

**EFFECTS OF INTERNAL CONTROLS ON CUSTOMS REVENUE
COLLECTION AT THE PORT OF MOMBASA**

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DECLARATION

This project is my original work and has not been presented for a post graduate diploma in any other academic or non- academic institution.

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Signature

Date

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HDB-335-C016-2519-2016

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

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Signature

Date

GRACE LEKASI.

DEDICATION

I dedicate this research project to my family; my Parents Elisha and Sarah Opiyo, my uncle John and my siblings for their immense support throughout my studies.

ACKNOWLEDGEMENT

My acknowledgement goes to the almighty God for without whom I would not have come this far. My utmost gratitude is also extended to my family and friends for their continuous support and encouragement to aim higher even from miles away. I would like to thank my project supervisor Grace Lekasi for her patience, guidance, and constructive assistance throughout this study which was invaluable. Finally, I am thankful to all the people who in their special ways made this research a success. My sincere appreciation goes to KESRA and my lecturers whose support towards the achievement of this course cannot be overemphasized.

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DEFINITION OF TERMS

Amount	Refers to the total summation or worth of something usually measurable in terms of value and the total quantity Barra (2010).
Compliance levels	Degree of conforming to a rule such as a specification, policy, standard or law to improve the value of or lower the value of something KRA (2012).
Control activities	These refers to policies, procedures, techniques, and mechanisms that help ensure that management's response to reduce risks identified during the risk assessment process is carried out to minimize risk as outlined in Elinah (2012)
Control environment	Control environment are the set of standards, processes, and structures that provide the basis for carrying out internal control across an organization Lock et al (2009)
Customs Revenue	Refers to the earnings by the government in form of duties and taxes from imports and exports EACCMA (2004)
Monitoring	Refers to process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two Ndungu (2013).
Targets	The level or situation that an individual or a group of people intend to achieve normally when there is a set criterion to the limits, Barra (2010).

LIST OF ACRONYMS / ABBREVIATIONS

CAMIS	Cargo management information system
CBC	Customs and Border Control
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EACCMA	East African Community Customs Management Act
EAC	East Africa Community
EACCMA	East Africa Community Customs Management Act
ICMS	Integrated customs management system
ICS	Internal Control Systems
KPA	Kenya Ports Authority
KRA	Kenya Revenue Authority
MMS	Manifest management system
PCA	Post Clearance Audit
SPSS	Statistical Package for Social Sciences
WCO	World Customs Organization
WTO	World Trade Organization

ABSTRACT

The Internal Control, within the framework of its application in the supply chain, consists of a sum of procedures that cover the whole range of its policies and activities, and is catalytic to the location of the weaknesses and risk assessment, to the prevention of fraud and errors. The researcher therefore carried out the study to examine the effects of controls on revenue collection at the port of Mombasa. The researcher examined key internal control variables which included; control activities, monitoring, and control environment and effects the three variables have on set targets and amounts of revenue collection as well as the levels of compliance at the port. This study adopted a descriptive research design because of the need to develop theories that assist in explaining the research. The data collected was analyzed in line with the research objectives and the findings and recommendations presented in should fast track the rollout of Integrated Customs Management System and to ensure that there is adequacy of the ongoing monitoring to curb issues of risks identified during the ongoing monitoring since monitoring is an essential process in revenue collection. The research recommends that there is need for both sectors involved in the supply chain KRA to ensure there is enough staff to perform the duties and responsibility at the port. It is further recommended that the ethical issues in KRA should be reviewed to ensure revenue leakages arising from such acts are mitigated. The customs processes at customs and border control should be automated through integrating all systems to ensure smooth and efficient operations to realize increase amounts in revenue collection and achieving or even surpassing the set targets. Monitoring of both cargo and transactions by the sector players should also be reviewed so that key systems used in monitoring are shared such as Cargo Management Information System and Manifest Management system. The study further recommends that job descriptions be further reviewed to ensure the duties are specific and responsibility for operation of internal controls are attributable to the individual who operates the control at that level through these KRA will be able to achieve the set goals and the levels of compliance will also improve due to effectiveness of the internal controls at the port of Mombasa.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

Revenue collection and border security is important to a country's development. In light of WCO practices, it is of importance for organizations charged with revenue collection, security of borders, and supply chain security to improve the effectiveness of their internal control system in order to enhance the efficiency of revenue collection. In an attempt to do this there must be a well-defined organizational structure showing how responsibility and authority are delegated, clearly defined communication channels or lines of reporting, for example, an upward, downward and horizontal lines of reporting for the attainment of corporate objectives. According to Amundo (2009), controls are such that different people are assigned to do the different task. No one person should fully record and process transactions from commencement to end.

This means that an organization can only achieve its corporate mission through the establishment of an effective internal control system which makes sure that those policies and procedures which are laid down by management are efficient hence; it reduces the cost of operation without reducing effectiveness, INTOSAI (2009). The responsibilities of internal controls to include, safeguarding of assets, putting the resources into the best use, authorization of daily allocations of the company, good resource monitoring, doing away with financial constraints and other practices such as corruption Ndungu (2010).

According to Caroline (2013), internal control system refers to the local authority concern's systems and procedures put in place with the aim of obtaining a set goal. Controls have resulted in a better way of solving organizational related issues such as non-compliance to set policies and procedures. It is worth noting that controls establishment at the local level, is important for revenue collection and some countries

still have a weak internal control system at their disposal, which includes, amongst others, Bosnia, China, Columbia, Argentina, Indonesia, and the Philippines.

According to Amundo (2009), control activities serve as a blueprint in outlining the organization towards achieving its established objectives and there are valuable contributions that the effective operation of an organization's systems of control determines the best practices in an organization. Firms that report ineffective controls will most likely report high management errors in their operation than those firms that report a proper and effective internal control system. Olumbe (2010), defined revenue as earnings a company receives during a specific period. It is the summation of the total figure from which costs of a business subtracted to determine aggregate amounts, which therefore is that amount a company receives from its continuous business activities, usually from the sale of goods and services to customers.

Hamed (2009) enlightened that internal controls can be classified under; three main groups including preventive, detective and corrective controls those considered preventive controls disclose and identify risks before they actually happen and prevent those errors, omission, or malicious act from occurring. The detective controls detect and report the occurrence of an omission, an error, or fraudulent activities. Corrective controls ensure that the ability of the risk to cause implications that may lead to issues of non-attainment of key objectives, they also discover the cause of a problem improve on ways to ensure such errors are corrected.

Taxes, fees and fines received from other sources outside the government also form part of government revenues. The government usually has bodies charged with revenue collection or responsible for collecting government revenue from companies and individuals. Through an Act of Parliament in 1995, there was an establishment of Kenya Revenue Authority, due to the need for a centralized body for collection of revenue and for the main purpose of achieving set targets of revenue collection and improve effective tax and revenue administration. KPA has also been in existence to help ease the supply

chain through handling of key controls and as such, it works hand in hand with KRA in goods clearing procedures.

The Port of Mombasa is the principal Kenyan seaport and comprises of Kilindini harbor and Port Reitz on the Eastern side of the Mombasa Island and the Old Port and Port Tudor north of the Mombasa Island. Kilindini is naturally deep and well sheltered and is the main harbor where most of the shipping activities take place. It has 16 deep water berths, 2 oil terminals and safe anchorages and mooring buoys for seagoing ships. The Port of Mombasa has the Integrated Security System; this is in line with the International Ship and Port Facility Security (ISPS) Code requirements. The system usually monitors cargo coming in and exiting the port

According to TEGMMA (2017), import values in Kenya shilling have registered fluctuating values year – on – year. This fluctuation has led to varied amounts of import duty being registered. Customs in general recorded strong growth at 14.9 percent compared to a four-year average of 14.7 percent, attributed largely to tighter enforcement measures through among others, benchmarking of cargo values to address undervaluation, greater use of scanners, and, stricter application of cargo auction processes.

Customs performance, however, continued to be adversely impacted by sluggish import growth with container volumes in 2016/17 financial year growing by 6.4 percent in comparison with 2015/16 financial year. Reduced revenue statistics are an East Africa wide phenomenon, with all EAC revenue authorities reporting sluggish Customs performance for 2016/17. This resulted in Kenya Revenue Authority (KRA) missing its target for nine months ending March this year. With considerable efforts, a total of Sh. 386 billion worth of customs duties were collected for the financial year 2016/2017. Customs were considered for the failure to meet the set target and this was blamed on the internal controls in operation at the port.

1.2 Statement of the Problem

Attempts have been made to ensure revenue generation and collection in several organizations is in compliance with the set policies and procedures. The internal control has been a challenge in the scope of its application because the staffs in these organizations do not follow the accepted ways and requirements of the organizations in performing the activities. This in turn has brought about issues such as increase in scandals and fraudulent activities which have been so material that it has affected the performance of duties and other taxes in several organizations. Inefficiencies in corporate governance have also been identified on the basis of the contributions of controls and have been highlighted as one of the many ways and organization fail from achieving its goals and objectives. Without important controls achieving standard compliance with key policies and objectives is unattainable. Verdina (2012), emphasized that imbalance in operations of internal controls is so significant to an organization especially if an organization requires high levels of compliance as well as the reliability and accuracy of financial reports and documentation.

Despite considerable investment in key controls by both KRA and KPA, the proper utility of controls and effectiveness of key controls has not been to the standard and has been degenerating revenue at the port of Mombasa. Recent statistical analyses of revenue collection have shown that the Port of Mombasa has been registering varying and declining amounts of revenue collection and the levels of compliance has been a big challenge because some of the internal controls have been underperforming at the port of Mombasa.

Brian (2013), in his study suggested that the increased interest in internal controls is due to significant losses incurred by several organizations majorly on revenues. The loss of customs duties and taxes and levies become non-existence if the organizations maintained effective control. Control systems would have prevented or enabled earlier detection of errors and fraud that lead to losses in organizations. According to Njanike et al. (2011) many control weaknesses have the undesired effect of not only weakening the

organization's ability to effectively collect revenue but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion, genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection.

According to EACCMA (2004) goods in a customs area is under customs control. This means that it is the obligation of customs to keep custody of assets and imports so that upon clearance custom is able to collect all duties and taxes on all dutiable goods. The similar obligation is assigned to KPA who mans the port and ensures security of the assets. This has not been the case in the long run since KRA and KPA have frequently reported the loss of containers raising questions on the issue of controls that are in operation at the port. Preventive approaches to the problems, therefore, require a critical examination of existing internal controls to ensure that all these controls are adhered to. Therefore, there is a research gap that this study intends to fill and provide an understanding of how internal controls affect revenue collection at Mombasa port. The researcher, therefore, conducted the study to examine the effects of controls on revenue collection at the port. This is due to the fact that internal controls act as the mainstream of operations and the need to improve the effectiveness of internal controls in general at the port.

1.3 Objectives

For the purpose of this study this research identified a general objective and three specific objectives within which the researcher carried out the study.

1.3.1 General Objective

To determine the effects of internal controls on customs revenue collection at the port of Mombasa

1.3.2 Specific objectives

- i. To determine the effects of control activities on customs revenue collection at the port of Mombasa
- ii. To establish the effects of monitoring on customs revenue collection at the port of Mombasa
- iii. To ascertain the effects of control environment on customs revenue collection at the port of Mombasa.

1.4 Research Questions

- i. How do control activities affect customs revenue collection at the port of Mombasa?
- ii. What is the effect of monitoring on customs revenue collection at the port of Mombasa?
- iii. What effects do control environment have on customs revenue collection at the port of Mombasa?

1.5 Significance of the Study.

The results of the study identify the effects of controls on customs revenue collection at the port of Mombasa to evaluate whether appropriate controls are operational and the goals can be attributed to the performance of such controls and functionality. KRA and KPA will appreciate and design proper internal controls and develop ways and means to

streamline the internal control systems, thus ensuring improved revenue collection as well as operations at its ports and other revenue collection centers. Researchers and scholars will refer to this research on other researchable topics such as the relationship between controls and revenue collection in other organizations, thus increasing to the existing knowledge on internal controls.

1.6 Scope.

The study sort to examine the effects of internal controls on customs revenue collection at the port of Mombasa. Key elements of the internal control reviewed include control activities, monitoring and control environment on customs revenue collection. The study adopted a descriptive research design and data was collected and analyzed using both quantitative and qualitative methods. Sample for the study was obtained from head verification officers, verification officers and customs enforcement officers. These groups were chosen because they directly relate to the study and they are the custodians and operators of the controls.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the theories that explain the existence and necessity of control activities as internal control components. The empirical section reviewed various research papers in the areas of internal controls. The summary section pointed out the main findings from the literature to indicate the research gap existing in the area of control activities and import duty collection.

2.2 Theoretical Review

2.2.1 Agency Theory

Jansen & Mackline (2008), the key proponents of this theory advocated in support of the theory. They considered the agency theory as the backbone of controls, and that it explains the separation of ownership and control, through which one party (the principal) has delegated responsibility to a second party (the agent). The agency theory gives an economic reasoning for the type of a control system an organization should adopt. Both parties are considered utility maximizers, thereby raising issues with the activities of the agent which are most likely to deviate from those the principal consider agent to the organization, Ajeela & Hamdan (2011). Because it is difficult or expensive for the principal to verify the actual actions of the agent, (cost-effective) controls are established through various contracting and monitoring arrangements, and therefore the need for policies and procedures in an organization.

The information asymmetries between the agent and the principal who delegates duties cannot be achieved if controls operational are compromised and are not operating towards the achievement of goals and objectives. The cooperative behavior which would maximize the group's welfare, if not consistent with each individual's self-interest gives rise to agency related issues Varun (2014). Shareholders usually have less information

compared to agents thus the need for streamlining policies and procedures to these agents do not take advantage of weak operations to manipulate the output negatively. Thus it is important to provide the contractual basis in form of policies and procedures as this can mitigate the divergence from the goals of an organization Stephen & Clive (2008). Controls institution is for the rational cost-benefit analysis. The functionality and the effective operation of such controls are essential Gillian (2006). An agency operates under the condition of risk and uncertainty. In effect, the basic agency theory usually assumes that both individuals are risk-averse. As outlined in Namazi (2012) the depicted accounting information and other information sources would become a significant issue in risk sharing and control the agent's actions.

Agency theory is important to this study because it helps streamline the policies and procedures to the set goals and objectives of KRA. Controls are policies, and procedures set to ensure the parties involved in the clearing of importations act towards compliance. Without control activities, compliance with the set policies and procedures are not properly executed. Thus there is need to ensure those mandated to clear goods subject to import duty act within the set control framework and as control activities follow the required processes and so does the control environment. For example, clearing agents are important players in the clearing of dutiable goods; the importers (the principals) to assist in imports clearing process trust them.

This policy is on the essentials of a control environment which assists an organization work better through proper understanding and cooperation. When their interests differ in the interest of the importer they might influence the clearing process by declaring lower values for dutiable goods. The result is lower customs values being declared, this is against the set policies and procedures for example, those regarding verification of imports, without proper internal control/verification procedures it would be very difficult to identify the actions of clearing agents which may, in turn, lead to lower import duties collected in achieving adequate amounts of import duty collection.

2.2.2 The Modern Theory of the Firm

The modern theory of the firm focuses on the need for cooperation to achieve common goals. The theory states that coordination of activities through the policies and procedures is very important to a firm. The activities should be well defined and achievable within the set period, in the right quantity, with the right systems to ensure their implementation. Working towards a common goal with separate responsibilities is essential for a targeted output to be achieved. The limitations of a system, for example, physical security will assist in defining the rationality of those who are charged with operating these activities. The substitution effect comes in whereby individuals may substitute the goals of the firm with their personal goal through manipulation of an activity and this, in turn, may derail the operations of controls Klein (2016).

March & Simon (2006), key proponents in this theory and their classical works focused on the need for a joint effort to divide duties and responsibility to work towards the set goals. They embraced the fact that an organization is a group of coordinated activities, performed to arrive at particular set targets and conditions with respect to inputs and output. Therefore, controls that provide incentives to reconcile differences for example with conflicting responsibilities ensure that efforts are coordinated toward the established objectives of the organization. Lan et al. (2010) noted that for a goal to be achieved an organization should constitute more than one man and several activities performed at the specified time towards a common goal.

Internal controls are therefore goal oriented and as such, there is need to ensure that key controls in an organization are operational. The theory helps to understand the necessity for key control interventions, for example, policies and procedures in an organization. Division of responsibility in an organization as an activity is of importance because of the need to cooperate by ensuring duties, responsibility is coordinated, and that individuals are able to perform specific tasks upon realizing an organization's goals and objectives. Due to increase in volumes of trade KRA should ensure that segregation of duties is operational to ensure there are faster verification and clearance processes to increase the

amount of compliance, meet targets and increase compliance as it minimizes fraud and other act of collusion amongst key players in revenue collection and facilitation process.

2.2.3 Control theory

This theory has been described as the behavior of dynamical systems with inputs. Because the end results are justified by what manipulates or affects the system when the output to that system need to follow specific procedures to achieve the output a controller is usually introduced to that system to make its functionality complete to realize the output. Wang (2007), noted that control is the ability to direct the financial and operating policies of an entity to gain economic benefits from its activities.

Scholars such as MCNeil & Clemmer (2004), identified control theory to the management perspective as solving issues related to management policies and operations by identifying the resources required for putting controls, the controls required and how to ensure those controls work within a set period. It is therefore important to identify controls so that an organization effectively and efficiently achieves the set objectives through the set policies and procedures. Managers usually engage in a large number of varied activities each day, and the average number of activities appears to be diversified at lower levels calling for proper policies and procedures to address the issue of effective performance. For example they communicate and enforce the moral and ethical codes of conduct that the staff are expected to adhere to. Without the control environment it would be very difficult to achieve objectives in an organization.

The control itself exists to keep a balance in output with what is outlined in the core missions of an organization. Control is internal to the set policies and procedures towards an output. Its components are interrelated and as such that they coordinate to arrive at the maximum goals, for example, increased target on collection and compliance. According to Seborg (2010), control systems may be determined as having four functions: Measure, Compare, Compute, and Correct. These four functions are completed by five elements: detector, transmitter, controller, and final control element. According to Kudur et al (2004), the corrective action of the system stability is very essential because it leads to

the proper identification of those areas that may in one way or another impact the performance and output. The system specific to a set point and should not just oscillate around it. The monitoring process operational will determine whether the amount of collection is reported as low or high.

Control theory, therefore, is relevant because the objective of a control theory is to examine solutions for the proper corrective action from the controller that result in system stability and the objective achievement, and as such important in realizing an organization's objectives through the monitoring of the dynamic systems of internal controls. The decisions based on key controls of dynamic systems of internal controls. The decisions based on key controls of a dynamic system of control perspective affect the output which is the amount of customs revenue collection. And since controls do not work in isolation they ensure there are monitoring efforts towards achieving the results of the dynamic system Brian (2013).

2.3 The Conceptual Framework.

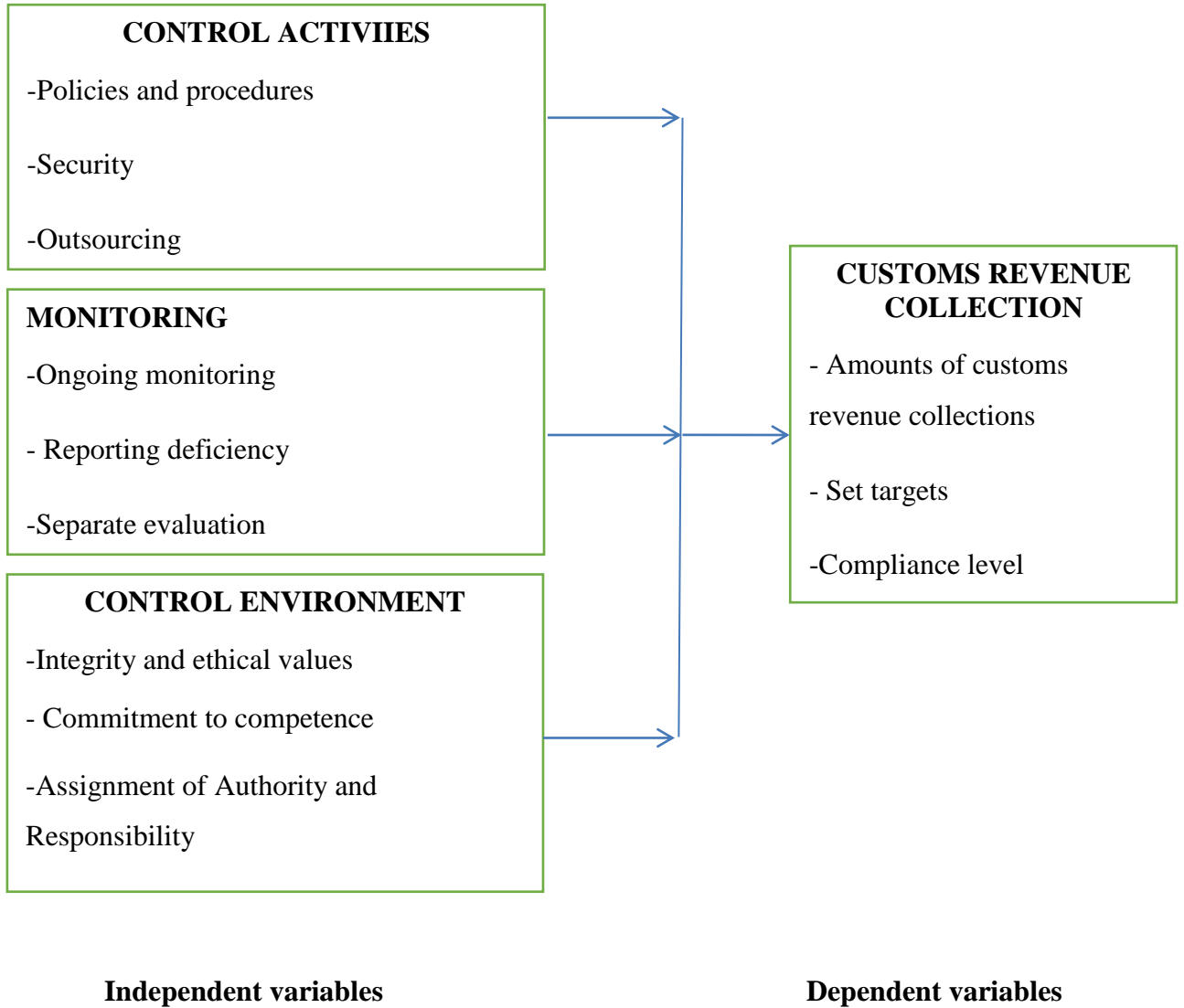


Figure 2.4 Conceptual framework

2.4 Review of variables

As a result of questionable corporate political campaign, finance practices and foreign corrupt practices in the mid-1970s, the U.S. Securities and Exchange Commission (SEC) and the U.S. Congress enacted campaign finance law reforms and the 1977 Foreign Corrupt Practices Act (FCPA) which criminalized transnational bribery and required companies to implement internal control programs. In response, the Treadway Commission, a private-sector initiative, was formed in 1985 to inspect, analyze, and make recommendations on fraudulent corporate financial reporting. The organization formulated the COSO frame amongst which incorporated the following key variables, which the researcher adopted as the independent variables for the study.

2.4.1 Control activities.

Every organization works around its policies and procedures. They are the legalities required for the sound performance of an organization. Policies and procedures revolve around the most accepted actions and activities in client service delivery. KRA and KPA outlined policies in form of documents and it is upon everyone involved in the supply chain to adhere to the policies. It is also of essence to ensure that the policies formalized in terms of the practical procedures of the organization. Customs procedures include clearance procedures which require that goods imported are under customs control and presented to customs for verification. Both the documents and the actual import or exports undergo the procedures on clearance to ascertain the risk associated to it that may lead to revenue leakage.

Verifying transactions details and activities and the output of that system is an attempt to mitigate risk and the risk models used by an organization are important as controls. According to Chalendar (2017), customs officers use what they have learned from similar import declarations and the policies and procedures as internal information to better assess the compliance of declarations according to the laid down procedures in accessing revenue collection and pre-shipment inspections significantly reduce observed discrepancies in trade statistics on duties and other taxes.

Outsourcing is a primary control intended to ensure there is an adequate representation of individuals who carry out the daily operations so that the set policies are conducted according to timelines and to provide a mitigation measure for ensuring activities are conducted by a specific individual. Through this, an individual is able to identify the specifics of the policies and procedures and work within the system for example if a control requires that an individual verifies a transaction before release then the transaction must undergo the set procedures and the individual must be responsible for that transaction. Outsourcing allows divided responsibilities to ensure individuals are able to perform such duties that are specific and defined and an individual should be responsible for only one specific task to ensure no conflicting responsibility towards achievement of goals and objectives Milan (2011).

According to Grant (2014), the physical custody and security measures to provide limited access are important because it ensures that these measures operate within the set framework. These controls assume importance in the case of valuable, portable, exchangeable, or desirable assets. Hankerson (2016) enlightened that security of physical and intellectual assets, physical safeguards, perpetual records maintenance, periodic counts/physical inventories and comparing counts to perpetual records helps investigate or correct differences liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Typically, access controls are the best way to safeguard these assets and in customs security both physical and access controls are important since they affect revenue collection. Physical control can also be achieved by electronic means in a computerized environment for example through the use of electronic I.D cards, key and lock to restrict access to a particular asset or area.

2.4.2 Monitoring

Monitoring is a process of assessing risks linked to achieving operational objectives. The COSO model requires formulating a monitoring frame consisting of specific procedures used in risk evaluation. Monitoring activities include assessment of controls and reporting

the results of the assessment together with any required corrective action and steps. The monitoring process must be capable of adjusting the internal control system itself by pointing out areas or a measure that may require need for revisions in the design of controls based on changing risk and is intended to contain risks at reasonable and accepted levels for the effective and efficiency of an ongoing operation. Monitoring of internal control performed through application of both ongoing evaluations and separate evaluations in order to test whether components of the internal control continues to function as designed and intended and therefore it is essential to perform evaluations Huefner (2016).

The Course of operations requires ongoing monitoring on the activities of an organization. It involves regular management and supervisory activities, and other actions personnel take in performing their duties. Separate evaluations depend primarily on assessment of risks and the effectiveness of ongoing monitoring procedures. Evaluations facilitate disclosure of control deficiencies and communicate them to appropriate officials responsible for taking corrective action. Material errors and deficiencies communicated to top levels of management when appropriate. This helps in timely disclosure, solution of internal control issues which may lead to revenue leakages, prepare accurate and reliable information for decision-making, prepares accurate and timely financial statements and provide periodic certifications and assertions on the effectiveness of internal control COSO (2013).

Reporting deficiencies require that the identified difference on transactions undergo verification, investigation, and corrective actions subjected to prevent its occurrence in future. Given a transaction incorrectly charged to an account, or an item under-stated depending on its nature, quality, and value, then the approver rectify the shortfall since the approver is mandated and given controls at his deposit to utilize, Lock et al (2014). A manual and electronic supervisory role denotes that a transaction is verified and validated and activity or transaction conforms to established policies and procedures. In customs monitoring is important because it ensures monitoring of activities is through policies and

procedures to facilitate revenue collection. Fardon (2010), noted that financial statement reconciliation upon verifying a transaction is important, and those involving transaction such as importation may identify activities so as to correct the problems of misstatements.

2.4.3 Control environment

Control Environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. It is important that the top level management convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. They continually demonstrate, through speech and deeds, a commitment to high ethical standards COSO (2013).

The control environment comprises the integrity and ethical values of the organization and Assignment of Authority and Responsibility which ensures there is accountability due to specific obligation given to each staff, Adawale (2014).The process for attracting, developing, and retaining competent individuals; and the issues around commitments to competence to ensure the staff is well qualified to discharge duties and responsibility, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control. The organization therefore holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

2.4.4 Customs Revenue Collection

All goods imported or exported must be declared to Customs. The declaration should be made in case using the Single Administrative Document (SAD) commonly known as the Customs entry form and the procedures required must be adopted to ensure there is conform. An importer may appoint an agent or customs broker to complete this form on his behalf; however, it is the responsibility as the importer/exporter to ensure the

accuracy of the information provided. Upon presentation of the customs entry form to customs, the clearance process commences which therefore means that the process of monitoring is also ongoing. Throughout the goods clearance process, it's important to utilize controls so that compliance is achieved EACCMA (2014).

Chalendard (2017), established that estimates show that the more frequently a product is imported or exported, the more customs fraud reduces through compliance level leading to an adequate collection of revenue. The researcher argues that this result is indicative of the fact that customs officers use what they have learned from similar declarations and their ethical values as internal information to better assess the compliance of transactions in accessing customs revenue to collect. Relying on an information provider, a pre-shipment inspection company, in that case compliance levels thereby an increase in revenue collection and enforcement. Results indicate that pre-shipment inspections significantly reduce observed discrepancies in trade statistics on import duties and other duties and taxes.

Customs revenue collection has experienced challenges due to operations of the key internal control interventions. The existing measures to ensure conformity thereby an improvement in the levels of compliance has been an issue in KRA because of an increase in the volumes of trade that has rendered some of the key control elements not being fully operationalized. The variance in the level of compliance is attributed to some of the key control interventions such as the internal control environment. Customs revenue has been registering variance and short falls and this has led to set targets not being achieved. All the short falls in the long run is attributed to the existing outsourcing as a challenge, policies and procedures, security measures to safeguard assets of KRA at the port, the ability to report the deficiencies that customs officers identify, the effectiveness of the ongoing monitoring process and the moral values of the KRA staffs in discharging their duties Awitta (2010).

2.5 Empirical Review

Barra (2010) on the penalties and other internal controls on the propensity to employees to be fraudulent, using a descriptive research design, collected data to identify whether managerial and non-managers engage in fraudulent activities if penalties are other internal controls are in place. The results established that in presence of controls such as control activities highly affect fraudulent activities since individual review the benefits of committing fraudulent activities leading to loss of revenue as having high rewards. The researcher also identified specifically duty delegation as a least cost deterrent to those under non-managerial position and as such these individuals engage in these fraudulent acts because all the activities must be present and coordinated to realize an objective. The study suggested that the effectiveness of preventive controls such as security is dependent on detective controls.

Matamande (2012), using descriptive survey design studied on the effectiveness of internal controls in revenue and expenditure management by the Zimbabwe Revenue Authority, the results established that ZIMRA has continuously upgraded its internal controls systems since its incorporation in 2001. ZIMRA developed measures to protect the organization's assets. These measures are meant to ensure that only those authorized have access to the organization's assets. William & Kwasi (2013) enlightened that use of physical controls such as passwords to provide security for the information from manipulation is key for prevention of fraudulent activities.

Adawale (2014) reviewed the problem of continuous and high rate of smuggled goods in Nigeria which resulted in the winding up of many Nigerian local manufacturing industries using a qualitative research design. This was as a result of complaints that the customs services had a poor control mechanism to curb smuggling of goods in and out of the country and partly examined whether control system with key issues being control activities, monitoring, and the control environment and information systems is a managerial tool for proper accountability. The study showed that internal control system

has positive effects on revenue collection and accountability in Nigerian custom services and thus the need for proper verification procedures and other control measures.

2.6 Critique of the Literature

Authorization, segregation of duties, verification before making the payments, control over access to resources, reconciliation, review operations and supervision as the controls in any organization Amundo & Inanga (2009). Control in an organization consist physical controls, segregation of duties, information processing and performance reviews. Ngugi (2011) ascertained that all the five internal control components must be present to conclude that internal control is effective. Sultana (2012), while assessing the structure of IC in a firm enlightened that it is necessary to determine the ability to ensure business activities implemented in accordance with its objectives. Brian (2013) argues that design of organizational control mechanisms focuses on achieving cooperation among individuals having divergent objectives. Goal congruity is a central mechanism of control in an organization. A firm should develop specific controls based on policies, practices and procedures to help ensure that employees properly carry out management directives. To fulfill objectives, controls are implemented to address specific risks identified during risk assessment. One subcomponent of controls related to the achievement of financial reporting objectives.

2.7 Research Gaps

Few researches have been conducted by researchers on studies focusing on revenue collection but most of the important variable of the controls have not been discussed. Previous research have only dwelt on either one component of the control frame but this research targeted three components to determine the effects of controls on revenue collection. A study conducted by Brian (2013) focused on internal controls and revenue collection in KRA but did not look at the elements of compliance. Barra (2010) did a study on penalties and other internal controls on the propensity to employees to be fraudulent. This study will fill the gaps from previous studies by evaluating internal controls affecting revenue collection at the port of Mombasa.

2.8 Summary

The components work to establish the foundation for sound internal control within the company through directed leadership, shared values and a culture that emphasizes accountability for control. The various risks facing the company are identified and assessed routinely at all levels and within all functions in the organization. Control activities and other mechanisms are proactively designed to address and mitigate the significant risks. Information critical to identifying risks and meeting business objectives is communicated through established channels up, down and across the company. The entire system of internal control is monitored continuously and problems are addressed within timely frame.

Each control has some objectives. Internal control objectives are to be identified or developed for each agency activity. They are to be logical, applicable, and reasonably complete. Internal control objectives should be tailored to an agency's operations. An effective control has three features: a carefully thought-out design, efficient operation, and routine re-evaluation. A good understanding of the underlying process, obtained by performing a risk assessment, and the participation of staff directly involved in the process, are critical to the creation of a well-designed control that addresses the risk in question that may help in achieving the objective. Controls, especially those dependent on human actions, are effective only if they are addressed in written policies and procedures, and are performed consistently. The researcher therefore based the research on the key areas of internal controls discussed in the above literature reviews which include control activities, monitoring and control environment.

CHAPTER THREE

RESERCH METHODOLOGY

3.1 Introduction.

This chapter discussed the research methodology of the study and provided a general framework for this research. The chapter presented details of the research design, target population, sample and sampling procedures, description of research instruments, validity and reliability of instruments, data collection procedures and data analysis techniques.

3.2 Research Design.

This study adopted a descriptive research design. According to Burns & Grove (2016) descriptive research designed to provide a picture of a situation as it happens. It may be used to justify current practice and make a judgment on the influence of such practice on the other variables. The study aimed at discovering inferences of control activities on the amount of revenue collection at the port of Mombasa. Besides, the design was used because of its descriptive nature to obtain information concerning the current status of the phenomena to describe what exists with respect to variables or conditions in a situation as to the influence of control activities on the amount of revenue collection at the port of Mombasa.

3.3 Population.

According to Ogula (2005), a population refers to any group of institutions, people, or objects that have common characteristics. The population for this study constituted 107 respondents drawn from KRA Customs and Border Control departments consisting KRA customs verification officers, head verification officers, and enforcement officers. These groups were chosen because they are representative enough of the population of interest and involved in clear operation of controls at the port of Mombasa. It is the duty of customs officers to ensure safeguard of customs revenue and other taxes, and that goods imported and attract any duties including import duty are under customs control in a customs area, EACCMA (2004). And importantly, while such dutiable goods are

deposited pending clearance, the physical control and security of such goods is also important as performed by KPA

Table 3.1: Population

Population strata	Population	Percentage
Verification officers	52	48.60%
Head verification	13	12.15%
Enforcement section	42	39.25%
Total	107	100%

Source: KRA Human resource, Customs and Border Control Department Kilindini (2017)

3.4 Sampling Frame.

Sampling frame is a complete list of all the members of the population that a researcher wishes to study. Sampling frame must be representative of the population and people not in the frame have no prospect of being sampled. For this study the researcher intends to randomly sample KRA customs verification officers, head verification officers, and enforcement officers. If we do not have such a sampling frame, then we are restricted to less satisfactory forms of samples which cannot be randomly selected because not all individuals within that population will have the same probability of being selected for the sample Borg& Gall (2003).

3.5 Sample and Sampling Techniques.

The researcher adopted the stratified random sampling to obtain samples from the population. According to Ogula (2005), a sample refers to any group of institutions, people, or objects that have common characteristics selected for the research. The researcher adopted the Slovin's formula to calculate the sample size from the target population.

$$n = N / (1+Ne^2)$$

Where; n was the sample size,

N -was the population size.

e -The level of precision.

95% level of confidence used which gives p = 0.05 chance of deviation from the actual

Therefore;

$$\text{Sample size } n = 107 / (1 + 107(0.05^2))$$

$$n = 84.$$

Table 3.2: Sample size

Population strata	Sample	Percentage
Verification officers	41	38.07%
Head verification	10	9.29%
Enforcement section	33	30.64%
Total	84	78.00%

3.6 Data Collection Instruments.

The main data collection instruments that the researcher used for this study are questionnaires, observation, and interviews. The researcher used open and closed-ended structured questionnaire. The closed-ended questions collect quantitative data while the open-ended questions provide qualitative data. These were used for the purpose of collecting primary data. The questionnaires were used because of uniformity of questions, standardized questions and low cost for data collection. Additionally, questionnaires were used because of the potentials in reaching out to a large number of respondents within a short time, ability to give the respondents adequate time to respond

to the list of items under research, offers a sense of security for confidentiality to the respondent and it is an objective method since no bias resulting from the personal characteristics as in an interview Kasim et al (2010).

3.7 Data Collection Procedure.

Prior to the commencement of data collection, the researcher obtained all the necessary documents, including an introduction letter. Audience with the sampled population was also sought to clarify the purpose of the study. The researcher distributed the questionnaires to the target population for the study. The use of questionnaires as expected eased the process of data collection, as all the selected respondents were reached faster and in time. During the distribution of the instruments, the purpose of the research was explained to the target population Mugenda & Mugenda (2008), noted that it is important explain the research the research objectives and instruments before administering the instruments to improve the rate of response and the validity of the instrument.

3.8 Pilot Testing

The purpose was to make sure that everyone in the sample not only understood the questionnaire, but also the objectives of the research. This way, too, the researcher also noticed the questions that made respondents feel uncomfortable. The researcher was also able to find out how long it took to complete the survey in real time. 10% of the population that was not sampled for data collection, the population was acceptable for piloting Mugenda & Mugenda (2008). For this study therefore the researcher conducted pilot testing to determine the responsiveness in the questionnaire to assist in adequate data collection. The research instruments were carefully constructed to ensure their reliability and validity in the attainment of the objectives of the study.

3.8.1 Reliability.

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials Mugenda & Mugenda (2008).The researcher measured the

reliability of the questionnaire to determine its consistency in testing whether there is consistency in what the respondent says about the research variables. The sample that was used for the reliability tests of the questionnaire was not used as the sample that was used to collect data.

3.8.2 Validity

According to Mugenda & Mugenda (2008), Validity is the accuracy and meaningfulness of inferences, based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. The research instrument was validated in terms of content. Validity refers to the degree to which evidence and theory support the interpretation of test scores entailed by the use of tests. The content related technique measures the degree to which the questions items reflect the specific areas covered under the study.

3.9 Data Analysis Procedure.

Both quantitative and qualitative approaches were used for data analysis. Through coding of quantitative data from the questionnaire the researcher subjected the data for computation of descriptive statistics. The Statistical Package for Social Sciences (SPSS version 25) was used to run descriptive statistics such as frequency and percentages to present the quantitative data in form of tables and graphs based on the major research questions. According to Borg and Gall (2003), the qualitative data generated from open-ended questions are categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation. The qualitative data are used to reinforce the quantitative data. The study also assumed a linear regression equation to explain the relationship between the independent and dependent variables and to investigate the effects of controls on revenue collection at the port of Mombasa.

The linear regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Y - Revenue Collection

β_0 - constant term, the intercept indicates revenue collection when $X_1=X_2=X_3=0$

$\beta_1, \beta_2, \beta_3$ - coefficients explaining the effects of independent variable $X_1, X_2,$ and X_3 to dependent variable Y

X_1 - Control activities, X_2 - Monitoring, X_3 -Control environment and ε -The error term, other factors that are not included in the study but affects revenue collection.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis, interpretation, and presentation of the study to determine the effects of controls on revenue collection at the port of Mombasa. The researcher adopted the Statistical Package for Social Scientists (SPSS) version 25 for data analysis. Frequencies, percentages, and mean were used to display the results presented in tables and graphs.

4.2 Response rate

The researcher analyzed the response rate in relation to the number of questionnaires distributed to the respondents to determine the reliability of the study. Out of 84 questionnaires administered 60 were retrieved giving a response rate of 71%. Mugenda & Mugenda (2008), highlighted that for a proper and reliable representation, a response rate of 70% and above were adequate.

Table 4.1 Response rate

	Response rate	Percentage %
Respondents	60	71
Non-respondents	24	29
Total	84	100

4.3 Pilot results

4.3.1 Reliability test results.

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. And according to Neuman (2006), a Cronbach's alpha of 0.70 and above indicates that the data collected is reliable. All the variables analyzed as demonstrated in the table 4.2 below showed that the results were highly reliable. The

results showed that Control activities had an index of 0.791, Monitoring had an index of 0.784, Control environment had an index of 0.765, and Revenue collection had an index of 0.801. The finding demonstrates high reliability of the questionnaire adopted in the study.

Table 4.2 Reliability Results

Scale	Cronbach's Alpha	Comments
Control activities	0.791	Accepted
Monitoring	0.784	Accepted
Control environment	0.765	Accepted
Revenue collection	0.801	Accepted

4.4 Demographic Analysis

4.4.1: Respondents' Level of education

The researcher analyzed the level of education of the respondents. This was an attempt to find out the respondent's ability to analyze and make correct decisions in performing the duties and responsibilities and the knowledge on controls.

Table 4.3: Respondents' Level of education

Level of education	Frequency	Percentage
Diploma	16	26.88%
University Degree	32	53.77%
Masters	9	12.90%
PhD	3	6.45%
Total	60	100%

From the data above majority of the respondents are degree holders with a percentage of 53.77 % followed by diploma certificates with 26.88%, while those respondents who indicated that they hold a master’s degree represented 12.90%. Those respondents who indicated they hold a PhD qualifications represented 6.45% .The level of education demonstrated academic knowledge on internal controls.

4.4.2: Work experience

The sound operation and revenue collection requires an ongoing utility of controls. Expertise is important in ensuring that key controls operate within the specified period. The research performed an analysis to determine the work experience of the respondents since some off the procedures require expertise or knowledge to operate.

Table 4.4: Work experience

YEARS	FREQUENCY	PERCENTAGE
Less than 4 years	8	12.90%
5-8 years	15	25.80%
9-13 years	23	39.80%
above 14 years	14	21.50%
Total	60	100%

From table 4.4 above it is evident that majority of the respondents have served in the organization for the period of between 9–13 years with a representation percentage of 40% followed closely by those who have served in the organization for between 5- 8 years at 26%. Those who have served in the organization for 14 years and above represented 21.50% of the response rate whereas those who have been in the organization for 4years or less represented 12.90%. The number of years of service demonstrated the experience and continuity in operation of controls which have been put in place at the port of Mombasa.

4.4.3 Response by section

The study sought to investigate respondents' position at the port of Mombasa. From the findings, all of the respondents indicated either that they were KRA customs verification officers, customs enforcement officers, and Head verification section. This implied that the information was collected from the relevant respondents who were in a better position to offer relevant information on the effects of controls on revenue collection at the port of Mombasa.

Table 4.5: Response by section

Section	Frequency	Percentage
Verification officers	40	66.67%
Enforcement officers	13	21.66%
Head verification officers	7	11.67%
Total	60	100%

Figure 4.3: Response by section

The results showed that 66.67% of the respondents were verification officers and enforcement sections of customs had 21.66% response rate and Head verification had an 11.67% response rate. The response therefore showed that data collected was reliable based on the target population.

4.5 Descriptive analysis

4.5.1 Control activities

The study sort to determine the effects of control activities on revenue collection and the respondents were requested to state their response as to what their opinion was on the parameters of the study and the research obtained the results as in the table below. Chalendard (2017) noted that the activities of an organization is the core control function of an organization and as such organizations should strive to consider and ensure the

policies and procedures in place, the number of staff as well as the custody of assets in the organization is towards achieving both the short term objectives and long term objectives of an organization.

Table 4.6: Descriptive Statistics on Control activities

	N	Mean	Standard deviation
Compliance level have improved due to the enforcement of customs policies and procedures leading to collection of extra revenue	60	3.85	1.221
For sensitive areas the organization has put in place access controls to these areas to ensure there is security and access granted to authorized persons only to ensure safeguard of revenue	60	3.84	1.212
There exist clear criterion for hiring and promoting employees in an attempt to outsource enough and competent staff to ensure collection of revenue is effective and efficient	60	3.64	1.386
Physical safeguard measures are operational and ensure minimal access to only authorized individuals to safeguard revenue	60	3.73	1.352
There is adequate representation of employees to perform roles and responsibilities	60	3.14	1.851

The respondents were in agreement that compliance level has improved due to the enforcement of customs policies and procedures leading to collection of extra revenue with a mean 3.85 and Standard deviation 1.221. This was also identified by the vigorous exercise performed by revenue collecting agency in ensuring that revenue loss is combated through policies and procedures governing verification and other processes meant to collect revenue. The finding is similar to Ndungu (2013) that policies must be adhered to if the organization is to achieve the set targets and the amounts of revenue it intends to collect. Majority agreed with the statement that for sensitive areas the organization has put in place access controls to these areas to ensure there are security and access granted to authorize persons only to ensure safeguard of revenue with a mean

of 3.84 and Standard deviation of 1.212. As to whether there exists clear criterion for hiring and promoting employees in an attempt to outsource enough and competent staff to ensure collection of revenue is effective and efficient the response had a mean of 3.64 and Standard deviation of 1.386. The respondents were positive in their response that physical safeguard measures are operational and ensure minimal access to only authorized individuals to safeguard revenue with mean of 3.73 and Standard deviation of 1.352. However, the respondents were divided as to whether there is adequate representation of employees to perform roles and responsibilities with mean of 3.14 and Standard deviation of 1.851 which showed that there is need to outsource more staff in order to assist in the process of revenue collection. If KRA is to meet the targets, collect increased revenue and achieve increased levels of compliance then there is need for KRA to deploy more staff at the port of Mombasa since it acts as the principal trade facilitation and the main entry point for goods Brian (2013).

4.5.2 Monitoring

The second objective of the study was to establish the effect of monitoring on customs revenue collection at the port of Mombasa. Respondents were requested to give their view using the linkert scale the response was as in the table 4.7.

Table 4.7: Descriptive statistics on Monitoring

	N	Mean	Standard deviation
There is continuous monitoring programs built into information (computer) systems	60	3.79	1.34
There is supervisory reviews of controls, such as reconciliation reviews as a normal part of processing in attempt to guard and raise extra revenue	60	3.85	1.25
Separate evaluations by management exists regarding the tone they set in the organization and the effectiveness of their oversight functions, and PCA inquiries	60	4.16	1.05
The organization performs periodic evaluation and test of controls by internal personnel to ensure their operation	60	3.68	1.53
Effective monitoring is currently being performed on cargo at the port	60	3.54	1.43

The respondents were in agreement that there are continuous monitoring programs built into information (computer) systems with a mean 3.79 and Standard deviation of 1.34 this although was a concern because of the need of customs to ensure speedy utility of the integrated Customs Management Systems to assist in clearing and proper monitoring. The respondents were positive on the statement that there is supervisory reviews of controls, such as reconciliation reviews as a normal part of processing in attempt to guard and raise extra revenue with mean of 3.85 and Standard deviation of 1.25. As to whether there exists self-assessments by board and management regarding the tone they set in the organization and the effectiveness of their oversight functions, and PCA inquiries of internal personnel and external auditors the respondents strongly agreed with mean of 4.16 and Standard deviation of 1.05. Most of the respondents agreed to the statement that the organization performs periodic evaluation and test of controls by internal personnel to ensure their operation with mean of 3.68 and Standard deviation of 1.53. The

respondents agreed with the statement that effective monitoring is currently being performed on cargo at the port and it has improved revenue collection by reducing risks associated to the supply chain with a mean of 3.54 and Standard deviation of 1.43. Matamande et al. (2012) noted that monitoring is an essential process as a system in ensuring that an organization works effectively thereby raising the intended revenue and as such the process should be ongoing to ensure adequate amounts are collected.

4.5.3 Control environment

The study found it necessary to ascertain the effects control environment on revenue collection at the port of Mombasa. The moral and ethical issues governing the work ethics at the port of Mombasa is a very important consideration since it ensures accountability and it acts as a follow up mechanism to determine how competitive the staffs are in carrying out their revenue collection mandate without being influenced. The responses obtained from the respondents are as per table 4.8 below.

Table 4. 8: Descriptive statistics on Control environment

	N	Mean	Standard deviation
Management demonstrates the appropriate voice and moral guidance about what is right and wrong and communicates in realizing targets.	60	3.62	1.408
Employee job descriptions, including specific duties, reporting responsibilities, and constraints have been clearly established.	60	3.46	1.485
The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objective of revenue collection.	60	3.92	1.384
Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities.	60	3.75	1.504
The organization holds individuals accountable for control responsibilities and remedial actions taken in response to departures from approved policies and procedures.	60	4.15	1.261

AS to whether the management demonstrates the appropriate voice, explicit moral guidance about what is right and wrong and communicates in both words, and deeds in realizing higher targets set the respondents were positive with a mean of 3.62 and Standard deviation of 1.408. This was actually outlined in policy documents to ensure employees abide by the moral ethics and obligations required by the organization. However the respondents were divided in opinion on employee job descriptions, including specific duties, reporting responsibilities, and constraints having been clearly established with a mean of 3.46 and Standard deviation of 1.485 because they felt there is duplication of duties and responsibility at some levels since the verification process in entirety involved several players, and according to Awitta (2010) research on the effectiveness of revenue collection strategies of KRA, segregation of responsibilities and duties is key in performance of activities to realize set targets in KRA..

The respondents strongly agreed with the statement that the organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its

objective of revenue collection with a mean of 3.92 and Standard deviation of 1.384 and one of the reasons was customs based training and workshops aimed at equipping employees with new experience and knowledge on both customs and port operations matters, this finding is similar to Brian (2013) that the environment within which KRA officers operate is likely to affect their productivity and as such KRA should continue and conduct more of the trainings and workshops to improve the competence of the staff as per the WCO standards. The respondents were positive on the statement that the management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives with a mean of 3.75 and Standard deviation of 1.504. Finally the respondents were in agreement that the organization holds individuals accountable for their control responsibilities and remedial actions taken in response to departures from approved policies and procedures or the code of conduct, and actions communicated in the pursuit of objectives of raising extra revenue with a mean of 4.15 and Standard deviation of 1.261

4.5.4 Customs revenue collection

The study also sort to determine the components that have affected the performance of revenue collection at the port and the respondents stated their response as stated in table 4.9 below.

Table:4.9 Descriptive statistics of revenue collection at the port of Mombasa

	N	Mean	Standard deviation
The implementation of customs policies and procedures have led to KRA meeting its set targets at the port collection of efficient revenue	60	3.59	1.302
The effective monitoring has led to efficiency in revenue collection due to pre shipment inspections thereby increasing the level of compliance	60	4.19	1.082
KRA has set achievable targets that are attainable and has led to a proper and friendly control environment thereby leading to increased revenue collection	60	3.26	1.520
The implementation of customs policies and procedures have led to KRA meeting its set targets at the port by collection of efficient revenue	60	3.38	1.436
Efficiency in terms of amounts of revenue collected can be attributed to a reduction of customs fraud due to improved control environment	60	3.61	1.359

As to whether the implementation of customs policies and procedures have led to Customs Mombasa port meeting its set targets at the port leading to collection of efficient revenue the response registered a slightly positive response with a mean of 3.59 and Standard deviation of 1.302 this is because some of the respondents had the opinion that in the short run for their monthly evaluations there was no much increase they sometimes experience issues of officers deviating from the policies and procedures that lead to revenue leakages for example through collusion to approve miss-declarations. The respondents strongly agreed that effective monitoring has led to efficiency in revenue

collection due to pre shipment inspections thereby increasing the level of compliance with mean 4.19 and Standard deviation of 1.182 this is as a result of vigorous processes and the existing systems to ensure there is no revenue leakages. The finding is similar to Brian (2010) that monitoring is an essential system in KRA meeting its target.

The respondents strongly differed with the statement that KRA has set achievable targets that are attainable and has led to a proper and friendly control environment thereby leading to increased revenue collection with a mean 3.26 response and Standard deviation of 1.520, and as to whether the implementation of customs policies and procedures has led to KRA meeting its set targets at the port the respondents strongly registered a differing response because other respondents had the view that in the long run there was some shortfall on set target with a response mean of 3.38 and Standard deviation of 1.436. Finally, as to whether amounts of revenue collection can be attributed to a reduction of customs fraud due to improved control environment at the port of Mombasa the respondents agreed that the amount of revenue collection depends on the environment within which customs officers operate which in essence is indicative to whether officers are willing to work within the policies and perform effective monitoring with a mean of 3.61 and Standard deviation of 1.39. This finding is similar to Amundo & Inanga (2009) that the control environment determines the amounts an organization is able to collect as revenue.

4.6 Pearson Correlation

The researcher used the Karl Pearson's coefficient of correlation (r) to establish the relationship between the study variables presented in Table 4.6.1. From the results, it was evident that there was a very strong correlation between Control activities and Revenue collection as shown by correlation value of 0.640 at a significance level of 0.000. This finding is similar to Awita (2010) that control activities in Kenya Revenue Authority have positive effect and has significantly ensured extra revenue is collected. The values of 0.574 at a significance level of 0.000 denoted the correlation between Monitoring and Revenue collection. The findings prove existence of a strong positive relationship

between monitoring and revenue collection. This was in agreement Gerrit & Mohammad (2010) that monitoring activities has a significant relationship on the revenue performance of a firm or entity. The correlation between Control environment and revenue collection as represented by a correlation value of 0.497 at a 0.000 level of significance shows that there is a moderate positive correlation between control environment and revenue collection. This is in agreement with Amudo & Inanga (2009) that control environment is an important tool that contributes to the enhancement of revenue collection of an organization.

Table 4.10 Pearson Correlation

		C_Act	Monitoring	C_Env	C_R_Collect
Control_Activities	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	60			
Monitoring	Pearson Correlation	.460**	1		
	Sig. (2-tailed)	.000			
	N	60	60		
Control_Environ.	Pearson Correlation	.382**	.432**	1	
	Sig. (2-tailed)	.000	.000		
	N	60	60	60	
Customs_R_collect	Pearson Correlation	.640**	.574**	.497**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	60	60	60	
	60				

** Correlation is significant at the 0.00 level (2-tailed).

4.7 Regression Analysis

4.7.1 Coefficient determination.

The results of the model summary indicated the following values as in table 4.11 below.

Table 4.11 Model Summary

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error	of the	Estimate
1	.779a	.634	.60	1.76899		

a Predictors: (Constant), Control activities, Monitoring, Control environment

The first statistic, R , represents the multiple correlation coefficients between all of the predictor variables (Control activities, Monitoring, Control environment) and the dependent variable (Revenue collections); $R = 0.779$ which indicates that there is a high degree of correlation between all the variables of the study. R^2 , with a value of 0.634 indicates that 63.4 % of the variance in the dependent variable explained by the independent variables in the model but the remaining 36.6% explained using other factors not under the study. This therefore means that effects such as policies and procedures, security, ongoing monitoring, ethical considerations affect customs revenue collection at the port of Mombasa. Adjusted R indicates a high predictability of independent variables and dependent at 60%, IBM (2017).

4.7.2 Analysis of Variance

With a confidence level of 95%, the analysis of variance indicated a positive reliability of the results obtained. In testing the significance level, the statistical significance is considered significant if the p-value is less or equal 0.005. The significance of the regression model was as shown in Table 4.12 below with p-value of 0.00 which was less than 0.05. This shows that the regression model was statistically significant in predicting

the effects of controls on revenue collections at the port of Mombasa. The analysis indicated that the model was significant with F at 32.264 as shown.

Table 4.12 Analysis of Variance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	280.234	3	90.175	32.264	.000b
	Residual	169.175	56	3.200		
	Total	449.409	59			

Dependent Variable: Customs Revenue _collection

Predictors: (Constant), control _activities, Monitoring, Control _environment

4.7.3 Multiple Regression Analysis

Multiple regression analysis disclosed the relationship between control activities, monitoring, control environment, and revenue collections and the results are as indicated in table 4.13 below.

Table 4.13 Multiple regression analysis

		Coefficients ^a			
		Unstandardized	Standardized Coefficients		
		Coefficients			
	Sig.	B	Std. Error	Beta	t
1	(Constant)	4.448	1.604		3.494
	.000				
	Control activities	.356	.069	.436	4.775
	.000				
	Monitoring	.292	.075	.314	3.123
	.002				
	Control environment	.187	.078	.247	2.352
	.002				

Dependent Variable: Customs_Revenue_collection

The general regression Model arrived at was $Y = 4.448 + 0.356 X_1 + 0.292 X_2 + 0.187 X_3 + \varepsilon$

Where, Y= Customs Revenue collection, X_1 = Control activities, X_2 = Monitoring, X_3 = Control environment. Hence; Customs revenue collection $Y = 4.448 + 0.356$ Control activities + 0.292 Monitoring + 0.187 Control environment + ε .

From the analysis in table 4.7.2, Control activities X_3 ($\beta = 0.356$, $p < 0.005$) has the strongest relationship on and or with revenue collections followed by Monitoring X_1 ($\beta = 0.292$, $p < 0.005$), and finally Control environment X_2 ($\beta = 0.187$, $p < 0.005$). The researcher noticed that the three variables predict customs revenue collection at the port of Mombasa. The Beta Coefficients in the regression model showed that all of the tested variables had positive relationship, and are all statistically significant with p-values less

than 0.005. The findings implies that a unit change of X_1 (Control activities) =0.356 will results in to 0.356 change in performance of revenue collections; X_2 (Monitoring)= 0.292, will results in to 0.292 change in performance of customs revenue collection; X_3 (Control environment) = 0.187; will results in to 0.187change in revenue collection. The Y-Intercept ($\beta_0 = 4.448$), predict the amount of customs revenue collection at the port of Mombasa when all other variables are zero, this indicates that without the independent variables in the study the amount of revenue collection would stand at $(Y) = 4.448$

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarized the topic of research to establish the effects of controls on revenue collection at the port of Mombasa. It summarized the findings from collected and analyzed data, drawn conclusion which finalized the topic of research in line with the objectives and finally made necessary recommendations for further study to establish other effects of other controls on revenue collection at the port of Mombasa.

5.2 Summary of findings

From the findings in chapter four, the study was able to establish the effects of three control variables of control activities, monitoring and control environment on revenue collection at the port of Mombasa. These variables have a direct effect on the amount of revenue collection and compliance level at the port of Mombasa. The study through primary and secondary data found out that there are controls operational at the port of Mombasa and both KPA and KRA have put up good control measures to assist in revenue collection and fraud control. The acquisition of systems such as Customs Management Systems for use by the Customs department in revenue collection has ensured the use of such systems which are effective but there is need to adjust their rollout and operations to ensure proper monitoring in attempts to manage and reduce risks.

5.2.1 Control activities

How do control activities affect revenue collection at the port of Mombasa? The effects of control activities has been evident through the enforcement of policies and procedures for example verification procedures and proper security both manual and physical has led to a gradual growth in compliance and revenue collection as well as meeting targets and as such a review of the policies and procedures is important to ensure individuals work within these activities to raise extra revenue. This effect has been evidenced by the

coefficient explaining control activities in the model at 0.356. The stakeholders that are KRA and KPA as pointed by the research finding should ensure there is enough human capital though outsourcing to facilitate revenue collection. This is similar to Brian (2013) that control activities affect the compliance levels in KRA.

5.2.2 Monitoring

What is the effect of monitoring on revenue collection at the port of Mombasa? Monitoring significantly affect revenue collection at the port of Mombasa. This is supported by the coefficient in the multiple regression model of 0.292 referring that through the application of these processes such as ongoing monitoring, separate evaluations, and reporting deficiencies results to an increase in customs revenue collection with the regressed value holding other factors constant as noted by the respondents. The respondents further disclosed that even though the use of ICMS which is a vital part of monitoring is underway, customs should ensure its faster rollout to ensure faster clearance procedures and for effective monitoring which is similar to the finding that KRA should automate its processes to ensure effective monitoring Brian (2013).

5.2.3 Control environment

Without ethical values and committed management and staff as well as well-designed assignments an organization stunts in growth and development. Key issues affecting the staff and how well the management looks at such issues are important in achieving the set targets. The staffs are likely to perform in a control environment that not only uplifts their morale but also refers to the organizations' accepted codes of conduct as evidenced in the model by 0.187. KRA and KPA in working together at the port of Mombasa should respect the codes of conduct required by the port operation to ensure the objectives are met in terms of compliance, meeting targets and amounts of customs revenue collected.

Key challenges regarding the moral obligations and ethical issues and considerations affecting staff at the port of Mombasa should be addressed by both KPA and KRA

management to ensure the staffs are not affected by issues that may undermine their work. A joint approach to issues of ethical consideration will ensure customs officers operate within the confines of the key mandates, missions and visions of KRA to realize the set objective of meeting the set targets amongst other core objectives. This is similar to Amundo (2009) that ethical considerations are a major challenge in revenue collection.

5.3 Conclusions

The study aimed at investigating the effects of controls on revenue collection at Mombasa Port. From the research findings, the study concluded that internal controls affect customs revenue collection at the port. These effects were the independent variables of the study, which included; Control activities policies and procedures, security, outsourcing: Monitoring activities; ongoing monitoring, reporting deficiencies, and separate evaluation: and finally the Control environment consisting of commitment to competence, assignment at the port of Mombasa.

5.3.1 Control activities

Control activities are significant in ensuring adequate revenue collection and compliance at port of Mombasa. It has eased communication across borders, reduced the risks associated to the supply chain and ensures security at all levels of transactional activities by simplifying the procedures and control measures required of every individual who wish to import and export. Through control activities the KRA has achieved substantial steps including trade facilitation due to the levels of compliance required by the supply chain and the stakeholders.

5.3.2 Monitoring

Monitoring is a key process and it should be ongoing. A thorough monitoring is one that is both inbuilt and manual such that it is an ongoing process targeted at a specific objective. A good monitoring process is one that is able to identify risk at all cost to ensure that the shortfalls in a system are corrected to work towards meeting targets and as

such the rollout of key processes by both KRA and KPA should be operational and able to work towards eliminating discrepancies that leads to revenue leakages.

5.3.3 Control environment

Control environment has been identified as a critical issue that management need to review by ensuring every staff abide by the set ethical consideration if KRA and KPA are is to prosper in their objectives. The commitment to retain staff to enhance efficiency and effectiveness of the process off revenue collection can improve the compliance levels of the clients since every staff will work towards the objective without divergent objectives.

5.4 Recommendations

The research has achieved a substantial ground with regard to KRA and KPA and their systems of control which has opened up the organizations as revenue collection and support organization for further research work. The Integrated Customs Management System is rolled-out faster to ensure that there is adequacy of the ongoing monitoring to curb issues of risks that are identified during the ongoing monitoring since monitoring is an essential process in revenue collection.

As the operation and processes involved in revenue collection requires several processes to be performed this research recommends that there is need for both sectors involved in the supply chain including KPA and KRA to ensure there is enough staff to perform the duties and responsibility in the organization and therefore the need for outsourcing.

It is further recommended that the control environment and ethical issues in KRA should be reviewed to ensure individual take responsibility for the inactive operation of controls that are at their disposal this is because ethical considerations are a challenge to staff and has affected the turnover of the amounts of revenue collection because of colluding of KRA staff and other sector players to create revenue leakages.

The customs processes at customs and border control and those items used in monitoring at KRA and those systems in KPA should be automated through integrating most if not all systems to ensure smooth and efficient operations to ensure revenue collection and set

targets are met. The study further recommends that job descriptions be further reviewed to ensure the duties are specific and responsibility for operation of controls are attributable to the individual who operates the control at that level.

5.5 Limitations

The research encountered both financial and time constraints. The period that the study was to be carried out was limited. The access and availability also of some respondents posed a challenge due to strict security / control measures implemented and busy schedules. The respondents were not open to disclose some information as they considered critical to the organization. However, the researcher assured the respondents the response and information would be handled with confidentiality and it would only be used for academic and research purposes. These challenges together resulted in non-response by some respondents.

5.6 Areas for further research

The results from the study point out a number of opportunities for further research which therefore requires further studies to link the other Control variables not in the study such as risk assessment and the effects on revenue collection. Further research should also link the entire control frame to ascertain how all the components of the control affects revenue collection at the port or in other revenue collection agencies of KRA. Further research should also evaluate the internal controls to the level of compliance to ascertain the efficiency of controls on the levels of compliance at the port or in other KRA revenue collection agencies such as the Container Freight Stations.

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APPENDICES

APPEDIX II: INTRODUCTION LETTER



Kenya School of Revenue
Administration



KENYA REVENUE
AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/002

30TH OCTOBER, 2017

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST TO COLLECT RESEARCH PROJECT DATA

This is to certify that Mr. Edwine O. Opiyo of admission number HDB335-C016-2519/2016 is a bona fide student of the Kenya School of Revenue Administration (KESRA), Mombasa Campus. He is in his final year of study and is currently conducting a research project in partial fulfilment of the requirements leading to the award of a Postgraduate diploma in Customs Administration. Mr. Opiyo is in the process of gathering data that will strictly be used for academic purposes only. Regarding this issue, the School would like to seek your permission to allow him to collect information that relates to his research from your organization.

Thank you for your support and cooperation.

Yours sincerely,

Winfred Jillani
Ag. Principal – KESRA, Mombasa Campus.



Tulipe Ushuru Tujitegeme!

KENYA
VISION 2030

APPENDIX II: CUSTOMS REVENUE COLLECTION MOMBASA PORT

FINANCIAL YEAR	SET TARGETS KSH. (Billion)	REVENUE COLLECTION KSH. (Billion)	VARIANCE KSH. (Billion)
2014/2015	320	280	40
2015/2016	320	260	60
2016/2017	350	287	63

Source; Kenya Revenue Authority CBD Southern region (2017)

APPENDIX III: THE QUESTIONNAIRE

Dear respondent, you are kindly requested to assist in filling this questionnaire on the influence of control activities on the amount of revenue collection at the port of Mombasa. Any information that you give will be treated with confidentiality and will not be used for any other purposes other than for this research study. Kindly spare a few minutes of your time to go through the questionnaire and answer the following questions as objectively as possible.

SECTION A: DEMOGRAPHIC INFORMATION

a. Highest level of Education and training attained.

Secondary College University Degree Master’s Degree other

b. Which of the following cadres do you belong to?

Head Verification officer Customs Verification officer

Customs Enforcement officer

c. Number of years worked in the position

Less than 4 years 4-8 years 9-13 years above 14 years

SECTION B: EFFECTS OF CONTROL ACTIVITIES ON REVENUE COLLECTION AT THE PORT OF MOMBASA

State the extent to which you agree with the following statements using the Likert scale of 5-1 by ticking the number where;

5=Strongly agree, 4= Agree, 3= Not sure, 2= Disagree, 1=Strongly disagree.

Parameters	5	4	3	2	1
Compliance level have improved due to the enforcement of customs policies and procedures leading to collection of extra revenue					
For sensitive areas the organization has put in place access controls to these areas to ensure there is security and access granted to					

authorized persons					
There exist clear criterion for hiring and promoting employees in an attempt to outsource enough and competent staff to ensure collection of revenue					
Acceptable business practices, conflicts of interest, and codes of conduct established and communicated to customs officers to ensure ethical standards are adhered to					
There is adequate representation of employees to perform roles and responsibilities					

SECTION C: EFFECTS OF MONITORING ON REVENUE COLLECTION AT THE PORT OF MOMBASA. State the extent to which you agree with the following statements using the Likert scale of 5-1 by ticking the number where,

5=Strongly agree, 4= Agree, 3= Not sure, 2= Disagree, 1=Strongly disagree.

Parameters	5	4	3	2	1
There is continuous monitoring programs built into information (computer) systems aimed at safeguard of revenue					
The organization performs periodic evaluation and test of controls by internal personnel to ensure their operation					
There is supervisory reviews of controls, such as reconciliation reviews as a normal part of processing in attempt to guard and raise extra revenue					
Separate evaluations by board and management regarding the tone they set in the organization					
Effective monitoring is currently being performed on cargo at the port					

SECTION D: EFFECTS OF CONTROL ENVIRONMENT ON REVENUE COLLECTION AT THE PORT OF MOMBASA

State the extent to which you agree with the following statements using the Likert scale of 5-1 by ticking the number where,

5=Strongly agree, 4= Agree, 3= Not sure, 2= Disagree, 1=Strongly disagree.

Parameters	5	4	3	2	1
Management demonstrates the appropriate voice and explicit moral guidance about what is right and wrong and communicate in both words and deeds in realizing higher targets set.					
Employee job descriptions, including specific duties, reporting responsibilities, and constraints have been clearly established and are effectively communicated to employees in ensuring set targets are met					
The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objective of revenue collection.					
Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives					
The organization holds individuals accountable for their control responsibilities and remedial actions are taken in response to departures from approved policies and procedures or the code of conduct, and actions communicated in the pursuit of objectives of raising extra revenue.					

SECTION E: REVENUE COLLECTION AT THE PORT OF MOMBASA

State the extent to which you agree with the following using the Likert scale of 1-5 by ticking the number,

5=Strongly agree, 4= Agree, 3= Not sure, 2= Disagree, 1= Strongly disagree.

Parameters	1	2	3	4	5
The implementation of customs policies and procedures have led to KRA meeting its set targets at the port collection of efficient revenue					

The effective monitoring has led to efficiency in revenue collection due to pre shipment inspections thereby increasing the level of compliance					
KRA has set achievable targets that are attainable and has led to a proper and friendly control environment thereby leading to increased revenue collection					
The implementation of customs policies and procedures have led to KRA meeting its set targets at the port by collection of efficient revenue					
Efficiency in terms of amounts of revenue collected can be attributed to a reduction of customs fraud due to improved control environment ,					

END

Thank you.