greiffenhagen, Mair, & Sharrock, 2016). The pilot study is often undertaken using 10% of the sample size and as such will be undertaken using 8 respondents being the 10% of the respondents.

The pilot study is undertaken under similar or near similar conditions to the final study in order to ensure that the feedback of the pilot study exercise is useful in improving the final study outcome. The respondents of the pilot study were utilized in the final study to avoid contamination of the study results as they already were exposed to the study data collection instruments.

#### 3.6.1 Validity of the research instrument

The validity of the research instrument refers to the ability of the research instrument to measure what it is designed to measure (Nayak, 2016). In the context of this study, the validity of the research instrument refers to the ability of the structured questionnaire to measure the research phenomena that is the effect of internal controls on the revenue collection at Kenya Revenue Authority. The validity of the research instrument was measured using the content validity. The content validity refers to the representativeness of the research instrument content in addressing the research phenomenon (Leek, 2015). The content validity of the structured questionnaire was undertaken through use of the content validity index and uses the research supervisors as the content validators. The feedback from the content validity was incorporated in the questionnaire of the study.

### 3.6.2 Reliability of the research instrument

The reliability of the research instrument refers to the ability of the results of the study to be replicated across time or among the respondents (Greener & Martelli, 2015). The reliability of this study was undertaken using the Cronbach alpha coefficient of a threshold of 0.7 and above (Neuman, Djamba, & Neuman, 2014). The Cronbach alpha coefficient is used to measure internal reliability or homogeneity of the responses in a summated scale such as the one that was used in this study. The study used Cronbach alpha coefficient due to the fact that the variables in this study were measured as latent variables using a likert based scale. The reliability results of the study was used in improving the final questionnaire to be utilized in the study.

## 3.6 Data Collection Procedure

The data collection procedure commenced with the receipt of the formal data collection authorization from the university after the successful defense of the proposal and attending to any arising issue from the defenses. The researcher sought the National Commission of Science, Technology and Innovation (NACOSTI) authorization for the data collection process. The researcher further approached the Kenya Revenue Authority management to undertake the study in their premises using their staff. Individual respondents were issued with the consent letters to illustrate on the purpose of the study and their individual rights while participating in the study. The study collected the data through Drop Off Pick Up later method in which questionnaire was distributed and picked up at a later date. The DOPU method is associated with an increased response of the study thus leading to higher statistical validity of the research.

## 3.7 Data Analysis and Presentation

The data analysis was undertaken using SPSS statistical software for the data analysis processes. The data analysis constituted the descriptive and inferential statistics. The descriptive statistics that was undertaken include the frequency distribution, means and standard deviations. The study was undertaken using inferential statistics. The inferential statistics to be undertaken include linear regression analysis for the purposes of hypothesis testing. The linear regression was used is the multiple linear regression analysis with the following model;

$Y=\beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ where

Y is the dependent variable,

while $\beta_0$,$\beta_1$, $\beta_2$ and $\beta_3$are beta coefficients, and

$X_1$,Monitoring

$X_2$ Internal audit

$X_3$ Records control

# CHAPTER FOUR

## RESEARCH FINDINGS AND DISCUSSION

### 4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings.

### 4.2 Response Rate

The researcher administered a total of 78 questionnaires and 75 were completed and returned. This represents a response rate of 96% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

**Table 4.1 Response rate**

| Category | Frequency | Percentage |
|---|---|---|
| Completed and returned | 75 | 96 |
| Not returned | 3 | 4 |
| Total | 78 | 100 |

### 4.3 Reliability test results

Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). The results are depicted in tale 4.2 below

**Table 4.2: Reliability tests results**

| Constructs | Reliability Cronbach's alpha | Reliability No of Items | Comment |
|---|---|---|---|
| Monitoring | 0.773 | 4 | Accepted |
| Internal audit | 0.744 | 4 | Accepted |
| Records control | 0.734 | 4 | Accepted |
| Revenue collection | 0.742 | 4 | Accepted |

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.7 while specific findings indicated that, monitoring had a coefficient of 0.773, internal audit had a coefficient of 0.744, records control had a coefficient of 0.734 and revenue collection had a coefficient of 0.742. Table 4.2 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value. This indicates that the instrument was reliable to obtain data on the effect of internal controls on revenue collection at Kenya revenue authority

## 4.4. Descriptive statistics

### 4.4.1 Monitoring

This section sought to evaluate the effect of monitoring on revenue collection. Table 4.3 shows the results obtained.

**Table 4.3 Monitoring**

| Statement | Mean | Std. deviation |
|---|---|---|
| Management assesses the individual assessment on quarterly basis | **2.13** | **1.152** |
| KRA carry out continuous assessment | **2.40** | **1.233** |
| KRA has an independent monitoring unit | **2.28** | **1.223** |
| Management or approved personnel reviews results of audit | **1.44** | **1.154** |

According to the results on table 4.3 show that, highest mean values were 2.40, 2.28 and 2.13, which correspond to the likert scale value of 2. This indicates that the respondents agree that Management assess the individual assessment on quarterly basis, KRA carry out continuous assessment, KRA has an independent monitoring unit and Management or approved personnel reviews results of audit. The lowest mean value was 1.44, which indicates that the respondents strongly agreed that Management or approved personnel reviews results of audit. The study findings are supported by a number of studies which includes Mbuva, Rambo, and Oketch (2018) .

### 4.4.2 Internal audit

This section sought to determine the effect of internal audit on revenue collection.

**Table 4.4 Internal audit**

| Statement | Mean | Std. deviation |
|---|---|---|
| Policies, procedures and documented as well defined | **3.28** | **1.345** |

| | | |
|---|---|---|
| KRA Board of Directors are committed to the Internal Control System implementation | **3.20** | **1.444** |
| Policies, procedures and documented as well defined | **2.39** | **1.067** |
| Systems have been put in place to correct and avoid errors | **2.11** | **1.067** |

According to the results on table 4.4 the highest mean values were 3.28 and 3.20 which corresponds to the scale value of 3. This indicates that the respondents agree that Policies, procedures and documented as well defined, Policies, procedures and documented as well defined and Policies, procedures and documented as well defined. The lowest mean value 2.11 which indicates that the respondents strongly agreed that systems have been put in place to correct and avoid errors. The study findings are supported by a number of studies which includes Mohammad (2010)

### 4.4.3 Records control

This section sought to find out the effect of records control on revenue collection.

**Table 4.5 Records controls**

| Statement | Mean | Std. deviation |
|---|---|---|
| KRA has an accounting and financial management system in place | **2.33** | **1.065** |
| Reconciliation of cash books is carried out on monthly basis | **2.13** | **1.056** |
| Management is committed to the operation of the daily balancing | **3.56** | **1.335** |
| Management commitment to the operations of the Accounting and financial management system | **2.61** | **1.455** |

According to the result in table 4.5 the highest mean values were 3.56 and 2.61 and 2.33 .Meaning respondents were indifferent, they agreed that there is KRA has an accounting and financial management system in place, management is committed to the operation of the daily balancing and management commitment to the operations of the accounting and financial management system. The lowest mean value 2.13. which indicates that the Reconciliation of cash books is carried out on monthly basis. The study findings are supported by a number of studies which includes Katusiime *et al* (2018) and Kinyua *et al* (2015), Muhunyo (2018)

### 4.4.4 Revenue collection

**Table 4.6 Revenue collection**

| **Statement** | **Mean** | **Std. deviation** |
|---|---|---|
| KRA has not been achieving its collection target as set by the Minister for Finance | **3.19** | **1.085** |
| KRA set target per office to meet over the financial year | **2.11** | **1.080** |
| Collection target should be based on employee ability and sound controls. | **3.20** | **1.344** |
| Optimization of the revenue collection capacity | **3.50** | **1.243** |

According to the results on table 4.6 the highest mean values were 3.50 and 3.20 and 3.19 which corresponds to the scale value of 3. The results indicate that the respondents agreed that Optimization of the revenue collection capacity, Cost efficiency in revenue collection in my department and Achievement of various periodic targets in my department.

The lowest mean value 2.11. Which indicates that the respondents strongly agreed that Elimination of income leakage challenges in my department influence on revenue collection. The study findings are supported by a number of studies which includes Mbuva, Rambo, and Oketch (2018)

## 4.5 Correlation Analysis

### 4.5.1 Correlation results on independent variables

Correlation shows the relationship existing between variables in the study. The study's dependent variable is Revenue collection and the independent variables consist of monitoring, internal audit and records control

The results depicted in table 4.7 below

4.0 **Table 4.7: Correlations Statistics of Independent and Dependent Variables**

| | | **Revenue collection** | **Monitoring** | **Internal audit** | **Records control** |
|---|---|---|---|---|---|
| Revenue collection | Pearson Correlation | 1 | | | |
| Monitoring | Pearson | .386 | 1 | | |
| Internal audit | Pearson | .459 | .212 | 1 | |
| Records control | Pearson Correlation | .327* | .315* | . 806* | 1 |

****. Correlation is significant at the 0.01 level (2-tailed).**
***. Correlation is significant at the 0.05 level (2-tailed).**

A correlation coefficient enables the researcher to quantify the strength of the linear relationship between two ranked or numerical variables (Smith, 2010). Pearson correlation coefficient (r) was used to assess strength of association between the study variables. Where (r) is more than 0.7, variables indicates strong correlation. Results on

Table 4.7 indicates revenue collection had strong positive correlation with monitoring, internal audit and records control at 0.386, 0.459 and 0.327 respectively. These results show that in terms of statistics, internal audit have more statistical influence on revenue collection at Kenya Revenue Authority.

### 4.6 Regression Analysis

#### 4.6.1 Model Summary

**Table 4.8 : Effect of monitoring and Revenue collection**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .722[a] | .521 | .518 | .74269 |

a. Predictors: (Constant), Monitoring

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 3.761 | 1 | 3.761 | 27.846 | .000[b] |
| | Residual | 31.334 | 77 | 0..406 | | |
| | **Total** | **34.095** | **78** | | | |

a. Dependent Variable: Revenue collection :

a. Predictors: (Constant), Monitoring

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.784 | 0.418 | | 7.660 | .000 |
| | Monitoring | .576 | 0.104 | .718 | 5.538 | .000 |

a. Dependent Variable: Revenue collection

**Régression Equation**

$Y= 2.784B + 0.576\mathbf{X_1} +e$

The results in Table 4.7 indicated that monitoring had a positive correlation with revenue collection e up to 72.2% or (R= 0.722. The results reveals that monitoring caused a variation of 52.1% or ($R^2$=0.521 and adjusted $R^2$ =0.518) on revenue collection. This implies that the remaining 47.9 % of the change was caused by other factors not included in the model

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.8 show an F value of 27.846 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that monitoring contributes significantly to changes in the revenue collection.

**Model Summary**

**Table 4.8 : Effect of Internal audit on Revenue collection**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .516[a] | .266 | .262 | .13617 |

a. Predictors: (Constant), internal audit

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 8.731 | 1 | 8.731 | 57.513 | 0.000 |
| | Residual | 53.362 | 77 | 0.693 | | |
| | Total | 62.093 | **78** | | | |

a. Dependent Variable: revenue collection
b. Predictors: (Constant), internal audit

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.486 | .373 | | 3.983 | .006 |
| | Internal audit | .317 | 0.049 | .516 | 6.469 | .000 |

a. Dependent Variable: Revenue collection

**Régression Equation**

Y= 1.486B + 0.317$\mathbf{X_2}$ +e

The results in Table 4.8 indicated that internal audit had a positive correlation with revenue collection up to 51.6% or (R= 0.516). The results reveals that internal audit caused a variation of 26.6% or ($R^2$=0.266 and adjusted $R^2$ =0.262) on revenue collection. This implies that the remaining 73.4% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.8 show an F value of 57.513 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that internal audit contributes significantly to changes in the revenue collection

**Model summary**

**Table 4.9 : Effect of Records control on Revenue collection**

**Model Summary**

| **Model** | **R** | **R Square** | **Adjusted Square** | **RStd. Error of the Estimate** |
|---|---|---|---|---|
| 1 | .828[a] | .685 | .679 | .93618 |

a. Predictors: (Constant), Records control

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 5.669 | 1 | 5.669 | 69.742 | 0.000 |
| | Residual | 12.672 | 77 | 0.164 | | |
| | **Total** | **18.341** | **78** | | | |

a. Dependent Variable: Revenue collection

b. Predictors: (Constant), Records control

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.892 | .265 | | 7.139 | .000 |
| | Records control | .325 | 0.069 | .828 | 4.710 | .000 |

a. Dependent Variable: Revenue collection

**Régression Equation**

$Y= 1.892B + 0.325\mathbf{X_3} +e$

The results in Table 4.9 indicated that records control had a positive correlation with revenue collection up to 82.8% or (R= 0.828). The results reveals that records control caused a variation of 68.5% or ($R^2$=0.685 and adjusted $R^2$ =0.679) on revenue collection . This implies that the remaining 31.5% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.9 show an F value of 69.742 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that records control contributes significantly to changes in the revenue collection.

### 4.6.2 Model Summary

**Table 4.10 : Overall regression coefficients**

| | **Unstandardized Coefficient** | | **Standardized Coefficient** | | |
|---|---|---|---|---|---|
| | **B** | **Std Error** | **Beta** | **T** | **Sig** |
| (Constant) | 0.490 | 0.419 | | 1.169 | 0.057 |
| Monitoring | 0.254 | 0.068 | 0.117 | 3.735 | 0.006 |
| Internal audit | 0.299 | 0.096 | 0.535 | 3.114 | 0.003 |
| Records control | 0.528 | 0.139 | 0.590 | 3.798 | 0.000 |
| R | 0.818 | | | | |
| R Square | 0.669 | | | | |
| Adjusted R Square | 0.663 | | | | |
| F | 37.862 | | | | |
| Sig | 0.000 | | | | |

Dependent Variable: Revenue collection

The findings in Table 4.7, revealed that monitoring, internal audit and records control correlate with revenue collection up to 81.8% (R=0.818) and accounts for a variation of 66.9% ($R^2$ =0.669). This implies that 33.1% of the change in revenue collection was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 66.3% (Adjusted$R^2$, 0. 663) variation of revenue collection. The findings from Table 4.10 an F statistics value of 37.862 with a significance level of 0.000 which was less than 0.05 significance level and it implies model is statistically significant

### 4.6.3 Regression coefficients

Multiple regression analysis was conducted as shown in Table 4.10 Substituting the values in the Equation Y=0.490$\beta$o+0.254+0.299+0.528+e

The Regression equation shows that the independent variables and dependent variable were statistically significant. A unit change in monitoring, internal audit and records control increase revenue collection by 25.4%, 29.9% and 52.8% respectively.

### 4.6.4 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.10 an F statistics value of 37.862 with a significance level of 0.000 which was less than 0.05 significance level and it implies model is statistically significant. The overall of implication of the model is that independent variables contribute significantly to changes in the dependent variable.

## 4.7 Discussion of key Findings

The key findings of the study are discussed in this section as per study objectives.

### 4.7.1 Monitoring and Revenue collection

Monitoring was assessed using five measures and the overall mean score or responses regarding monitoring were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that monitoring affect revenue collection at Kenya Revenue Authority. The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that monitoring had positive and significantly related to revenue collection ($r = 0.254$, p-value$=0.00<0.05$).

### 4.7.2 Internal audit and Revenue collection

Internal audit was assessed using five measures and the overall mean score or responses regarding internal audit were 1.66 on a 5-point scale which indicates that majority of the respondents agreed that internal audit affects the revenue collection at Kenya Revenue Authority.

The average overall standard deviation of 0.0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that internal audit had a positive and significantly related to revenue collection ($r = 0.299$, p-value=$0.00<0.05$).

### 4.7.3 Records control and Revenue collection

Records control was assessed using four measures and the overall mean score or responses regarding Records control were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that records control affects the revenue collection at Kenya Revenue Authority. The average overall standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that Records control had a positive and significantly related revenue collection in Kenya ($r = 0.528$, p-value=$0.00<0.05$).

# CHAPTER FIVE

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.0 Introduction

Chapter five outlines the summary of this research, conclusions and recommendations based on research findings and suggestion of areas which may require further consideration as far as future research is concerned.

### 5.1 Summary of the findings

The findings of the study was summarized below as per the study objectives. The findings were supported by the frequencies of the responses

#### 5.1.1 Monitoring

The first objective of the study was to evaluate the effect of monitoring on revenue collection in Kenya. Methods used to arrive at the findings included descriptive statistics, analysis of variance and regression analysis. The study found out that monitoring had a significant positive on revenue collection in Kenya. The overall mean score of responses regarding monitoring indicated that majority of the respondents agreed that monitoring affects the revenue collection in Kenya. The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

#### 5.1.2 Internal audit

The second objective of the study sought to find out` the influence of internal audit on revenue collection in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that internal audit had a significant positive affect on revenue collection.

The overall mean score of response regarding internal audit and revenue collection indicated that majority of the respondents agreed that internal audit affect the revenue collection in Kenya. Correlation results indicated that there was a positive and significant relationship between internal audit and revenue collection. It was therefore concluded that internal audit has significant positive effect on revenue collection in Kenya.

### 5.1.3 Records controls

The third objective of the study sought to investigate the influence of records control on revenue collection in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that records control had a significant positive affect on revenue collection in Kenya. The overall mean score of response regarding records control and revenue collection indicated that majority of the respondents agreed that records control affects the revenue collection in Kenya.

Correlation results indicated that there was a positive and significant relationship between records control and revenue collection. It was therefore concluded records control has significant positive effect on revenue collection in Kenya.

.

## 5.2 Conclusions

The aim of the study was to investigate the effect of internal control on revenue collection in Kenya. Data collected and analysed through both descriptive and inferential statistics established that all independent variables had significant influence on revenue collection. The study found out that monitoring had a positive effect on revenue collection.

The overall mean score of responses regarding monitoring indicated that majority of the respondents agreed that monitoring had positive effect on revenue collection in Kenya. The study found out that internal audit had a significant positive effect on revenue collection. The overall mean score of response regarding internal audit revenue collection indicated that majority of the respondents agreed that internal audit influence the revenue collection in Kenya. Correlation results indicated that there was a positive and significant relationship between internal audit and revenue collection. It was therefore concluded that internal audit has significant positive effect on revenue collection.

The study found out that records control had a significant positive influence on revenue collection. The overall mean score of response regarding records control and revenue collection indicated that majority of the respondents agreed that records control influence the revenue collection in Kenya. Correlation results indicated that there was a positive and significant relationship between records control and revenue collection. It was therefore concluded that staff control activities has significant positive influence on revenue collection. Based on the findings of the study, it is concluded that there is a direct correlation between the level of internal controls and the amount of revenue collection by KRA. The level of internal controls can be measured by the effectiveness of those controls. Where there is an effective control system in place then revenue collection also goes up as demonstrated by the amounts collected when KRA had not put in place any controls with the time the organization started effecting controls.

## 5.3 Limitations of the Study

The main limitation of study was the reluctance to respond to questionnaires was a factor that led to failure of collecting all the required data for the study. This was due to some reservations held by the target population. This hence would have led to generalization during the analysis and presentation of the data made from those who responded to represent the views of the rest of the respondents. . Lack of co-operation from some respondents who were unwilling to part with information they thought will be too confidential to disclose was a challenge. To overcome this; the study sought demystify the study to the respondents by explaining to them the purpose of the study. Few scholars have written about the impact of internal control systems in revenue collection.

The information given by respondents was uncontrollable and not sure if it was true or false. The respondents were explained to that the information would only be used for education purpose. This allowed them to be confident that they would not be persecuted of the information they gave.

### 5.4 Recommendations

Since it was evident in the study, that monitoring, internal control and records control were effective on revenue collection, the management should ensure all these aspect should be enhanced so as to ensure attainment of objectives .The management should; be committed to operations of the system, establish policies and procedures for authorizations at an adequately high level, ensure specific lines of authority and responsibility have been established to ensure compliance with policies and procedures, ensure clear separation of roles in revenue collection department, train staff on implementation of the accounting and financial management system and finally ensure that variances between actual and budgeted revenue are explained by management on a timely basis. Additionally, the study recommended that for the Kenya Revenue Authority to effectively attain their revenue collection target, they should ensure that internal control system is well managed in the revenue collection departments to ensure high revenue yield and achievements of set targets

The study recommends that Kenya Revenue Authority should recognize contributions of internal control systems. Additionally, the study recommends that the Kenya Revenue Authority should apply internal control systems in their operation to effectively ensure that revenue collected meets the targets set. The study should also be done with comparison to other revenue bodies to recommend for other revenue collection measures. A replication of this study should be done after some time to find out if there are any changes that might have taken place as a result of time difference and then comparisons to be made with the current data, so that viable recommendations can be drawn. The management of KRA should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation

.

### 5.5 Suggestions for further research

The study also suggests that research on impact of internal control on operational efficiency of Kenya Revenue Authority should also be carried out since the Kenya Revenue Authority need to be operating efficiently for proper service delivery.

The study further recommends that research should be done on the challenges to effective performance of internal control systems in the Kenyan public sector since the departments are bogged with myriad challenges.

# REFERENCES


Aden, A. H., Aden, A. A., & Addow, A. I. (2015). Internal Control and Cash Management in Mogadishu Flight Service Companies in Somalia. *Academic Research International*, *6*(2), 232–241.

Chumba, B., & Kiptum, G. K. (2018). Effect of Communication Strategy on Revenue Collection of Kenya Revenue Authority at North Rift Region. *Africa International of Management Education and Governance (AIJMEG)*, *3*(2), 13–24.

Cohen, L., Manion, L., Morrison, K., Lawrence, M., Keith, M., Louis, C., … Morrison, K. (2000). *Research Methods in Education* (5th ed.). London and New York: Taylor & Francis.

Gitaru, K. (2017). The Impact of System Automation on Revenue Collection in Kenya Revenue Authority . ( A Case Study of SIMBA ). *Munich Personal RePEc Archive (MPRA)*, 1–49.

Gituma, H. K. (2017). *Determinants of Effective Revenue Collection by Embu County, Kenya*. Unpublished Degree of Master of Business Administration Thesis: University of Embu.

Greiffenhagen, C., Mair, M., & Sharrock, W. (2016). From Methodology to Methodography: A Study of Qualitative and Quantitative Reasoning in Practice. *Methodological Innovations Online*, *6*(3), 93–107.

Hamdani, R., & Albar, A. R. (2016). Internal Controls in Fraud Prevention Effort: A Case Study. *Jurnal Akuntansi & Auditing Indonesia*, *20*(2), 127–135.

Harelimana, J. B. (2018). Effect of Tax Audit on Revenue Collection in Rwanda. *Global Journal of Management and Business Research: D Accounting and Auditing*, *18*(2), 1–11.

Henry, J. O., Bogonko, J., & Ong'iyo, C. (2018). Influence of Automation on Revenue Collection by County Government: A Case Study of Nakuru County Government. *International Journal of Economics, Commerce and Management*, *VI*(9), 230–245.

Jalali, M., & Saldanha, F. Y. L. (2017). *Basic Science Methods for Clinical Researchers*. 125 London Wall, London EC2Y 5AS, United Kingdom 525: Elsevier Inc.

Kamau, E. N. (2016). *An Investigation into the Causes and Characteristics of Fraud in Kenyan Saccos and Whether Benford's Law Can be Used to Detect Fraud in the Accounting Data*. Unpublished Degree of Master of Commerce Thesis: Strathmore University.

Kamau, J. (2016). *Effects of Internal Control Practices on Financial Performance of Small and Medium Enterprises in Nairobi County*. Unpublished Degree of Master of Science in Finance Thesis: University of Nairobi.

Karanja, J. K. (2018). *An Assessment of Challenges of Administering Turnover Tax Collection :A Case Study of Kenya Revenue Authority*. Unpublished Master of Public Policy and Management Thesis: Strathmore University.

Katusiime, A., Mabonga, E., Kirabo, J., & Sunday, A. (2018). Effect of Control Environment and Control Activities on Financial Performance of Kampala International University. *International Journal of Research*, *5*(20), 131–137.

Kinyua, J. K., Gakure, R., Gekara, M., & Orwa, G. (2015). Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. *International Journal of Innovative Finance and Economics Research*, *3*(4), 29–48.

Kiri, N. (2016). Efficiency of Tax Administration: Case of Shkodra Regional Tax Directorate. *International Journal of Economics, Commerce and Management*, *IV*(5), 218–224.

Kisanyanya, A. G. (2018). Internal Control Systems and Financial Performance of Public Institutions of Higher Learining in Vihiga County , Kenya. *IOSR Journal of Business and Management (IOSR-JBM)*, *20*(4), 31–41.

Kivuva, E. (2019). *KRA Collections up, but Misses 2018 Target*. Retrieved from https://www.the-star.co.ke/business/2019-08-05-kra-collection-up-but-misses-2018-target/

Leek, J. T. (2015). *The Elements of Data Analytic Style : A guide for people who want to analyze data*. Leanpub Publishing.

Mahmoud, I. (2017). Internal Control and Public Sector Revenue Generation in Nigeria: an Empirical Analysis. *International Journal of Scientific Research in Social Sciences & Management Studies*, *2*(1), 35–48.

Maisiba, G. J., & Atambo, W. (2016). Effects of Electronic- Tax System on the Revenue Collection Efficiency of Kenya Revenue Authority : A Case of Uasin Gishu County. *Imperial Journal of Interdisciplinary Research (IJIR)*, *2*(4), 815–827.

Makori, R. G., Nyagol, M., & Odongo, A. J. (2016). Influence of Internal Control Systems on Fraud Risk Management among Commercial Banks in Kisii Town , Kenya. *IOSR Journal of Business and Management (IOSR-JBM)*, *18*(4), 28–34.

Martelli, J., Greener, S., & Martelli, J. (2015). *An Introduction to Business Research Methods* (2nd ed.). Bookboon.

Mbuva, P. M., Rambo, C. M., & Oketch, T. (2018). Influence of Control Environment on Performance of SME Projects in Machakos County, Kenya. *International Journal of Economics, Commerce and Management*, *VI*(9), 380–404.

Miller, R. L., Acton, C., Fullerton, D. A., & Maltby, J. (2002). *SPSS for Social Scientists*. New York: Palgrave Macmillan.

Mohamed, M. M. (2018). *Internal Control System and Financial Management in Selected Local Non-Government Organizations in Mogadishu, Somalia*. Unpublished Master of Business Administration Thesis: University Kampala.

Mosomi, N. A. (2015). Determinants of Tax Efficiency Perceptions by Domestic Taxpayers in Kenya : The Case of Nairobi. *International Journal of Economics,* *Finance and Management Sciences*, *3*(5), 541–545.

Msomi, I. M. (2018). *Risk Assessment: A Case of a Non-Profit Organisation in the Environmental Sector*. Unpublished Degree of Master of Commerce Thesis: University of Kwazulu-Natal.

Mugenda, A., & Mugenda, O. (2019). *Research Methods* (3rd ed.). Nairobi: Acts Press.

Muhunyo, B. M. (2018). *Effect of Internal Control Systems on Financial Performance of Public Institutions of Higher Learning in Nairobi City County, Kenya*. Unpublished Degree of Master of Business Administration (Finance Option) Thesis: Kenyatta University.

Musya, F. M. (2014). *The Effect of Internal Controls on Revenue Collection by County Governments in Kenya*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.

Mutua, E. M. (2017). *The Relationship between Internal Controls and Revenue Collection for Commercial State Corporations in Kenya*. Unpublished Degree of Masters of Science in FinanceThesis: University of Nairobi.

Mwachiro, B. D. (2013). *Effects of Internal Controls on Revenue Collection: A Case of Kenya Revenue Authority*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.

Mwazo, E. M., Weda, C., Omondi, M. M., & Njenga, A. N. (2017). Role of Internal Control Systems on Service Delivery in the National Treasury of Taita-Taveta County, Kenya. *International Journal of Economics, Commerce and Management*, *V*(8), 431–447.

Nayak, J. K., & Singh, P. (2016). *Fundamentals of Research Methodology : Problems and Prospects*. New Delhi ,India: SSDN Publishers and Distributors.

Ndunda, J. M., Ngahu, S. T., & Wanyoike, D. (2015). Analysis of Factors Influencing Optimal Revenue Collection by County Governments in Kenya: A Case of Nakuru County. *International Journal of Economics, Commerce and Management*, *III*(5), 1114–1129.

Neuman, W. L. (2014). *Social Research Methods: Qualitative and Quantitative Approaches* (7th ed.). England: Pearson Education Limited.

Ngui, D. W. (2017). *The Effect of Environmental Factors on Revenue Collection in Kitui County*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.

Njagi, A. W. (2018). *Effect of Internal Controls on Revenue Collection of Level Five Hospitals in Kiambu County*. Unpublished Degree of Master of Business Administration Thesis: University of Nairobi.

Nurohmandana, A., & Ediraras, D. T. (2019). The Influence of Transparency and Internal Control System to Creative Accounting: Empirical Study of Issuers in Indonesia Stock Exchange. *International Journal of Economics, Commerce and Management*, *VII*(4), 684–697.

Nyaga, J. N., & Omwenga, J. (2016). Factors Influencing Tax Revenue Growth at Kenya Revenue Authority: A Case of Meru Station. *International Academic Journal of Economics and Finance*, *2*(1), 1–15.

Oguda, N. J., Odhiambo, A., & Byaruhanga, J. (2015). Effect of Internal Control on Fraud Detection and Prevention in District Treasuries of Kakamega County. *International Journal of Business and Management Invention*, *4*(1), 47–57.

Osiemo, J. M. (2016). *Effects of Risk Management Practices on Financial Perfomance of Non-Life Insurance Firms Operating in Kisii County, Kenya*. Unpublished Masters of Business Administration (Finance Option) Thesis: Jomo Kenyatta University of Agriculture and Technology.

Oyaro, C. O., & Angwenyi, O. R. (2016). Internal Control and Revenue Fund Management among County Governments in Kenya. *International Journal of Accounting and Financial Reporting*, *6*(1), 200–228.

Rich, R. C., Brians, C. L., Manheim, J. B., & Willnat, L. (2018). *Empirical Political Analysis: Quantitative and Qualitative Research Methods* (9th ed.). New York and London: Routledge.

Sigilai, D. K., & Njiru, A. (2016). Assessment of Internal Control Systems Effects on Revenue Collection at Nakuru Level Five Hospital. *International Journal of Economics, Commerce and Management*, *IV*(10), 1004–1022.

Smith, S. M., & Albaum, G. S. (2012). *Basic Marketing Research : Volume 1 Handbook for Research Professionals*. USA: Qualtrics Labs Inc.

Tian, J., & He, S. (2016). Study of Factors for Internal Control Effectiveness of Listed Companies. *International Conference on Education, E-Learning and Management Technology (EEMT)*, 82–85.

Tjiueza, E. (2018). *An Assessment of the Effectiveness of Internal Control Practices: A Case Study of the Roads Contractor Company (RCC)*. Unpublished Degree of Master of Business Administration Thesis: University of Namibia.

Yin, R. K. (2018). *Case Study Research and Application* (6th ed.). United States of America: Sage Publications, Inc.

# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION

Dear participant,

**RE: DATA COLLECTION**

My name is Nurdin Abdi, a student at Jomo Kenyatta university of Science and Technology. As part of the requirement in the mentioned course, I am carrying out a research study on the topic; **Effect of Internal Controls on Revenue Collection of Kenya Revenue Authority.** You have been randomly selected to participate in the said research and I am hereby requesting you to participate in the study by responding to the attached questionnaire. Your participation is voluntary and you may opt out of this study if you so wish. All the information you provide in this study was treated as confidential and will only be used for academic purposes. Your identity remains anonymous throughout the study and therefore do not give any identifying details in any section of the attached questionnaire.

Yours Faithfully,

Nurdin Abdi

## APPENDIX II: RESEARCH QUESTIONNAIRE

## EFFECT OF INTERNAL CONTROLS ON REVENUE COLLECTION OF KENYA REVENUE AUTHORITY

### Instruction

Please answer all the questions in this questionnaire to the best of your knowledge.

### Section I Monitoring

Use the following five point Likert scale as follows; **1=No Extent, 2=Small Extent, 3=Moderate Extent, 4=Large Extent,** and **5= Very Large Extent;** to answer the following questions.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Management assess the individual assessment on quarterly basis | | | | | |
| KRA carry out continuous assessment | | | | | |
| KRA has an independent monitoring unit | | | | | |
| Management or approved personnel reviews results of audit | | | | | |

### Section I1: Internal audit

Use the following five point Likert scale as follows; **1=No Extent, 2=Small Extent, 3=Moderate Extent, 4=Large Extent,** and **5= Very Large Extent;** to answer the following questions.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| Policies, procedures and documented as well defined | | | | | |
| KRA Board of Directors are committed to the Internal Control System implementation | | | | | |
| Policies, procedures and documented as well defined | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Systems have been put in place to correct and avoid errors | | | | | |

**Section I11: Records control**

Use the following five point Likert scale as follows; **1=No Extent, 2=Small Extent, 3=Moderate Extent, 4=Large Extent,** and **5= Very Large Extent;** to answer the following questions.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| KRA has an accounting and financial management system in place | | | | | |
| Reconciliation of cash books is carried out on monthly basis | | | | | |
| Management is committed to the operation of the daily balancing | | | | | |
| Management commitment to the operations of the Accounting and financial management system | | | | | |
| | | | | | |

**Section IV: Revenue Collection**

Use the following five point Likert scale as follows; **1=No Extent, 2=Small Extent, 3=Moderate Extent, 4=Large Extent,** and **5= Very Large Extent;** to answer the following questions.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| KRA has not been achieving its collection target as set by the Minister for Finance | | | | | |
| KRA set target per office to meet over the financial year | | | | | |
| Collection target should be based on employee ability and sound controls. | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Optimization of the revenue collection capacity | | | | | |