EFFECTS OF INTERNAL CONTROLS ON REVENUE COLLECTION IN KENYA CUSTOMS ADMINISTRATION
A CASE OF INLAND CONTAINER DEPOT-NAIROBI

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A RESEARCH PROJECT SUBMITTED TO DEPARTMENT OF ECONOMICS, ACCOUNTS AND FINANCE IN THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF POST GRADUATE DIPLOMA IN CUSTOMS ADMINISTRATION OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

2018
DECLARATION
I hereby declare that this Research Project is my original work and has never been presented either in whole or partially to any other examining body for the award of certificates, diploma or degree.

Signature ................................ Date ......................................

Chepkwony K. Kibet

This project has been submitted with my authority as the university supervisor

Signature ................................. Date .................................

Dr. Doris Gitonga
DEDICATION
This research is dedicated to my lovely wife Stellah Chepkwony, my loving son; Brayden Kiprotich and my parents for their endless love, support, encouragement and motivation all through my studies. May God bless you all.
ACKNOWLEDGEMENT

I thank our Almighty God for the gift of life and the ability to write this work. I also thank my supervisor Dr. Doris Githonga for her professional guidance throughout the work and the motivation that enabled me to compile this project. I'm very much grateful to my family and my friends for their support and the ideas they unswervingly provided to see me this far. I would also like to acknowledge all my lecturers for the knowledge they have impacted in me and also to the management of the Kenya School of Revenue Administration for the opportunity to join them and be a part of this accredited institution. My appreciation also goes to fellow students for having been so instrumental and helpful in development of this work by way of sharing through discussion groups.
ABSTRACT

Internal Controls play an important role in every organization as it assist in realization of their financial performance goals. The main objective of this study is to examine the effects of internal controls in operation in Kenya Customs Administration with specific reference to Inland Container Depot with a view to establish if such internal controls have a significant relationship with revenue collected. Specifically, the study assessed the effect of the Physical control, segregation of duties and internal audit on revenue collection. In view of the above objectives of the study, the researcher conducted a census for the study since the population of 53 of the employees at ICD is manageable. Data was collected from the respondents using self-administered questionnaires from the Inland Container Depot employees. Data was coded and entered into Statistical Package for Social Sciences (SPSS, version 20.0. Data was analyzed using descriptive statistics (mean and standard deviation) and inferential statistics (correlation analysis and multiple regression analysis)). The results were presented in charts, graphs and tables to ease interpretation. Multiple regression analysis was used to establish the relationship between internal controls and revenue collection in Kenya Customs Administration at Inland Container Depot. The study findings established a positive and significant relationship between physical control and revenue collection at Inland Container Depot. Findings also showed a positive and significant relationship between Segregation of duties revenue collection at Inland Container Depot. There is also a positive and significant relationship between internal audit and revenue collection at Inland Container Depot. Correlation analysis findings show that the independent variables (physical control, segregation of duties and Internal Audit.) contributed to 75.7% of the variation in Revenue Collection as explained by adjusted R2 of 0.757 which shows that the model is a good prediction. This therefore reveals that other factors not studied in this research contribute to 24.3% of the variability in the Revenue Collection. The study therefore recommends that there is need for the Kenya Customs Administration to ensure suitable environment where internal controls are monitored for the improvement of revenue collection.
# TABLE OF CONTENT

DECLARATION .............................................................................................................. ii

ACKNOWLEDGEMENT ................................................................................................. iv

ABSTRACT .................................................................................................................... v

LIST OF ACRONYMS .................................................................................................. xi

DEFINITION OF TERMS ............................................................................................ xii

CHAPTER ONE ............................................................................................................. 1

INTRODUCTION ........................................................................................................ 1

1.1 Background of the study ....................................................................................... 1

1.1.1 The concept of internal control ................................................................... 3

1.1.2 The concept of Revenue Collection .............................................................. 5

1.1.3 Global perspective of revenue collection ....................................................... 6

1.1.4 Kenya Customs Administration ..................................................................... 7

1.1.5 Inland Container Depot ................................................................................ 8

1.2 Statement of the Problem ..................................................................................... 9

1.3. General Objective .............................................................................................. 10

1.3.1 Specific Objectives ....................................................................................... 10

1.4 Research Questions ............................................................................................ 10

1.5 Significance of the Study .................................................................................... 11

1.6 Scope of the Study ............................................................................................... 11

1.7. Limitations of the Study .................................................................................... 11

CHAPTER TWO .......................................................................................................... 12

LITERATURE REVIEW .............................................................................................. 12

2.1 Introduction .......................................................................................................... 12

2.2 Theoretical Literature Review ........................................................................... 12

2.2.1 The Agency Theory .................................................................................... 13

2.2.2 Attribution Theory ....................................................................................... 14

2.2.3 Institutional Theory ...................................................................................... 15

2.2.4 Reliability Theory ......................................................................................... 16

2.3 Conceptual Framework ....................................................................................... 17

2.4 Empirical Literature Review .............................................................................. 18

2.4.1 Physical control ............................................................................................ 18

2.4.2 Segregation of Duties .................................................................................. 19

2.4.3 Internal Audit ............................................................................................... 20
LIST OF TABLES

Table 3.1 Distribution of the population ................................................................. 27
Table 3.2 Distribution of the sample size ................................................................ 27
Table 4.1: Gender characteristics of respondent ...................................................... 35
Table 4.2: Age Groups of Respondents .................................................................... 36
Table 4.3: Years of service in Kenya Customs Administration ................................... 37
Table 4.4: Years of service at (ICD) .......................................................................... 38
Table 4.5: Mean and Standard deviation of Physical Control .................................... 35
Table 4.6: Mean and Standard deviation of Segregation of Duties ............................ 39
Table 4.7: Mean and Standard Deviation of Internal Audit. .................................... 40
Table 4.8: Mean and Standard Deviation of Revenue Collection ............................ 38
LIST OF FIGURES

Figure 2.1 Conceptual Framework ........................................................................................................17
Figure 4.1: Gender characteristics of respondent ........................................................................31
Figure 4.2: Age group representation .................................................................................................32
Figure 4.3: Representation of the number of years worked by the respondents at KCA .....33
Figure 4.4: Representation of the period worked by the respondents at ICD .............................34
### LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIT</td>
<td>Cast-in-Transit</td>
</tr>
<tr>
<td>ICD</td>
<td>Inland Container Depot</td>
</tr>
<tr>
<td>ICS</td>
<td>Internal Control Systems</td>
</tr>
<tr>
<td>MOB</td>
<td>Management By Objectives</td>
</tr>
<tr>
<td>KCA</td>
<td>Kenya Customs Administration</td>
</tr>
<tr>
<td>KRA</td>
<td>Kenya Revenue Authority</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Savings and Credit Cooperative Societies</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
</tr>
</tbody>
</table>
DEFINITION OF TERMS

**Internal controls** – Internal controls encompass a set of rules, policies, and procedures an organization implements to provide reasonable assurance that: (a) its financial reports are reliable, (b) its operations are effective and efficient, and (c) its activities comply with applicable laws and regulations (Tunji, 2013).

**Physical control** – These are procedures that ensure that the physical security of assets and records against theft, damage or loss besides security over unissued pre numbered documents, ledgers, journals and computers (Whittington et al, 2010). Physical access to such assets should thus be restricted to authorized personnel, by use of strong rooms, locks, and security against fire and vagaries’ of weather (Hayes et al, 2005).

**Segregation of duties** – According to (Louwers et al, 2008) Segregation of duties is a separation of functional responsibilities. According to him, four types of functional responsibilities should be performed by the different departments. The initiation, authorization, execution, and recording of any transaction are executed by different officers. (Hayes, 2005), states that segregation of duties prevents persons with access to readily realizable assets from being able to adjust the relevant records, hence controlling assets.

**Internal audit**- According to (Ramamoorti, 2003) internal audit serve as a measure of examination, monitoring and analysis of activities relating to company’s operation to provide independent assurance that an organization’s risk management, governance and internal control processes are operating effectively.
CHAPTER ONE
INTRODUCTION

1.1 Background of the study
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). Recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies internal control structures. According to Fight (2002) cash is the most liquid of assets and is susceptible to loss if not properly controlled. Therefore, it is extremely important that all departments handling cash implement and adhere to strong internal controls. The recent financial crisis has put revenue collection and its management through effective internal control system back in the spotlight, forcing managers to focus their efforts on way to improve their organization. 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.

The incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company’s ability to effectively collect revenue but also encourages collusion, fraud, loss of revenue, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating. (Efozie 2010) asserts that for the enhancement of the attainment of the mission and goals of the company, it is therefore necessary that these hindrances be removed.
The management of the company should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation. Although the organizations have committed itself to the large capital expenditure on software packages and internal controls there are still widespread claims and perception that there are a lot of leakages through unfair activities within the organization. No matter how well the internal controls are designed and operated, internal audit can only provide a reasonable, not absolute assurance that the objective of the company are met in terms of revenue collection. The study therefore will seek to explore the effectiveness of the internal controls in Kenya Customs Administration and focusing on Inland Container Depot-Nairobi.

Due to the important role that effective internal control systems play in the achievement of corporate objectives, the Commissioner continued to say that plans were under way to upgrade the Internal Control unit to help achieve the objectives of the Customs Administration. This research paper is intended to look into the relationship between internal controls and revenue collection in Kenya Customs Administration focusing at Inland Container Depot-Nairobi. From the above, it is therefore imperative to say that, internal controls play a significant role in helping managers to achieve their goals hence the need for this study to investigate the effects of internal controls on revenue collection in Inland Container Depot-Nairobi.
1.1.1 The concept of internal control.
Internal Control System refers to an organized process of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business (Hamed, 2009). 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). 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.

Puttick (2001) has stated internal controls as a set of organizational policies and approved internal processes constructed by management of an organization to achieve management’s primary objective of ensuring that the business operates smoothly. He further explained that a business is said to be running smoothly if they are able to stick to the management policies, to protect the organization assets, set up a system that would stop and eradicate manipulation of the accounting information. Kenneman (2004) describes internal control as those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. He explains, in simple terms that, internal control can be defined as those processes that management relies on to make sure things don’t get goofed up.
Doyle et al. (2007) and Millichamp (2002) added that internal control is a whole system of controls established by the management for the business entity to check the conduct of the business in terms of internal check, internal audit and other forms of control. Internal control is thus designed and implemented to address identified business risks that threaten the achievement of an organization’s objectives. Organizations are constantly and extensively working to improve their internal control systems so as to increase revenue inflow, survive in the rapidly changing economic and competitive environments, and adapt to the shifting customer demands and priorities (Kantzos and Chondraki, 2006). 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 Revenue Collection.

Internal controls provide reasonable assurance that the objectives of the organization are being achieved efficiently. It provides the reliability of financial reporting, support management in making the right decisions and identifies fraudulent act within the entity. Internal control reinforces and ensure compliance with laws and regulations. In other words, it prevent entity from property loss, inaccurate decision making, fraud, loss of income and assets. The role of internal controls, therefore, provide 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 organizations structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific objectives.
1.1.2 The concept of 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 refers is that monetary event of asset valres increasing in the organization because of the physical event of production or sales of products or services of the organization (Pandey, 1996). Rittenberg and Schwieger (2005) define revenue as the inflows or enhancements of assets of a firm or settlements of its liabilities during a period from delivery or producing goods, rendering service or other activities that constitutes the entity’s ongoing major or central operations. 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.In addition, Hongreen (2002) described revenue as inflows of asset (almost always cash or accounts receivable) received for products or services provided to customers. However, Kenya Revenue Authority 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.
1.1.3 Global perspective of revenue collection.
According to Spratt (2006) A global tax is a proposed system for the collection of taxes by central international revenue service. The idea has garnered currency as a means of compelling institutions to pay, rather than avoid, taxes. The revenues collected from global tax could be used for international objectives such as meeting the millennium Development Goals. Globally, organizations and firms perform a fraud risk assessment and assess related internal controls in revenue loss detection and control for better revenue generation. The assessment consists of identifying scenarios in which funds can be lost or stolen and determining if existing control procedures effectively manage the risk to an acceptable level (Bronson et al. 2006). Revenue is very important for every country in the world as it enables the government to acquire assets which are not liable to debt and which the country uses to develop economy. Revenue collection in developing countries like Kenya has not always been as effective as it should be. The ineffectiveness is attributed by many factors. This study therefore sought to examine the determinants of revenue collection at Inland Container Depot-Nairobi.
1.1.4 Kenya Customs Administration.
Kenya revenue Authority (KRA) was established by an act of parliament, chapter 469 of the laws of Kenya which became effective in 1995. The overall objective was to provide operational autonomy in revenue collection and enable its evolution into a modern, flexible and integrated revenue collection agency. KRA was established for assessment, collection and enforcement of laws relating to revenue. The Act made KRA a central body for the assessment and collection of revenue, for the collection and enforcement of laws relating to Revenue and to provide for connected purposes. KRA currently collects around 95% of government revenue. (Odundo 2007).

Kenya Customs Administration is the larger of the two revenue departments in terms of manpower, revenue collection and countrywide operational network. It was established by the Act of parliament in 1978. The primary function of customs administration is to collect and account for import duty, excise duty on imports and VAT on imports. It is also responsible for facilitation of legitimate trade, protection of society from illegal entry and exit of prohibited goods, prevention of smuggling and collection of trade statistics. To achieve the above targets, the management of Kenya Customs Administration must adopt measures to ensure that available resources are prudently used to obtain value for money from resources allocated to them. Management in turn should generate operational data with which they evaluate the efficiency and effectiveness of their operation.
1.1.5 Inland Container Depot.

Inland Container Depot Nairobi (ICDN) is owned and operated by Kenya Ports Authority and linked by Rail with Mombasa port provides shippers with dry port facilities in the commercial heart of the country and it was established in 1984. It for shippers of both Exports and Imports and also Empty containers. The main objective of the ICDN is to bring port services closer to customers in the hinterland through special rail service. Services offered include; Handling of both containerized and loose cargo, Stripping and stuffing of containers, Storage and handling of empty containers, Hire of labor and equipment, Weighing of containers and Cargo documentation finalized at ICDN. Leasing of yard slots to shipping lines and other interested parties for storage of empty containers. Other stakeholders available at ICD are Government Agencies, Rift Valley Railways, Shipping Agents, Bank, Forwarders, and transporters. Benefits of ICDN include: Inland transport costs for shippers is reduced, Port services are brought closer to customers thus convenience, Container dwell time at the port is reduced by enhancing dispatch of import and off take of export containers, Provision of security and safety of cargo both on rail and at the depot, Minimize damage to Kenyan roads by diverting container traffic from road to rail and Decongestion of the sea port of Mombasa. Kenya Revenue Authority (KRA), through the Customs and Border Control Department, has put in place various fundamental measures which will facilitate operations of the recently launched Inland Container Depot (ICD), Nairobi. The measures, including a commitment to clear properly documented cargo within six hours are geared towards ensuring seamless facilitation from the port to the ICD for release of cargo as well as ensuring reliability on efficiency in service delivery at the facility.
1.2 Statement of the Problem
Slanislav (2006) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization.

Despite the internal controls that exist in Kenya Customs Administration, collection remains below the target. For instance in the financial year 2015/2016 and 2016/2017 there was a shortfall on revenue collections of 5.7% and 4.84% respectively. This shortfall was generally recorded across all customs stations including ICD-Nairobi. This may be because the internal controls that are in place are weak or are undermined by the employees. Currently 40% of cargo imported through the port of Mombasa is cleared at Inland Container Depot-Nairobi(ICD). Effective internal controls are therefore essential in ensuring that the responsibility placed on management is carried out effectively and efficiently by: preventing losses of revenue through fraud, ensuring accurate accounting and securing compliance with the policies of the organization. Internal controls are essential to corporate success and survival because they provide reasonable assurance on the achievement of objectives in a number of categories including: effectiveness of operations, reliability in financial reporting and compliance with applicable laws and regulations (chamber 2009). Thus, the purpose of this study is to examine the effects of internal control system on Revenue collection in Kenya Customs Administration focusing on Inland container Depot(ICD) with a view of establishing whether strengthening of internal controls can have any effect of revenue collection.
1.3. General Objective
The general objective of this study is to investigate the effects of internal controls on Revenue collection in Kenya Customs Administration and focus on Inland Container Depot - Nairobi.

1.3.1 Specific Objectives
The specific objectives of the study would be:-

(1) To find out the effect of physical controls on revenue collection in Kenya Customs Administration at Inland Container Depot.

(2) To establish how segregation of duties affect revenue collection in Kenya Customs Administration at Inland Container Depot.

(3) To determine if internal audit influences revenue collection in Kenya Customs Administration at Inland Container Depot.

1.4 Research Questions
This study aims to answer the following questions:-

(1) How do physical controls affect revenue collection in Kenya Customs Administration at Inland Container Depot?

(2) How does segregation of duties affect revenue collection in Kenya Customs Administration at Inland Container Depot?

(3) How does internal audit affect revenue collection in Kenya Customs Administration at Inland Container Depot?
1.5 Significance of the Study
This study would be important to KRA in formulating policies and procedures for collection and checking on corrupt tax collection officials. This research will also be helpful to the Kenyan government in coming up with the budget and setting out collection target for the revenue collection body. The results of this study will help identify gaps within the systems of internal controls in Kenya Customs Administration. The study will also help other researchers and scholars to add to the existing body of knowledge regarding internal controls across all entities in the government and private sectors.

1.6 Scope of the Study
The study will be based in the Kenya Customs Administration and focus on Inland Container Depot operations in Nairobi. The study will be limited to the internal controls which cut across processes in ICD.

1.7 Limitations of the Study
The research was conducted using a single section of KRA. This provided a limited assessment of internal control in organizations. The results of the study cannot be generalized to the effect of internal controls on revenue generation in Kenya.

It was hard to collect data from the employees since they were busy during the day. The researcher dropped the questioner and picked them at a later date. This allowed the respondents to fill the questioners at their own time.

The research was concerned only with the effect of internal control in organizations. It did not take into account other factors that affect revenue generation in addition to the internal controls. The researcher anticipated the respondents to be unwilling to divulge information that they may view as confidential or against their employment laws thus limiting the accessibility of feedback.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter presents a broader context of the study subject in terms of past scholarly works and what other author have written about internal controls and revenue collection. This research is intended to assess the effect of internal controls on revenue collection with emphasis in Inland Container Depot. The review of available literature therefore attempted to establish whether there is a relationship between Internal Control as an independent variable and revenue collection as a dependent variable. The review particularly focused on: physical control, segregation of duties, Internal Audit and management control.

2.2 Theoretical Literature Review.
A theory is a set of interrelated concepts, definitions, and propositions that present a Systematic view of events or situations by specifying relations among variables, in order to explain and predict the events or situations (Van Ryn & Heaney, 1992). Theoretical literature is concerned primarily with theories or hypotheses rather than practical application. Theoretical literature begins with a formal model that seeks to explain participation patterns in terms of underlying theory (Heilbrun & Gray, 1993). The study is grounded on the agency theory, the institutional theory, the attribution theory and the reliability theory.
2.2.1 The Agency Theory

The agency theory holds that a firm is made up of owners of the resource (principals) and the managements (agents) (Jensen & Meckling, 1976). The agents of the firm have more information than the principals which creates an information asymmetry which affects the ability of the firms owners to monitor whether there interests are being protected by the agents (Jensen & Meckling, 1976). In order to ensure harmonization of the interests of the principal and their agents the theory posits that a comprehensive contract is necessary to ensure that the interests of the principals are met. The relationship between the agent and principal is further strengthened by employing experts and systems such as audit and control environment (Jussi & Petri, 2004). Further, the theory recognizes that any incomplete information about the relationship, interests or work performance of the agent described could lead to selection problem. Adverse selection and moral hazard impact on the output of the agent in two ways; not possessing the requisite knowledge about what should be done and not doing exactly what the agent is appointed to do respectively. The agency theory, therefore, works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Jensen and Meckling, 1976).

This theory is applicable to this study simply because internal control is one of many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Payne, 2003; Abdel-Khalik, 1993). Internal control enhances the provision of additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk and low revenue. This theory is essential to this study since the internal control systems is one the mechanisms employed to ensure that no agency problem exists within the firm. The internal control system further helps to reduce information asymmetry within the firm.
2.2.2 Attribution Theory

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. According to Schroth and Shah (2000), studies using attribution theory examine the use of information in the social environment to explain events and behaviors. Reffett (2007) asserts that when evaluators believe comparable persons would have acted differently in a given circumstance, they (evaluators) tend to attribute responsibility for an outcome to the person. According to Wilks and Zimbelman (2004), the first case refers to internal or dispositional attributions while the second one refers to external or situational attributions.

The auditor’s accountability for detecting fraud is extended by Reffett’s (2007) study which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they had identified the fraud occurrence as a fraud risk. The result of Reffett’s study shows an increase in auditors’ liability when an audit fails after the auditors had identified the perpetrated fraud as a fraud risk and performed procedures to investigate the identified fraud risk. Attribution theory thus advocates for auditors to report on the effectiveness of firms’ internal control. Auditors are therefore expected to gain a better understanding of the internal controls in place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors’ reliance and possibly scaling back of other substantive audit procedures for the required performance. The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors, being the “public watchdogs” are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2007).
In reference to the study the attribution theory place the burden of fraud reporting to the relevant individuals within the institutions. Despite growth in technology that has changed the internal control systems structure there will always be a need for a person to manage these systems. As such its upon such authority figures i.e. managers and the board of directors who should ensure that all the relevant regulatory and compliance issues are adhered with. In reference to my study this theory seeks auditors to be in the forefront of reporting fraud when it occurs.

2.2.3 Institutional Theory
According to this theory by Fogarty et al. (1997), an organization is designed and functions to meet social expectations in so far as its operations are visible to the public. Therefore organizational internal operations, which are often complex and difficult to identify, may take second place to the issue of external legitimacy. It is suggested that the external image of the organization may be loosely coupled with its operating processes and the kind of technology it adopts. This theory further suggests that these forces can encourage organizations to adopt similar strategic actions thereby leading to organizational homogeneity (Adebanjo, Ojadi, Laosirihongthong & Tickle, 2013). The interests of shareholders have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals (Christopher, Sarens & Leung, 2009). This study draws on institutional theory, which essentially points that organizational management and control structures tend to conform to social expectations. The theory therefore advances argument for enhanced corporate governance in management of organizations resources.
2.2.4 Reliability Theory
Reliability theory simply describes the probability of a system completing its expected function during an interval of time (Gavrilov & Gavrilova, 2001). The theory has been used as a model by insurance and life insurance companies in computing profitable rates to charge their customers. The theory stipulates that internal control systems are primarily set up for assessment and control of risks. The theory further argues that weak internal control systems result in more substantive work and hence greater cost (Kinney, 2000). According to Gavrilov and Gavrilova (2001), the determination of the "weakness" of any internal control system is primarily judgmental. Upon the formulation of the process and system reliability estimates, comparison with financial data from the organization’s past performances may provide a more solid basis for judgment of the impact of an internal control system on the firm’s income risk. Messier Jr. and Austen (2000) state that one of the primary advantages of the reliability theory is its close relationship to the needs of an organization regarding understanding the internal control system and control risk assessment. The reliability theory is based on the notion that an implemented system should be able to meet its expected function. The reliability theory is relevant to this study based on the general objective of the study. The theory focuses on the effect of risk assessment on financial performance of firms; in this case, the effect of internal controls on revenue collection in Inland Container Depot-Nairobi.
2.3 Conceptual Framework.

The Internal Control conceptual framework comprise of dependent and independent variables. The effectiveness of an internal control framework is the dependent variable. This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organization’s objectives. Owusu (2012). Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable. The organization realizes preset objectives of efficient and effective operations, collection of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements.

**Figure 2.1 Conceptual Framework**

- **Physical Control**: Risk identification, performance Review, policies and procedures
- **Segregation of Duties**: Competence, Commitment and Ethical values
- **Internal Audit**: Evaluation and Routine Audit
- **Revenue Collection** (Inland Container Depot)
2.4 Empirical Literature Review

2.4.1 Physical control
Kenya Customs Administration has put in place requisite measures for the protection of company assets. The measures are meant to ensure that only those authorized have access to the organization's assets. In the case of some border posts where there is no banking facilities, money is transported from these ports of entry in fully armored cash in transit (CIT) vehicles. The cash is contained in cash boxes which are sealed and locked. Apart from the physical controls to protect assets and revenue, further control is indirectly introduced by regularly counting assets and comparing quantities with those recorded. The realization that any perceived shortages are likely to be thoroughly checked to establish the cause of the shortage will definitely lessen or prevent misappropriation. (Puttick et al 2008). These procedures ensure the physical security of assets and records against theft, damage or loss besides security over unissued pre numbered documents, ledgers, journals and computers (Whittington et al, 2010). Physical access to such assets should thus be restricted to authorized personnel, by use of strong rooms, locks, and security against fire and vagaries’ of weather (Hayes et al, 2005). This concerns the safety and custody of the company’s assets and records through restricted accessibility (Gray, 1999). Restrictions to computer access can be effected by way of passwords (Louwers et al, 2008) and building of firewalls (Gray, 1999). Custody of assets should be put in the custody of reliable persons. Close security being accorded highly valued items, especially those that are portable (Louwers et al, 2008).
2.4.2 Segregation of Duties
This policy states that if certain aspects are performed by one individual there is a chance that that person can fraudulently convert the assets of the organization to own self and also manipulate the accounting records. In accounting for revenue in Kenya Customs Administration the three aspects underlying any revenue transaction which are authorization, execution and recording are performed by different individuals. There must be a clear separation between those initiate records and those who are responsible for the collection of the money. This does not completely remove the possibility of fraud. This is just a control measure. Other measures also have to be instituted within the organization like strict follow up on people’s backgrounds when hiring. Adequate screening of prospective employees before hiring them and management supervisory checks should minimize this risk, or detect collusion if it has indeed occurred. (Matamande, 2012).

An important character of an effective ICS is a separation of functional responsibilities (Louwers et al, 2008). According to him, four types of functional responsibilities should be performed by the different departments. The initiation, authorization, execution, and recording of any transaction are executed by different officers. Division of work, with no one person processing and recording a complete transaction reduces the risk of internal manipulation or error, as it increases checking. Where there are incompatible responsibilities, a combination of responsibilities that place a person alone in a position to create and conceal errors, fraud or misstatements in his normal job, duties should be avoided such that no one person can control two or more of these responsibilities. (Hayes, 2005), concedes that segregation of duties prevents persons with access to readily realizable assets from being able to adjust the relevant records, hence controlling assets. In a computerized environment, the operations responsibility, record keeping and the information technology duties should be separate. ie the programmer, computer operator, librarian and data reviewer duties should be separated (Hayes, 2005).
Separation of duties lowers the risk of disposal for personal gain and adjusting records to cover the theft (Ricchiute, 2006). Performance reviews are independent checks on performance by a third party. They include review of actual performance vs budgets and surprise checks of procedures. Periodic comparisons of accounting records and physical asset like stocktaking, and a review of functional or activity performance like review of reports on branch performance. (Hayes et al, 2005). Such duties entail making comparisons at regular intervals and taking appropriate action with respect to any differences (Louwers et al, 2008).

2.4.3 Internal Audit

It is an independent appraisal activity within an organization to review the operations and records as to service for management and is done by specially assigned staff. One important aspect of internal control is the internal audit. Kenya Customs Administration carries out internal audits regularly and randomly in all customs departments. Internal audit is an effective tool in revenue management because internal auditors are employed by KRA hence they are better placed to understand the accounting systems, the control procedures and the Kenya Customs Administration 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).

These are the controls exercised outside the day-to-day routine of the system. They include the overall supervisory duties, controls exercised by the management accountant and comparison with budgets, the internal audit function and any other special review procedures. Internal checks this is an important tool of ICS where the work of one employee is checked by another employee on daily basis. The internal audit plays a unique role in the governance process.
It helps an organization implement, assess, or conceptualize risk management and control processes (Soudani, 2013). Abdulkadir (2014) revealed that for the corporate governance to be good and effective it must have the appropriate mechanisms such as; quality accounting policies and independent internal audit. When every necessary mechanism is in perfect use, the firm avoids fraud deals, manages and anticipates financial risks, and ensures production of accurate and timely disclosures of financial information to the stakeholders. A study by Bongani (2013) finds that establishing internal audit in organizations ensures the reliability of accounting records, since it can constrain corporate governance or staff’s reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting.

Empirical literature review is also an account of what has been published on a topic by accredited scholars and researchers. It brings out the knowledge and ideas that have been established on a topic. They include:

Mwachiro (2013) investigated the internal controls in operation at Kenya Revenue Authority with a view to establishing whether such internal controls have produced any meaningful results in increased collected revenue. The study used control environment, risk assessment, control activities, Information and communication and monitoring components of internal controls as the variables. The findings revealed that the five components of the control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work. The study established that weak internal controls and especially poor ethical values in the organization have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study, therefore, concluded that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA.
Magara (2013) sought to find out the effect of internal controls on the financial performance of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. The independent variables for the study included; control environment, risk assessment, control activities and monitoring mechanisms while the dependent variable was financial performance. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance.

Muio (2012) investigated on the impact of internal control systems on the financial performance of private hospitals in Kenya. The study was anchored on monitoring, control activities, risk assessment, information and communication, control environment as the variables representing internal control systems. Linear regression analysis was used to find the relationship between monitoring, control activities, risk assessment, information and communication, control environment and financial performance of private hospitals in Kenya. The findings of the study indicate that all the five components that are Monitoring, Control Activities, Risk Assessment, Information and Communication and Control Environment must be present for an internal control system to be considered effective.
Olumbe (2012) carried out a study to establish the relationship between internal control and corporate governance in commercial banks in Kenya.

The variables included; equity structure, enterprise internal and external supervision vacancy, the board of directors and board of supervisors. The study found that most of the banks had incorporated the various parameters which are used for gauging internal controls and the corporate governance as was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their banks had instituted good corporate governance with a strong system of internal controls, and there is a relationship between internal control and corporate governance. Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design.

2.5 Critique of the Empirical Review
A number of researches have been done relating to internal control and financial performance of organization. Muhammad (2015) researched on effect of internal audit function and internal control system on financial performance of an institution of higher education in Pakistan. The findings were that there was a positive relationship between internal audit, internal control environment and financial performance of higher education institution. The research focused on 3 elements of internal control that is internal audit, internal control environment and failed to show the contribution of risk management and corporate governance in the financial performance of a company. The research also focused on a specific institution which limits the application of research to other companies” which exhibit different operational characteristics. Mugo (2013) studied on effect of internal control on financial performance of technical training institutions. Although he found a positive relationship ship between internal control and financial performance, the research failed to show the effect of corporate governance and government policy on financial performance of companies.
Mawanda (2008) did a research on effect of internal control systems on financial performance of an institution of higher learning in Uganda and focused on internal control environment, internal activities and internal audit. The research failed to show the contribution of risk management and corporate governance on financial performance of the company. Kamau (2013) did a study of effects of internal control on financial performance of manufacturing firms in Kenya. The research also failed to clearly show the contribution of corporate governance and government policy on the financial performance of companies. Most of the researches done on internal controls are case studies and focus on specific institutions/companies that exhibit particular characteristics or material weakness in the internal control systems.

2.6 Summary of Review
From the literature reviews done it has been found out that realization of positive financial performance and value for money depends on whether firms have effective Internal Control systems. Non-compliance to the internal controls is one of the major hindrances to the attainment of positive financial performance in firms. Whereas a lot has been done on control environment and control activities and internal audit there is little done about corporate governance and government policy in relation to Financial Performance of a firm. There is hence need to establish the relationship between the internal control systems and financial performance of different organizations. It can be concluded from the literature that Physical Control, Segregation of Duties and Internal Audit are significant predictors of financial performance.
2.7 Research Gap
Most of the highlighted studies in the literature review do not explicitly address the effect of internal control on revenue collection in Kenya Customs Administration. A scarcity of literature in the area of study exists, particularly in the developing states like Kenya. The few that have been conducted in the third world nations have eluded criticism in the criteria, title, scope and methodology used hence the research gaps in terms of literature. The literature review highlights a number of theories in relation to the variables (independent and dependent) and the conceptual framework of the variables by analyzing the relationships between them. In the aftermath of corporate scandals and the global financial crisis, corporate governance has received significant attention from regulators and the public. Regulatory responses have focused on increasing disclosure requirements relating to corporate governance and this has, in turn, driven increased awareness and demand for internal assurance on corporate governance processes, including internal control and risk management. Thornton (2004) observes that in recent years, stakeholder’s expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the research methodology that the researcher intends to use while carrying out the study. The chapter includes the research design, population, sampling design, sample size, and research instruments. The chapter concludes with data collection procedures and data analysis techniques.

3.2 Research Design
Research design refers to the way the study is designed, that is the method used to carry out the research Mugenda (2003). The research design used in this study is descriptive survey because of exclusiveness in its data collection and its ability of analysis on the effects of internal controls on revenue collection. The study aims at collecting information from respondents on their attitudes and opinions in relation to what affects the revenue collection at Kenya Customs Administration focusing on Inland Container Depot. The researcher used both primary and secondary sources of data. The primary data was be obtained through the use of questionnaires while secondary data was from the organizations archives.

3.3 Population
According to Ngechu (2004), a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. The research targets Kenya Customs Administration staff with specific reference to Inland Container Depot employees in Nairobi. Currently, Kenya Customs Administration staff at ICD stands at 53.
This number of staff formed the population of the study.

The population distribution is as follow:

**Table 3.1 Distribution of the population**

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staff</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Support staff</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Technical officers</td>
<td>19</td>
<td>11</td>
<td>30</td>
</tr>
</tbody>
</table>

**Total** 53

3.4 Sampling Design

Muganda (2010) defines sampling frame as a list of accessible population of people, events or documents that could be included in a survey from which the researcher will pick a sample to collect data. Kothari”s(2004) recommends that a sample of 10% of the target population is a sufficient representation of the population. Given a manageable number of employees of 53 at ICD, the researcher conducted a census for this study. This was to ensure that the sampling frame is complete and relevant for the attainment of the study objectives.

**Table 3.2 Distribution of the sample size**

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staff</td>
<td>5</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Support staff</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Technical officers</td>
<td>19</td>
<td>11</td>
<td>30</td>
</tr>
</tbody>
</table>

**Total** 53

27
3.5 Data Collection
According to Ngechu (2004), there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Donald (2006) noted that there are two major sources of data used by respondents; primary and secondary data. The study used semi-structured questionnaire for collecting primary data from the selected respondents. According to Kothari (2004), a questionnaire is the most effective survey instrument due to its many advantages including economy, ease of use and standardization of responses. It is also easier to analyze data from questionnaires. The researcher designed and personally distributed the questionnaires to the respondents.

3.6 Data presentation and Data Analysis

3.6.1 Data presentation
The questionnaires found fit for analysis was entered; coded and analyzed using Statistical Package for Social Sciences (SPSS) in order to quantify the responses. The results was be presented using tables, bar graphs and pie charts to give a clear picture of the issues raised in the questionnaire so as to answer research questions. The analysis of the results is to provide the researcher with the ability to draw conclusion about the findings of the study and relate the conclusion to the objective of the study.
3.6.2 Data Analysis
Data analysis was done through descriptive and inferential statistics. The descriptive statistics are mean and standard deviations. The particular inferential statistics are correlation analysis and multiple regression analysis. This study used a multiple regression model to establish the relationship between the dependent variable and the independent variables. The multiple regression analysis is used because there is more than one independent variable.

The regression model use is as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where,

- \( Y \) – Revenue Collection
- \( \beta_0 \) – Constant
- \( \beta_1 - \beta_3 \) = Regression coefficients
- \( X_1 \) – Physical Control
- \( X_2 \) – Segregation of Duties
- \( X_3 \) – Internal Audit
- \( \epsilon \) = Error term
CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction
The chapter presents the study results which were obtained from the analysis of the collected data. The analysis of data included the use of both primary and secondary data. Both descriptive and inferential statistics were used in the study and the results were presented in charts, tables and figures where appropriate providing ease of interpretation.

4.2 Response rate
The study sought to collect data from 53 respondents, a total of 53 respondents responded constituting 100% of the response rates. The study was carried out to establish the effect of internal controls on revenue collection in Kenya Customs Administration at Inland Container Depot.

4.3 Descriptive Analysis
Descriptive statistics are statistics that quantitatively describe features of a collection of information. Descriptive statistics provide simple summaries about the sample and about the observations that have been made.
4.3.1 Gender characteristics of respondents

The study examines and describes the gender details of respondents in this study.

Figure 4.1: Gender characteristics of respondents

Figure 4.1 above show that 58% of the respondents were males and 42% were female. This could indicate that there are still low levels of employment of females in Kenya Customs Administration. The findings represent the views of the two sex groups about internal control systems and revenue collection in Kenya Customs Administration. This was necessary for the study to get a balanced picture of the respondents’ views.
4.3.2 Description of age groups of respondents

The study obtained details about the age groups of the respondents for purposes of understanding their age.

From the description above it is clearly evident that the majority of the respondents are in the age bracket of between 41-50 years, followed by 31-40 years, above 50 years and below 30 years in the orders of 38%, 30%, 17%, and 15% respectively. It can therefore be concluded that the majority of the respondents are in the most productive age brackets of their life and are reasonably experienced.
4.3.3 Respondents years of service in Kenya Customs Administration

The respondents’ years of service were deemed important to evaluate the level of experience the respondents have in the organization.

![Figure 4.3: Representation of the number of years worked by the respondents at KCA](image)

From figure 4.3 above, it is evident that majority of the respondents have worked in KCA for a period of between 5-10 years with a representation percentage of 38%, followed closely by those who have worked for a period of between 10 – 15 years at 36%. 15% of the respondents had worked for a period of between 1-5 years and 11% had worked for a period of 15 years and above.
4.3.4 Respondents years of service at Inland Container Depot.

The respondents’ years of service were deemed important to evaluate the level of experience the respondents have in the organization.

Figure 4.4: Representation of the period worked by the respondents at ICD

According to figure 4.4 above, it is evident that majority of the respondents have served at ICD for a period of between 1 to 3 years and 5 years and above, both with a representation of 34%, followed by those who have served for a period of between 3 to 5 years at 30% and 2% of the respondents had served for a period of 0 to 1 year.
4.4. Descriptive statistics on Internal Control

4.4.1. Physical Control

Variables on physical control are discussed below.

Table 4.1: Mean and Standard deviation of Physical Control

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are adequate physical control methods that investigate unusual activity on Revenue collection</td>
<td>4.25</td>
<td>.434</td>
</tr>
<tr>
<td>There is a periodic comparison of accounting records and physical assets on your place of operation</td>
<td>4.06</td>
<td>.718</td>
</tr>
<tr>
<td>Effective controls have been put in place for prevention of Revenue loss</td>
<td>4.23</td>
<td>.423</td>
</tr>
<tr>
<td>You sufficiently have knowledge on areas of Revenue leakage</td>
<td>4.15</td>
<td>.361</td>
</tr>
<tr>
<td>Revenue loss and risks have been associated with physical control</td>
<td>4.13</td>
<td>.590</td>
</tr>
</tbody>
</table>

From table 4.1 above, the respondents strongly agreed (Mean = 4.25; Std. Dev. = 0.434) indicating that there are adequate physical control methods that investigate unusual activity on Revenue collection at Inland Container Depot. The respondents agreed that there is a periodic comparison of accounting records and physical assets on their place of operation as shown by a mean of 4.06 with a standard deviation of 0.718. Findings also show that, the respondents strongly agreed (Mean = 4.23; Std. Dev. = 0.423) indicating that Effective controls have been put in place for prevention of Revenue loss. The results of the study also reveal that respondents agreed to have sufficient knowledge on areas of Revenue leakage. This is shown by (Mean = 4.15; Std. Dev. = 0.361).Findings from the table 4.1 as well illustrate that Revenue loss and risks have been associated with physical control (Mean = 4.13; Std. Dev, = 0.590).
4.4.2. Segregation of Duties

Variables on Segregation of Duties are discussed below.

Table 4.2: Mean and Standard deviation of Segregation of Duties

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is clear separation of roles in revenue collection for various Financial units</td>
<td>4.21</td>
<td>.409</td>
</tr>
<tr>
<td>There are sufficient staffs that are competent and knowledgeable for effective Revenue collection</td>
<td>4.19</td>
<td>.395</td>
</tr>
<tr>
<td>Segregation of duties identifies risks that affect the achievements of Revenue targets</td>
<td>4.30</td>
<td>.463</td>
</tr>
<tr>
<td>There is adequate communication on revenue collection and accounting among the ICD staff</td>
<td>4.17</td>
<td>.379</td>
</tr>
<tr>
<td>Segregation of duties reduces the risk on manipulation of revenue collection</td>
<td>4.25</td>
<td>.434</td>
</tr>
</tbody>
</table>

As shown in the table 4.2, the respondents agreed that there is clear separation of roles in revenue collection for various financial units. This had a mean of 4.21 with a standard deviation of 0.409. There are sufficient staffs that are competent and knowledgeable for effective Revenue collection. This is as indicated by a mean of 4.19 with a standard deviation of 0.395.

From the findings, the respondents strongly agreed that Segregation of duties identifies risks that affect the achievements of Revenue targets as shown by a mean of 4.30 and a standard deviation of 0.463. Further, findings show that There is adequate communication on revenue collection and accounting among the ICD staff where the respondents agreed as indicated by a mean of 4.17 and a standard deviation of 0.379. In addition, the respondents strongly agreed Segregation of duties reduces the risk on manipulation of revenue collection as shown by a mean of 4.25 and a standard deviation of 0.434.
4.3.3. Internal Audit

Variables on Internal Audit are discussed below.

Table 4.3: Mean and Standard Deviation of Internal Audit.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is regular Internal Audit</td>
<td>4.04</td>
<td>.338</td>
</tr>
<tr>
<td>conducted in your area of operation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adequate communication is done by</td>
<td>4.00</td>
<td>.679</td>
</tr>
<tr>
<td>Internal Auditors on Internal Audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>findings</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Audit evaluate and</td>
<td>4.19</td>
<td>.395</td>
</tr>
<tr>
<td>contribute to the improvement of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue collection</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors closely monitor implementation of internal controls for effective Revenue collections</td>
<td>4.06</td>
<td>.534</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There are effective measures that</td>
<td>4.15</td>
<td>.361</td>
</tr>
<tr>
<td>enhance the efficacy of Auditors on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue collection</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Findings as presented in table 4.3 shows that there is regular Internal Audit conducted in your area of operation. This is as indicated by the level of agreement of the respondents where this obtained a mean of 4.04 and a standard deviation of 0.338. Findings also show that adequate communication is done by Internal Auditors on Internal Audit findings (mean = 4.00; std. dev. = 0.679). The findings also show that Auditors closely monitor implementation of internal controls for effective Revenue collections (mean = 4.06; std. dev. = 0.534) showing that the respondents agreed.

From the table 4.3 also, the respondents strongly agreed (mean = 4.19; std. dev. = 0.395) indicating that Internal audit evaluate and contribute to the improvement of Revenue collection. The respondents as well agreed that there are effective measures that enhance the efficacy of Auditors on Revenue collection. This obtained a mean of 4.15 with a standard deviation of 0.361.
4.4.4. Revenue Collection

Variables on Revenue Collection are discussed below.

Table 4.4: Mean and Standard Deviation of Revenue Collection.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection targets set by KRA is realistic and achievable</td>
<td>1.94</td>
<td>.534</td>
</tr>
<tr>
<td>ICD has always met its revenue target</td>
<td>2.23</td>
<td>.869</td>
</tr>
<tr>
<td>There has been improvement in Revenue collection in the last 3 years</td>
<td>4.23</td>
<td>.423</td>
</tr>
<tr>
<td>Revenue collection procedures are well documented</td>
<td>4.08</td>
<td>.549</td>
</tr>
</tbody>
</table>

According to the finding in table 4.4 above, the respondents believe that Collection targets set by KRA is not realistic and achievable. This is demonstrated by (Mean = 1.94; Std. Dev= 0.534). The respondents also believe that ICD has not always met its revenue target as shown by a mean of 2.23 with a standard deviation of 0.869. Findings also show that, the respondents agreed (Mean = 4.23; Std. Dev. = 0.423) indicating that There has been improvement in Revenue collection in the last 3 years. Further, findings show that Revenue collection procedures are well documented where the respondents agreed as indicated by a mean of 4.08 and a standard deviation of 0.549.
4.5. Inferential Statistics

4.5.1 Correlation Analysis

Table 4.5: Coefficient of Correlation.

<table>
<thead>
<tr>
<th></th>
<th>Physical control</th>
<th>Segregation of Duties</th>
<th>Internal Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Control</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>Pearson Correlation</td>
<td>0.184</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.188</td>
<td></td>
</tr>
<tr>
<td>Internal Audit</td>
<td>Pearson Correlation</td>
<td>0.275*</td>
<td>0.313*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>0.046</td>
<td>0.022</td>
</tr>
</tbody>
</table>

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

Table 4.6: Model summary of Coefficients determination

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.957a</td>
<td>0.916</td>
<td>0.757</td>
<td>0.250</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), physical control, segregation of duties, Internal Audit.

From the results in table 4.6 above, the findings show that the independent variables (physical control, segregation of duties and Internal Audit.) contributed to 75.7% of the variation in Revenue Collection as explained by adjusted R2 of 0.757 which shows that the model is a good prediction. This therefore reveals that other factors not studied in this research contribute to 24.3% of the variability in the Revenue Collection.
4.5.2 Multiple Regressions

Table 4.7 Coefficient of Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.420</td>
<td>0.682</td>
<td></td>
<td>5.015</td>
</tr>
<tr>
<td>physical control</td>
<td>.671</td>
<td>.187</td>
<td>.108</td>
<td>3.588</td>
</tr>
<tr>
<td>Segregation of duties</td>
<td>.663</td>
<td>.156</td>
<td>.167</td>
<td>4.250</td>
</tr>
<tr>
<td>Internal audit</td>
<td>.941</td>
<td>.268</td>
<td>.007</td>
<td>3.510</td>
</tr>
</tbody>
</table>

Table 4.7 illustrates results of a linear regression analysis determining the effect of the independent variables (physical control, segregation of duties and Internal Audit) on the dependent variable (revenue collection). Using the results, the following regression equation was obtained:

\[ Y = 3.420 + 0.671X_1 + 0.663X_2 + 0.941X_3 \]

Where \( Y \) is the dependent variable (revenue collection), \( X_1 \) is physical control, \( X_2 \) is segregation of duties and \( X_3 \) is internal audit. According to the regression equation established, the data findings show that revenue generation is greatly affected by internal audit followed by physical control and segregation of duties. Taking all other independent variables at zero, a unit increase in internal audit will result in 0.941 percentage increases in revenue collection while a unit increase in physical control will result in 0.671 percentage increase in revenue collection and a unit increase in segregation of duties will result in 0.663 percentage increases in revenue collection. From the regression model holding all the other factors constant, Revenue collection is measured by the efficiency and effective implementation of internal controls.
The results of the multiple regression model shows that there is a positive relationship between internal control and Revenue collection at Inland Container Depot. This implies that a single unit increase in any of the independent variables results into a corresponding increase in Revenue collection. The regression analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the corresponding probability value obtained and $p=0.05$. If the probability value was less than $p$, then the predictor variable was significant. The results above shows that the variables are significant since their corresponding predictor values are below 5%.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter covers the summary of findings, conclusions, study recommendations and suggestions for further studies. The study was sought to determine the effect of internal controls on Revenue Collection in Kenya Customs Administration focusing at Inland Container Depot.

5.2 Summary of the Findings
The study sought to estimate the effect of internal control on Revenue collection in Kenya Customs Administration. The study was guided by three objectives; to find out the effect of physical control on revenue collection in Kenya customs administration at inland container depot; to investigate how segregation of duties affect revenue collection in Kenya customs administration at inland container depot and to determine if internal audit influences revenue collection in Kenya customs administration at inland container depot. Descriptive research design was adopted for this study. The study population was all the employees at ICD. The study used primary data collected from semi-structured questionnaires. Data was coded and entered into Statistical Package for Social Sciences (SPSS, version 20.0). Quantitative data was analyzed using descriptive statistics (mean and standard deviation) and inferential statistics (correlation coefficients and multiple regressions). The results were presented in charts, graphs and tables. Multiple regression analysis was used to establish the relationship between internal controls and revenue collection in Inland Container Depot.
5.2.1 Physical control Findings

According to the findings in table 4.7, physical control has a positive relationship with revenue collection. From the model, the beta coefficient for the physical control is 0.671. There is a significant relationship as shown by a P-Value of 0.020. Thus, there is a positive and significant relationship between physical control and revenue collection in Inland Container Depot ($\beta_1 = 0.671, t = 3.588, p > 0.020$).

5.2.2 Segregation of Duties Findings

With regard to the relationship between segregation of duties and revenue collection at ICD, the model illustrated that segregation of duties is positively related to the revenue collection. This also showed a significant influence on revenue collection with the coefficient ($\beta_1 = 0.663, t = 4.250, p > 0.023$) indicating a positive effect on performance.

5.2.3 Internal Audit Findings

According to the findings in table 4.7 there is also a positive relationship between internal audit and revenue collection at inland container depot. This is indicated by the regression coefficient of 0.941 showing a positive relationship. This finding also shows a significant relationship between the variables as shown by a p-value of 0.017. Based on the findings therefore, there is a significant positive relationship between internal audit and revenue collection at inland container depot ($\beta_1 = 0.941, t = 3.510, p > 0.017$).
The results of the regression model show that there is a positive relationship between internal controls and revenue collection in Kenya customs administration at inland container depot. Holding all the other factors constant, revenue collection is measured by the efficiency and effective implementation of internal controls. This implies that a single unit increase in any of the independent variables results into a corresponding increase on revenue collection. The study established that internal controls affect revenue collection in Kenya customs administration at inland container depot.

5.3 Conclusions

Based on the findings of the study, it is concluded that:

5.3.1 Physical control

Physical control within Kenya customs administration is positively and significantly related to revenue collection. The study gives evidence that physical control is useful to ICD as access to unauthorized personnel may ruin performance and contribute to the threats of revenue losses.

5.3.2 Segregation of Duties

There is a positive and significant relationship between Segregation of duties and revenue collection in Kenya customs administration at inland container depot. Segregation of duties contributes greatly on transparency and reduces the risk on manipulation of documents; therefore, identifies the risks that affect the achievement of revenue targets.

5.3.3 Internal Audit

The study also concluded that internal audit within the ICD is positively and significantly related to revenue collection. It closely monitors implementation of internal controls for effective revenue collection.
The level of internal controls can therefore be measured by the effectiveness of those controls. Where there is an effective internal control system in place then revenue collection also goes up. The ability of the KCA to maintain a conducive environment for the internal control systems determines the ability of the organization to meet the set target.

5.4 Recommendations

With reference to the study findings and conclusions provided, the following recommendations were given for policy improvement; physical control has a positive significant relationship with revenue collection. KCA should therefore ensure suitable physical control for security of the operation activities. There is need therefore for the KCA to ensure suitable environment where internal controls are supported for improved performance at ICD.

Segregation of duties has a positive significant relationship with revenue collection. There is need for the KCA to implement efficient Segregation of duties to guide their frequent operations. KCA management specifically the senior human resource manager should examine the level of employee integrity in allocating those responsibilities especially where employees are to deal with confidential information involving vital documents.

Internal audit has a positive significant relationship with revenue collection. It is therefore important for KCA to implement proper auditing to guide their operations. Internal controls are key to the operations of ICD. To ensure effective controls, management should facilitate conduction of regular checks on the ability of the strategies in place for internal controls in regards to efficient auditing. Therefore, KCA should regularly check on their operations and the policies to deal with threats to examine whether these meets all ICD requirements to safeguard it from revenue losses.
5.5 Suggestions for Further study

The study suggests that further research to be done on the effect of internal controls on revenue collection in public institutions such as Parastatals and the National government agencies in order to give both negative and positive sides that can be reliable. The study also suggested further research to be done on effectiveness of internal controls on revenue generation of the private organization in order to depict reliable information that illustrates real situation in both public and private sector organizations. The study also suggests that research on impact of internal control on operational efficiency of county governments in Kenya should also be carried out since the county governments need to be operating efficiently for proper service delivery.
REFERENCES


APPENDIX I: QUESTIONNAIRE

Respondent No……….. Questionnaire No…

Dear Sir/Madam

Am a student at Kenya school of Revenue Administration pursuing Post Graduate Diploma in Customs Administration. Am currently carrying out a research on the effects of internal controls on Revenue collection in Inland Container Depot. I kindly ask for your sincere participation in filling this questionnaire. The information you give in response to this survey will be purely used for academic purpose.

SECTION A (Background information)

1. Gender?
   (i) Male [ ]………
   (ii) Female [ ]……

2. Age group?
   (i) Below 30 [ ]
   (ii) 31-40 [ ]
   (iii) 41-50 [ ]
   (iv) Above 50 [ ]

3. Number of years you have worked in Kenya Customs Administration
   (i) 1-5 years [ ]
   (ii) 5-10 years [ ]
   (iii) 10-15 years [ ]
   (iv) 15 years and above [ ]

4. Period you have worked at Inland Container Depot
   (i) 0-1 year [ ]
   (ii) 1-3 years [ ]
   (iii) 3-5 years [ ]
   (iv) over 5 years [ ]
To what extent do you agree with the following statements regarding Internal Control with respect to physical control, Segregation of Duties, Internal Audit and Management control at Inland Container Depot (ICD) Nairobi. Use a scale of 1-5, Where, 1 = strongly disagree; 2 = disagree; 3 = not sure; 4= agree; and 5= strongly agree.

**Section B: Physical control**

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<td>(i) There are adequate physical control methods that investigate unusual activity on Revenue collection.</td>
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<td>(ii) There is a periodic comparison of accounting records and physical assets on your place of operation</td>
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<td>(iii) Effective controls have been put in place for prevention of Revenue loss</td>
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<td>(iv) You sufficiently have knowledge on areas of revenue leakage.</td>
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<td>(v) Revenue loss and risks have been associated with physical control</td>
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**Section c: Segregation of Duties**

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<td>(i) There is clear separation of roles in revenue collection for various Financial units.</td>
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<td>(ii) There are sufficient staffs that are competent and knowledgeable for effective Revenue collection.</td>
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<td>(iii) Segregation of duties identifies risks that affect the achievements of Revenue targets.</td>
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<td>(iv) There is adequate communication on revenue collection and accounting among the ICD staff.</td>
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<td>(v) Segregation of duties reduces the risk on manipulation of revenue collection.</td>
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Section D: Internal Audit

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<td>(i). There is regular Internal Audit conducted in your area of operation.</td>
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<td>(ii). Adequate communication is done by Internal Auditors on Internal Audit findings.</td>
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<td>(iii) Internal audit evaluate and contribute to the improvement of Revenue collection.</td>
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<td>(iv) Auditors closely monitor implementation of internal controls for effective Revenue collections.</td>
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<td>(v) There are effective measures that enhance the efficacy of Auditors on Revenue collection.</td>
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Section E: Revenue collection

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<td>(i) Collection targets set by KRA is realistic and achievable.</td>
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<td>(ii) ICD has always met its revenue target.</td>
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<td>(iii) There has been improvement in Revenue collection in the last 3 years.</td>
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<td>(iv) Revenue collection procedures are well documented.</td>
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Thanking you for your participation.