FACTORS INFLUENCING TRANSIT TRADE AT THE INLAND CONTAINER DEPOT EMBAKASI, NAIROBI.

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

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DECLARATION

This research project is my original work and has not been submitted for a postgraduate diploma award in any other academic institution or university.

Signed ……Date …….

BYRON OKELLO.

HDB335-C016-4440/2016.

Supervisor's declaration

This Research Project has been submitted for examination with my approval as University Supervisor.

Signed…….. Date ……

Lecturer: **TIMONAH NAMUTILA.**

DEDICATION

This research project is dedicated to my family for their patience, moral and financial support to undertake this project with ease.

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My acknowledgement goes first to the almighty God for without whom I would not have come this far. My sincere appreciation is also extended to my family and friends for their continuous support and encouragement to aim higher. I would like to thank my lecturers who have taken me through this course diligently, professionally and with a lot of sacrifice. My utmost gratitude and admiration goes to my project supervisor Mr. Timonah Namutila for his patience, guidance, and constructive criticism throughout this project writing process which was invaluable. Finally, I am thankful to all the people who in their special ways made this research project a success.

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ABBREVIATION AND ACRONYMS

ASYCUDA	-	Automated System for Customs Data
CCO	-	Central Customs Office
COSO	-	Committee of Sponsoring Organization of Tread way Commission
EACCU	-	East African Community Customs Union
ECTS	-	Electronic Cargo Tracking System
EDI	-	Electronic Data Interchange
EU	-	European Union
ICD	-	Inland Container Depot
ICS	-	Internal Control System
KEBS	-	Kenya Bureau of Standards
KEPHIS	-	Kenya Plant Health Inspectorate Services
KESRA	-	Kenya School of Revenue Administration
KPA	-	Kenya Ports Authority
KRA	-	Kenya Revenue Authority
NCTS	-	New Computerized Transit System
NEMA	-	National Environmental Management Agency
NRGI	-	Natural Resource Governance Institute
OECD	-	Organization for Economic Co-Operation and Development
RTA	-	Regional Trade Agreement
TEU	-	Twenty foot Equivalent Unit
TRC	-	Theory of Regulatory Compliance
UNCTAD	-	United Nations Conference on Trade and Development
UNECA	-	United Nations Economic Commission for Africa
UNECE	-	United Nation Economic Commission for Europe
WCO	-	World Customs Organization
WTO	-	World Trade Organization

DEFINITION OF TERMS

Internal control system- this refers to policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns (Hamed, 2009).

Staff Capacity building- is the process by which individuals and organizations obtain, improve, and retain the skills, knowledge, tools, equipment and other resources needed to do their jobs competently (Smillie and Ian, 2001).

Technology adoption-The choice to acquire and use a new invention or innovation by an organization or a legal entity (Baker, 2001).

Transit trade - most frequently refers to road transportation of goods to and from landlocked countries (KESRA training manual, 2017).

ABSTRACT

In today's competitive, fast-paced business landscape, getting the most out of available resources is not an option but rather a requirement. Organizations are taking a highly proactive approach to systems modernization and operationalization in an effort to increase efficiency and effectiveness in their operations. There is an increasing need by the government to collect, the much needed, extra revenue by way of taxes to face the increasing financial expenditures budgeted by the country, but the government's objective of collecting the extra revenue is a mirage if the internal control system put in place cannot guarantee predictability and efficiency of the tax system thus help in tackling transit operation challenges. This document proposed a research to determine the effectiveness of internal control systems, employed by customs department of KRA, on transit trade traffic through the case of the Inland Container Depot, Customs department, Nairobi County. This study was guided by three specific objectives including: Assessing the influence of physical internal control system on transit operations, assessing the influence of staff capacity on transit operations and establishing the influence of technology adoption on transit operations at the ICD, Embakasi. Literature of past studies were reviewed from written documents, journals, reports, grey literature, the internet, theses and dissertations. The main theories that were employed by this study are: The Control Theory by Pierre-Louis Lion, (1956); The Human Capital Theory by Becker, (1964) and The Theory of Reasoned action by Fishbein and Ajzen, (2005).The study used a descriptive survey design and considered a population 1100 personnel working in the Customs department, Clearing firm and transportation firms who are involved in the transit trade at the ICD, Embakasi. The study used Purposive sampling method to select a sample size of 220 (20%) respondents. Data in this study was be collected through questionnaires and analyzed by statistical methods of frequencies and percentages. The presentation of data was in the form of tables and continuous prose. The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. The study concluded that physical internal controls significantly and positively influences transit trade in Kenya. The study also concluded that staff capacity has a significant and a positive effect on transit trade in Kenya. Finally, the study concluded that technology adoption has significant and a positive effect on transit trade in Kenya. In order to improve revenue collection associated with transit traffic and to reduce transit clearance time, the study recommends that KRA should adequately undertake some transit customs modernizations efforts mainly concerned with integration of systems associated with transit traffic. The study also recommends that KRA should not look at staff capacity only in terms of capacity building but also in terms integrity. Finally, the study recommends that KRA should do away with inconsistent and bureaucratic procedures in transit traffic management thus do away with bureaucratic inefficiencies.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

The recent explosion of Regional Trade Agreements globally, particularly Customs Unions, potentially drives governments to harmonize their borders measures with a view of regional economic integration and competitiveness. Regional transit systems have increasingly attracted political and public attention because they essentially require positive engagement of the governments regionally to help the systems meet the substantive needs by both landlocked and transit countries; and its successful implementation is a stepping stone to harmonization of other customs measures to facilitate the intra-regional trade, amongst other,(Moïsé, et al., 2011).There are a number of initiatives to facilitate transit goods movement while minimizing risks of transit fraud and smuggling for example, the transport corridor projects and boarder management projects. Customs play a crucial role in a functional transit system. There are a variety of Customs measures to facilitate trade and they are generally applicable to transit goods and traffic as well, (Mutisya, 2014).

As trade facilitation measures evolve, new trends on transit trade facilitation have also emerged. Transit systems allows for the suspension of duties and other charges (VAT and excise) payable as well as non-fiscal measures for goods in transit crossing more than one country under customs control, (Ochieng, et al, 2014) .However this system has been the target of major criminal networks and has become a major and growing problem resulting in greater revenue losses, both for national governments and communities. In respect to this, efforts are geared, locally, towards streamlining customs functions to create an enabling

environment for trade, reduction in counterfeits and illegal goods in transits and more importantly availing revenue for the governments through levies.

Over several decades a lot of work on trade facilitation has been carried out by the United Nations conference on Trade and development (UNCTAD), the United Nations Economic commission for Europe (UNECE) and the world customs Organization (WCO). UNCTAD estimates that the average customs transaction involves up to 30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60- 70% of all data at least once, (Arvis, 2011). This is particularly true of Africa not only due to lack of adequate infrastructure in many countries, but also due to a past characterized by poor national governance structures, (Yasui, 2011).

The OECD (2013) notes that the incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the custom union's ability to effectively collect revenue but also encourages collusion, fraud, embezzlement, loss of cash (revenue), assets conversion, genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating the East African region. For the enhancement of the attainment of the mission and goals of the customs department in Kenya, it is therefore necessary that these hindrances be removed and one of the ways to do that is to strengthen the Internal Control System in place.

1.1.1 Internal Control Systems

The Internal Control framework comprise of dependent and independent variables. The effectiveness of an internal control framework is the dependent variable. This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organization's objectives Owusu (2012). Proper functioning of

independent variables provides reasonable assurance of proper functioning of dependent variable. The organization realizes preset objectives of efficient and effective operations, collection of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements.

Firms need five interrelated components of an Internal Control Structure to ensure strong control over their activities. These are: control environment, risk assessment, control activities, Information and communication, and monitoring components. The extent to which each component is implemented is influenced by the size and complexity of the firm, type of industry, management philosophy, and corporate culture. (Ongeri, 2010).

In their research paper on *Empirical Study on the Correlation between the Internal Control and Enterprise Value – Based on the Information System*, Hongming C and Yanan S, (2012) have described how the five internal control components described by COSO relate to each other. All five internal control components must be present to conclude that internal control is effective. (Ngugi, 2011).

1.1.1.1 Control Environment

The control environment is the foundation of the five elements in the internal control framework. Its designation and operation not only affect the enterprise' overall activity, but the other four elements. Therefore control environment directly affects the effectiveness of implementation of internal control framework and the modern enterprises should establish a suitable internal control environment Owusu (2012). .The control environment usually includes the following context:

Personnel integrity and quality- The staffs play a dual role: on one hand, they are the subjects of internal control in the organization and control the implementation of their assignment; on the other hand, they are the objects of internal control in the organization and supervised and

controlled by the other. Any item of internal control system shall not go beyond the staffs' integrity and quality that creates, manages, implements and supervises the system. (Ongeri, 2010).

The management style and management idea-The manager's management style and management idea influence the way of managing of the enterprises, especially the manager's individual glamour and the ability to make decisions. Managers control the enterprise mainly by designing the organization and management mechanism, authorizing and designing the system. Hongming C and Yanan S, (2012).Organization structure-Organization structure including organization structure settings, responsibilities allocation, what is the position of the person in the organization and what power and responsibility he/she has. Organization structure is the guarantee for the enterprise to achieve overall goal and enterprises should be planned, executed, controlled and supervised based on the structure of the organization.

1.1.1.2 Risk Assessment

Risk assessment system is divided into three steps: risk identification, risk analysis and evaluation, risk control and report. Risk identification-It asks the enterprise to judge and analyze risks, including its nature, types, and reasons of the occurrence, etc. Risk analysis and evaluation**.** Risk analysis and evaluation needs quantitative analysis of digital information collected by mathematical method in order to make the risk management based on scientific basis. The result of risk analysis and risk evaluation is the probability of occurrence and size of the risk so as to provide a dependable basis for decision-making. (Simmons 1997). Risk control and report. As to risk analysis and assessment, management should consider how to control risk. The method of controlling risk usually is to transfer risk, adverse risk and disperse risk.

1.1.1.3 Control Activities

Control activities are designed to make management instructions effective on the implementation of various policies and procedures. Control activities can help an enterprise to ensure that it has already taken measures to reduce loss according to the realization of the goal of the enterprise. From the point of daily business activities, control activities includes authorized management. It refers to the managers decentralizing power to their subordinates to enable them have the right to address the problem and make a choice and share corresponding responsibility. (COSO 1985).This refers to defining the authority and responsibility according to the principle of combining functions of a department and its characteristic business processes and operation procedures. Business process is the procedure of all the business. An operation procedure is to say, how to operate on every matter in detail. (COSO, 1992).

1.1.1.4 Information and Communication

Enterprise management activities can be divided into the plan, organization, coordination, reports, etc. When managers exercise these functions, messages are always the most basic support system, namely, all the enterprise activities are inseparable from information. Therefore, the information function is the basis of management activities and the level of information processing ability is one of the most important symbols of the level of management. And this information must be delivered timely to those who fulfill its responsibility and other responsible ones in some form. Completing the information transmission is communication and it can translate the abstract goal and plans into language that encourage employees.

1.1.1.5 Monitoring

Monitoring is used to evaluate the quality of an enterprise internal control system by tracking and monitoring the internal control framework and operational status and take the necessary actions to ensure that internal control can operate effectively. Monitoring can be divided into continuous monitoring and individual assessment. Kenneman (2004).Continuous monitoring activities:-usually are those activities that the management of departments and each staff at various levels inspect, analyze and evaluate the effectiveness and efficiency of production and operating activities of their respective sections during execution of the internal control system. It is a kind of self-control mode. Individual assessments to evaluate the internal control system regularly and is usually done by the relatively independent internal audit department. The higher the level is, the less individual evaluation is needed. (Mwindi, 2008).

1.1.2 Transit trade

Transit trade most frequently refers to the business associated with road transportation of goods to and from landlocked countries. However it is useful to make a distinction between national transit and international transit, international transit refers to the procedure where national borders are crossed. Most transit takes place between landlocked countries and countries with access to the sea. In some countries transit is simply from one country to the destination country, and borders are crossed only once (Venetia &Louise, 2011).

A functional transit system is essential for trade connectivity in the region. The transit countries generally consider it a priority to avoid transit fraud and smuggling in the territory as well as reduce its financial, infrastructural, environmental and social burdens derived from the transit traffic (World Bank, 2008).

Transit operations have consistently been dogged by the following challenges:- Volume of transit goods have increased in the recent times, mis-declaration of transit goods, bond

reconciliation, stability of insurance companies that insure security bonds, Delays of returns from the border stations, unscrupulous businessmen, infrastructure, technology and the integrity of Customs officers.

According to Arvis Jety al. (2014), transit operations are vulnerable to fraud and extortion as they take place over an extended period of time, over long distances and with often-minimal supervision. One method to reduce corruption is making sure that tamper free seals are applied. Also it is recommended that the transit operation be concluded at a level other than the exit station. Hence the importance of creating the CCO (Central Customs Office) and ensuring that it is well staffed and its operations periodically audited. Independent of the corruption problem, transit customs is an area where enforcement is not easy, as customs are not in a position to check consignments all over the territory. Conversely, other agencies involved in fighting national fraud are less concerned by transit fraud locally. In most developed countries, fraud in transit is treated as smuggling and is imposed heavy penalties, which include seizing of the truck and shipment, as well as a fine that can amount to three times the value of the shipment.

"Removal-in-bond/removal-in-transit" fraud also features in local transit fraud. it entails, products declared as "In- transit" for removal to another country but are kept in Kenya and sold in the local market, this includes diversion/acquittal fraud, which happens when documentation is provided to the customs office that falsely indicates that the product has been exported (referred to as a ghost export, then the product is sold in the local market; VAT fraud: another form of acquittal fraud is when false documentation is submitted to indicate that product was exported (ghost exports),but no product was exported and VAT is claimed back illegally. Other customs frauds are in form of undervaluation of goods in transit, (Under invoicing, and split invoicing,) round tripping and counterfeit goods.

Information sharing between customs is significantly effective in transit procedures. It improves the efficiency of Customs transit procedures in terms of facilitation and control hence helps in fighting transit fraud. As information of "in-transit" goods at departure likely remains unchanged throughout the transit operations by road, customs are able to use it for risk assessment of goods and data reconciliation. It's necessary to have international co-operation and legal frameworks to support the stability and predictability of the system as well as to ensure data protection of the information shared. In most cases, it has been implemented by regional agreements or under framework of RTA's particularly customs Unions (Yasui, 2011).

A number of developing countries have developed different electronic Data Interchange (EDI) systems adapted to their own needs. Within the variety of software employed, ASYCUDA has proved particularly popular. Automation brings a number of positive changes for transit operations. Some applications are very comprehensive. For instance the European Union has developed a New Computerized Transit System (NCTS), which is fully computerized. More directly applicable to developing economies, UNCTAD has developed transit "add-ons" to the ASYCUDA. Within the customs in the transit country, the system electronically informs the exit post of the arrival of a shipment within a plausible time frame. When the exit post closes the transit-information, the information is keyed in and the guarantee is automatically released. This reduces interruptions of records that contribute to fraudulent customs activities. ASYCUDA can be adapted to suit the specific necessities of its different users, and it provides customs with a variety of functions, which support their activities and increase their efficiency.

1.1.3 Inland Container Depot, Embakasi.

Inland Container Depot/Dry port/Inland port is an inland intermodal terminally directly connected by rail or road to a sea port and operating as a center for transshipment of cargo to inland destinations. ICD's may also include facilities for storage and consolidation of cargo in other jurisdiction. The location of these facilities at a dry port relieves competition for storage and customs space at the sea port.

The Nairobi ICD is a game changer as far as freight services are concerned, it is made up of extended services offered at the sea port, it is thus a one stop shipping center made up of Customs services department to ease clearing of exports, transit goods and imports; commercial banks to ease financial transactions; a way bridge to ease operations with one of the most out-standing infrastructure being the scanning equipment meant to perform surveillance operations in a bid to mitigate fraud and corruption

The ICD has been upgraded from the initial capacity of 180,000 TEU's per annum to a new capacity of 450,000 TEU's per annum with a stacking area of 99,000 square meters. The upgrade was necessitated by more flow of goods into the terminal occasioned by the new standard gauge railway. The ICD mainly serves Uganda, Rwanda, Eastern DRC and Southern Sudan who find using it effective.

The services offered at the ICD include auxiliary Customs services such as those offered by NEMA, KEPHIS and KEBS.

The leading agency at the ICD is the Kenya Ports Authority who in-turn accommodate other agencies such as KRA and KEPHIS.

1.2 Statement of the problem.

Even though there are many initiatives aimed at addressing customs inefficiencies, they have been plagued by poor integration, lack of project continuity, budget and capacity constrains

as well as the overall deficient system of internal control put in place, which cuts across all the initiatives implemented by customs, and which also guides the transit systems globally. There are clearly capacity constrains within the EAC customs departments to investigate customs fraud just as India and Malaysia were sometimes back, but now are cited as good practice example due to strengthened internal control systems. The lack of computer systems and connectivity at many of the ports of entry may negate many of the advancements in electronic developments. Customs officials on the other hand have insufficient product knowledge to frame a reference for pricing of products when reviewing declarations and validating values. As troubling and gloomy as the situation may seem in transit systems globally, the presence of an effective internal control system in customs transit operations can only make things better and lead to a system that is predictable and with less incidences of transit system inefficiencies and revenue losses. Kuria, Ngumi and Rugani (2013) Highlighted that the heightened interest in internal controls is in part, as a result of significant losses incurred by several organization. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organization maintained an effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to, thereby limiting damage to the organization.

This troubling situation is also observed in Kenya's transit system as the prevalence of the problems related to transit traffic inefficiencies and revenue losses have been reported in KRA Customs offices. The motivation to include issues of non-compliance in the broader definition of import fraud is supported by the loss in revenue for Kenya Revenue Authority (KRA) due to what appears to be intentional non-compliance, the inclusion shows an attempt by KRA to strengthen its internal control system on compliance by anchoring it within the legal framework. Customs laws and regulations are implemented and courts and tribunals continue to administer justice to transit fraudsters, all in a bid to make the transit system

efficient but to no avail due to the weak internal control system and checks in the customs department. The situation under review may improve with proper analysis and interpretation of available information, however, not much information is available on the challenges faced by the customs department in Kenya on Transit trade and the influence of the challenges on customs administration ability to deal with transit trade traffic. This study thus sought to determine the influence of Customs internal control systems on transit trade traffic at the Inland Container Depot Embakasi, Kenya and provided information that can enhance policy development on the management of transit trade traffic.

1.3. Objectives of the Research

1.3.1 General Objective

The general objective of this study was to determine the influence of Customs internal control systems on transit trade traffic at the Inland Container Depot, Embakasi, Kenya.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

i. To determine the influence of physical internal control system on transit trade at the ICD customs department, Nairobi County.
ii. To determine the influence of staff capacity on transit trade at the ICD customs department, Nairobi County.
iii. To establish the influence of technology adoption on transit trade at the ICD customs department, Nairobi County.

1.4 Research Questions

The study sought to answer the following research questions:

i. How do physical internal control systems affect transit trade at the ICD customs department, Nairobi County?

ii. How does staff capacity affect transit trade at the ICD customs department, Nairobi County?

iii. How does technology adoption affect transit trade at the ICD customs department, Nairobi County?

1.5 Justification

The Customs Service Department of the Kenya Revenue Authority is the largest of the four revenue departments in terms of Manpower, Revenue collection and countrywide operational network including transit operations. This study has enabled us understand the influence of the internal control systems, under Article V of the GATT, on transit trade traffic at the inland container depot, Embakasi. Its findings will be helpful to the customs service department by ensuring transit trade challenges are effectively tackled and brought to a bare minimum in Kenya. This study also benefits several stakeholders.

1. **The Government**

This study provides the much-needed analysis of the transformation of transit operations along the Kenyan territory because of the implementation of the internal control system under the guidance of Article V of the GATT. The study also informs the government on policy formulation.

2. **Customs Managers**

As the custodians of border trade facilitation, customs managers must ensure efficiency and effectiveness in border trade administration. They must ensure that all income is collected at the borders and trade facilitated accordingly and that all factors of the border trade environment (Internal and External) are integrated to enhance management performance, with the information gathered they will be able to make the right decision on trade facilitation at the boarders.

3. **Scholars and Academicians**

Other researchers will use the findings of this study as reference materials for their respective research work.

1.6 Scope of the Study

The scope of the study explains the boundaries of the research and this is based on the fact that the researcher cannot study everything and everywhere as stated by Kothari (2014). This helps the researcher to keep focused on the task in order to make decisions about the changes required during the research process that contribute to obtaining of both valid and reliable information (Egidijus & Emile, 2013). The study was be limited to the Inland Container Depot (ICD) Embakasi, Nairobi. The target population included: customs officers, transport operators and clearing and forwarding agents dealing directly with transit goods.

1.7 Limitations of the study

In pursuit of this study, several limitations were experienced. Firstly the cost in terms of time and finance to carry out an extensive and exhaustive research could not be achieved. Secondly, some of the respondents were non-responsive. Thirdly, the study relied on qualitative data collected through structured questionnaire of which collection, analysis and interpretation is not free from human errors. Fourthly the halo effect in reactions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a synthesis of available literature by different scholars that focuses on the relationship between internal control systems and transit trade traffic. The researcher reviews existing theories in the theoretical framework and proceeds to highlight findings and conclusions of similar studies in the empirical review after the presentation of a conceptual framework. The researcher summarizes the findings and conclusions of these studies and identifies a gap to be filled by this study.

2.2 Theoretical Review

A theory is an explanation which helps to understand and make predictions about a given situation (Carnwell & Daly, 2015). Revenue collection is very important for every government in the world as it enables the government to acquire assets which are not liable to debt and which the government uses to develop its economy. However, revenue collection in Kenya has not always been as effective as it should be. The ineffectiveness is attributable to many factors. The application of different sources of revenues ensures the predictability and stability of sources of revenue in public finance. It as well gives the implication that no one source of finance has control or is relied upon at the expense of other sources of finance. This ensures that there is continuity in the service delivery in the public sector as income flow is consistent. This study was based on three theories of internal control systems established to explain the effectiveness of internal control systems in transit trade management at the ICD, Embakasi:

2.2.1 Control Theory

The study was founded on the control theory propounded by Pierre-Louis Lions (1956). Control theory has been described as “an interdisciplinary branch of engineering and mathematics that deals with the behavior of dynamic systems with inputs. The external input of a system is called the reference. When one or more output variables of a system need to follow a certain reference over time, a controller manipulates the inputs to a system to obtain the desired effect on the output of the system. The objective of a control theory is to calculate solutions for the proper corrective action from the controller that result in system stability that is the system will hold the set point and not oscillate around it.

System have inputs and outputs to bring a product after processing and so inputs and outputs of a control system are generally related by differential equations. Setting objectives, budgets, plans and other expectations to establish criteria for control. In its general and industrial sense, control theory refers to the procedure by which one determines the best input in a system—example given, an industrial plant—to obtain the best output: the closest to the desired result in terms of production cost or quality of the product. It can also refer to the description of the states that a given system can or cannot reach. Depending on the nature of the equations governing the system this can result in substantially difficult mathematical problems.

2.2.2. Human Capital Theory

Human capital corresponds to any stock of knowledge or characteristics the worker has (either innate or acquired) that contributes to his or her productivity (Dennison, 1998). This definition is broad, and this has both advantages and disadvantages. The advantages are clear: it enables one to think of not only the years of schooling, but also of a variety of other characteristics as part of human capital investments. These include school quality, training, attitudes towards work, etc. Using this type of reasoning, one can make some progress

towards understanding some of the differences in earnings across workers that are not accounted for by schooling differences alone.

The theoretical framework for the wholesale adoption of education and development policies known as Human Capital Theory was based on the work of economists such as (Becker, 1964). Human Capital Theory attempts to prove that formal education is highly instrumental in improving the productive capacity of a population. In other words, an educated population is a productive asset for a nation. This means that there is the need to invest in human capital through education and training so that productivity gains can be made. In other words education and training improves the quality of labor.

The theory suggests that education or training raises the productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings (Becker, 1964). Mincer (1974) provides an explanation that links investment in training with workers' wages. In particular, his theory draws a crucial distinction between general education and firm-specific training. Over the past thirty years or so, hundreds of studies have been conducted to estimate rates of return on education. Most of such studies show that formal schooling is a crucial factor in explaining variations of salary and wages in well developed countries (Dennison, 1998). Comparative studies have been conducted in some less developed countries, focusing on investment in formal education (Psacharopoulos, 1998).

While formal education has expanded rapidly in many countries, a large portion of human capital accumulation in the form of on-the-job training and other modes for working adults actually take place both inside and outside the workplace. Adult education development in developed countries in recent years has focused on the strengthening of vocational training to meet the need for skill development across all occupational strata in the global economy. Studies in some developing countries find that a mix of education and training is available for

skill acquisition and there are multiple paths to skill development for a given occupation (Benhabib & Spiegel 1994). A study of education provision in Shenzhen, China shows that both firm provided on-the-job training and adult education financed by employees offer substantial means to develop vocational/technical skills and provided about 2.07 million head counts of education and training to the workforce of 2.5 million during the period of 1980-1996 (Hall & Torrington, 1998). Given that education and training programs for working adults have experienced significant expansion, it is important that they be included in estimations of returns to education and training.

2.2.3 Theory of Reasoned Action

Fishbein and Ajzen (2005) highlighted the importance of attitude of the individual in their adoption of innovative technologies. In their theory of reasoned action, Fishbein and Ajzen(2005) stated that the adoption of new technology can be determined through their behavioral intention to adopt the technology and this intention in turn is moderated by their attitude towards this behavior and other subjective norms such as the reaction of their social group on their behavior. While attitude in this theory is defined as the positive or negative feelings associated with the target behavior, subjective norms are their perceptions regarding their action of other individuals in their social group and thus forces them to think why the action should or should not be performed (Fishbein and Ajzen, 2005).

Thus, Theory of Reasoned Action (TRA) identifies the attitude and subjective norms to be guiding the behavioral intention of users towards a new technology. While the attitude is indicative of the internal variables affecting individual choices, subjective norms incorporate the external variables that affect the behavior of an individual (Davis et al., 1989). This theory thus was widely used to explain adoption of innovative technologies like the internal

and other wireless technologies that have been responsible for the major changes faced in the last two decades (Mirescu and Maiorescu, 2011).

The theories named above have relevance to this study as transit trade traffic management is concerned in customs department. The negative effects of transit trade traffic can be controlled by the presence of an effective and efficient internal control system.

2.3. Conceptual framework

The conceptual framework is a diagrammatic presentation of the relationship between independent and dependent variables of the study (Sekaran, 2013). This research was be guided by a Conceptual Framework that is made up of independent and dependent variables

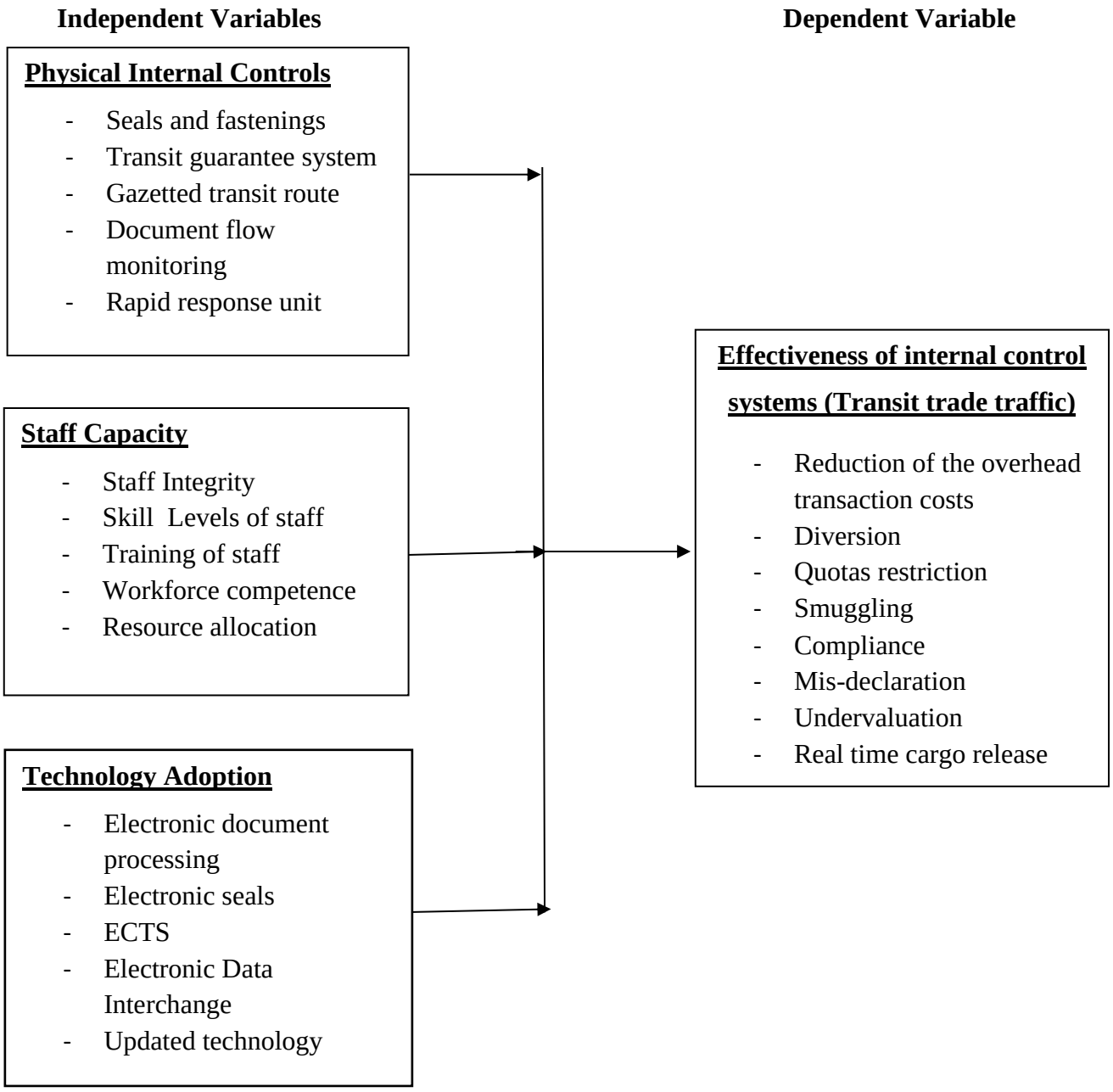

Fig 2.1: Conceptual Framework

2.4 Empirical Review

The word empirical describes any information gained by experience, observation, or experiment. One of the central tenets of the scientific method is that evidence must be empirical, i.e. based on evidence observable to the senses (Kothari, 2014). Empirical review is based on observed and measured phenomena and derives knowledge from actual experience rather than from theory or belief. Empirical review is the collection and analysis of primary data based on direct observation or experiences in the field (Mugenda & Mugenda, 2013). Philosophically, empiricism defines a way of gathering knowledge by direct observation and experience rather than through logic or reason alone (in other words, by rationality). In the scientific paradigm the term refers to the use of hypotheses that can be tested using observation and experiment. In other words, it is the practical application of experience via formalized experiments. Empirical data is produced by experiment and observation, and can be either quantitative or qualitative (Cornwell & Daly, 2015). Objectives of empirical research is informed by observation, but goes far beyond it. Observations alone are merely observations.

2.4.1 Physical Internal Controls and Transit Trade

According to Awitta (2010), Internal Control System (ICS) is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information (Keitany, 2000). Obat (2010) study in Kenya established that KRA was formed to develop and improve on revenue collection measures as well as making sure that all revenue leakages are closed. It was also to ensure that it expedites trade by putting in place those measures that allow controlled movement of goods and services. Hongming and Yanan

(2012), posit that Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business. Whittington (2001) has defined that a system of internal control extends beyond those matters which relate directly to the functions of accounting and the financial statements. In addition, he notes that internal control is a systematic procedure which will leads to the evaluation of the degree of correlation between those established criteria and the real results of the business. A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012)

In theory, the various Customs offices on a transit route may ask transit operators to lodge goods declarations and /or submit the relevant transportation documents, and may inspect the documentation or conduct physical examinations, as well as requesting guarantees (or imposing duties, taxes and charges). By its nature an international transit operation tends to be very complicated and, because of its complexity, vulnerable to bureaucratic inefficiency. An operator involved in a transit operation must lodge Customs declarations or submit transport documents to different Customs offices, for the same goods, (Trevor, 2010). There is a risk that Customs administrations may conduct physical inspections several times during the transit operation. However, this does mean that there is plenty of scope for improving transit procedures by harmonizing and coordinating the various procedures involved in a transit operation. Corruption and internal control system weaknesses have hampered the efficiency of customs administrations in many developing countries. Arvis. Jety al (2014) advice that the introduction of single window systems has to be accompanied with other integrity measures in order to thoroughly eliminate corruption in Customs. Orondo (2011)

studied the strategic responses adopted by KPA to the environmental challenges and found out that it faced legal and technological changes as well as challenges brought about by economic factors, political instability and terrorism. KPA adapted proactive strategies in its response. KRA therefore have put in place those measures to reduce the leakages. They invariably include segregation of duties, custody of assets, strict authorization procedures, internal audit, and the use of passwords, proper record controls and management supervision.

Tarar (2010) in his study established that most cases of customs corruption have been blamed on ineffective accountability mechanism. Such accountability has often been undermined by two factors: negligible governing rules and the failure to correctly apply the rules. First, governing rules are said to be negligible where the sanctions imposed appear to be insignificant. Customs corruption has continued to exist since such activities give officials the opportunity to make a fortune before they are dismissed, and the recovery of the illegal amount (if any) is usually a small portion of the total sum. Rabball and Mjekiqi (2010) emphasize that the lack of concerted action by and coordination of the many administrations and offices involved and poor exploitation of existing arrangements for cooperation – structural weaknesses that are by no means unique to transit. The existence of different, ill-fitting systems, arising from the different legal frameworks and decision-making where there is failure to adapt the rules and procedures to allow them to deal with swiftly, reliable and flexibly with large numbers of highly varied transit operations.

(Moise, et al.2011). Transit operations inevitably involve various regulatory requirements imposed by government agencies other than Customs. Without cooperation and coordination between the relevant government agencies, transit goods are stacked up at the border. One of the best practices where the coordinated management of transit is concerned, is the establishment of a one-stop border post which act as a physical internal control bringing together different agencies under one roof to ease transit trade.

2.4.2 Staff Capacity and Transit Trade

The greatest assets of any organization are its human resource and organizations spend considerable resources in building the capacities of their employees. Human resources capacity building equips employees to achieve organizational goals. Ohemeng (2009) proposed that to fully build the human resources capacity of the public sector in Ghana, training and empowerment are the key requirements to improve job performance. The main goal of employees' training and empowerment is to help the organization achieve its mission and business goals (Pennington & Edwards, 2000).

In the customs context, capacity building is commonly understood to mean developing or acquiring the skills, competencies, tools, processes and resources needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives. It is a broad and comprehensive process involving all aspects of customs administration and cannot be tackled successfully on a narrow technical or single-issue. By way of example, the effective implementation of the WTO valuation Agreement requires much more than simple government agreement, (Raballand and Mjekiqi, 2010). It usually involve legislative change, the creation of new administration infrastructure, the development and implementation of new systems and procedures, and a significant increase in the skills and knowledge of national customs officials. Customs administrations should be free of corruption and strive to uphold the highest levels of integrity.

Matamande (2012) in his study contended that there must be a clear separation between those who initiate records and those who are responsible for the collection of the money. This does not completely remove the possibility of fraud. This is just a control measure. Other measures also have to be instituted within the organization like strict follow up on people's backgrounds when hiring. Adequate screening of prospective employees before hiring them and management supervisory checks should minimize this risk, or detect collusion if it has

indeed occurred. Through system modernization, a tax collection agency will be able to meet their revenue collection targets as there will be less tax avoidance and evasions. Modernization of the custom system falls under the Public administration sector and its objective to improve the efficiency and effectiveness both at central and local level. Focus will be on capacity building for policy reforms, and implementation of the existing legal and strategic framework (de Wulf and Sokol, 2005).

Okech and Mburu (2011) argue that in revenue collection, Tax administration, which fall under staff capacity, is crucial in the implementation of a properly designed Tax system. Tax administration consists of three interrelated activities. The identification of Tax liabilities based on existing Tax laws and the assessment of Taxes to determine if the Taxes actually paid are smaller or (large) than liabilities and the collection prosecution and penalty activities that impose sanctions on Tax evaders and ensures that Taxes and penalties due from Tax payers are actually collected. There are a number of regional or bilateral agreements and arrangements covering international transit procedures which heavily rely on the staff capacity to interpret. By way of example, most of the regional intergovernmental cooperation efforts in Africa, such as the Economic Community of West African States (ECOWAS), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), have developed international transit arrangements. The members have bi-lateral trade agreements that regulate border trade and control possible fraud instances (UNECA, 2013). Gourdon (2013) posits that in recent years transit fraud has become a considerable drain on the Community and national budgets, and has led to illegal trafficking on the global market in untaxed and totally uncontrolled good, jeopardizing not only the competitiveness of nations' business but the health and safety of their citizens. International criminal organization has exploited weaknesses in transit procedures to evade government surveillance of considerable quantities of high-tax products such as cigarettes and alcohol. Trevor (2010)

notes that failures by both administrators and users to comply with existing rules and obligations , not only because of certain problems legally interpreting and applying them in practice but also because the will to act (act to allocate sufficient resources so that people can do their jobs properly) is lacking. According to Moise, et al. (2011), customs administrations should have primary responsibility for this policy with a view to combating major economic and financial crime, with specific assistance from the governments, and support from police and justice officials where necessary. The nations need a criminal policy to help it establish proof, have cases pursued in a coordinated fashion, bring serious fraud cases before the criminal courts, particularly where they involve criminal organizations, and impose effective, proportionate and deterrent penalties on the organizers. To eradicate the vice, fraud detection and law enforcement, coordinated checks, relying on more effective security measures and a common risk management policy, targeting of checks, the setting up of county-wide mechanisms to detect fraud and irregularities and the development of a legal frame work conducive to stepping up law enforcement, all of which rely on customs officers with capacity and know how to implement.

2.4.3 Technology Adoption and Transit Trade

Mutisya (2014) avers that customs transit systems traditionally placed onerous requirements on the transit operators as well as on Customs administrations in terms of producing documentation, and the goods, at every step in the transit operation. Modern Customs administrations have introduced simplified Customs formalities, and accept electronic copies of transport documents. The simplification of document requirements significantly reduces the transit operator's burden.

To ensure the security of goods during transit operations, Customs administration usually affix Customs seals and fastenings to the goods and /or the transport unit. Customs may allow

flexible and facilitative measures, such as acceptance of special seals affixed by transit operators, (Portugal – Perez and Wilson, 2012). Many EU members have recently introduced electronic seals / tracking devices which allow the status and /or location of transit goods to be mentioned. Performance measurement is useful in demonstrating the effectiveness of transit operations and identifying bottlenecks preventing the smooth movement of transit cargos. There are several international tools and reports for assessing the performance of transit operations, and these may give valuable clues as to how to improve the transit system. In particular, the WCO Time Release Study Guide may assist members to identify key problems in their transit systems (UNECA, 2013)

Disdier, Forntagne and Cadot (2015) argues in their study that to develop an effective and efficient transit system, a number of factors should be considered. For instance, well-designed guarantee systems that cover the payment of import duties, taxes and other charges are essential for the smooth movement of transit goods. Information sharing among Customs offices and streamlined documentation flows make transit procedures straightforward and transparent. Customs seals are mechanisms that ensure the physical integrity of the goods, making certain that the goods present at the start of a transit operation will leave the transit country in the same state and quantity.

Further, lack of use of available data collected as a result of technology adoption, which, combined with a lack of complete and reliable information on the real economic and administrative impact of transit and on the operations themselves, makes it almost impossible to manage the system effectively and appropriately or to prevent fraud with the help of risk analysis and targeted electronic controls (Trevor, 2010). In addition to a substantial fraud-prevention drive, there must be progress on developing a consistent policy with regard to tackling fraud if it is to be deterred, particularly when it is subject to transnational organized crime.

Locally, Ndonga (2012) examined how single window systems can be used as a tool to combat customs corruption. The study analyzed the various facets of customs corruption and discussed its impact on the affected countries. The paper then took an economic approach to understanding the root cause of customs corruption by following Klitgaard's (1988) analytical framework which states that corruption flourishes in situations where agents have monopoly power over clients, where agents have great discretion, and where accountability of agents to the principal is weak. It concluded that automation by itself does not provide a comprehensive solution to customs corruption. According to Sohne (2003), for government to match in performance with the growth and expectations of its constituents, it must dramatically increase its fiscal depth without incurring costly recurring overheads. Sohne (2003) further noted that automated systems have been proven to be capable of introducing massive efficiencies to business processes that can result in increased revenue. Applying technological solutions towards the strategic goals for government is a key step towards transforming government into an entity that can keep abreast with the needs, requirements and expectations of today's modern world. The benefits of computerizing revenue collection are many but there are some aspects, which are especially important to a computerized revenue collection system or otherwise appear to be unachievable using traditional solutions.

2.5 Critique of existing literature.

A critique of the available literature relevant to the study shows that there is a general concurrence, among key authors of the various research papers reviewed, which shows that, for an internal control system to function efficiently and effectively all the five components of the system must be functional. There is also a consensus on the notion that the effectiveness and efficiency of internal control systems are not solely responsible for a "bureaucratic free'' customs system but reduces drastically incidences of customs bureaucratic inefficiencies.

There is also a further agreement among researchers that suggests that automation of the internal control system in any organization increases further the effectiveness of system. Another group of authors has overwhelmingly agreed that staff capacity and integrity plays a central role in the implementation of the internal controls hence it should be enhanced, this then means that, if you have a poorly trained personnel with a modernized/automated tax system and an excellent internal control system in place, you will achieve very little success in terms of regulating customs inefficiencies as the staff are responsible for implementing the internal controls in place together with the automation accompanying them.

However there is disagreement when it comes to the implementation of the legal framework governing internal controls and transit operations in general in the EACCU. One group of authors concur that different legal frameworks implemented in different customs territory make compliance with the laws and regulations a nightmare for both customs officers and transit traders and they call for harmonization of the legal frameworks in the different customs territories to boost capacity of officer dealing with transit traffic as they will now be able to deal with a single harmonized framework. The other group of authors are of the opinion that the problem is that of a political nature and not a legal one As Customs policy formulation is handled by politicians and not customs experts with the capacity to understand the actual situation. Another group calls for the anchoring of the internal controls regulations into the Customs code of the transit territories. This then leads us to a situation where we still do not know if the transit traffic strategies put in place for transit traffic management at the ICD, Embakasi are effective and efficient in achieving Customs objectives of revenue collection; trade facilitation and prevention of transit trade inefficiencies such as time wastage.

2.6 Summary of the literature review

The review of the literature presented in this chapter provided a contextual background for the present research on factors influencing transit trade at the ICD, Embakasi, Nairobi. The chapter revealed a range of important aspects of transit trade traffic in the economic, business and customs context. The review also identified the major literature on transit systems regulatory controls. The limitation of existing literature in this field provided an opening for this study to identify potential alternatives to the current practices of customs transit trade strategies. The chapter concluded with a commentary on the implication of the current literature. The following chapter presents the methodology for this study based on the theoretical and empirical review of literature.

2.7 Study gap.

This study sought to establish the influence of internal control systems on transit trade at the ICD Embakasi. Literature reviewed showed the relationship between internal control systems set by institutions and revenue collection. However, scholars and researchers seemed not to have delved into the relationship between customs internal control systems and transit trade traffic at the ICD, Embakasi. This then presented a gap which was filled by this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to how a research problem can be solved in a logical manner (Kothari, 2014). Research methodology is the process that will be used to collect information and data for the purpose of solving a research problem (Mugenda & Mugenda, 2013). The methodology may include publication research, interviews, surveys and other research techniques (Cornwell & Daly, 2015). This chapter explores the methodology that was used in this study clearly explaining the research design, the target population, sampling frame, sampling procedures, data collection techniques and data analysis.

3.2 Research Design

The researcher adopted a survey research design. According to Franklin (2012) a survey research is carried out so as to establish the relationship between real life phenomena in a true social-economic setting in a given society. The research involved a study where questionnaires with structured questions were employed based on qualitative and quantitative research methods. Survey involves statistical data analysis and is a popular and common strategy in business and management research (Mugenda & Mugenda, 2003). The central feature of a survey is that it allows the collection of a small amount of data in a standardized form from a relatively large number of individuals from a known population.

3.3 Target Population

According to Kothari (2004), the target population is the whole set of available objects for which the data obtained can be used to make conclusions and get relevant information that will be used in the research. The research targeted proper customs officers of different ranks,

clearing agents and transporters who were 1100 in number and were involved in the transit operations at the Inland Container Depot, Embakasi, Kenya.

Table 3.1: Target Population

Stakeholders	Target Population
Customs officers	100
Transport operators	200
Clearing and forwarding agents	800
Total	**1100**

3.4 Sampling Frame

According to Schindler and Cooper (2001), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. Generally, sampling frames can be divided into two types, list and non-list. The researcher used a list sampling frame. This consisted of the staff register of the customs department at the ICD Embakasi; a list of all clearing agents and transporters as held by the commissioner of customs.

3.5 Sample and Sampling Technique

According to Parkash (1985), a sample is a finite part of a statistical population whose properties are identified for research. The researcher's sample size of 220 respondents was drawn from the population. With this, questionnaires were distributed to each group of the three respondents namely: proper customs officers, clearing agents and transporters. The researcher used a non-probability sampling technique specifically the purposive sampling technique to select respondents from the above named groups at the ICD, Embakasi. Purposive sampling was used to select respondents based on the fact that they have expertise in the area being researched. Thus the sample size for the study is outline below:

Table 3.2: Sample size

Stakeholders	Target Population	Percentage of sample	Sample size
Customs officers	100	20	20
Transport operators	200	20	40
Clearing and forwarding agents	800	20	160
Total	**1100**	**20**	**220**

3.6 Data Collection instrument

Kothari (2014) notes that there are two major sources of data collection; primary and secondary data. This study utilized primary data. Data was collected using questionnaires. A questionnaire is a collection of questions to which a research subject is expected to respond. Mugenda & Mugenda (2013). They were designed to contain simple questions based on the set objectives of the study. This instrument of data collection was used because it is cost friendly and takes less time to collect data. Also, its interpretation and analyzing the data becomes easy. It also gave the respondent confidentiality while filling the questions.

3.7 Data Collection Procedure

The questionnaires had one part which obtained primary data of the respondent's opinions and perceptions on issues under investigation. Each respondent received the same set of questions in exactly the same way using drop and pick method. The questionnaires were delivered personally and the purpose of the study and importance explained to the respondent.

3.8. Research instrument piloting

It is important that all instruments are tested before the actual survey is conducted (Kothari, 2013). This is done to ensure that the questionnaire is clear to respondents and can be completed in the way the researcher wishes (Cornwell & Daly, 2015). Pilot testing is an

activity that helped this study in determining whether there are errors, limitations, or other weaknesses within the design and allowed the researcher to make necessary adjustments and corrections before embarking on the survey (Mugenda & Mugenda, 2013).

3.8.1 Validity Test

According to Mugenda and Mugenda (2003), validity is the accuracy and meaningfulness of inferences, which are based on the research results. In order to test and enhance the validity of the questionnaire, the researcher purposively selected one respondent from each of the subgroups involved in the study and discussed the contents of the questionnaire. This aimed at assessing the content validity of the questionnaire. The comments from each respondents were reviewed and incorporated to enhance the validity of the questionnaire.

3.8.2 Reliability

Reliability is the consistency of a set of measurement items (Cronbach, 1951). Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. A measure is considered reliable if a person's score on the same test given twice is similar. 20 questionnaires were piloted at JKIA using 20 respondents who were purposively chosen, and the results coded into SPSS which was used to generate the reliability coefficient. The researcher used Cronbach's Alpha (α) generated by SPSS. The recommended value of 0.7 was used as a cut–off of reliability for this study.

3.9 Data Analysis and Presentation

The researcher edited, coded, classified and sorted data upon collection. The collected data was carefully analyzed through statistical method of frequencies and percentages and presented in form of tables and descriptive literature for ease of interpretation and discussion

according to the set objectives and research questions of the study. This made it easier for the researcher to compare and interpret data finding appropriately. The researcher applied statistical package for social sciences version 23 (IBM SPSS V.23) as a tool of study. The researcher also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. Regression analysis refers to the statistical processes used to estimate relationships among dependent and independent variables in a study; Scott (2013).

The regression model used was:

$\boldsymbol{y = \beta_{0+}\beta_1 x_{1+} \beta_2 x_{2+}\beta_3 x_{3+}\varepsilon}$ **where:**

$\boldsymbol{y}$= Effectiveness of internal customs
Systems on transit trade (Dependent Variable).

$\boldsymbol{\beta_0}$ =Constant of the equation.

$\boldsymbol{\beta_1}$,$\boldsymbol{\beta_2}$ and $\boldsymbol{\beta_3}$ =Regression Co-efficient.

$\boldsymbol{x}$ =Independent variables.

$\boldsymbol{x_1}$ =Physical internal control systems.

$\boldsymbol{x_2}$ =Staff capacity.

$\boldsymbol{x_3}$ = Technology adoption.

ε= Error term.

CHAPTER FOUR

RESEARCH FINDING AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the primary data collected from the respondents. The purpose of the study was to evaluate the factors influencing transit trade traffic at the inland container depot Embakasi, Nairobi. Findings from the study showed that internal control systems were the key determinants influencing transit trade traffic at the inland container depot Embakasi, Nairobi.

4.2 Response Rate

The researcher administered a total of 220 questionnaires and 185 were completed and returned. This represents a response rate of 84.1% as shown in Table 4.1. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a response rate of 60% is good and a response rate of 70% and over is excellent. This response rate was excellent to allow the researcher to continue with the analysis.

Table 4.1: Response rate

Category	Frequency	Percentage
Completed and returned	185	84.1
Not returned	35	15.9
Total	**220**	**100**

4.3 Descriptive Analysis

4.3.1 Physical Internal Control Systems and Transit Trade

The respondents were asked to gauge the degree of influence, related with various aspects of Physical Internal Control Systems, on transit trade traffic. From the findings, the respondents agreed to a greater extent with a percentage of 66.7% that customs seals and fastenings, which are used as physical means to secure goods on transit, influenced transit trade traffic at the ICD Embakasi. Also, the respondents agreed to a considerable degree with a percentage of 55.1% that a guarantee system, used to cover the payment of import duties and taxes in cases where transit trade infractions are likely to take place, influence transit trade at the ICD Embakasi. Furthermore, gazetted routes, used to transport transit goods, heavily influence transit trade traffic at the ICD Embakasi as shown by a percentage of 69.3%. Respondents also agreed that to a great extent an operational system, used for monitoring Customs document flow of a transit operation, influence transit trade traffic at the ICD Embakasi as shown by a percentage of 62.9%. Also, the respondents, to a higher degree, agreed with a percentage of 69.2% that the rapid response unit, used to enforce physical internal controls by the customs department, influence transit trade traffic at the ICD Embakasi. The rest of the results have been summarized in the table below.

Table 4.2: Information on Physical Internal Control Systems at Customs department

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Physical Internal Control Systems	1	2	3	4	5
To what extent have customs seals and fastenings, which are used as physical means to secure goods on transit, influence transit trade traffic at the ICD Embakasi?	14.1%	19.2%	0%	37.2%	29.5%
To what extent does a guarantee system, used to cover the payment of import duties and taxes in cases where transit infractions are likely to take place, influence transit trade traffic at the ICD Embakasi?	16.7%	17.9%	10.3%	17.9%	37.2%
To what extent do gazetted routes, used to transport transit goods, influence transit trade traffic at the ICD Embakasi?	11.5%	12.8%	6.4%	10.3%	59.0%
To what extent does an operational system, used for monitoring Customs document flow of a transit operation, influence transit trade traffic at the ICD Embakasi? .	14.1%	23.1%	0%	10.3%	52.6%
To what extent does the rapid response unit, used to enforce physical internal controls by the customs department, influence transit trade traffic at the ICD Embakasi?	6.4%	19.2%	5.1%	20.5%	48.7%

4.3.2 Staff Capacity and Transit Trade

The respondents were asked to gauge the level of influence, related with various aspects of Staff Capacity. From the findings, the respondents agreed with a percentage of 79.5% that integrity tests, undergone by customs staff at the ICD before being engaged, heavily influence transit trade traffic at the ICD Embakasi. Also the respondents agreed, to a larger extent, with a percentage of 89.7% that institutional skills, such as the use of customs database and e-seals for transit traffic management, influence transit trade at the ICD Embakasi. Furthermore, the respondents agreed that to a greater extent capacity building programs, undertaken by customs staff on transit trade management, influence transit trade

traffic at the ICD Embakasi as shown by a percentage of 79.5%. However, the respondents disagreed to a considerable degree that a sufficient number of customs staff, who are competent in transit trade management, influence transit trade traffic at the ICD Embakasi as shown by a percentage of 58.8%. Also the respondents agreed heavily with a percentage of 69.0% that a sufficient customs budgetary allocations, for implementing the basic principles applicable to a transit regime, influence transit trade traffic at the ICD Embakasi. The rest of the results have been summarized in the table below.

Table 4.3: Information on Staff Capacity at the Customs Department
Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Staff Capacity	1	2	3	4	5
To what extent do integrity tests, undergone by customs staff at the ICD before being engaged, influence transit trade traffic at the ICD Embakasi?	0%	10.3%	10.3%	38.5%	41.0%
To what extent do institutional skills, such as the use of customs database and e-seals for transit fraud management, influence transit trade traffic at the ICD Embakasi?	0%	10.3%	0%	28.2%	61.5%
To what extent do capacity building programs, undertaken by customs staff on transit trade management, influence transit trade traffic at the ICD Embakasi?	0%	0%	20.5%	59.0%	20.5%
To what extent does a sufficient number of customs staff, who are competent in transit trade management, influence transit trade traffic at the ICD Embakasi?	38.5%	20.3%	20.8%	20.5%	0%
To what extent does a sufficient customs budgetary allocations, for implementing the basic principles applicable to a transit regime, influence transit trade traffic at the ICD Embakasi?	5%	15.5%	10.5%	40.8%	28.2%

4.3.3 Technology Adoption and Transit Trade.

The respondents were asked to indicate their extent of agreement with various aspects Technology Adoption. From the findings, the respondents agreed with a percentage of 90% that an electronic system, for the processing of electronic copies of transit documents, heavily influences transit trade traffic at the ICD Embakasi. Also, the respondents agreed to a great extent with a percentage of 84.7% that a tamper proof electronic seals, used to ensure the physical integrity of goods on transit, influences transit trade traffic at the ICD Embakasi. Furthermore, the respondents agreed to a very high degree that an electronic Cargo Tracking System (ECTS), for real time monitoring and tracking of transit operation, influences transit trade traffic at the ICD Embakasi as shown by a percentage of 92.3%.The respondents also agreed to a considerable extent with a percentage of 71.8% that an Electronic Data Interchange system, for information sharing among customs offices and administrations, influences transit trade traffic at the ICD Embakasi. Finally; respondents also agreed that the ease of use of the transit technology influences transit trade traffic to a great extent at the ICD Embakasi as shown by a percentage of 80%. The rest of the results have been summarized in the table below.

Table 4.4: Information on Technology Adoption at the Customs Department. Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Technology Adoption	5	4	3	2	1
To what extent does an electronic system, for the processing of electronic copies of transit documents, influence transit trade traffic at the ICD Embakasi?	0%	2.6%	7.4%	30.8%	59.2%
To what extent does a tamper proof electronic seals, used to ensure the physical integrity of goods on transit, influence transit trade traffic at the ICD Embakasi?	0%	7.0%	8.3%	59.0%	25.7%
To what extent does an electronic Cargo Tracking System (ECTS), for real time monitoring and tracking of transit operation, influence transit trade traffic at the ICD Embakasi?	0%	7.7%	0%	20.5%	71.8%
To what extent does an Electronic Data Interchange system, for information sharing among customs offices and administrations, influence transit trade traffic at the ICD Embakasi?	0%	8.2%	20%	10.3%	61.5%
To what extent does the ease of use of the transit technology influence transit trade traffic at the ICD Embakasi?	7.9%	12.1%	0%	31.3%	48.7%

4.3.4 Effectiveness of Internal Control Systems

The respondents were asked to indicate their extent of agreement with various aspects on the effectiveness of internal control systems. From the findings, the respondents agreed to a great extent with a percentage of 78% that there has been a reduction in the transit overhead transaction cost due to effective customs internal control systems in place, the findings also shows that respondents disagreed to a considerable extent with a percentage of 61.2% that transit goods are diverted into the domestic market, without the payment of import duties and taxes, due to ineffective customs internal controls. Also, the respondents disagreed heavily with a percentage of 71.5% that transit goods are mis-described, to avoid quotas restrictions, due to ineffective internal controls systems in place. Furthermore, the respondents agreed to a

great extent with a percentage of 78.5% that transit goods release time has been improved due to effective internal control systems put in place. They also disagreed to a greater degree that transit goods are smuggled back into the domestic market, after the completion of a transit operation without payment of local taxes, due to ineffective internal controls systems in place as shown by a percentage of 61.3%. The respondents also heavily disagreed with a percentage of 71.8% that transit goods are mis-declared, to avoid close monitoring, due to ineffective internal control systems put in place. Finally; respondents also disagreed to a great extent that transit goods are undervalued, with an intention to pay less import duty and taxes on diversion of the goods into the local market, due to ineffective internal controls systems in place as shown by a percentage of 61.3%. The rest of the results have been summarized in the table below.

Table 4.5: Information on effectiveness of Internal Control Systems at ICD Embakasi.

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Effectiveness of Internal Control Systems	5	4	3	2	1
There has been a reduction in the transit overhead transaction cost due to effective customs internal control systems in place	5.4%	8.7%	7.9	45.7%	32.3%
Transit goods are diverted into the domestic market, without the payment of import duties and taxes, due to ineffective customs internal control systems in place.	4.0%	6.3%	28.5%	51.2%	10.0%
Transit goods are Mis-described, to avoid quotas restrictions, due to ineffective customs internal control systems in place.	8.9%	9.1%	10.5%	61.5%	10%
Transit goods release time has been improved due to effective internal control systems put in place	7.2%	10.1%	4.2%	31.2%	47.3%
Transit goods are smuggled back into the domestic market, after the completion of a transit operation without payment of local taxes, due to ineffective customs internal control systems in place.	10.0%	18.2%	10.5%	51.0%	10.3%
Transit goods are Mis-declared, to avoid close monitoring, due to ineffective customs internal control systems in place.	0%	17.9%	10.3%	31.8%	40.0%
Transit goods are undervalued, with an intention to pay less import duty and taxes on diversion of the goods into the local market, due to ineffective customs internal control systems in place.	5%	15.3%	17.9%	51.5%	10.3%

4.4 Inferential Analysis

4.4.1 Correlation Analysis

The study undertook a correlation matrix analysis to examine the association between customs internal control systems and transit trade traffic at the ICD Embakasi in Kenya. Table 4.6 presents the Correlation Matrix Analysis on the Influence of customs internal control systems on Transit trade traffic. The correlation factor ranged from $-1 \leq 0 \geq 1$. The

acceptance confidence level was 95% or significance level of 0.05. The study conducted a Pearson Moment Correlation analysis which is represented by r for all the study variables to establish the association between physical internal controls, staff capacity, technology adoption and transit trade traffic.

The strength of association between Physical Internal Controls and Transit trade traffic was strong and positive (r = 0.752). The correlation was statistically significant P = 0.024< 0.05 at 95% confidence level. The strength of association between Staff Capacity and Transit trade traffic was strong and positive (r = 0.741). The correlation was statistically significant P = 0.019< 0.05 at 95% confidence level. The strength of association between Technology Adoption and Transit trade traffic was weak and positive (r =0.417). The correlation was statistically significant P =0.015< 0.05 at 95% confidence level.There was a positive and strong correlation (r = 0.687) between Physical Internal Controls and Staff Capacity. The correlation was statistically significant P = 0.039< 0.05 at 95% confidence level. The study found out that there existed a strong correlation between Physical Internal Controls and Technology Adoption (r = 0.629), The correlation was statistically significant P=0 .023< 0.05 at 95% confidence level.

Table 4.6: Correlation Matrix Analysis on Effects of Customs internal control Systems and Effectiveness of Internal Control Systems (transit trade traffic)

Effects of custom internal control systems on transit trade traffic.		Physical Internal Controls	Staff Capacity	Technology Adoption	Effectiveness of Internal Control Systems(transit trade traffic)
Physical Internal Controls	Pearson Correlation	1			
	Sig. (2-tailed)	0.03			
	N	185			
Staff Capacity	Pearson Correlation	0.687(*)	1		
	Sig. (2-tailed)	.039	.05		
	N	185	185		
Technology Adoption	Pearson Correlation	0.629(*)	0.614(*)	1	
	Sig. (2-tailed)	.023	.041	.003	
	N	185	185	185	
Effectiveness of Internal Control Systems(transit trade traffic)	Pearson Correlation	0.752(*)	0.741(*)	0.417(*)	1
	Sig. (2-tailed)	.024	.019	.015	.002
	N	185	185	185	185

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

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

4.4.2 Regression Analysis

A multiple linear regression analysis was performed to test the effect of the independent variables on the dependent variable. The average ratings for the three independent variables (physical internal controls, staff capacity and technology adoption) were used as the indicators for input into the regression model.

Table 4.7: Regression Model Parameters

Model	R	R Square	Adjusted R Square	Sig.
1	**.762[a]**	**.581**	**.545**	**.005**

a) Predictors: (Constant), Physical Internal Control, Staff Capacity and Technology Adoption
b) Productivity (Effectiveness of Internal Control Systems-transit trade traffic)

Results in Table 4.7 indicate that R^2 is significantly greater than zero at 0.581, its significance is backed up by the significance value in the ANOVA table which is 0.000<0.05 meaning that the test and regression are significant and thus implying that our predictors are able to account for a significant amount of variance in transit trade traffic showing the effectiveness of the internal controls adopted by customs in transit trade management. F (4,180) =8.79 P<0.001 R2 ⁼0.58. A variation of R^2 = 0.581 in dependent variable can be attributed to changes in independent variable as a 58.1% change in transit trade traffic attributed to changes in Physical Internal Control, Staff Capacity, Technology Adoption.

4.4.3 ANOVA

An ANOVA table is a test of whether the R^2 value in the model summary is significantly greater than zero. Result in Table 4.8 indicated that the total variance (46.853) was the difference into the variance which can be explained by the independent variables (Model) and the variance which was not explained by the independent variables (Error).

Table 4.8: Analysis of Variance of the Regression

Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	14.719	4	5.109	8.786	.000
Residual	32.134	180	.546		
Total	**46.853**	**184**			

a. Predictors: (Constant), Physical Internal Controls, Staff Capacity and Technology Adoption
b. Productivity (Effectiveness of Internal Control Systems-transit trade traffic)

The study established that there existed a significant goodness of fit of the model $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$. Based on the findings, in Table 4.8 the results indicated the $F_{Cal} = 8.786 > F_{Cri} = 2.2511$ at confidence level 95 % and significance is $0.000 < 0.05$.

4.4.4 Coefficient Analysis

This is a table that looks at each of the variables individually whether a given predictor was significant in its own right.

Table 4.9: Significance of Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	5.354	.756		5.534	.925
	Physical Internal Controls	$.482X_1$	.236	.289	2.534	.012
	Staff Capacity	$.891X_2$	.735	.276	6.862	.031
	Technology Adoption	$.634X_3$	.356	.427	4.852	.034

a. Predictors: (Constant), Physical Internal Controls, Staff Capacity and Technology Adoption

b. Productivity (Effectiveness of Internal Control Systems-transit trade traffic)

The established regression equation was:

$Y = 5.354 + 0.482X_1 + 0.891X_2 + 0.634X_3 + \varepsilon$

From the outcomes of regression in Table 4.9, the 5.354 was the constant that predicted productivity value (transit trade traffic in Kenya) when all customs control systems impact remained constant at zero (0). This meant that Kenya's transit fraud would be at 5,354, Physical Internal Controls, Staff Capacity and Technology Adoption at zero (0).

As we look at each of the predictors in the table and focus solely on the significance column which is the P value for variable under test that is physical internal control, staff capacity and technology adoption we realize that they are all significantly important for our study. After evaluation of each of the variables at an alpha of 0.05 the following were the results of analysis.

Physical Internal Controls had a P value of $0.012<0.05$ thus making this variable significant, this implies that this variable is a positively significant predictor of transit trade traffic thus manifesting the effectiveness of the internal control under study on transit trade at the ICD Embakasi. Staff Capacity with a $P=0.031$ is also a significant predictor of transit trade traffic manifesting its effectiveness on transit trade at the ICD Embakasi since the $P=0.031<0.05$. Technology adoption with $P=0.034$ is a significant predictor of transit trade traffic since the $P=0.034<0.05$ manifesting its influence on transit trade at the ICD Embakasi.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings involving the study variables, conclusions, recommendations and suggestions for future areas of research based on the objectives of the study.

5.2 Summary of the findings

5.2.1 Physical Internal Control Systems

The first objective of this study was to establish the influence of physical internal control system on transit trade traffic at the Customs department at ICD, Embakasi. The study established that physical internal control systems positively and strongly influences transit trade traffic and the variable is statistically significant, meaning an increase in the effectiveness of physical internal controls increases the quantity of transit trade traffic. The study also showed that the use of customs seals and fastenings as a means to physically secure goods on transit through the Kenyan territory greatly influences transit trade traffic. The study also established that the use of a guarantee system in Kenya that covers the payment of import duties and taxes in cases where transit infractions are likely to take place has a considerable influence on transit trade traffic and also that gazetted routes used in Kenya to transport transit goods plays a major role in mitigating transit trade traffic. Furthermore; the study established that an operational system in Kenya for monitoring Customs documents flow of a transit operation influences transit trade traffic. Lastly the rapid response unit, used to enforce physical internal controls by the customs department, influence transit trade traffic to great extent.

5.2.2 Staff capacity

The second objective of this study was to establish the influence of Staff capacity on transit trade traffic at the Customs department at ICD, Embakasi. The study established that Staff capacity positively and strongly influences transit trade traffic and it is statistically significant, meaning an increase in the quality and effectiveness of Staff capacity increases the quantity of transit trade traffic in Kenya. The study established that integrity tests, undergone by customs staff before being engaged, positively influences transit trade traffic at the ICD Embakasi. The study also established that institutional skills, such as the use of customs database and e-seals for transit traffic management, effectively increases transit trade traffic at the ICD Embakasi. Furthermore; the study established that capacity building programs, undertaken by customs staff on transit trade management, have lessened the burden of transit infractions at the ICD Embakasi. However, the study established that to a considerable degree a sufficient number of customs staff, who are competent in transit trade management, does not necessarily influence transit trade traffic at the ICD Embakasi. Finally, the study established that a sufficient customs budgetary allocations, for implementing the basic principles applicable to a transit regime, lessens transit infractions while at the same time increases transit traffic at the ICD Embakasi.

5.2.3 Technology Adoption

The third objective of this study was to establish the influence of Technology Adoption on transit trade traffic at the Customs department at ICD, Embakasi. The study established that Technology Adoption positively and weakly influences transit trade traffic which was rather strange and it is statistically significant, meaning an increase in the quality and effectiveness of Technology increases the quantity of transit trade traffic in Kenya, but in this case, it was to a lower extent. The study established that an electronic system, for the processing of electronic copies of transit documents, lessens transit infractions to a great extent at the ICD

Embakasi and also that a tamper proof electronic seals, used to ensure the physical integrity of goods on transit, to a larger degree influences transit trade traffic at the ICD Embakasi. The study also established that to a higher degree an electronic Cargo Tracking System (ECTS), for real time monitoring and tracking of transit operation, reduces greatly transit infractions while at the same time increasing transit traffic at the ICD Embakasi. Furthermore; the study established that an Electronic Data Interchange system, for information sharing among customs offices and administrations, negatively influences transit infractions meaning an increase in the quality of information shared leads to a decrease in transit infractions at the ICD Embakasi. Finally, the study established that the ease of use of the transit technology has reduced to a greater extent incidences of transit infractions and increased transit traffic at the ICD Embakasi.

5.2.4 Transit trade traffic.

Findings show that Customs Internal Control Systems that is physical internal controls and staff capacity positively and strongly influences and lessens transit infractions while at the same time increases transit trade traffic at the ICD Embakasi, this however is not true for technology adoption which has a weak correlation to transit trade traffic although the correlation is positive. Consequently, these variables improved customs compliance levels by bringing down the incidences of intentional non-compliance to a minimum. Finally, the study indicated that the customs internal control systems in place led to an improved customs release time, reduced overhead transaction costs and improvement in integrity rankings among officers handling transit traffic.

5.3 Conclusions

Based on the outcome of this study, the following conclusions were drawn; internal control systems had a significant impact on transit trade traffic at the ICD Embakasi. All internal control systems; Physical Internal Controls, Staff Capacity and Technology Adoption affect transit trade traffic jointly. They also save on time, cost and improve on compliance with transit traffic regulations governing transit goods clearance at ICD Embakasi and at border points, of importance to note is that technology adoption even though it has a positive relationship with transit trade traffic, the relationship is weak compared with physical internal control systems which has the a positive and strongest correlation with transit trade traffic followed by staff capacity which has a positive and strong influence. The application of appropriate internal control systems therefore had a significant effect on the transit trade traffic.

5.4 Recommendations

The study highly recommends that the Customs services department should pay detailed attention to the recommendations noted below so as to ensure that to a great extent possible the Customs internal control system responsible for management of transit trade traffic remains relevant in their specific roles.

5.4.1 Physical Internal Control Systems

The study recommends that customs department should carry out regular audits on the physical internal controls in place, dealing with transit traffic, to understand any readjustments that may be needed to increase the effectiveness of the system. The study also recommends the need to assess the internal control framework under which the physical internal controls are operating to understand its overall influence on the physical internal controls. Finally the study recommends that customs department should do away with

bureaucratic inefficiencies related to transit traffic such as inconsistent controls which include producing physical transit documents, multiple times, all along the way for the same goods.

5.4.2 Staff capacity

The study recommends that customs officers should be adequately trained and properly vetted before being engaged in the management of transit trade traffic. The study also recommends the need for increased Customs budgetary allocation to fund the implementation of the basic principles applicable to a transit operation and to properly remunerate customs officers dealing with transit traffic. Finally, in order to improve the quality of staff capacity the study recommends the strengthening of staff capacity building programs by anchoring them within the customs legal framework.

5.4.3 Technology Adoption

The study recommends that customs department should strive to install transit technology fully, that is easy to use and up to date with international standards for easy integration in the future. The study also recommends that customs department should further invesigate the cause of weak and low influence of installed technology despite massive investments in transit traffic technology. Also the study recommends that there should be enhanced information sharing using digital tools and better compensation for informants involved in the chain of intelligence gathering. Finally, the study recommends a generational transition in the customs department from the “analogue generation” to the “digital generation” in the operational front so as to enable the customs department to gain more where investments in technology are made within the cargo tracking unit.

5.5 Areas for Further Research

This study was conducted at the Kenya Revenue Authority alone. It is recommended that further studies be conducted in other Revenue Authorities within East African Community

and consider other factors that might influence transit trade traffic management such as the use of non-intrusive technology such as scanning and the Customs legal framework in place to handle transit traffic. Future research should also include larger sample size to analyze the depth of relationships among concerned variables. The researcher used quantitative research and recommends that future researchers can adopt other research instruments to investigate the relationship further. Finally, the researcher recommends that the customs department should further investigate the cause of weak and low influence of installed technology despite massive investments in transit traffic technology.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER TO RESPONDENTS

JKUAT

School of Business.

Dear Respondent,

RE: DATA COLLECTION

I am a student pursuing a Post Graduate Diploma (PGD) in Customs administration at the Kenya School of Revenue Administration (KESRA). Currently, I am undertaking a research study on "**FACTORS INFLUENCING TRANSIT TRADE AT THE INLAND CONTAINER DEPOT EMBAKASI, NAIROBI.''**, in partial fulfillment of the requirements for the award of Post Graduate Diploma (PGD) in Customs administration. You have been selected to participate in the survey and the researcher would highly appreciate if you assist him by responding to all questions as completely, correctly and honestly as possible. It is solely for academic purposes. Your opinions, responses and views are very important to this study and will be completely confidential. No respondent will be identified.

Thank you very much for your participation, cooperation and understanding.

Yours Sincerely,

Byron Okello.

APPENDIX II: QUESTIONNAIRE

Please fill in the questionnaire by answering all the questions that are given as instructed. Kindly note that all the information provided shall be treated with high level of confidentiality and shall only be used for the purpose of this research. Please do not write your name anywhere on the questionnaire. Thank you as you take your time to fill up this questionnaire. (Tick appropriately)

SECTION A: PHYSICAL INTERNAL CONTROL SYSTEMS AND TRANSIT TRADE.

1. Please rate the degree of influence of physical internal control systems on transit trade traffic at the ICD customs department, Nairobi County?

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Factor	**1**	**2**	**3**	**4**	**5**
To what extent have customs seals and fastenings, which are used as physical means to secure goods on transit, influence transit trade traffic at the ICD Embakasi?					
To what extent does a guarantee system, used to cover the payment of import duties and taxes in cases where transit infractions are likely to take place, influence transit trade traffic at the ICD Embakasi?					
To what extent do gazetted routes, used to transport transit goods, influence transit trade traffic at the ICD Embakasi?					
To what extent does an operational system, used for monitoring Customs document flow of a transit procedure, influence transit trade traffic at the ICD Embakasi? .					
To what extent does the rapid response unit, used to enforce physical internal controls by the customs department, influence transit trade traffic at the ICD Embakasi?					

SECTION B: STAFF CAPACITY AND TRANSIT TRADE.

2. Please rate the degree of influence of staff capacity on transit trade traffic at the ICD customs department, Nairobi County?

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Factor	1	2	3	4	5
To what extent do integrity tests, undergone by customs staff before being engaged, influence transit trade traffic at the ICD Embakasi?					
To what extent do institutional skills, such as the use of customs database for transit trade management, influence transit trade traffic at the ICD Embakasi?					
To what extent do regular capacity building programs, undertaken by customs staff on transit trade management, influence transit trade traffic at the ICD Embakasi?					
To what extent does a sufficient number of customs staff, who are competent in transit trade management, influence transit trade traffic at the ICD Embakasi?					
To what extent does a sufficient customs budgetary allocations, for implementing the basic principles applicable to a transit regime, influence transit trade traffic at the ICD Embakasi?					

SECTION C: "TECHNOLOGY ADOPTION" AND TRANSIT TRADE.

3 Please rate the degree of influence of "Technology Adoption" on transit trade traffic at the ICD customs department, Nairobi County?

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Factor	1	2	3	4	5
To what extent does an electronic system, for the processing of electronic copies of transit documents, influence transit trade traffic at the ICD Embakasi?					
To what extent does a tamper proof electronic seals, used to ensure the physical integrity of goods on transit, influence transit trade traffic at the ICD Embakasi?					
To what extent does an electronic Cargo Tracking System (ECTS), for real time monitoring and tracking of transit operation, influence transit trade traffic at the ICD Embakasi?					
To what extent does an Electronic Data Interchange system, for information sharing among customs offices and administrations, influence transit trade traffic at the ICD Embakasi?					
To what extent does the ease of use of the transit technology influence transit trade traffic at the ICD Embakasi?					

SECTION D: <u>EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS</u>.

4. Please rate the extent to which you agree with the following statement concerning the effectiveness of customs internal control systems at the ICD customs department, Nairobi?

Scale. 1-Very Low; 2-Low; 3-Average; 4-High and 5-Very High

Factor	1	2	3	4	5
There has been a reduction in the transit overhead transaction cost due to effective customs internal control systems in place					
Transit goods are diverted into the domestic market, without the payment of import duties and taxes, due to ineffective internal controls systems in place.					
Transit goods are mis-described, to avoid quota restrictions, due to ineffective internal controls systems in place.					
Transit goods release time has been improved due to effective internal control systems put in place					
Transit goods are smuggled back into the domestic market, after the completion of a transit operation without payment of local taxes, due to ineffective internal controls systems in place.					
Transit goods are mis-declared, to avoid close monitoring, due to ineffective internal controls systems in place.					
Transit goods are undervalued, with an intention to pay less import duty and taxes on diversion of the goods into the local market, due to ineffective internal controls systems in place.					

THANK YOU FOR YOUR PARTICIPATION.