

**POST-CLEARANCE AUDIT AND CUSTOMS REVENUE COLLECTION  
(A CASE STUDY OF NAMANGA BORDER STATION)**

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**RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,  
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FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST GRADUATE  
DIPLOMA IN CUSTOMS ADMINISTRATION AT JOMO KENYATTA UNIVERSITY  
OF AGRICULTURE AND TECHNOLOGY.**

**DECLARATION**

**Declaration by the student**

This research project is my original work and has not been presented to any other examination body.

Sign \_\_\_\_\_ Date \_\_\_\_\_

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HDB336-C016/5043/2016

**Declaration by the supervisor**

This research project has been submitted with my consent as supervisor.

Name \_\_\_\_\_

Dr. Marion Nekesa PhD

Sign

Date

## **DEDICATION**

This proposal is dedicated to my beloved parents, family members and friends for their mutual & emotional support, constant encouragement and understanding. You are all instrumental, pillars and key players of my success.

## **ACKNOWLEDGEMENT**

I would like to thank the Kenya School of Revenue Administration in collaboration with JKUAT for giving me an opportunity to undertake this course.

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## **LIST OF ACRONYMS AND ABRVIATIONS**

**GATT**      General Agreement on Tariffs and Trade

**PCA**      Post Clearance Audit

**TFA**      Trade Facilitation Agreement

**RKC**      Revised Kyoto Convention

**WCO**      World Customs Organization

**KRA-**      Kenya Revenue Authority

## DEFINITION OF TERMS

### **Authorized Economic**

#### **Operator -**

A party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with the laid down supply chain security standards. AEOs include inter alia importers, exporters, clearing agents/brokers, Manufacturers, carriers/transporters/distributors, Terminal Operators/CFS, Airports, insurance/banks (Security Bond guarantors), Warehouse Operators etc.

#### **Post-Clearance Audit**

is the verification, review or audit of customs declarations through the examination of books, records, systems or other documentation held by traders or their agents after the goods have been “released” from customs control

#### **Revenue Collection**

All amounts of money (i.e. taxes and/or fees) received from sources outside the government entity.

## **ABSTRACT**

Post-clearance audit (PCA) is the verification, review or audit of customs declarations through the examination of books, records, systems or other documentation held by traders or their agents after the goods have been “released” from customs control. It is a key control methodology to facilitate the movement of goods through a risk-based selection process that moves border management organizations from a purely transaction-based process to an audit-based approach. The study aimed to find out the effect of Post Audit Clearance on Customs revenue collection at Namanga border station, Kenya. The study was guided by the following specific objectives:- to determine the effect of selection of audit cases on the customs revenue collection in Customs and Border Control Department at Namanga border station, to find out the effect of audit visits on the customs revenue collection in Customs and Border Control Department, Namanga station and to assess the effect of pre arrival clearance on Customs revenue collection at Namanga border station. The study adopted descriptive research design. The study target population was 350 Clearing Agents and KRA Staff. The study sample size was 35. This study used primary data collected through questionnaires. A pre-test on a different sample was carried out to give a Cronbach’s alpha greater than 0.7 for all the variables as a rule of thumb. Data analysis was done by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis employed in the analysis. All the analysis was done using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) used to establish if there is a statistical significance between the observed and expected values with the Pearson Chi square giving the degree significance of the relations, hence establishing the hypotheses. The study found out that selection of audit cases, audit visits and pre-arrival clearance had a significant positive effect on customs revenue collection. Based on the findings, this study therefore

recommends that the management of the customs department should ensure that the post clearance audit procedures are followed to the letter, the government of Kenya should formulate more policies to support and govern customs audit visits. This study further recommends that more policies should be formulated to govern pre-arrival clearance of goods imported from other countries

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The implementation of the General Agreement on Tariffs and Trade (GATT) following WWII ushered in the new age of global trade. Following the devastating laws of the 1930's, the world economy has seen marked increases in trade since the GATT's implementation (WTO, 2009). Most recently, in support of the global recovery from the 2008 financial crisis, the members of the World Trade Organization successfully negotiated the Trade Facilitation Agreement (TFA), also known as the "Bali Package" (WTO, 2009). This was the first major global trade negotiation success since the commencement of the Doha Round in 2001. The World Trade Organization's TFA, which came into force in February 2017, focuses mainly on customs administrative processes in order to speed up the movement, release and clearance of goods. The agreement also aims to increase cooperation measures between customs and other authorities to better facilitate the movement of goods. One of these processes is the post-clearance audit (PCA). (WTO, 2009)

#### 1.1.1. Global perspective

Post-clearance audit (PCA) is the verification, review or audit of customs declarations through the examination of books, records, systems or other documentation held by traders or their agents after the goods have been "released" from customs control. It is a key control methodology to facilitate the movement of goods through a risk-based selection process that moves border management organizations from a purely transaction-based process to an audit-

based approach (UNECE, 2012). Prior to the negotiation of the WTO TFA, post-clearance audit was receiving attention from customs and border management administrations around the world.

The concept of post-clearance audit is not new; various national administrations have been using these types of systems in one form or another for over 30 years. The approach to post-clearance audit has evolved over the years and, with the entering into force of the Revised Kyoto Convention<sup>1</sup> (RKC) on February 3, 2006, a greater focus on modernizing and improving customs processes in border management administrations developed. The RKC laid the foundation for customs and border administrations internationally to develop comprehensive and transparent legislation to facilitate international trade. This was to be accomplished by increasing international harmonization of customs processes and fostering a range of trade facilitative activities by encouraging the use of modern technology, implementing risk management and audit-based controls as well as coordinating with other border agencies and partnering with traders, to name a few (WCO, 1973). The driving philosophy behind post-clearance audit is that by using resources to conduct reviews, verifications and audits after the goods have been released from customs, following a risk-based sampling process, border administrations can direct resources to areas of highest risk rather than attempting to inspect every shipment. As a result, customs administrations are made more effective in allocating their limited resources and at the same time facilitating the movement of legal trade.

Post-clearance audit is a key requirement for a modern customs administration. Through the use of PCA, fewer resources are required at the border for inspection, freeing up resources for other important border work. PCA is critical in reducing revenue leakage for both developed and developing countries. The greater the reliance on customs duties as a source of revenue the

larger the return on investment can be for the administration. However, even countries with relatively low duty rates can benefit significantly from an effective PCA regime.

The challenges faced by both developing and developed countries are chiefly around resources. Border management agencies facing increasingly complex issues such as illegal migration, security, contraband, antiterrorism and illegal goods smuggling have a challenge to find resources to support effective PCA. Regardless of the return on investment for PCA, too often there are too few tools, too little training, underdeveloped or non-existent systems. A well developed, robust post-clearance audit program can be a critical tool in managing legal trade and can provide important intelligence on the functioning of the trading community while at the same time increasing revenues for governments.

The Revised Kyoto Convention (RKC) is an international agreement that provides a set of comprehensive Customs procedures to facilitate legitimate international trade while effecting Customs controls including the protection of Customs revenue and society WTO (2009). It deals with key principles of simplified and harmonized Customs procedures, such as predictability, transparency, due process, maximum use of information technology, and modern Customs techniques (e.g. risk management, pre-arrival information, and post-clearance audit) Wulf L.D (2008) Post Clearance Audit (PCA) has been adopted in many countries all over the world. However, it is a new area for ASEAN Customs. The implementation of PCA in ASEAN has helped to strengthen enforcement and provide the necessary support and confidence in the implementation of trade facilitating measures and simplified procedures in cargo processing and valuation specifically OECD (2009).

In addition, the New Zealand Customs Service made a commitment to itself that an application for both import and export permission is to be processed within 0.5 hour by EDI and within 24

hours by non-EDI WTO (2009). Low-risk goods identified by Customs risk management systems are less likely to be subject to Customs physical examination at borders. Furthermore, a series of surveys by Japan Customs on the time required for the release of goods showed that release times have been reduced by the introduction and improvement of various Customs procedures and techniques. With pre-arrival information, for example, the survey in March 2009 indicated that the average release time for sea-cargoes was 1.7 hours, which was about 60 percent shorter than 4.1 hour average in cases without pre-arrival information.

Japan Customs is formulating and implementing the appropriate and fair tax/tariff policies to realize a healthy national economy and robust public finance. Japan Customs collected customs duties and consumption tax totaling about 5.4 trillion yen (approximately \$US47 billion) in the financial year 2006 Aoyama Y. (2010). This is about 10% of the total national tax revenue, which indicates that Japan Customs is working as an important revenue agency after implementing Post Clearance Audit. In partnership with the National Tax Agency, Japan Customs is collecting duties and taxes in a fair and appropriate manner with due consideration to the effectiveness of its operations. In order to ensure the fair and collection, Japan Customs has implemented an „Advance Ruling System“ for correct import duty declaration, „Post Clearance Audit“ for appropriate duty taxation, and „Criminal Investigation“ to elucidate violations of Customs Laws Aoyama Y. (2010).. Post-clearance audit allows reduction of control activities at a border and at the time of arrival of goods to only those necessary to determine the admissibility of the goods.

This can lead to a significant increase in revenue collection, as PCA allows a more comprehensive and holistic evaluation of the particulars necessary for the calculation of duties and taxes. In Japan, for example, the increased use of PCA generated more than twice as much

revenue in 2009 than in 1999 Aoyama Y. (2010).. In addition, PCA can have the form of supporting transaction-based controls at the border by verifying the classification, valuation and origin of the goods after release through an audit of the supporting commercial documentation such as an invoice Goyal A Goya M. (2004). In this way, goods can be released upon arrival (usually against security or guarantee) and clearance be completed and duties paid after the PCA. This segregation of release and clearance is a very important measure to accelerate the movement of goods across borders. Modern Customs administrations may be in a position to grant release and clearance simultaneously upon arrival of the goods, as stipulated in the ICC Customs Guideline Chang J. (2006).

Implementation of risk-based post-clearance audit (PCA) controls should be an integral part of Georgian Customs" reform and modernization program. Its implementation will allow the Georgian Revenue Service (RS) to obtain a more appropriate balance between its on-going trade facilitation agenda and the need to strengthen its customs controls. Implementation will support Georgian Customs as it continues to expedite the release of goods in an effort to encourage an attractive foreign investment climate. It will afford an opportunity to keep cargo dwell times and related trade transaction costs to an absolute minimum, while also allowing Georgian Customs to more effectively tackle commercial fraud, especially under-valuation of imports and associated revenue losses. Compliance verification through PCA is a prerequisite to implementing an Authorized Economic Operator (AEO) regime. AEO regimes will strengthen the international supply chain and rewarding those firms that meet the strict security requirements confirmed through AEO security audits. Firms granted AEO status by Georgian Customs will receive expedited clearance of their exports as they enter those foreign markets that mutually recognize the AEO status granted by Georgian Customs. Implementation of an

effective PCA program in Georgia will require a significant investment in both material and human resources. The RS will need to: Display significant commitment and ownership to implement risk-based PCA's; Strengthen the current legal framework so it fully supports PCA's; Draft Standard Operating Procedure (SOP) manuals for both risk management and PCA; Redress significant weaknesses in human resource management and development in both the Risk Management and Post-Clearance Audit Divisions, including: Bringing the organizational structure for the Risk Management Division and Customs Post-Clearance Audit Division in-line with international best practice; Giving customs intern auditors additional foundational technical customs training courses especially in customs valuation, H.S. classification, and origin/preferential trade agreements. It is important that intern auditors have a comprehensive understanding of these key areas before they receive specialized technical training courses in post-clearance auditing techniques;

Providing all staff posted to the Post-Clearance Audit Division with additional ASYCUDA technical user training and a password to allow them access to the ASYCUDA database. This would allow PCA staff to efficiently and effectively retrieve declaration data and produce statistical reports, in order to analyze and select high-risk traders and particular high risk transactions to audit; Giving PCA staff direct access to the current customs valuation reference price database so they may compare declared customs import values of goods with those values/reference prices maintained in the database;

Developing a tariff classification rulings database and making it available to PCA's (as well as Gezi staff) such that H.S. explanatory notes and all international and national tariff classification rulings be available on-line to staff (and also stakeholders); Increasing the number of auditors in the Customs Post-Clearance Audit Division by adding 15 additional auditors to supplement the

existing staff of 10, then a second intake of 25 customs interns after the first group of 25 post-clearance auditors have gained experience and proven their ability to efficiently and effectively conduct both desk audits and field audits. The second batch of interns would be needed approximately 6 months after the first group have received their PCA training and had an opportunity to apply the new desk audit and field audit techniques. At this time, some of these auditors could be redeployed to the various regional offices; Providing additional office space and IT equipment in the short term at HQ for these additional auditors i.e. until both batches of auditors (i.e. 50 in total) have received training and gained practical experience in undertaking desk and field audits and are ready to be relocated back to the regions. In the medium term, office space and IT equipment should be provided in the regional offices for post-clearance auditors; Providing a classroom at RS HQ for two sessions of 25 auditors, for delivery of foundation customs technical training, followed by risk management and post-clearance desk and field audit training; Assigning two (2) experienced, full time, dedicated Georgian trainers to receive training from EPI experts.

Once trained, these trainers would then deliver the customs foundation training courses in valuation, tariff classification and origin, then the specialized training courses in risk management and PCA techniques in Georgian; Drafting job descriptions for managers and officers working in both the Risk Management Division and the Post-Clearance Audit Division; Reviewing auditor basic remuneration and bonus system, then improving the basic remuneration and implementing a performance-based incentive scheme for auditors. RS needs to ensure that customs post-clearance auditors receive an adequate salary comparable to what they would earn in the private sector as an auditor. Consideration should also be given to introducing performance based bonuses or other motivational incentives for auditors. In some

customs services, these incentives may be related to additional revenue assessed/collected from the conduct of an audit; Designing and implementing an anti-corruption strategy for post-clearance auditors; and Providing laptops to those auditors performing field audits; Provide vehicles or vehicle allowances for field auditors visiting traders' premises; Prepare tender/procure Risk Management Software Suite to support risk management and PCA's; Strengthen the risk management channeling in ASYCUDA, bringing it more in line with international best practice;

A major difference between the conduct of PCA and more traditional approaches to auditing is the skill set and knowledge required of the auditor. Customs audit has typically been based on a sound knowledge of customs law and technical skills in tariff, valuation and origin. PCA however requires an understanding of how a business operates and how this relates to its transactions with the broader spectrum of regulatory agencies. There is also an expectation from the trading community that the skill level of auditors is of an appropriately high standard, given that the PCA process is designed to review their business systems and internal controls, assess the effectiveness of their compliance measures and make recommendations on enhancements or changes in order to improve future compliance.

Thus PCA can have a significant impact on a trader's business and should be conducted with a high degree of professionalism similar to the level of professionalism expected of private sector audit service providers. Private sector auditors are bound by International Standards on Auditing (ISA—which will form the basis of local auditing standards issued by the national professional auditing body). PCA should therefore be guided by those ISA's that are relevant to PCA conducted by border management agencies.

The audit scope and objectives essentially reflect the reason or reasons why the trader has been selected for PCA, which will generally be linked in some way to the perceived level of risk posed by the trader. Foreexample, a trader may be selected for PCA for one of the following reasons: The trader is a significant tax/duty payer who has not been visited for some time; The trader's last audit left several outstanding issues to be followed up and remedial activity to be undertaken; Monitoring the trader's performance, e.g. duty payment, permits, losses, conditional concessions, refunds, indicates that established patterns and trends of the trader, or between the trader and the trader's industry, are altered to the point that revenue or other requirements are at risk; There have been changes to legislation or administration within the industry in which the trader operates; The industry as a whole, in which the trader operates, has come to notice as a significant compliance risk; or A trend of non-compliance has been identified within an industry, and the extent of that noncompliance across the industry needs to be understood.

### **1.1.2 Kenya Perspective**

PCA is the process of verifying the compliance of a business with customs legislation, through an examination of accounts and other records of that business. An audit-based customs control is performed subsequent to the release of the cargo from Customs' custody. PCA's can be conducted on a case-by-case basis focusing on targeted operators, selected on the grounds of risk analysis of the commodity and the trader, or in a planned, regular way – set out in an annual audit program. Furthermore, the audit could also be used as criteria to offer special treatment to certain economic operators. The ability to carry out post-clearance checks is essential. It is through these checks that Customs may detect false declarations, without having to inspect the goods. However, customs post release checks are not fiscal audits. They are usually – at least at first – transaction-based. They can take the form of desk reviews, requests for additional

information, or field visits/audits to the importers or their clients. In most cases, such checks are more destined to confirm the compliance of importers than to detect a pre-supposed fraud. They normally should not require the same restrictions as a tax audit. Chapter 6 of the General Annex of the Revised Kyoto Convention sets out a large number of recommended standards relating to all aspects of Customs control, including the use of audit-based controls and the audit of traders' commercial systems (Standard 6.6. and 6.10).

Customs Post Clearance Audit (PCA) is an initiative based on global best practices. It is aimed at creating an environment of increased compliance while allowing the Department the flexibility to enhance the facilitation for importers and exporters. PCA allows Customs to reduce border controls by shifting compliance checks from the clearance stage to the post clearance stage. Checks conducted at the point of clearance can be time consuming and hinders smooth and timely clearance of goods. Further limited documentation available at the time of import or export does not provide a comprehensive view of a commercial transaction.

It often becomes difficult for Customs officers to properly assess custom duties and ensure compliance within the short time available to them. Delay in clearance of goods results in an economic cost to the traders and the economy as a whole. Customs administrations, therefore, now concentrate their controls on the post-clearance environment, whilst retaining selective and targeted checks at the frontier. It may however be noted that border controls cannot entirely be done away with, but must be used in cases where the risk to revenue or public health and safety cannot be postponed. PCA enables Customs to apply a risk based control approach by moving from a transaction based control environment at the border, to a stronger audit based compliance verification system. PCA is recognized as an effective tool to measure and improve compliance through a structured examination of the business environment and commercial system of the

importer/exporter. PCA promotes a culture of voluntary compliance. 1.1.2 In Indian Customs, Post clearance audit was first introduced in 2005 (when the Risk Management System was operationalized). It replaced the conventional system of concurrent audit, which formed a part of the assessment process by separating audit function from assessment function, thereby facilitating expeditious clearance of goods. A risk-based approach was adopted to assess cargos compliance with trade laws and regulations. In the year 2011, the concept of self-assessment was introduced, which placed more trust on the importers and exporters.

Simultaneously, Onsite Post Clearance Audit (OSPCA) was also introduced in 2011, which envisaged a more comprehensive audit carried out at the premises of importers and exporters.

1.1.3 With the increased expectations of trade and business for faster clearances of goods and for reduction in time and cost, it has become necessary to enhance the facilitations level for trusted and compliant stakeholders.

Based on the internal PCA MANUAL 10 experience gained over the years and with exposure to international best practices, need for a new audit approach has been felt. The present Customs Audit Manual explains the principles behind such an approach and procedure for conducting three types of customs audit i.e Transaction based audit (TBA), Theme based audit (ThBA) and Premises based Audit (PBA).

Technological transformation in implementing the mandates of Customs functions, increases the need to keep the Audit procedures up to date. Further, based on the experience and feed-back from Audit Officers, Customs formations and various stakeholders, there is a need to review, improve, and update this Manual periodically.

### **1.1.3 The Customs and Border Control Department (CBCD)**

The Customs Services Department (previously known as Customs and Excise Department) of the Kenya Revenue Authority was established by an Act of Parliament in 1978. It is the largest of the four revenue departments in terms of manpower, revenue collection and countrywide operational network.

Customs and Border Control Vision is to be globally recognized as a modern Customs Administration that is responsive to the needs of the 21st century customer. The primary function of the Department is to collect and account for import duty and VAT on imports. One of the major reforms that took place was Post Clearance Audit (PCA) was established to replace the traditional jerquing branch audit. In endeavours to facilitate trade, Post Clearance Audit was introduced to as a process that will enable customs to verify declarations made by importers by examining their records, books, business systems and other data at importers any time within five years after importation and exportation. At the same time it enables Customs administrations to offer the trader facilitation measures in the form of simplified procedures (e.g. periodic entry system) (KRA, 2014).

In addition, with the increasing volume of international trade and pressure to facilitate trade, Post Clearance Audits will provide customs with another tool to enhance overall control. The fact that a trader has been audited and found to be compliant reduces the perceived risk of the trader. This allows a customs administration to refocus its attention and limited resources on higher risk traders. The guiding principle is that, in most countries, 20% of the traders account for approximately 80% of the trade. If customs is able to audit 20% of the traders and ensure

they are compliant, customs would not need to devote any significant effort and resources on those operators/ traders at the time of clearance, and instead could concentrate its attention and resources on the remaining 20% of the volume of trade, which represents a higher risk of non-compliance.

Such a risk-based audit philosophy needs to be reflected in the organizational structure and resource deployment. Any PCA unit created would need to have the resources and professionally trained staff to undertake comprehensive audits on 20% of the largest traders. Implementation of the 80/20 principle requires that an efficient and effective risk management process be put in place to support both pre-clearance controls and PCA's.

Even in the low risk 20% of the largest traders, it is important to be able to at least randomly check a small percentage of these consignments for document verification and/or physical goods inspection. Where an inspection is required, it should be performed at the trader's premises when the goods are being off-loaded. Selectivity criteria should be focused on the 20% of consignments that are unable to be subject to PCA. Of course, any consignment suspected of containing concealed narcotics, drugs, weapons, IPR infringing goods, or other contraband must be inspected prior to release.

Niu (2010) Historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data often used in the literature. The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) autoregressive modeling methods. The results of both methods suggest that after an audit, a firm would report a higher sales growth rate. Jin Kwon (2004) study in Korea observed that a more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance and tax audit. There are three types of tax audit. Badara (2012) stated these three types of audit

include the random tax audit, cut-off tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit. Badara, (2012) Questionnaire distributed to forty-eight (48) respondents using descriptive statistics. The result shows that the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise.

Mittone (2006) investigates that early experience of audits in taxpayers' "tax life" is a more effective way to increase compliance than later audits. Also Kastlunger et al, (2009) study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers' "tax life" have a positive impact on compliance.

## **1.2 Statement of the Problem**

Globalization has resulted in the increase in volume of trade and corresponding increase in commercial fraud and across border offences. Customs current procedures and systems seem to compromise trade facilitation for revenue collection and law enforcement. Given the importance of trade facilitation, Customs has to strike the balance between Law enforcement and trade facilitation. In endeavours to facilitate trade, Post Clearance Audit is introduced to as a process that will enable customs to verify declarations made by importers by examining their records, books, business systems and other data at importers any time within five years after importation and exportation. Within the RS Georgian Customs context, a serious imbalance currently exists between trade facilitation and control. Since the creation of the RS, trade facilitation has been the primary objective of the RS Customs.

This trade facilitation objective has been driven from high political levels in the interest of creating an attractive business and investment climate. Customs control exercised throughout the customs process remain very weak. This has been caused by large staff retrenchment, which has not been followed up with significant training and capacity building for new recruits. Customs pre-clearance movement controls and PCA controls remain weak.

The implementation of a post-clearance audit system not only reduces such burdens as time that are commonly associated with customs clearance, but also establishes a user-friendly environment for those taxpayers with good compliance records and contributes to the cutting down of duty and tax evasion.

There is immense of literature on revenue collection in Kenya Revenue Authority. For instance, a study was conducted a study on the effectiveness of revenue collection strategies at Kenya Revenue Authority in Nairobi (Awitta, 2010), a study was done on the effect of Strategic Response on Revenue Collection in Kenya Revenue Authority, Nairobi County, Kenya (Kothari, 2004), a study was conducted on the effects of revenue system modernization on revenue collection at Kenya Revenue Authority (Muthama, 2013) and a study was conducted on the effects of tax audit on revenue collection with a case of Kenya Revenue Authority (Nyakamba, 2013) .However, none of these studies outline how post clearance audit influences revenue collection. This study therefore will fill in the gap by researching on the effect of post clearance audit on customs revenue collection.

### **1.3 Objectives of the study**

#### **1.3.1 General Objective of the study**

The general objective of the study is to establish the effect of post clearance audit on customs revenue collection in Customs and Border Control Department at Namanga border station.

### **1.3.1 Specific Objectives of the study**

The specific objectives of this study are to;-

- i. To determine the effect of selection of audit cases on the customs revenue collection in Customs and Border Control Department at Namanga border Station
- ii. To find out the effect of audit visits on the customs revenue collection in Customs and Border Control Department at Namanga border station
- iii. To determine the effect of pre-arrival clearance on customs revenue collection in Customs and Border Control Department at Namanga border station

### **1.4 Research Questions**

- i. How does the selection of audit cases affect customs revenue collection Customs and Border Control Department at Namanga border station?
- ii. How does planning for audit visit affect customs revenue collection Customs and Border Control Department at Namanga border station?
- iii. How does pre-arrival clearance affect customs revenue collection Customs and Border Control Department at Namanga border station?

### **1.5 Significance of the Study**

#### **1.5.1 Policy Makers**

The study will establish the effects of post clearance audit on customs revenue collection in Customs and Border Control Department at Namanga border station. The outcome of the study will be useful such that it will emphasize the theories in place and will add to theories the relationship between the two and it will also be used when coming up with policies for the government. The outcome will also help management to be able to come up with new policies to implement in revenue collection.

### **1.5.2 Kenya Revenue Authority**

The outcome of the study will be useful to Customs and Border Control officers to improve revenue collection through post clearance audits. The KRA staff will be able to place importance on the procedures in order to incorporate measures in their planning to ensure and that they contributed towards improved services.

### **1.5.3 Academicians**

The study will also be able to add value to academics as it will show the practicability of theories and give scholars a practical view of the theories. The data will also help scholars in their studies on the same topic.

## **1.6 Scope of the Study**

The study area was carried out at Namanga border station. Namanga border station is one of the Customs and Border Control station at Kenya Revenue Authority. It has twenty (50) Customs and Border Control officers and 300 Clearing and Forwarding agents.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presented review of literature on Post Clearance Audit. It first discussed three theories that provide the theoretical background of the study. These theories are policemen theory, lending credibility theory and the moderator of claimants theory. The chapter also discussed other studies conducted that are relevant to this study. Furthermore, it developed a conceptual framework for the research variables and showed the gaps that the study sought to fill.

#### **2.2 Theoretical Literature Review**

Social rule system theorists point to three major power mechanisms of rule system reproduction and change to explain the evolution of social rule systems and institutional arrangements: the selective action of the environment; the constraining and facilitating conditions of institutional arrangements with their technologies, available resources, and participants; and creative/destructive human agency. In the customs services department there are post clearance audit procedures that are supposed to be followed by all Custom Auditors. These procedures dictate the selection criteria of audit cases and allocation of audit cases

On the other hand, the resource-based theory as a basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable interchangeable and intangible, tangible resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly

imitable nor substitutable without great effort. If these conditions hold, the firm's bundle of resources can assist the firm sustaining above average returns.

One of the challenges that may be facing post clearance tax audit in the Customs Services Department is availability of resources. Its implementation requires resources like skills, information technology systems transport for custom audit visits among others.

### **2.2.1 The Policeman Theory**

This theory of auditing was formulated by Awe, (2008) on assumptions that once monitoring is done on the systems at unspecified times then that is like policeman guarding a place and thus, called it policeman theory. It was further asserted that auditing is purely on the arithmetical accuracy and on the prevention and detection of fraud. This theory makes the auditor to detect and prevent errors and fraud in organizations. It then adds a factor of monitoring to the auditing theory.

### **2.2.2 The Lending Credibility Theory**

This theory of auditing regards the primary function of auditing to be the addition of credibility to the financial statements. Akinbuli (2010) who states that audited financial statements can enhance stakeholders' faith in management's stewardship assumed that for one to be sure that the financial statements are true and fair then an independent person has to go through the statement, substantiate them then produce a report. It was asserted that shareholders and stakeholders trust the report of the auditor and feel secure. The theory was modified from the initial by Hayes et al (1999) that stated that it was through financial statements that the revenue authorities are able to ascertain the amount to be collected. The factor of credibility was added to the theory of auditing.

### **2.2.3 The Moderator of Claimants Theory**

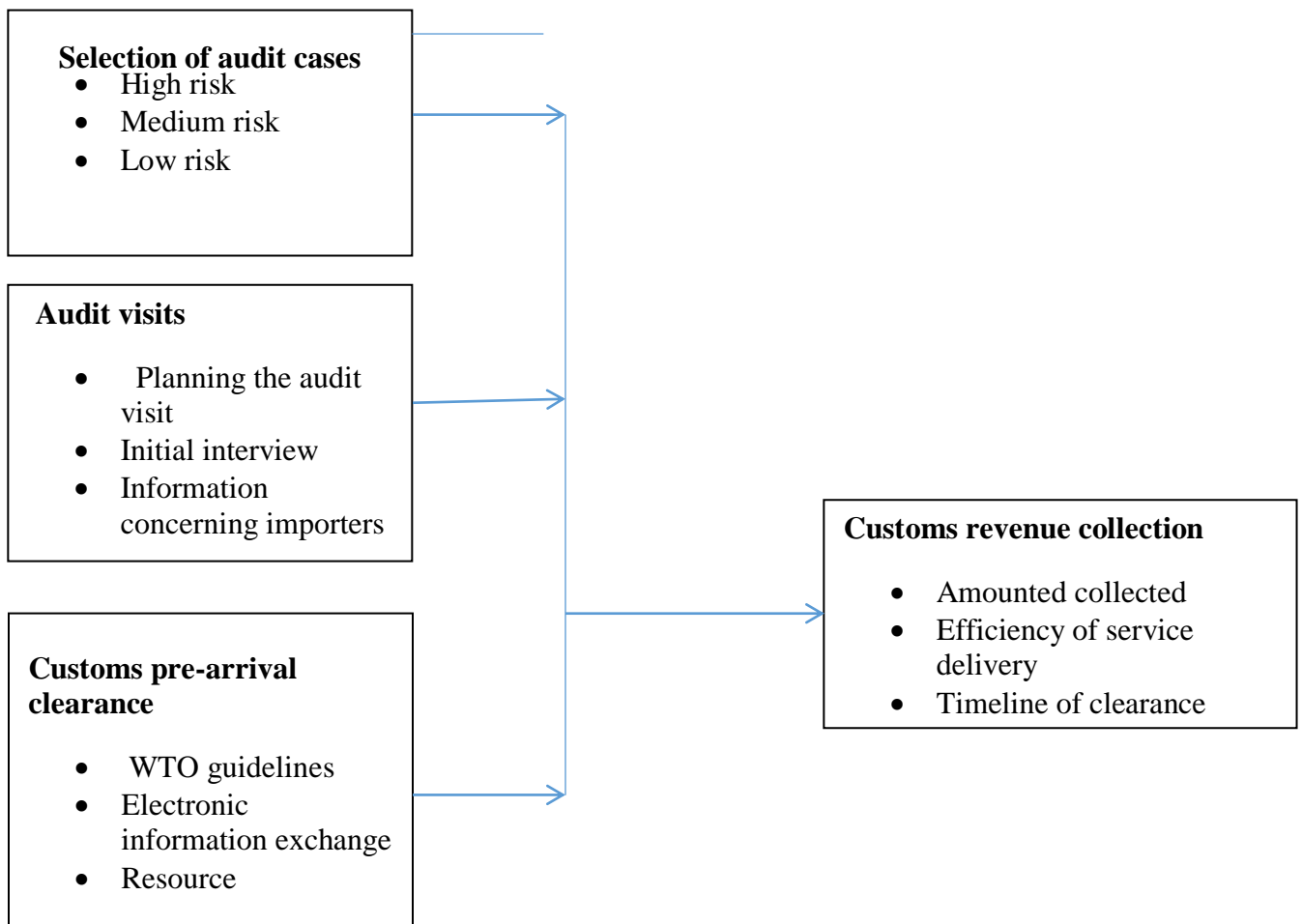
This theory is stated by Frey, (2003) that it is important that all vital participants in an organization continue to contribute. In order to continue these contributions, it is important that each group believes it receives a fair share of the organizations income. This is based on the assumption that when one gets a fair share then a fair share will be contributed. To the auditing theory then fairness is introduced

### 2.3 Conceptual Framework

This conceptual framework shows the relationship between the dependent variables and the independent variables. The independent variables are selection of cases, audit visits, and information concerning importers and the dependent variable is customs revenue collection as illustrated in the conceptual framework presented in figure 2.1

#### Independent Variables

#### Dependent Variable



**Figure 2.1 Conceptual Framework**

## **2.4 Empirical Literature**

There are various studies that have been conducted in relation to revenue collection and Kenya Revenue Authority. For instance, a study was conducted on customer service as a competitive strategy for enhancing performance in the Customs Services Department, Kenya revenue Authority Mutema C,T (2013). The respondents for the study were eight (8) senior managers, two (2) customer service desk staff and ten (10) customs officers drawn from various divisions of Customs Services Department and twenty (20) clearing agents drawn from various clearing and forwarding companies. Secondary data was obtained from review of Kenya Revenue Authority documented publications such as corporate plans, Tax payer charter internal memos among others. The study found that the main tasks of customer service in Customs Services Department involve processing of declarations, release of cargo, resolving public complaints and provision of focused taxpayer education. Further, findings indicated that service delivery in the department had not been satisfactory because of poor working conditions and unfriendly customer attitudes. The study also found out that customer service in the department can be improved through improvement in the work environment in addition to staff motivation through training, promotions, rewards and recognition. This would enhance faster clearance of cargo and cost savings leading to increased revenue collection and minimizes corruption thus enhancing a positive image of the department. However, the study did not look at how post clearance tax audit influences revenue collection.

On the other hand, a study was conducted on the impact of automation as a structural change strategy on customs clearing procedures at Kenya Revenue Authority Sigey J.K (2010). The target population of the study consisted of licensed customs clearing agents. Respondents of the study involved 101 licensed customs clearing agents based in Nairobi and Mombasa. Interview

guides were used to collect data from the agents. Quantitative and qualitative analysis techniques were used to analyze the data.

The findings emerging from the analysis were used to compile this report. The research study established that with the introduction of the Trade X-Simba system in the customs department, there had been improved efficiency, improved effectiveness, improved staff skills, reduced costs and improved governance. This study only focused on only one aspect of structure change in KRA and hence did not look at how customs audit procedures, customs audit standards, customs audit visits and customs pre-arrival clearance influence revenue collection.

A study was conducted on the effects of revenue system modernization on revenue collection at Kenya Revenue Authority Muthama J. (2013) This study employed descriptive study design. The study used secondary data collection. The study utilized KRA Customs data for four financial years before and after Simba System. The period selected was from July 2001 to June 2009. The study established that that the number of transactions and the revenue collected increased after the implementation compared to the years before the implementation. The study findings also established that the revenue collected was directly related to number of transaction but inversely related to inflation, operating costs and exchange rates and that there was a strong relationship between system modernization and revenue collection at the Kenya Revenue Authority in Kenya with regard to the Simba System. From the study it was evident that System modernization enhances Revenue Collection and thus it should be encouraged. Nevertheless, the study focused on only one aspect of customs services department and hence does not show whether post clearance audit influences revenue collection at the Custom Services Department. A study was conducted on the effects of tax audit on revenue collection with a case of Kenya Revenue Authority Nyakonba D.M (2013). From the t-statistics results the parametric Pearson

correlation or „r“ value is significant for tax paid before audit and tax paid after audit as it clearly indicates there is an increase in the tax paid after audit, this is clear for random tax audit, cut-off tax audit and conditional tax audit.

The study also found that tax collected from a certain firm two years prior to the audit and two years after the audit, there is an increase in tax collected after the audit. Thus it is right to say that tax audit is directly related to revenue collection. Therefore it is clear that the more tax audits conducted the more revenue collected in the audit and in the subsequent years as the companies are better informed. However, the study focused on general tax audit and hence did not outline how various components of post clearance audit influence revenue collection.

A study was conducted on the effects of internal controls on revenue collection with a case of Kenya revenue authority Mwachiro D.B (2013).

The research was conducted using both qualitative and quantitative approaches. Questionnaires were used on a population of 38 respondents in gathering primary data for the study. The data collected was then analyzed and findings have revealed that the five components of 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 have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA. Nevertheless, the study did not outline how customs audit procedures, customs audit standards, customs audit visits and customs pre-arrival clearance influence revenue collection.

#### **2.4.1 Selection of audit cases on customs revenue collection**

The first objective of this study was to determine the effect of selection of audit cases on revenue collection in the Customs & Border Control Department in Kenya. The study established that selection of audit cases affect revenue collection at the customs & Border Control Department. The study also established that selection of audit cases help the customs & Border Control department to collect undervalued revenue, which importers do not include in their invoices. In the event of underpayment of duties or revenue collected, PCA will identify revenue collected hence enhancing revenue collection. The study also found that with selection of audit cases, it speeds up clearance process and reduces costs such as storage and also identify the high risk cases, medium risk cases and low risk cases. The study also revealed that selection of audit cases helps to ensure compliance since importers know if they do not declare the correct tariffs, they may face audit queries requiring them to pay the unpaid taxes with interest. The study also established that analysis of basic data affects revenue collection at the Customs Department to a great extent. Further, the study revealed that pre-planning influences revenue collection at the Customs Department to a great extent. In addition, the study found that selection of audit cases affects revenue collection at the Customs Department to a moderate extent. Additionally, the study found that pre-audit survey affects revenue collection at the Customs Department to a moderate extent. Lastly, the study revealed that allocation of audit cases affects revenue collection at the Customs Department to a moderate extent. These procedures help to select cases that need to be audited and hence a reduction in time used in clearance of goods. In relation to the effects of selection of audit cases on revenue collection at the Customs Department, the study found that post clearance audit procedures guide PCA for the great effectiveness, it brings total compliance to prompt submission of taxes and it speeds up

clearance and saves on time and storage cost. The study also found that selection of audit cases ensures clear guidelines for staff on how to carry out post clearance issues, enhances revenue collection, enhances compliance by traders, highlights risky areas, guides on tariffs, reduces release time and creates more efficient controls.

### **2.4.3 Audit visits on revenue collection**

The focus would be on the productivity of auditors working in the field audit unit of company taxpayers. According to the Inland Revenue Board of Malaysia's (IRBM) practice, the audit coverage refers to the number of field audit carried out on taxpayers in a particular year as compared to the total number of registered taxpayers in that year. It is expected that when tax audit coverage increases, the tax underreporting behaviour decreases (Allingham & Sandmo, 1972). One of the most direct ways to increase audit coverage is to increase the number of auditors. Similarly, another way is to increase the productivity of each tax auditor. In the latter case, every tax officer has to audit and conclude more cases. The first method is not always possible due to financial and human resource constraints faced by the IRBM. The second method is possible through the deployment of productive tax auditors to do tax field audit.

Thus, the researcher perceives that it is essential to identify the factors that influence the tax auditor's productivity. Based on studies at firm and industry level, individual productivity is influenced by both the individual's characteristics as well as external factors. Individual characteristics such as age and gender have been identified as factors influential to productivity; see for example Roger and Wasmer (2009) and Holzer (1988) Holzer (1988). The effect of works related training was studied by Pells, Steel, and Cox (2004), and Dearden, Reed, and Reenen (2006). Job satisfaction and productivity, on the other hand, were studied by Bockerman and Ilmakunnas (2010). The previous experience and tenure in the current job are also identified

as some of the determinants of individual productivity (Holzer, 1988). Other factors include employee happiness (Oswald et al., 2014).

Tax non-compliance problems particularly under-reporting of income have been investigated extensively since the emergence of the theoretical study on tax evasion by Allingham and Sandmo (1972). The similar theoretical study was conducted by Srinivasan (1973), marking the beginning of more studies in the field of tax evasion, expanding \* Corresponding author: E-mail: saliza@uum.edu.my Samitah, S., Md Idris, K. and Abdul Aziz, S. 22 beyond theoretical studies. The necessary proposition of the two earliest studies stemmed from the contention that tax enforcement (audit) and punishment (penalty for evasion) have a positive impact on taxpayers' compliance behaviour. Further studies on the same subject (some through different methods and perspectives) are carried out by various scholars such as Kahneman and Tversky (1979); Spicer and Thomas (1982); Clotfelter (1983); Witte and Woodbury (1985); Spicer (1986); Crane and Nourzad (1986); Feinstein (1991); Engel and Hines (1999); and Dhimi and al-Nowaihi (2004) among others. The issues debated or discussed rest on: (i) Why people evade tax or under-report their income to the tax authority?, and (ii) The effectiveness of some measures to improve tax compliance, such as tax enforcement measures, the imposition of penalty and punishment for tax evasion, and the selection of appropriate tax rate schedule.

In fact, studies on tax non-compliance and tax evasion have led to a conclusion that strengthening tax audit policy and practice are among the most important measures to deter tax evasion and under-reporting of income tax. Three elements of tax audit are identified under the literature, namely: the tax audit selection (Cowell, 1985; Reinganum & Wilde, 1985), the tax audit coverage (Allingham & Sandmo, 1972), and the audit efficiency (Feinstein, 1991). The tax audit coverage is the broad main subjects related to this paper.

#### **2.4.2 Pre-arrival clearance on revenue collection**

The trend by border agencies to adopt pre-arrival clearance and PCA reflects the many changes which are occurring in international trade today. Whilst the need to maintain high levels of compliance by traders has not changed, the volume of cargo moving in and out of a country, as well as the speed with which it is expected to move through the border, has changed significantly in recent times. As such, border compliance managers face the challenge of an environment where there is rapid growth in the number of transactions being generated and communicated to agencies by traders, and greater pressure on the agencies to clear cargo more efficiently (i.e. reduced timeframes and costs for traders). Thus compliance efforts have been shifting towards advance reporting, screening out high risk cargo for immediate intervention, and undertaking PCA. Pre-arrival clearance is a process that allows traders to submit data at an early stage in the transport of the goods for advance processing of that information by the regulatory agencies and thereby provide for immediate release of the goods once they arrive at the border or port or prior to the arrival of the goods if deemed appropriate by the controlling agencies. The pre-arrival clearance process is particularly important for certain types of goods that are highly perishable or that in some other way require prompt handling upon arrival. However, pre-arrival clearance is not just about facilitation. It is also particularly useful for early identification of goods that may pose a health, revenue or security risk to the country.

The effectiveness of the screening process is of course dependent on receipt of advance information, supported by the necessary technology to enable agencies to analyze information from a variety of sources and to link it to risk 'flags' or alerts. Since the basis of pre-arrival clearance is early provision of information, it is necessary to combine it with a capacity to

undertake more detailed analysis of the information and supporting documentation after the goods have arrived in the country. This is where the concept of PCA comes into play. Audits undertaken by PCA specialists can take a variety of forms, from random audits to verify compliance with regulatory requirements, to regularly scheduled audits with a focus on particular companies or industry sectors. What they all have in common is a legislative base that provides trained auditors with the power to enter premises and to inspect documents, either physically or electronically. PCA represents a move away from traditional approaches which focus on the physical inspection of cargo and the relatively ineffective documentary checks that restrict auditors to reviewing a very small percentage of a trader's overall transactions. PCA rather is a focus on the business systems of the trader that generate and communicate transactions to the regulatory agencies, recognizing that good business systems with adequate controls will lead to high levels of regulatory compliance. In this context, risks to compliance can be mitigated if the audit process is used to identify enhancements to the trader's business systems and controls, thus working with the trader to improve future compliance (a concept that is often referred to as 'compliance improvement'). The World Customs Organization (WCO), in recognition of this need to adapt to the growing world economy, has spelt out in the Revised Kyoto Convention the need for Customs agencies to move towards post clearance controls to facilitate trade, which includes transitioning towards 'control based audit', which represents the auditing of traders' internal systems and controls as they relate to Customs requirements. The following Standards contained in the Revised

## **2.5 Critiques of the study**

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Jin Kwon (2004) study in Korea observed that a more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance and tax audit. There are three types of tax audit. Badara (2012) stated these three types of audit include the random tax audit, cut-off

tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit.

Cut-off audit scheme, audit resources are employed to verify reports of the tax payers reporting the lowest income levels. The conditional audit scheme requires in addition to the reported income, sources of 12 information representing a noisy signal of tax payers' thorough income earning potentials. Badara, (2012) Questionnaire distributed to forty-eight (48) respondents using descriptive statistics. The result shows that the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. There are several theoretical and empirical studies on tax audit and tax compliance. These studies provide mix reactions on the relationship between tax audit and tax compliance.

Alm and McKee, (2006) investigates the application of experimental methods to examine the individual compliance responses to a "certain" probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited. Slemrod et al, (2001) examines randomly selected taxpayers and inform them that their filling will be "closely examined" and found evidence of taxpayers' behavior changes in response to an increased probability of audit, although the responses are not uniform among different groups of taxpayers.

Mittone (2006) investigates that early experience of audits in taxpayers' "tax life" is a more effective way to increase compliance than later audits. Also Kastlunger et al, (2009) study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers' "tax life" have a positive impact on compliance. Kleven et al (2010) 40,000 individual 13 tax filers using experimental design and

randomization test and SKAT's Business object Database with ordinary least square. Their research found that tax evasion rate is small for income subject to third party reporting, but substantial for self reported income; marginal tax rates have a positive impact on tax evasion, but that this effect is small; prior audits substantially increase self reported income and threat of audit letters also have a significant effects on self reported income, and the size of this effect depends positively on audit probability expressed in the letter. Hyun (2005) Japan & Korea using world value survey dataset and descriptive statistics and multiple regressions for analysis. Japan has the higher level of tax culture than that of Korea; and the legal system is relatively more important factor to determine the level of tax culture which eventually affects the level of compliance.

Plumley et al (1996) Data set from 1991-2001 using Ordinary Least Square The result found a significant effects attributable to many tax policy and tax administration parameters; including: audits; third party information documents; the issuance of targeted nonfiler notices; criminal tax convictions; marginal tax rates

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The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA. Nevertheless, the study did not outline how customs audit procedures, customs audit standards, customs audit visits and customs pre-arrival clearance influence revenue collection

The study found that the main tasks of customer service in Customs Services Department involve processing of declarations, release of cargo resolving public complaints and provision of focused taxpayer education. Further, findings indicate that service delivery in the department has not been satisfactory because of poor working conditions and unfriendly customer attitudes. The study also found out that customer service in the department can be improved through improvement in the work environment in addition to staff motivation through training, promotions, rewards and recognition. This will enhance faster clearance of cargo and cost savings leading to increased revenue collection and minimizes corruption thus enhancing a positive image of the department. However, the study did not look at how post clearance tax audit influences revenue collection. On the other hand, a study was conducted on the impact of automation as a structural change strategy on customs clearing procedures at Kenya Revenue Authority Sigey J.K (2010). The target population of the study consisted of licensed customs clearing agents. Respondents of the study involved 101 licensed customs clearing agents based

in Nairobi and Mombasa. Interview guides were used to collect data from the agents. Quantitative and qualitative analysis techniques were used to analyze the data.

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Nevertheless, the study focused on only one aspect of customs services department and hence does not show whether post clearance audit influences revenue collection at the Custom

Services Department. A study was conducted on the effects of tax audit on revenue collection with a case of Kenya Revenue Authority Nyakonba D.M (2013). From the t-statistics results the parametric Pearson correlation or „r“ value is significant for tax paid before audit and tax paid after audit as it clearly indicates there is an increase in the tax paid after audit, this is clear for random tax audit, cut-off tax audit and conditional tax audit.

Niu (2010) Historical population data of a New York State economic sector were used in this study instead of experimental data or randomly selected sample data often used in the literature.

The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) autoregressive modelling methods. The results of both methods suggest that after an audit, a firm would report a higher sales growth rate. Jin Kwon (2004) study in Korea observed that a more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance and tax audit. There are three types of tax audit.

Badara (2012) stated these three types of audit include the random tax audit, cut-off tax audit and conditional tax audit. The random tax audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit. Badara, (2012) Questionnaire distributed to forty-eight (48) respondents using descriptive statistics. The result shows that the Relevant Tax Authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. Mittone (2006) investigates that early experience of audits in taxpayers“ “tax life” is a more effective way to increase compliance than later audits. Also Kastlunger et al, (2009) study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers“ “tax life” have a positive impact on compliance.

## **2.6 Research Gap**

There is immense literature on revenue collection in Kenya Revenue Authority. For instance, a study was conducted a study on the effectiveness of revenue collection strategies at Kenya Revenue Authority in Nairobi Awitta M. (2010), a study was done on the effect of Strategic Response on Revenue Collection in Kenya Revenue Authority, Nairobi County, Kenya Kothari C.R (2004), a study was conducted on the effects of revenue system modernization on revenue collection at Kenya Revenue Authority Kothari C.R , and a study was conducted on the effects of tax audit on revenue collection with a case of Kenya Revenue Authority Nyakamba D.M (2013). However, none of these studies outline how post clearance audit influences revenue collection. In addition, none of these studies focused on the variables of this study: customs audit procedures, customs audit standards, customs audit visits and customs pre-arrival clearance. This study therefore sought to fill this research gap by looking at the effect of post clearance tax audit on revenue collection in the customs department in Mombasa.

## **2.6 Summary**

Chapter one gave an introduction and background to the study and outlined the problem statement and the purpose of the study, it also clearly stated the research questions that the study aims to achieve. The significance alongside beneficiaries of the study has been outlined. The scope both geographical and conceptual is covered. The chapter concludes by defining the key terminologies used. Chapter two elucidates the findings from the literature with the emphasis on the tax compliance and non-compliance. It will therefore serve to clarify how relationship between tax compliance and tax evasion and tax avoidance. Chapter three comprise of the research methodology used in the study. The chapter defines the research design, population targeted, sample design, procedures of data collection and analysis of data techniques. Also

discussed are characteristics of the study design and why the research deemed it appropriate for this study. The chapter also provides information on the population, sample frame and size, sample selection. Data collection method and data collection tool used in the study is also provided. Presentation the findings and results of the study is covered in chapter four. Presentations of the findings and results were presented in table forms. Percentages were used for easy interpretation and understanding

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This section provided a systematic description of the research methodology that was used to answer the research questions in chapter one of the research project. The methodology in this research study entail research design, target population, sampling design, data collection and analysis methods.

#### **3.2 Research Design**

The study adopted descriptive research design, it was structured in a formal study with clear and well stated investigative questions which sought to find out who, what, where, when and how much (Cooper and Schindler, 2010). Also descriptive design according to Kothari (2011) is concerned with describing, recording, analysing and interpreting of variables under the study a, .The target population of this study was therefore heads of 300 clearing and forwarding firms in Namanga and 50 staffs working on Customs and Border Control Department in Namanga and at PCA section, a total of 350 respondents.

#### **3.4 Sampling Frame**

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research,

a researcher must rely upon a sampling frame to represent all of the elements of the population of interest.

### **3.3 Target Population**

Cooper & Schindler (2003) define target population as the entire group of people events or objects that a study focused on as the subject of analysis. The target population of this study was therefore heads of 300 clearing and forwarding firms in Namanga and 50 staffs working on Customs and Border Control Department in Namanga and at PCA office, a total of 350 respondents.

**Table 3.1 Target Population**

<b>Type of Enterprises</b>	<b>Target Population</b>
Customs & Border Control Department	50
Clearing and forwarding firms	300
<b>TOTAL</b>	<b>350</b>

### **3.4 Sample and Sampling technique**

#### **3.4.1 Sample Size**

Cooper and Schindler (2003) describe sample or sample size as a subject of a population that is studied through a research study and generalized into the entire populations. The study adopted a systematic sampling technique.

Sample size is important primarily because of its effect on statistical power. Statistical power is the probability that a statistical test indicated a significant difference when there truly is one. (Morgan, 2001)

The researcher used the following formula;

$N/k$

Where; N= Total number of companies in any given sector  
 $k$  item = Every tenth organisation selected in succession from N to form the sample. E.g. If the target population is 350 firms divided by 10 = 35 respondents.

The respondent selected the first sample unit at random and then the remaining units were automatically selected in a definite sequence of the 10th. Hence the respondents were 35. This study used stratified random sampling to select the 10% of the target population. A sample size of 10% is a good representation of the target population [19].

**Table 3.2 Sampling Frame and Sample Size**

<b>Type of Enterprises</b>	<b>Target population</b>	<b>Sample size 10%</b>
Customs & Border Control Department	50	5
Clearing and forwarding firms	300	30
<b>TOTAL</b>	<b>350</b>	<b>35</b>

### **3.5 Data Collection Instruments**

In data collection, the researcher should describe the major method(s) for collecting data from the subjects, Maxwell (2012). In this study the main data collection instruments was the questionnaires. Questionnaire preferred because they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the researched problem. The questionnaire used the five Likert scale (from strongly agree to strongly disagree). The

questionnaires was self-administered to the personnel who handle taxes in the sampled taxpayers. The questionnaires had an introductory letter introducing the researcher to the respondents and explaining the purpose of the research.

Respondents were assured of strict confidentiality of the information they used share with the researcher and that the information is strictly for research purposes.

### **3.6 Data Collection Methods**

Data collection instruments are tools or methods use to collect data from participants in a study (Cooper & Schindler, 2003). This study relied on primary data. Primary data used collected by use of questionnaires which was administered to the sampled respondents.

#### **3.5.1 Primary Data**

This study used primary data collection through questionnaires. The questionnaires used because of its economy, its ability to ensure anonymity and use of standardized questions. It also provides time for subjects to think about responses. The questionnaire was closed, structured and questions in the form of likert scale.

### **3.6 Data Collection Procedures**

The relevant data was collected from the field with the aid of a research assistant, as the questionnaires was distributed on a drop and pick later method to allow the respondents time to sufficiently go through them and give feedback.

### **3.7 Pilot Study**

The study carried out a pilot test to pretest the validity and reliability of data collected using the questionnaire. A pilot group of 8 individuals from the target population was selected to test the reliability of the research instruments; the major purpose for pilot testing was to test whether the questionnaires could obtain the required results. The pilot study was used to find out the clarity and objectivity of the selected questions.

#### **3.7.1 Reliability of Research Instruments**

Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. In order to test the reliability of the instruments, internal consistency techniques was carried using Cronbach's Alpha.

The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. According to (Mugenda, 2008), a coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability.

#### **3.7.2 Validity of Research Instruments**

According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content of test is designed to measure.

### **3.8 Data Analysis and Presentation**

Qualitative and quantitative approaches was applied in this study as advocated for by Neuman (2000); and Babbie and Mouton (2001). These two main research approaches was examined with respect to their suitability to the current research.

### **3.8.1 The Qualitative Analysis**

Qualitative data was collected through questionnaires and response rate calculated. The data was then categorized into different themes according to research variable and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measures the point about which items have a tendency to cluster and describe the characteristics of the data collected will be computed.

### **3.8.2 The Quantitative Analysis**

Quantitative data from the questionnaire was coded and entered into the computer for statistical analysis. The Statistical Package for Social Sciences (SPSS version 20) was used for analysis. Frequencies, mean and standard deviation was used to summarize the data.

Regression model was used to assess variables that are considered in assessing the factors that influence taxation of the informal sector.

Regression Analysis is a statistical modelling technique was used to identify meaningful, stable relationships among sets of data. The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable.

The study will adopt a multi regression model

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where:

Y = Customs revenue collection

$\beta_0$  = Constant Term

$\beta_1$  = Beta coefficients

X1 = Selection of cases  
 X2 = Audit cases  
 X3= Pre-arrival Clearance cases  
 ε = Error term

**Table 3.2: Measurement of Variables**

<b>Variable</b>	<b>Indicators</b>	<b>Likert scale</b>
<b>Selection of audit cases</b>	Preplanning Allocation of audit cases Analysis of audit data	<b>5 points</b>
<b>Audit visits</b>	Planning the audit visit Initial interview Information concerning importers	<b>5 points</b>
<b>Pre-arrival clearance</b>	WTO guidelines Electronic information Exchange  Resource	<b>5 points</b>
<b>Customs Revenue Collection</b>	Amount of revenue collected  Efficiency service delivery	<b>5 points</b>

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.0 Introduction

This chapter represents the analysis, presentation and interpretation of the findings. In addition the findings are also discussed in relation to literature reviewed. It gives the empirical findings and results following the application of the variables using the techniques mentioned in chapter three in methodology. The general objectives of this study were to find out the Effect Post Clearance audit on revenue collection at Namanga Border station, Kenya. In an attempt to address the specific objectives of the study, this chapter provides details description of descriptive and inferential statistics and research findings and discussions.

#### 4.1 Response Rates

Research's data collection instruments (questionnaires) were administered within a period of three weeks. Out of 35 questionnaires administered the researcher ensured a 97% response rate by personally administering the questionnaires with the help of research assistant. A total of 30 questionnaires were successfully completed and returned. Bailery, (2000) asserts that a response rate of 50 is considered good, and response greater than 70% is considered very good, therefore the response was very good. The findings are presented in Table 4.1.

**Table 4.1: Response Rate**

<b>Response Rate</b>	<b>Frequency</b>	<b>Percent</b>
Returned	30	97%
Unreturned	5	3%
Total	35	100

## 4.2 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**

<b>Constructs</b>	<b>Reliability Cronbach's alpha</b>	<b>No. of items</b>	<b>Comment</b>
Selection of audit cases	0.793	6	Accepted
Audit visits	0.731	6	Accepted
Pre-arrival clearance	0.781	6	Accepted
Customs revenue collection	0.733	6	Accepted

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.701 while specific findings indicated that, selection of audit cases had a coefficient of 0.793, audit visits had a coefficient of 0.731, pre-arrival clearance had a coefficient of 0.781, and customs revenue collection had a coefficient of 0.733. 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 determinants of residential rental income tax compliance by property owners.

### 4.3 Test of Assumptions of the Study Variables

When the assumptions of the linear regression model are correct, ordinary least squares (OLS) provides efficient and unbiased estimates of the parameters (Long & Ervin, 1998).

To ensure that there was no violation of the assumptions, this study tested for multicollinearity, autocorrelation and normality test.

#### a) Multicollinearity

To determine whether multicollinearity existed, collinearity test was conducted using, tolerance, and variance inflation factor (VIF). The collinearity results are presented in Table 4.3.

**Table 4.3: Multicollinearity Test Results for the study of independent variables**

<b>Model</b>	<b>Collinearity Tolerance</b>	<b>Statistics VIF</b>
Selection of audit cases	.806	1.136
Audit visits	.830	1.161
Pre-arrival clearance	.815	1.142
Customs revenue collection	.749	1.231
	.870	1.133

#### a. Dependent Variable: Customs revenue collection

Table 4.3 shows that the variables have a VIF that is less than 10 and tolerance value more than 0.1 ruling out the possibility of multicollinearity. Therefore, the results imply that there was no multicollinearity problem among the variables.

#### b) Autocorrelation test

Autocorrelation was tested using Durbin Watson test. This tested whether there is a (linear) correlation between the error term for one observation and the next. A Durbin Watson test value (d) takes on values between 0 and 4. A value of  $d = 2$  means there is no autocorrelation.

**Table 4.4: Autocorrelation test**

Model	Durbin-Watson
1	2.021

**a. Predictors: (Constant), Selection of audit cases, audit visits, pre-arrival clearance**

**b. Dependent Variable: Customs revenue collection**

Autocorrelation was tested using Durbin Watson test in Table 4.4.

This tested whether there is a (linear) correlation between the error term for one observation and the next. A Durbin Watson test value (d) takes on values between 0 and 4. A value of  $d = 2$  means there is no autocorrelation.

**d) Normality test)**

Normality was tested by use of The Shapiro-Wilk Test to test whether the score of the samples were normally distributed with the same mean and standard deviation. If the test is significant ( $P < 0.05$ ) then the distribution is not significantly different from a normal distribution, but if the test is non – significant ( $P > 0.05$ ) then the distribution of the sample is significantly different from a normal distribution (Kilungu et al., 2015). The results were significant.

**Table 4.5: Tests of Normality**

	Shapiro-Wilk		
	Statistic	df	Sig.
Selection of audit cases	.921	30	.193
Audit visits	.833	30	.233
Pre-arrival clearance	.842	30	.022
Customs revenue collection	.934	30	.633

Normality was tested by use of Shapiro-Wilk test as shown in Table 4.5. The tests results showed that the p-values for the variables > 0.05 as shown in table above illustrating that the standardized residuals were significantly normally distributed.

#### 4.4 Descriptive Statistics

##### 4.4.1 Selection of audit cases on customs revenue collection

The study sought to establish the effect of selection of audit cases on revenue collection in Kenya. Descriptive statistics results for selection of audit cases were conducted and presented on table 4.6 below;

**Table 4.6 Selection of audit cases**

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<b>Statement</b>	<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>SD</b>	<b>Mean</b>	<b>SD</b>
Pre-planning of audit case take time	47.1	46.3	3.2	1.1	0	1.8	0.5
Time for allocation of audit cases	25.3	58.2	12.8	1.8	0	1.6	0.6
It takes time to select audit cases	14.5	25.2	44.7	12.1	3.3	2.9	1.3

---

The findings on the statement preplanning of the audit case take time to customs revenue collection, 47.1 percent of the respondents strongly agreed, 46.3 percent of the respondents agreed, 3.2 percent of the respondents undecided and 1.1 percent of the respondents disagreed that pre planning of audit case take time to customs revenue collection. This show that majority of the respondents agreed that the preplanning of audit cases contributes to customs revenue collection. Regarding the statement on the time for allocation of audit cases contributes to customs revenue collection , 25.3 percent of the respondents strongly agreed, 58.2 percent of the

respondents agreed, 12.8 percent of the respondents undecided and 1.8 percent of the respondents disagreed respectively that the time allocation for audit cases contributes to customs revenue collection. These shows that majority of the respondents agreed to the statement that the time take for allocation of audit contributes to customs revenue collection.

Table 4.6 the highest mean value was 2.9 which corresponds to the scale value of 3 in the questionnaire an indication that the respondents were indifferent on whether that the cost of travelling in order to file a return .

The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard deviation of the overall mean. The standard deviation statistical rule of 68%, 95% and 99.7% applies in all the interpretations in the rest of the documents.

This means that one standard deviations has 68% of the data spread around the mean and 95% for two standard deviations and 99.7% for three standard deviation. The study findings are supported by a number of studies which includes Wachiro (2013)

#### **4.4.2 Effect of audit visits on Customs revenue collection**

The study sought to establish the effect of audit visits on customs revenue collection in Kenya. Descriptive statistics results for audit visits were conducted and presented on table 4.7 below

**Table 4.7 Audit visits on customs revenue collection**

<b>Statement.</b>	<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>M</b>	<b>Sd</b>
Planning the audit visit requires preparation	36.3	53.2	7.5	0	1.7	0.6
Initial interview is for preparedness	29.1	56.6	13.6	1.7	1.9	0.7
Information concerning importers is very important	30.5	76.1	3.4	0	1.2	0.5

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The findings on the statement Planning the audit visit requires preparation on customs revenue collection, 36.2 percent of the respondents strongly agreed, 53.2 percent of the respondents agreed, 7.5 percent of the respondents were undecided and none of the respondents disagreed respectively that Planning the audit visit requires preparation on customs revenue collection. This shows that majority of the respondents agreed that Planning the audit visit requires preparation on customs revenue collection. Regarding the statement on the Initial interview for preparedness, 29.1 percent of the respondents strongly agreed, 56.6 percent of the respondents agreed, 13.6 percent of the respondents undecided and 1.7 percent of the respondents disagreed respectively that the .

These shows that majority of the respondents agreed to the statement that Initial interview is for preparedness. Regarding the Information concerning importers is very important to customs revenue collection, 39 percent of the respondents strongly agreed, 54.2 percent of the respondents agreed, 5.1 percent of the respondents undecided and 1.7 percent of the respondents disagreed Information concerning importers is very important on customs revenue collection. This shows that the majority of the respondents agreed to the statement that the information concerning importers is very important to customs revenue collection. On average, the results indicate that the audit visits affect customs revenue collection.

The average overall standard deviation of 0.6 infers that 68% of the response was spread within one standard deviation of the overall mean. The standard deviation statistical rule of 68%, 95% and 99.7% applies in all the interpretations in the rest of the documents. This means that one standard deviations has 68% of the data spread around the mean and 95% for two standard

deviations and 99.7% for three standard deviation. The study findings are supported by a number of studies which includes Badara (2012)

#### 4.4.3 Pre-arrival clearance on customs revenue collection

The study sought to establish the effect of pre arrival clearance on customs revenue collection. Descriptive statistics results for pre arrival clearance on customs revenue collection was conducted and presented on table 4.8 below

**Table 4.8 Pre arrival clearance**

<b>Statement</b>	<b><i>SA</i></b>	<b><i>A</i></b>	<b><i>U</i></b>	<b><i>D</i></b>	<b><i>M</i></b>	<b><i>Sd</i></b>
WTO guidelines stipulates pre arrival clearance	39.3	52.2	9.5	0	1.8	0.9
Electronic information exchange is very important	30.1	57.6	13.6	1.7	1.6	0.9
Pre-arrival clearance enhances revenue collection	35.5	29	3.4	0	1.4	0.6

The findings on the statement WTO guidelines stipulates pre arrival clearance and customs revenue collection, 39.3 percent of the respondents strongly agreed, 52.2 percent of the respondents agreed, 9.5 percent of the respondents undecided and 1.8 percent of the respondents disagreed respectively that WTO guidelines stipulates pre arrival clearance. This show that majority of the respondents agreed that WTO guidelines stipulates pre arrival clearance. Regarding the statement on Electronic information exchange is very important, 30.1 percent of the respondents strongly agreed, 57.6 percent of the respondents agreed, 13.6 percent of the respondents undecided and 1.7 percent of the respondents disagreed respectively

that the Electronic information exchange is very important . These shows that majority of the respondents agreed to the statement that the Electronic information exchange is very important. The average overall standard deviation of 0.8 infers that 68% of the response was spread within one standard deviation of the overall mean. The standard deviation statistical rule of 68%, 95% and 99.7% applies in all the interpretations in the rest of the documents.

This means that one standard deviations has 68% of the data spread around the mean and 95% for two standard deviations and 99.7% for three standard deviation. The study findings are supported by a number of studies which includes Alm and McKee, (2006)

**Table 4.8 Customs revenue collection**

<b>Statement</b>	<b>SA</b>	<b>A</b>	<b>U</b>	<b>D</b>	<b>M</b>	<b>Sd</b>
Amount collected is due to post audit clearance	39.3	52.2	9.5	0	1.8	0.9
Post audit clearance enhance customs revenue	30.1	57.6	13.6	1.7	1.6	0.9
Post audit clearance enhances efficiency of service delivery	35.5	29	3.4	0	1.4	0.6

The findings on the statement amount collected is due to post audit clearance , 39.3 percent of the respondents strongly agreed, 52.2 percent of the respondents agreed, 9.5 percent of the respondents undecided and 1.8 percent of the respondents disagreed respectively that amount collected is due to post audit clearance. This show that majority of the respondents agreed that that amount collected is due to post audit clearance. Regarding the statement Post audit clearance enhance customs revenue, 30.1 percent of the respondents strongly agreed, 57.6 percent of the respondents agreed, 13.6 percent of the respondents undecided and 1.7 percent of the respondents disagreed respectively that the Post audit clearance enhance customs revenue.

These shows that majority of the respondents agreed to the statement that the Post audit clearance enhance customs revenue.

The average overall standard deviation of 0.8 infers that 68% of the response was spread within one standard deviation of the overall mean. The standard deviation statistical rule of 68%, 95% and 99.7% applies in all the interpretations in the rest of the documents.

This means that one standard deviations has 68% of the data spread around the mean and 95% for two standard deviations and 99.7% for three standard deviation. The study findings are supported by a number of studies which includes Mittone (2006)

## **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 Customs revenue collection and the independent variables consist of selection of audit cases, audit visits and pre arrival clearance .

**The results depicted in table 4.9 below**

**Table 4.9: Correlation between independent variable and dependent variable**

<b>Variables</b>		<b>Customs revenue collection</b>	<b>Selection of audit cases</b>	<b>Audit visits</b>	<b>Pre arrival clearance</b>
<b>Customs revenue collection</b>	Pearson Correlation	<b>1</b>			
	Sig. (2-tailed)				
<b>Selection of audit cases</b>	Pearson Correlation	0.456	<b>1</b>		
	Sig. (2-tailed)	0.002			
<b>Audit visits</b>	Pearson Correlation	0.431	.3421	<b>1</b>	
	Sig. (2-tailed)	0.001	.0014		
<b>Pre-arrival clearance</b>	Pearson Correlation	0.458	.1240	.0621	<b>1</b>
	Sig. (2-tailed)	0.003	.0120	.0043	

In an attempt to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.9, it was clear that there was a positive correlation between customs revenue collection and selection of audit cases as depicted by a correlation value of 0.456. This implies that selection of audit cases was linearly related to customs revenue collection. The study also depicted that there is a positive correlation between selection of audit cases and customs revenue collection with a correlation value of 0.431. Another positive correlation was between audit visits and customs revenue collection with a correlation value of 0.458 and a positive correlation between audit visits and customs revenue collection with a correlation value of 0.431. This shows that there was a positive correlation between selection of audit cases, audit visits and pre arrival clearance and revenue collection. The findings of this study agreed with the study conducted by

#### **4.6 Regression Analysis**

A multiple regression analysis was conducted to investigate the joint causal relationship between the independent variables and dependent variable customs revenue collection. This is represented by the overall model  $Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon \dots$

##### **a) Selection of audit cases**

To evaluate the effect selection of audit cases and customs revenue collection in Kenya.

**Table 4.10: Model Summary of Selection of audit cases**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.437 <sup>a</sup>	.197	.186	.87526	1.987

**a. Predictors: (Constant), Selection of audit cases**

**b. Dependent Variable: Customs revenue collection**

The R square value in table 4.10 in this case is 0.197 which clearly suggests that there is a strong relationship between selection of audit cases and customs revenue collection as indicated in table above. This indicates that selection of audit cases share a variation of 19.7% of customs revenue collection.

**Table 4.11: ANOVA of Selection of audit cases**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.892	1	10.892	14.162	.000 <sup>b</sup>
	Residual	42.767	154	.767		
	Total	54.648	155			

**a. Dependent Variable: Customs revenue collection**

**b. Predictors: (Constant), Selection of audit cases**

The ANOVA result in Table 4.11 showed that the overall model was a good fit since (F-value =14.162 and p-value=0.000<0.05).

**Table 4.12: Coefficients of Selection of audit cases**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.258	.115	-	2.257	.028
	Selection of audit cases	.403	.107	.446	3.765	.000

**a. Dependent Variable: Customs revenue collection**

Table 4.12 indicates that the regression weight for selection of audit cases was positive and significant ( $\beta = 0.403$ ,  $t = 3.765$ ,  $p < .05$ ). Therefore, the null hypothesis was rejected at  $P < 0.05$  level of significance implying that selection of audit cases has a significant relationship with customs revenue collection. The regression estimate for selection of revenue collection was 0.403; this indicates that a unit increase in selection of audit cases would result in 40.3% increase in customs revenue collection.

**b) Audit visits**

To find out the effect of audit visits on revenue collection in Kenya.

**Table 4.13: Model Summary of Audit visits**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.478 <sup>a</sup>	.217	.207	.85515	2.006

**a. Predictors: (Constant), Audit visits**

**b. Dependent Variable: Customs revenue collection**

The R square value in Table 4.13 was 0.217 which clearly suggested that there is a strong relationship between audit visits and customs revenue collection. This indicates that audit visits share a variation of 21.7% of customs revenue collection.

**Table 4.14: ANOVA of Audit visits**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.886	5	11.987	13.033	.000 <sup>b</sup>
	Residual	42.643	30	.749		
	Total	54.648	35			

**a. Dependent Variable: Customs revenue collection**

**b. Predictors: (Constant), Audit visits**

The ANOVA Table in 4.14 indicates that the overall model was a good fit since (F-value=13.033 and p-value=0.000<0.05).

**Table 4.15: Coefficients of Audit visits**

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.221	.104	-	2.041	.047
	Audit visits	.451	.114	.468	4.001	.000

**a. Dependent Variable: Customs revenue collection**

Table 4.15 indicates that the regression weight for audit visits was positive and significant ( $\beta=0.451$ ,  $t= 4.001$ ,  $p < .05$ ). Therefore, the null hypothesis was rejected at  $P < 0.05$  level of significance implying that audit visits has a significant relationship with customs revenue collection. The regression estimate for level of tax knowledge was 0.451; this indicates that a unit increase in audit visits would result in 45.2% increase in customs revenue collection in Kenya.

**c) Pre-arrival clearance**

To investigate the effect of pre arrival clearance on customs revenue collection in Kenya.

**Table 4.16: Model Summary of Pre arrival clearance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.421 <sup>a</sup>	.174	.170	.87898	1.995

**a. Predictors: (Constant), Pre arrival clearance**

**b. Dependent Variable: Customs revenue collection**

The R square value in Table 4.16 is 0.174 which clearly suggests that there is a strong relationship between Pre arrival clearance and Customs revenue collection as indicated in table

above. This indicates that Pre arrival clearance share a variation of 17.4% of Customs revenue collection.

**Table 4.17: ANOVA of Pre arrival clearance**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	10.617	5	10.608	11.732	.00 <sup>b</sup>
	Residual	44.035	30	.754		
	Total	54.647	35			

**a. Dependent Variable: Customs revenue collection**

**b. Predictors: (Constant), Pre arrival clearance**

The ANOVA table in 4.17 indicates that the overall model was a good fit since (F-value=11.732 and p-value=0.000<0.05).

**Table 4.18: Coefficients of Pre arrival clearance**

<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>		<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	
1	(Constant)	.258	.115	-	2.235	.028
	Pre arrival clearance	.408	.108	.442	3.708	.000

**a. Dependent Variable: Customs revenue collection**

Table 4.18 indicates that the regression weight for Tax rate was positive and significant ( $\beta=0.408$ ,  $t=3.708$ ,  $p < .05$ ). Therefore, the null hypothesis was rejected at  $P < 0.05$  level of significance implying that Pre- arrival clearance has a significant relationship with Customs revenue collection in Kenya. The regression estimate for Pre arrival clearance was 0.408 this indicates that a unit increase Pre arrival clearance would result in 40.5% increase in Customs revenue collection in Kenya. .

**Table 4.19: Model Summary for independent and dependent variables**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.707 <sup>a</sup>	.505	.453	.71722	2.001

**a. Predictors: (Constant), Selection of audit cases, audit visits and pre arrival clearance**

**b. Dependent Variable: Customs revenue collection**

From the model summary The R square value in Table 4.19 is 0.502 which clearly suggests that there is a strong relationship between selection of audit cases, audit visits and pre arrival clearance, and Customs revenue collection as indicated in table above. This indicates selection of audit cases, audit visits and pre arrival of clearance share a variation of 50.5% of Customs revenue collection in Kenya .

The overall goodness of fit was obtained through regressing the goodness of fit for all the independent variables. The results of the multiple regression indicate  $R^2 = .505$  and adjusted  $R = .453$  as shown in Table 4.19. This is an indication that there is a strong relationship between independent variables and Customs revenue collection.

**Table 4.19: ANOVA for independent and dependent variables**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.376	5	5.466	11.322	.000 <sup>b</sup>
	Residual	28.262	30	.513		
	Total	45.629	35			

**a. Dependent Variable: Customs revenue collection**

**b. Predictors: (Constant), selection of audit cases, audit visits and pre arrival clearance**

The overall model significance was presented using the ANOVA test table. The results in Table 4.19 shows that the overall model was a good fit since (F-value=11.322 and p-value=0.000<0.05) for all independent variables meaning that null hypothesis is rejected and

concludes that there is a relationship between different independent and dependent variables. The findings there imply that all independent variables were statistically significant in explaining Customs revenue collection in Kenya. ANOVA was used to test whether the regression analysis model used is fit or the relationship of the variable just occurred by chance. Significance of F ratio is used to determine whether model used was fit or not. If the F ratio is significant the model used is considered fit and vice versa. A P - value of less than 0.05 indicates that the F statistics is high and that the null hypothesis of independent needs to be rejected since it's not true. In this case the F ratio (F=11.322, P=.000<sup>b</sup>) was found to be significant hence the model used for analysis was fit

**Table 4.20: Coefficients of Overall Regression Model**

<b>Model</b>		<b>Unstandardized</b>		<b>Standardize</b>		<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	
1	(Constant)	.176	.086	-	2.033	.033
	Selection of audit cases	.312	.066	.234	2.234	.014
	Audit visits	.241	.098	.355	3.533	.044
	Pre arrival clearance	.296	.096	.314	3.021	.023

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**a. Dependent Variable: Customs revenue collection**

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon \dots \dots \dots$$

$Y = 0.176 + 0.312X_1 + 0.241X_2 + 0.296X_3 + 0.315$  were significant with p- values of 0.044, 0.14, 0.044 + 0.023, respectively.

The regression equation above has established that taking all factors into account (selection of audit cases, audit visits and pre arrival clearance) the findings reveals that assuming other variables are at zero a unit change (increase) in selection of audit cases lead to a 0.312 increases customs revenue collection; a unit increase in audit visits will lead to a 0.241 increases customs revenue collection; a unit increase in pre arrival clearance will lead to a 0.296 increases customs revenue collection as shown in table 4.20.

The regression coefficient results indicate a positive significant effect selection of audit cases, audit visits and pre arrival clearance and customs revenue collection

## **4.7 Discussion of key Findings**

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

### **4.7.1 Selection of audit cases and Customs revenue audit**

Selection of audit cases was assessed using five measures and the overall mean score or responses regarding selection of audit cases were 2.0 on a 5-point scale which indicates that majority of the respondents agreed that selection of audit cases on customs revenue collection in Kenya. The average overall standard deviation of 0.7 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 selection of audit cases had positive and significantly related to customs revenue collection ( $r = 0.456$ ,  $p\text{-value}=0.00<0.05$ ).

### **4.7.2 Audit visits and Customs revenue collection**

Audit visits was assessed using five measures and the overall mean score or responses regarding audit visits were 1.6 on a 5-point scale which indicates that majority of the respondents agreed that audit visits affects the Customs revenue collection in Kenya. 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 audit visits had a positive and significantly related to Customs revenue collection ( $r = 0.431$ ,  $p\text{-value}=0.00<0.05$ ).

### **4.7.3 Pre arrival clearance and Customs revenue collection**

Pre arrival clearance was assessed using four measures and the overall mean score or responses regarding pre arrival clearance were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that pre arrival clearance affects the Customs revenue collection in Kenya.

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 pre arrival clearance had a positive and significantly related to customs revenue collection ( $r = 0.458$ ,  $p\text{-value}=0.00<0.05$ ).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **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 have been summarized below as per the study objectives. The findings were supported by the frequencies of the responses

##### **5.1.1 Selection of audit cases**

The first objective of the study was to evaluate the effect of selection of audit cases on Customs 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 selection of audit cases had a significant positive influence on Customs revenue collection. The overall mean score of responses regarding selection of audit cases indicated that majority of the respondents agreed that selection of audit cases affects the customs revenue collection in Kenya.

The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

##### **5.1.2 Audit visits**

The second objective of the study sought to find out the effect of audit visits on customs revenue collection in Kenya.

Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that audit visits had a significant positive influence on customs revenue collection.

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

### **5.1.3 Pre arrival clearance**

The third objective of the study sought to investigate the effect of pre arrival clearance on customs revenue collection in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that pre arrival clearance had a significant positive influence on customs revenue clearance.

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

## **5.2 Conclusions**

The aim of the study was to determine effect of Post Audit Clearance on Customs revenue collection in Kenya. Data collected and analyzed through both descriptive and inferential statistics established that all independent variables had significant effects on Customs revenue collection.

### **5.2.1 Selection of audit cases**

The study found out that selection of audit cases had a significant positive effect on customs revenue collection. The overall mean score of responses regarding selection of audit cases indicated that majority of the respondents agreed that selection of audit cases affects the customs revenue collection in Kenya. The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

### **5.2.2 Audit visits**

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

### **5.2.3 Pre- arrival clearance**

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

### **5.3 Recommendations.**

The study established that post clearance audit procedures for example selection of audit cases and planning of audit lead to an improvement in revenue collection and reduces the amount of time it takes to clear goods. This study therefore recommends that the management of the customs department should ensure that the post clearance audit procedures are followed to the letter.

The study also found that custom audit visits improve helps in gathering vital information in regard to revenue payable and enables the customs department collect the correct revenues as they are able to see the actual items imported. This study therefore recommends that the government of Kenya should formulate more policies to support and govern customs audit visits.

The study further established that pre-arrival clearance reduces goods clearance time at the customs department. However, this can lead to the clearance of the wrong goods, which may increase chances of smuggling. This study therefore recommends that more policies should be formulated to govern pre-arrival clearance.

### **5.4 Suggestions for Further Research**

This study was limited to the Customs & Border Control at Nananga. This study therefore suggests further studies should focus on other Border points in Kenya like Busia, Malaba, Isebania, Lokichogio and JKIA.

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## **APPENDICES**

### **APPENDIX I: Letter to Respondents (Introduction Letter)**

Kennedy Mwangi

P.O Box 6534

Nairobi.

To the respondent

#### **RE: QUESTIONNAIRE**

The above named is a second year student at JKUAT, Nairobi campus. In order to fulfil the requirements of the School, I am undertaking a research on Effect of Post Audit Clearance on Customs revenue collect at Namanga, Kenya. You are among the chosen respondents of my study.

I hereby, kindly ask you to respond to the questionnaire to the best of your knowledge.

Confidentiality of the information given will be guaranteed.

Your cooperation will be highly appreciated.

Yours Sincerely,

**Kennedy Mwangi**

## APPENDIX 2: QUESTIONNAIRE

### Introduction

This questionnaire is designed for the sole purpose of gathering information on Effect of Post Clearance Audit on Customs Revenue Collection at Namanga Border Station. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions. Use the space at the back of this questionnaire if you need more space for your responses.

### SECTION A: BIO DATA

1. Gender  
Male   
Female
  
2. Number of years the business has existed  
Below 2 years   
3-5 years   
6- 10 years   
10 years and above

**SECTION B**

**1. EFFECT OF SELECTION OF AUDIT CASES ON CUSTOMS REVENUE COLLECTION**

1) Evaluate the following statements and tick where appropriate under the choices below

**Where: 1 – Strongly Disagree, 2 – Disagree , 3 – Neutral, 4 - Agree or 5 - Strongly Agree**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Pre-planning of audit case take time					
Time for allocation of audit cases					
It takes time to select audit cases					

**2. EFFECT OF AUDIT VISITS ON CUSTOMS REVENUE COLLECTION .**

II) Evaluate the following statements and tick where appropriate under the choices below

**Where: 1 – Strongly Disagree, 2 – Disagree , 3 – Neutral, 4 - Agree or 5 - Strongly Agree**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Planning the audit visit requires preparation					
Initial interview is for preparedness					
Information concerning importers is very important					

**3. EFFECT OF PRE ARRIVAL CLEARANCE ON CUSTOMS REVENUE COLLECTION**

I11) Evaluate the following statements and tick where appropriate under the choices below

**Where: 1 – Strongly Disagree, 2 – Disagree , 3 – Neutral, 4 - Agree or 5 - Strongly Agree**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
WTO guidelines stipulates pre arrival clearance					
Electronic information exchange is very important					
Pre-arrival clearance enhances revenue collection					

**4. EFFECT OF CUSTOMS REVENUE COLLECTION**

iv) Evaluate the following statements and tick where appropriate under the choices below

**Where: 1 – Strongly Disagree, 2 – Disagree , 3 – Neutral, 4 - Agree or 5 - Strongly Agree**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Amount collected is due to post audit clearance					
Post audit clearance enhance customs revenue					
Post audit clearance enhances efficiency of service delivery					

### APPENDIX 111: BUDGET

DESCRIPTION	COST PER ITEM	TOTAL AMOUNT (Kshs)
<b>Stationery</b>		<b>20,000.00</b>
Photocopying papers	10 reams @600/=	
Pens, pencils, rubbers		
Ink cartridge (Printer)		
Files (12 rim binders)		
<b>Personnel</b>		<b>20,000.00</b>
Questionnaires administrators		
Stastician		
<b>Transport and subsistence</b>		<b>10,000.00</b>
Vehicles		
Subsistence allowance		
<b>Communication</b>		<b>10,000.00</b>
Telephone		
Internet		
<b>Other Services</b>		<b>10,000.00</b>
Library services		
Purchase of periodicals and books		
<b><u>Total expected cost</u></b>		<b><u>70,000.00</u></b>

### APPENDIX 1V: WORK PLAN

<b>ACTIVITY (2018)</b>	<b>DECEMBER(2018)</b>	<b>FEBRUARY(2019)</b>	<b>SEPTEMBER(2019)</b>
Draft proposal			
Proposal presentation			
Designing the research instrument			
Proposal defense			
Field work & data Collection			
Data Entry / Analysis			
Report Writing			
Presentation of 1 <sup>st</sup> draft			
Presentation of 2 <sup>nd</sup> draft			
Submission of final report			