

EFFECT OF POST-CLEARANCE AUDIT ON CUSTOMS REVENUE COLLECTION

A CASE OF CUSTOMS SERVICE DEPARTMENT IN MOMBASA PORT

KENYA

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DECLARATION

I declare that this Research Project report is my original work and has not been presented to any other institution or university for a Post Graduate Diploma Award.

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This Research Project report has been submitted for examination with my approval as the student supervisor.

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DEDICATION

I dedicate this work to my family members who sacrificed to support me financially, socially and morally in order to finish my course and the entire management of Kenya School of Revenue in the department of customs.

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ABSTRACT

Revenue collection relates to the actions of a government agency to collect from the public outstanding financial obligations. Revenue can come from a variety of sources such as taxes, fees for licenses, fines or the use of state facilities. It involves the process by which government raise revenue from its people. Generally taxes are either collected by the central government or the government can give license to an agent who can collect on its behalf. This study focused mainly on the effect of post-clearance audit on customs revenue collection and the effectiveness of different methods of revenue collection in Kenya. It looked at four specific objectives; determining the effect of selection of audit cases, establishing the effect of the field work, and determining the relationship between post audit standards and revenue collection. It was informed by three theories which are related to revenue and post clearance audit namely; the Policeman Theory, the Lending Credibility Theory, and Theory of Inspired Confidence. The target population of this study was 1076 clearing and forwarding officers and staff working in the customs service department in Mombasa. The study used both primary data by use of questionnaire and secondary data obtained from relevant materials which represent academic research. The research instrument for this research was a closed structure questionnaire. Quantitative data were gathered using questionnaires and they were processed using the SPSS version 22. Data were coded and entered into SPSS from which correlation analysis was used to evaluate the collected information. The finding of the study revealed that selection of audit, field work and post audit standards affects revenue collection and the study was statistically significant. The study recommends that on post audit standards KRA should put more emphasis through Post audit standard since it is an ineffective way to increase compliance. The study suggests the need for more research to find out why Kenya's traders are clearing up none-custom and increasing tax evasion activities.

LIST OF ABBREVIATIONS AND ACRONYMS

GATT	:	General Agreement on Tariffs and Trade
PCA	:	Post Clearance Audit
TFA	:	Trade Facilitation Agreement
RKC	:	Revised Kyoto Convention
WCO	:	World Customs Organization
KRA	:	Kenya Revenue Authority
CFS	:	Container Freight Station

DEFINITION OF TERMS

Authorized Economic Operator- A party engaged in the global movement of products in whatever function authorized by or on behalf of a national customs administration as meeting the established safety norms of the supply chain (Blackhurst, et al., 2015). AEOs include, but are not limited to, importers, exporters, clearing agents / brokers, manufacturers, carriers / transporters / distributors, terminal operators / CFS, airports, insurance / banks, among others.

Post-Clearance Audit- Is the verification, review or audit of customs declarations by examining books, documents, systems or other documents retained by traders or their agents after the products have been "released" (Secretariat, 2018).

Revenue Collection- All amounts obtained from sources outside the public organization (such as taxes and/or charges) (Buabeng, et al., 2019).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Implementing the post-WWII General Tariff and Trade Agreement (GATT) marked the beginning of the new age of worldwide trade (Clark, 2017). Following the disastrous legislation of the 1930s, since the introduction of the GATT, the world economy has seen significant rises in trade (Brenner, 2003). Recently, World Trade Organization members effectively negotiated the Trade Facilitation Agreement (TFA), also known as the "Bali Package," in support of the worldwide recovery from the 2008 economic crisis (Lloyd, 2016). This was the first significant success in global trade negotiations since the Doha Round began in 2001.

The TFA of the World Trade Organization, which entered into force in February 2017, focuses primarily on administrative customs procedures to accelerate the motion, release and clearance of products. The arrangement also seeks to improve collaboration between customs and other officials in order to facilitate the motion of products more effectively. The post-clearance audit (PCA) (Antkiewicz & Whalley, 2011) is one of these procedures.

Post-clearance audit (PCA) consists of verifying, reviewing or auditing customs declarations by examining books, documents, systems or other documents retained by traders or their agents after the products have been "released" from customs control. Moving border management organizations from a purely transaction-based method to an audit-based strategy (Mafurutu, 2015) is a key control methodology to promote the flow of products through a risk-based selection mechanism. Prior to the negotiation of the WTO TFA, post-clearance audit was receiving attention from customs and border management administrations around the world.

The concept of post-clearance audit is not new; various national administrations have been using these types of systems in one form or another for over 30 years (Clark, 2017). The approach to post-clearance audit has evolved over the years and, with the entering into force of the Revised Kyoto Convention (RKC) on February 3, 2006, a greater focus on modernizing and improving customs processes in border management administrations developed. The RKC laid the foundation for customs and border administrations internationally to develop comprehensive and transparent legislation to facilitate international trade (Kwikiriza, 2016).

This was to be accomplished by increasing international harmonization of customs processes and fostering a range of trade facilitative activities by encouraging the use of modern technology, implementing risk management and audit-based controls as well as coordinating with other border agencies and partnering with traders, to name a few (Tuomisto, et al., 2018). The driving philosophy behind post-clearance audit is that by using resources to conduct reviews, verifications and audits after the goods have been released from customs, following a risk-based sampling process, border administrations can direct resources to areas of highest risk rather than attempting to inspect every shipment (Clark, 2017). As a result, customs administrations are made more effective in allocating their limited resources and at the same time facilitating the movement of legal trade (Pavlenko, et al., 2019).

Post-clearance audit is a key requirement for a modern customs administration (Biljan, & Trajkov 2016). By using PCA, inspection at the border requires fewer resources, freeing up funds for other significant job on the border. PCA is critical in decreasing both advanced and developing countries ' income leakage (Mafurutu, 2015). The greater the reliance on customs duties as a source of revenue the larger the return on investment can be for the

administration. However, an efficient PCA system can considerably benefit even nations with comparatively low duty levels (Biljan & Trajkov 2016). The difficulties facing developing and developed nations are primarily related to resources.

Border management agencies facing increasingly complex issues such as illegal migration, security, contraband, antiterrorism and illegal goods smuggling have a challenge to find resources to support effective PCA (Mafurutu, 2015). Regardless of PCA's return on investment, too often too few tools, too little training, underdeveloped or non-existent schemes are available (Clark, 2017). A well-developed, robust post-clearance audit program can be a critical instrument for managing legal trade and can provide significant intelligence on trading community functioning while at the same moment improving government revenue (Mafurutu, 2015).

1.1.1 Revenue Collection

Collection of revenue generally relates to the actions of a government agency to collect from the public outstanding financial obligations (Delmon, 2017). Revenue could come from a variety of sources: taxes, fees for licenses, fines or the use of state facilities. According to Moore & Prichard, (2017) it is the process by which government raise revenue from its people. Tax can be collected by the central government or the government can give license to an agent who can collect on its behalf (Moore & Prichard, 2017).

Nasution, (2017) shows that the collection of income is very essential for any state in the globe because it allows the government to obtain assets that are not responsible to debt and used by the government to create its economy. Revenue gathering in Kenya, however, has not always been as efficient as it should be. Many variables attribute ineffectiveness. Hassan, et al. (2016) claims that variables such as levels of compliance and tax rates have a major administrative impact on income collection. Inflation and foreign direct investment

also affect income collection, although to some extent owing to differing market forces they are always beyond administrative control (Piore, 2017). The research proposes that the government launch tax compliance campaigns to raise awareness among people about the significance of tax to a nation's existence and self-support.

KRA is required to collect taxes from staff, employers, companies, corporations and many more in Kenya (Karanja, 2018). The Kenya Revenue Authority (KRA) netted Sh1.365 trillion to June in 2016/2017 financial year, against a target of Sh1.431 trillion. The weakest growth was recorded in manufacturing and electrical power generation, the latter being attributed to large investment deduction claims by electricity generating companies. Pay-As-You-Earn, the tax on formal employees, also dipped by Sh2.5 billion after the Government cushioned tax payers by expanding tax bands (Martin, 2018).

Over time, Kenya has shifted from a low tax burden to a high tax burden nation, yet the nation faces the apparent need for more tax revenue to preserve government facilities (Hallsworth, et al., 2017). The key function of taxes has resulted in a number of revenue collection research being conducted (Hallsworth, et al., 2017). Since revenue collection in Kenya has not always been as efficient as it should be despite a number of research, this research is therefore conducted to determine the impact of post-approval audits on customs revenue collection in Kenya.

1.1.2 Global Perspective on Revenue Collection

Henry Addington abolished the first income tax in Britain in 1802, reintroducing it the following year but referring to it as a contribution of revenues from estate, professions, trades and offices' (Stebbing, 2016). Although the maximum rate was set at 5 per cent, as more people were qualified to pay it, it resulted to a 50 per cent rise in income. However, it

was so controversial that it was denounced by the House of Commons for 400 requests, and it was abolished in 1816.

Initiatives such as excise duties on the export of wool (1203) or wines (1275) and the Poor Law Tax in 1572 gathered cash from the local residents of an region to help the poor (Gwaindepi, & Siebrits, 2017). A land tax was implemented in 1692 and was based on rural and urban land / property rental values and dimensions. This tax was paid by the wealthy: company property owners, traders, shopkeepers and innkeepers, and for every pound was 2-4 shillings (Merritt, 2017). It was managed by unpaid local commissioners who were generally modest-meaning local people like landowners (Gwaindepi & Siebrits, 2017).

Income tax was seen throughout the 18th and 19th centuries as an unacceptable governmental intrusion into the private affairs of people and was even a threat to Bird's personal freedom (Pollan, 2018). The prime minister who introduced it, William Pitt the Younger, was strongly affected by the economist Adam Smith but also required the additional income to finance the early 1700's war against revolutionary France (Pollan, 2018). It was thought that paying this tax to finance the Napoleonic Wars was the 'patriotic obligation' of every wealthy citizen, but it was also thought to be a temporary measure that would be abolished as quickly as the war was won. In the 1799 Income Tax Bill, it was set at 1%-10% for those who earn £ 60-£200 and a standard 10% for those who earn more than £ 200 a year.

Federal, state (Länder) and municipalities (Städte / Gemeinden) levy taxes in Germany (Lavín, & Keyzer, 2017). There are many direct and indirect taxes in Germany; the most important are income tax and VAT. In the German Constitution (Grundgesetz), which sets out the fundamental principles governing tax law, the legal basis for taxation is created. The federal government and the states decide most of the taxation, some are assigned

exclusively at the federal level (customs), some are assigned to the states (excise taxes), and counties and municipalities can enact their own tax legislation (Brownlee, 2016). In reality, 95 percent of all taxes are enforced at the federal level, despite the division of tax law authority.

Citizens obtain tax revenue from the state at the federal level in the form of individual income tax, property sales taxes and capital gains (Thuronyi & Brooks, 2016). Various deductions can decrease the amount of federal tax liability and mitigate various child allowances. If they have certain types of income in Germany, some non-residents in Germany are liable. In Germany, formal and informal companies are generally liable for taxation, with certain exceptions, such as charitable organizations and religious organizations, goods and services created in Germany, are subjected to VAT under EU regulations, with these kind of exemptions (Khorin, et al., 2018). Certain forms of tax income include land sales, inheritance and gift taxes, capital gains, aviation taxes and motor vehicle taxes.

1.1.3 Regional Perspective on Revenue collection

Ability to generate tax revenues, also known fiscal power, is a key aspect of the functioning of any government (Alt, 2018). To be able to tax citizens and collect income efficiently is the backbone of state formation and survival. Second, improved fiscal flexibility means increased government access to the resources needed to deliver goods and services (King, D., 2016). African nations can increase only a tiny proportion of taxes. They typically raise between 10% and 20% of GDP. In high-income nations, the average is twice that, at 40% (Chaloupka, et al., 2019).

Sub-Saharan Africa faces a significant investment funding shortfall estimated at approximately \$230 billion a year over the next five years on average (Oyebanji, et al., 2019). This shortfall is due to low domestic savings levels, partially because, despite latest improvements, tax revenue collection continues to underperform. Indeed, the region's tax revenues (excluding those from the natural resource industry) rose from 11% of GDP in the early 2000s to about 15% in 2015 (Oyebanji, et al., 2019). Nevertheless, the ratio falls below the required level and stays below the OECD stage (24%) and other emerging and developing nations. In this brief, we create an analytical structure to guide our knowledge of the variables that still restrict the revenue collection of the region and discern the basic drivers of the rise over the previous few years.

In 2014, the Uganda Revenue Authority (URA) established the Public Sector Office (PSO) as a separate office to manage the affairs of government ministries, departments and agencies. Subsequently, the duties of the office were expanded to include the management of the affairs of politically influential individuals (Mergel, 2016). Within the first year of its operation, the PSO had increased revenue collections from government organizations by 194 per cent when compared to the previous year. The PSO is now the second largest contributor to domestic tax collection in Uganda, after the Large Taxpayers' Office. Its revenue share as a percentage of total domestic revenue collections grew from only 5 per cent in financial year 2014/15 to 17 per cent in 2016/17 (Saka, et al., 2018). Revenue collection process performance is facilitated by a number of factors including having a proficient team of revenue officials; having the support of top URA management; collaboration and coordination with other key government offices; support from high-ranking government officials; and the use of 'soft compliance' strategies such as organizing taxpayer workshops, making phone calls to relevant contact persons in government

organizations and sending emails with reminders of due dates for filing tax returns and paying taxes.

Africa has made some progress in raising non-resource tax revenues over the past two decades. The ratio of tax revenues excluding natural resource taxes and social contributions rose steadily from roughly 11 percent in the early 2000s to around 15 percent in 2015. Administrative and legislative reforms during the 1990s and 2000s have been important in improving revenue collection (Pogorletskiy, & Bashkirova, 2015). Reforms included the introduction of value-added tax in several countries, programs to improve taxpayer services, and the roll out of electronic filing systems (Lee, 2016). The creation of semiautonomous revenue agencies in several countries also improved non-resource tax mobilization (Lee, 2016). Elsewhere, depending on domestic conditions, countries have removed tax exemptions, revised investment codes, and implemented tax reforms for small businesses (Pogorletskiy, & Bashkirova, 2015). Despite these efforts, the ratio of tax revenues to GDP remains low. At around 15 percent, sub-Saharan Africa has one of the lowest ratios in the world, significantly below the 24 percent average in OECD countries.

In resource-intensive countries, non-resource tax revenues are especially small, pointing to greater scope for more income mobilization in these economies' non-resource industries (Beling et al., 2017). For instance, income from non-resource industries in Chad, Equatorial Guinea, and Nigeria is only about 5% or less of GDP (Gnangnon, & Brun, 2019). Excess dependence on resource revenue exacerbates the impact on these economies of declining commodity prices. On the other hand, Lesotho, Namibia, South Africa, and Swaziland were all more effective, with income collection similar to or even above the OECD average (Honda, et al., 2017).

1.1.4 Local Perspective on Revenue collection

A significant issue in tax and revenue collection was the development of efficient ways to collect revenue (Awitta, 2010). The emergence of new tools to help companies function more effectively impacts the collection of taxes and revenue. In its activities, KRA has undertaken comprehensive execution of different tax collection strategies (Ngeno, 2018). This was to considerably boost revenue collection across all departments. Implementation of innovative revenue collection strategies was intended to enhance its organizational structures, training, manpower planning, development of teamwork between management and employees, fresh reward management approaches, and adaptation of total quality management. There was no investigation into the impacts of different tax collection policies.

The Kenya Revenue Authority's Customs Services Department was set up by a Parliament Act in 1978 (Tarus, & Nyambura, 2015). In terms of manpower, income collection and countrywide operating network, it is the biggest of the four income agencies. Customs and Border Control Vision must be acknowledged worldwide as a contemporary customs administration that meets the requirements of the client of the 21st century (Adomavičiūtė, 2018). The Department's main role is to collect import duties as well as VAT. One of the significant changes to replace the traditional jeering branch audit was Post Clearance Audit (PCA).

In an effort to promote trade, Post Clearance Audit was implemented as a method that allows customs to check importers' declarations by reviewing their documents, books, company systems and other importers information at any moment within five years of import and export (Secretariat, 2018). At the same moment, it allows customs administrations to give streamlined processes (e.g. regular registration scheme) to trader

facilitation measures (KRA, 2014). Furthermore, with the growing quantity of International trade and market pressure, post-clearance inspections provide customs with another instrument to strengthen general regulation..

1.2 Statement of the Problem

Collection of revenue generally relates to the actions of a government agency to collect from the public outstanding financial obligations (Karimi, et al., 2017). Revenue could come from a variety of sources: taxes, fees for licenses, fines or the use of state facilities. According to Martin, (2018) it is the process by which government raise revenue from its people. Tax can be collected by the central government or the government can give license to an agent who can collect on its behalf. In order to improve the collection of revenue, the government has implemented a post-clearance audit scheme that not only lowers the burdens frequently connected with customs clearance, but also creates a user-friendly atmosphere for those taxpayers with excellent compliance documents and helps to reduce duty and tax evasion.

While globalization has led to a rise in trade volume and a corresponding increase in trade fraud and cross-border crime, present customs procedures and systems appear to compromise trade facilitation for revenue collection and enforcement (Levi, 2016). Given the significance of facilitating trade, customs must strike a balance between enforcing the law and facilitating trade. In an effort to promote trade, Post Clearance Audit is implemented as a method that allows customs to check importers ' declarations by reviewing their documents, books, company systems and other importers ' information within five years of import and export.

Kenya Revenue Authority has a number of literatures on revenue collection. For example, a study was conducted at the Kenya Revenue Authority in Nairobi on the effectiveness of revenue collection strategies (Awitta, 2010), while (Muthama, 2013) also conducted a study on effects of tax audit to revenue collection at Kenya Revenue Authority (Nyakamba, 2013). None of this research, however, outlines how revenue collection is influenced by post clearance audit. This research thus filled the gap by investigating the impact of post clearance audit on the collection of customs revenue.

1.3 Objectives of the study

1.3.1 General Objective of the study

The main objective of this study is to find out the effect of post clearance audit on customs revenue collection in Mombasa port Kenya

1.3.2 Specific Objectives

1. To determine the effect of selection of audit cases on revenue collection in Mombasa port Kenya
2. To establish the effect of the field work on revenue collection in Mombasa port Kenya
3. To determine the effect of post audit standards on revenue collection in Mombasa port Kenya

1.3.3 Research Questions

1. How does selection of audit cases affect revenue collection in Mombasa port Kenya?
2. How do field work operations affect revenue collection in Mombasa port Kenya?
3. How does a post audit standard affect revenue collection in Mombasa port Kenya?

1.4 Justification of the Study

The study established the effects of post clearance audit on revenue collection in Kenya Revenue Authority. The outcome of the study would be useful such that it emphasized the theories in place and added to theories the relationship between the two and it would also be used when coming up with policies for the government. The outcome would also help management to be able to come up with new policies to implement in revenue collection.

The outcome of the study would be useful to citizens in Kenya by knowing the relationship of revenue collection and post clearance audits and thus, place relevance on the procedure. The KRA staff would be able to place importance on the procedures in order to incorporate measures in their planning to ensure and that they contributed towards improved services. The study is also be able to add value to academics as it shows the practicability of theories and gives scholars a practical view of the theories. The data also helps scholars in their studies on the same topic.

1.5 Scope of the study

Study was limited to the customs department at Mombasa port, to the effect of selection of audit cases, field work, and the relationship between post audit standards and revenue collection. . The target population of this study was 1076 clearing and forwarding officers and staff working in the customs service department in Mombasa. The study covered two financial period that is, financial year 2017/2018 and financial year 2018/2019.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on revenue and post clearance audit in general and reviews the work that has been done by other scholars.

2.2 Theoretical Literature Review

Literature review refers to a search and evaluation of the available literature based on ones subject or the topic being studied, by reviewing literature relevance to the study topic. Literature review is important in the research in that it creates a sense of rapport with the audience or reader so that they can trust ones study. The following theories which are related to revenue and post clearance audit was used to guide the study; The Policeman Theory, The Lending Credibility Theory, and Theory of Inspired Confidence.

2.2.1 The Policeman Theory

The policeman Theory is an auditing theory developed by Awe, (2008) on assumptions that, once surveillance is performed on the structures at unknown moments, the location ought to be protected by the police and thus called it the theory of the police. Auditing is claimed to be solely about arithmetic precision and fraud prevention and detection mechanisms (Muhammad, et al., 2015). This theory makes it possible for the auditor to detect and deter organizational mistakes and fraud. It then contributes a surveillance factor to the audit theory.

The police theory argues an auditor is accountable for the search, discovery, and prevention of fraud (Eid, & Mahmoud, 2014). However, the audit focus has shifted towards verifying the reality and fairness of the accounts and providing reasonable certainty. The police

theory cannot completely clarify the function and purpose of the audit (Eid, & Mahmoud, 2014).

The police theory argues that it is the auditor's responsibility to search, detect and prevent fraud (Gottschalk, 2018). That was certainly the case in the early 20th century. More lately, however, the auditors' primary focus was to provide adequate certainty and check the financial statements' reality and fairness. However, the detection of fraud is still a hot topic in the discussion on the collection of government revenues, and typically after incidents where fraud in financial statements has been disclosed, the pressure on auditors to increase their duties in identifying fraud rises.

The theory of police is the most commonly held auditing theory until the 1940s (Mwangi, et al., 2017). An auditor operates under this hypothesis as a policeman focused on arithmetic precision and fraud prevention and detection. However, the theory appears to have lost much of its explanatory strength in the 1940s owing to its failure to explain the transition from auditing to 'verification of reality and fairness of economic statements' (Mwangi, et al., 2017).

2.2.2 The Lending Credibility Theory

The Lending Credibility Theory is derived from another government perception that adding credibility to the financial statements is the main function of auditing (Nwaobia, Luke, & Theophilus, 2016). This theory was developed by (Nwaobia, et al., 2016) who states that the management uses audited financial statements to improve stakeholder faith in the stewardship of management.

This auditing theory considers that the main role of auditing is to add legitimacy to the accounts. Munene, (2016) claims that audited financial reports may stimulate the

stakeholder confidence in the stewardship of management, to ensure that financial statements are fair; an independent person would have to go through the statement and then produce a report. Shareholders and stakeholders have been claimed to trust the auditor's report and feel safe.

Nwaobia, et al., (2016) claims that the concept of lending credibility indicates that the main role of the audit is to give the financial statements legitimacy. In this perspective, the auditor's selling point service to customers is credibility. It is considered that audited financial statements have components that boost the trust of consumers of financial statements in the statistics submitted by management. According to Ajao, Olamide, & AyodejiTemitope, (2016), the inspired trust concept, also known as the concept of reasonable expectations, addresses both the requirement for audit services and the supply. The demand for audit services is a direct result of stakeholder involvement in the business that requires accountability from management in exchange for their business investments. The connection between stakeholders and auditors is based on the concept of agencies (Nwaobia, et al., 2016).

Maina, (2017) also indicates that the auditor is appointed to solve the assurance issue for the credit theory in the interests of both the third parties and the management. The auditor fulfills the professional job in the form of accounts through his judgement. It is asserted in the past that the auditor is liable for the search, discovery and prevention of fraud in his client business that was a perception of the early 20th century. More lately, auditors have focused on providing adequate certainty and verifying the financial statements' reality and fairness, although detection of fraud as the duties of the auditor have not declined (Nwaobia, et al., 2016).

2.2.3 Theory of Inspired Confidence

Limberg (1985) has developed Inspired Confidence Theory, which describes the auditor's function. The auditor-confidential officer derives from any kind of the need for an expert and autonomous examination and from the need for an expert and autonomous opinion on the basis of that examination of his overall role in society. The role is embedded in the confidence that society has put in the efficacy of the audit and in the opinion of the auditor. As a result this trust is a requirement for the survival of this element; if the trust is broken, the functionality is also lost as it becomes useless.

The following is a significant quote on Theory of Inspired Confidence (Limberg, 1985). The moral essence of the Inspired Confidence Theory is that the accountant is obligated to work out his work in such a way that he will not undermine the aspirations of a reasonable layman. On the other hand, the accountant cannot raise higher expectations than can be justified by the work carried out.

This theory says that in exchange for their contribution to the organization as indicated by (Michie, 2016), stakeholders demand accountability from the leadership. It was based on the assumptions that stakeholders want to understand how their resources are being used and that executives are accountable and focused on the same goals as stakeholders (Neykov, 2018). The theory claimed that the accountability could be substantiated through audited financial statements and it can then be implemented in the audit.

The demand for audit tasks and the resulting expectations in the job of auditors are addressed in this theory (Cordoş, & Fülöp, 2015). The credibility of mandated disclosure of financial statements for legislative bodies seeking to safeguard the public interest is the key problem. This requirement creates a demand for audit services. The theories have been produced since the start of the audit profession to define and determine the audit tasks.

Inspired Confidence Theory changes public standards and improvements in auditing methods which leads to changes in the role of the auditor ((Limperg Institute, 1985). In assessing this declaration, Carmichael (2004, 129) maintains that the touchstone of the auditor is always to carry out the work. The auditor also obtains required proof to ensure that what the society expects is fair.

2.3 Empirical Literature Review

Empirical Literature Review covers what other studies have found in relation to the current study through investigation of the body of knowledge that has relevance to the topic of research and highlights motivations, initiatives/strategies that have been employed by various systems on affecting trade facilitation, its advantages and an appreciation of challenges (Kothari, 2014).

2.3.1 Selection of Audit Cases and Revenue Collection

Ladi & Henry (2015) performed a survey to determine the impact of a rise in tax evasion and real tax income gathered but not completely transferred to the Nigerian government. He Ladi, & Henry, (2015) say that ordinary Nigerians do not have confidence in the government and do not want to entrust their funds to the government as such an interest amount will be ranked amongst the least obligations they owes to the state and local government. The analysis looked at the effect of tax auditing on the collection of revenue by the Federal Inland Revenue Service and the correlation between tax auditing and income generation. It was used to determine the sample size by the Federal Inland Revenue Service employees, Abuja and Taro Yamane sampling technique. The survey was used to produce the information.

Traister, (2019) claims that when it comes to tax payment problems, the taxpayer is a dodger. Therefore, he requires be seductively motivating or compelling to pay what he expects. However, the use of tax audit has helped the state generate income. Adediran, Alade & Oshode (2013), said that, like economic audit, tax audit includes collecting data and processing it to determine an organization's level of compliance with territorial tax legislation. For a good audit, the auditor must organize his job in such a manner that the task is fully and effectively achieved.

Adediran, Alade & Oshode, (2013) felt that, like a financial audit, tax audit includes collecting data and processing it to determine an organization's level of compliance with territorial tax legislation. For a good audit, it is essential for the auditor to organize his job in such a manner that with no or minimal audit instances, the task is completed fully and effectively. Hyvärinen, et al., claims (2017) tax means "cash to be paid to the state to be able to pay for public services." He also described Audit as "an official review of economic and business records to see that they are accurate and accurate." The Chartered Certified Accountants Association (2009) described an audit as an activity that offers certainty on financial statements to a company's shareholders and other stakeholders as it is autonomous and impartial.

In practice, the random audit program only succeeds in carrying out audits for just over two-thirds of those chosen (Knechel & Salterio, 2016). This is mainly explained by the heavy workload experienced by the auditing compliance teams. While compliance officers are notified that random audit instances are deemed high priority, they often receive more instances than they can finish and some of them end up not working, although execution is considerably greater than targeted audits.

Because of the nature and space of their job, periodic assessment officers can only conduct restricted audits through account and return review (Ladi & Henry, 2015). It is as a result of the need to verify this disability to enhance tax compliance that tax officials perform field audit practice on taxpayers. Auditors' always give specifications for papers to be audited in advance (Dadi, 2017).

Field audit instances also emerge from physical verification at a taxpayer's premises of documentary proof and equipment to verify the facts and numbers of corporate taxpayers' tax returns (Belay, 2017) while audit and verification relies on the tax auditor's desk (Lulseged, 2016). Those products that are likely to have high tax yield potential will usually receive special attention. The tax audit is usually performed by means of the back duty audit.

2.3.2 Field Work and Revenue Collection

Depending on field work for collecting revenue may lead in tax evasion (Castro & Scartascini, 2015). This is feasible if the field officers are colluding with the tax payers to under-declare the complete tax owed as well as other individual-owned companies. While this may not be very prevalent, some stations have reported it. In most instances, these temptations are caused by variables such as bad employee remuneration, delays in paying wages, and failure to pay allowances. Illegal companies generally operate without the required paperwork or permits and are disguised to escape arrest in some form. There have been attempts to minimize this by patrolling with a task force that verifies business documentation. Any company is impounded and auctioned without adequate paperwork. The success of these patrols in Uganda was demonstrated by the collection of Ush 137,898,936 during the financial year 1999/2000 (a boost from the figure of Ush 36,827,180 of the past year). This represented 12.4 percent of the complete collection of

income. There is no doubt that the expenses incurred by Task Force members (allowances, fuel, among others) were less than 30% of the total amount collected (Scartascini, 2015).

Also, if applied sincerely, the new scheme of making advance payments to the appropriate revenue collector may minimize the evasion of fees (Castro & Scartascini 2015). Monitoring in income collection procedures is one of the present weaknesses of income collection approaches. Even with the task force's strict patrols, many illegal companies still discover their way to the market, suggesting that there is still weak surveillance and control at source. Inadequate field staffing and absence of transport are two of the factors for this (Kadiri & Kayode, 2019). Moreover, even the few current employees are not driven and are not particularly worried about what happens when it comes to collecting income. Their collusion in illegal activities cannot therefore be excluded.

According to Kadiri, & Kayode, (2019) uneven surveillance by income collection employees is also a factor contributing to tax evasion. At headquarters, there is no adequate mechanism for checking the quantities gathered against what could be anticipated. Field visits are irregular owing to transportation problems and absence of allowance cash. Field employees are therefore not very concerned about colluding with the private sector, as they understand that audits by employees at headquarters are very rare.

Finally, Ross (2016) conducted a survey and established in Uganda and established that the collection of timber royalties was dealt with in detail because it is the only complex system of forest revenue collection and accounts for almost 60 percent of the complete collection of revenue. The revenue collection scheme is comparatively easy for the other kinds of forest products (charcoal, firewood, poles, among others). The producer simply visits the office of the DFO to pay for the quantity taken or to obtain for a specified period of time a license to deal in the products. The Forest Ranger in charge gathers the revenue in some

instances and submits it to the DFO later. Like the timber royalties, however, fees can be avoided by collusion and stealing, as well as when there are no field visits by field officers who collect revenue.

Reside, & Burns, (2016) claims that the present wood manufacturing and royalty collection documentation schemes also include some steps that decrease the revenue loss range. Advance payment guarantees that their royalty payments will not put legal manufacturers in arrears. The statement of manufacture to the URA before stamping the timely payment of VAT.

2.3.3 Post Audit Standards and Revenue Collection

Niu (2010) shows that this research used historical population information from the economic sector of a New York State. The findings of both Ordinary Least Squares and Time Series Cross Sections indicate that a company would report higher sales growth rates after an audit. Jin Kwon (2004) study in Korea found that a more in-depth assessment of the tax culture determinant was carried out to investigate tax compliance and tax audits. Three types of tax audits are available.

Badara (2012) suggested that these three forms of audit involved spontaneous tax audits, tax cut-offs and contingent tax audits. Random tax audit system merely offers an equal opportunity for each revenue self-report to be selected for audit verification. Badara, (2012) Questionnaire distributed using descriptive statistics to 48 participants. The result shows that the Relevant Tax Authority (RTA) used the tax audit to achieve target income that the tax audit reduces the issues of tax evasion that tax payers generally did not cooperate with tax audit staff during the practice.

Mittone (2006) explores that initial audit experience in the "tax life" of taxpayers is a more efficient way to improve compliance than subsequent audits. The Kastlunger et al, (2009) experimental research study also indicates that, since the efficacy of audit and penalties can not be completely checked, timely audits of taxpayers ' tax lives have a positive impact on compliance.

2.3.4 Revenue Collection

The collection of taxes has been a hated practice for a long time (Mehmet, 2015). Yet taxes are important because there would be no funds without them to build public infrastructure that would help companies and society to be more efficient and better off. Considering imports as a source of budget revenue for many developing countries are of crucial importance, income growth has historically been top of the agenda of the Governments represented by the Ministry of Finance (MOF). On average, import duty taxes for the sample of African countries accounted for just under 30% of total tax revenue (Moore & Prichard, 2017). Tax administration has often focused on maximizing tax mobilization. Diagnostic work focused largely on assessing profit leakage. This approach is often used by both the World Bank and the IMF (Junquera-Varela, et al., 2017). Other strategies, however, could be used by revenue administrations to enhance revenue collection.

The development of effective ways of collecting revenue was an important issue in the collection of tax and revenue. The advent of new tools to help businesses work more effectively impacts the collection of taxes and income. In its operations, KRA concentrated on the systematic implementation of various techniques for collecting revenue. This was intended to significantly improve the distribution of revenue across all agencies. The introduction of novel revenue collection approaches was designed to improve the organizational structures, the training, staff scheduling, improved collaboration between management and staff, new reward management techniques and the adaptation of overall

quality control. No inquiry has been performed into the impact of the different methods of collection of revenue on the production of revenue.

Slemrod, & Bakija, (2017) argue that tax management is essential to the operation of a properly designed tax in the collection of revenue. Tax administration consists of three interrelated tasks: determining tax liabilities on the basis of existing tax laws, evaluating taxes to decide if taxes actually paid are lower (or greater) than liabilities, and collecting, prosecuting and penalizing actions which impose penalties on tax evaders and ensuring that taxes and penalties owed by taxpayers are real.

Based on experience, the reform of tax administration can result in many benefits (Ohemeng, 2015). These include: increased revenue efficiency, a fairer distribution of tax burdens across the public, greater consistency and equality for companies and individuals, greater ability to execute fiscal reforms, lower compliance costs for taxpayers, increased number of active taxpayers, reduced tax evasion and tax fraud, reduced tax arrears, improved service.

Important conditions must be met if the reform of revenue management is to be successful, such as strong political commitment, clear decision-making and availability of the resources required, capable and effective management, readiness to abandon new and outdated practices, and the development of a formal reform plan with a clearly attainable mandate (Epremian, et al., 2016). Reforming revenue management is neither easy nor straightforward. There are several issues which need to be tackled and they usually reflect the demands for success (Tumusiime & Vedeld, 2018).

2.4 Conceptual Framework

Research attempted to determine impact of post clearance tax audit on customs department income collection. Independent variables were case selection, field work operations and norms for customs auditing. The dependent variable was customs department income collection. The research therefore suggested the following conceptual framework.

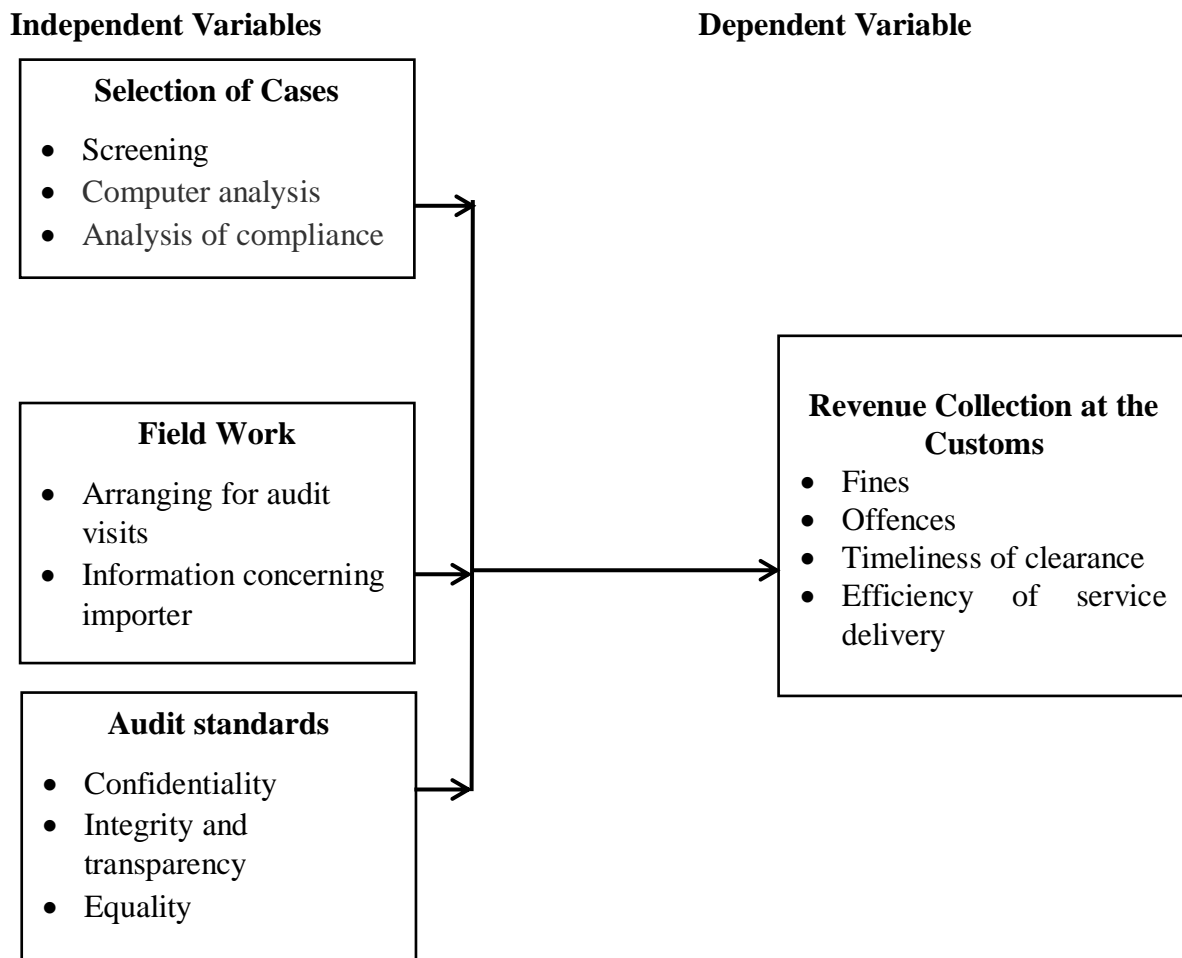


Figure 2.1: Conceptual framework

2.5 Critique of Literature

This study reviewed various studies conducted by different authors in different countries. Some of the literatures reviewed highlighted the effect of selection of audit cases and field visit strategies on revenue collection by customs departments in various countries. However, these effects have not come out clearly since different country is mainly affected by specific factors that are unique to revenue collection approaches.

With regard to the effect of relationship between post audit standard were also determined to have an influence on revenue collection in some countries such as Uganda. Nonetheless, the studies reviewed only gave focus to global and regional studies but not the local studies. The current study will thus aim at determining the effects of post clearance audit on revenue collection by customs department in Kenya.

2.6 Summary of literature review

This study reviewed other literatures conducted in line with the effect of audit cases on revenue collection. It established that audit cases due tax evasion by the public can be used as a mean of raising revenue. However, in countries such as Nigerian Taxpayers are dodgers when it comes to tax payment problems. Therefore, he requires be seductively motivating or compelling to pay what he expects. The citizen is always reluctant to pay for his tax liability and therefore raises audit cases. The Chartered Certified Accountants Association (2009) described an audit as an activity that offers certainty on financial statements to a company's shareholders and other stakeholders as it is autonomous and impartial.

With regards to the effect of the field work on revenue collection (Castro, & Scartascini, 2015; Kadiri, & Kayode, 2019) indicates in his study that reliance on field work for revenue

collection may result to the evasion of taxes. This is possible where the field officers collude with the tax payers to under-declare the total tax owed as well as other businesses owned by the individual. Other literatures show that the new system of making advance deposits to the relevant revenue collector may also minimize the evasion of charges if it is implemented honestly. One of the current weaknesses of revenue collection strategies is monitoring in the processes of revenue collection. According to (Reside, & Burns, 2016), uneven surveillance by revenue collection employees is also a factor contributing to tax evasion. At headquarters, there is no adequate mechanism for checking the quantities gathered against what could be anticipated. Field visits are irregular owing to transportation problems and absence of allowance cash. Field employees are therefore not very concerned about colluding with the private sector, as they understand that audits by employees at headquarters are very rare.

Other literatures reviewed concurred that post clearance revenue affect revenue collection. According to (Swanson, & Everett, 2015; Orsi, 2017) Once the program applies green to an import statement, it automatically clears it without further ado. Borghouts, et al. (2017) also noted that the time of import clearance is estimated from the filing of the import declaration to the departure of the products from customs warehouse. Furthermore, he observed that importers that have not incurred a penalty higher than US\$897 in the preceding 12 months are allowed to process import declarations in advance of arrival of shipments and to have the shipments delivered directly to their warehouses without a customs inspection. According to (Chalendard, et al., 2019) customs procedures, and imports must conform to specific product standards that aim to protect public security, human health, and the environment. Each organization has its own laboratory and procedures for conformity checks.

Finally, different studies indicate a company would report a greater sales growth rate after an audit. Jin Kwon (2004) study in Korea found that for the research of tax compliance and tax audit a more thorough assessment to assess the determinant of tax culture. Badara (2012) suggested that these three forms of audit involved spontaneous tax audits, tax cut-offs and contingent tax audits. Random tax audit system merely offers an equal opportunity for each revenue self-report to be selected for audit verification. Mittone (2006) explores that early audit experience in "tax life" of taxpayers is a more efficient way of enhancing adherence than subsequent audits. Also, the experimental research study by Kastlunger et al. (2009) proposes that effectiveness of audits and fines cannot be fully verified.

2.7 Research Gaps

Based on the theoretical and empirical literature reviewed in this chapter, it can be seen that imports declaration is fundamental approach for enhancing revenue collection in Kenya and among other countries. There are always a number of approaches for revenue collection although this study only reviewed four strategies; selection of audit cases, field work, and relationship between post audit standards and revenue collection. The reviewed literatures mostly focused on the systems used regionally and how they affect revenue collection as opposed to a specific country. From the literature reviewed, there are limited studies conducted to establish how post clearance revenue affect revenue collection by customs management department in Kenya. This has, therefore, created a research gap for the current study on the effects of customs systems on trade facilitation in Kenya aimed to fill.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology used under this study is outlined in this chapter. The topics covered include: study design, target population, data collection sampling procedure, methods or instrumentation, instrument validity testing, and reliability with respect to the techniques to be used for data analysis.

3.2 Research Design

The research used descriptive study design (deductive). The descriptive surveys summarize a study on an experiment or set of information that helps to draw conclusions about the gathered information (Cresswell, 2008). Merriam and Grenier (2019) describe survey as a research that uses current methodologies to explore populations by choosing samples to evaluate and detect events. Using questionnaires assisted to acquire data that would enable the researcher to comprehend the effect of post clearance audit on revenue collection in Kenya.

3.3 Target Population

Population is the entire group of people or things of interest that researcher aims to assess Creswell and Daly (2015). The study was carried out among the clearing and forwarding officers and 20 staff working in the customs service department in Mombasa. The target population of this study was 1076 clearing and forwarding officers and staff working in the customs service department in Mombasa.

Table 3.1: Target Population

Department	Target Population
Clearing and forwarding officer	376
Custom officers	206
KPA Officers	266
Shipping Lines/Agents	228
Total	1076

Source: KRA sixth corporate plan.

3.4 Sample Size and Sampling Technique

3.4.1 Sample Size

The sample size was determined by using the formula furnished by Cochran (1977).

$$n = N * X / (X + N - 1)$$

Where;

$$X = Z_{\alpha/2}^2 * p * (1-p) / d^2,$$

$Z_{\alpha/2}$ = the critical value of the Normal distribution (the study used 95%, α is 0.05, $z = 1.96$)

p = the sample proportion

d^2 = the margin of error

N = the population size

$$X = 1.96^2 * 0.5(1-0.5) / 0.05^2 = 385$$

$$n = 1076 * 385 / (385 + 1076 - 1) = 284$$

3.4.2 Sampling Techniques

Cooper (2003) describes a sample as a small group with similar characteristics as those of the population. Sampling technique comprise the various methods of selecting a sample from the population. This study developed a sample through stratified random sampling. According to Lang et al (2016), Stratified Sampling requires the input records to be partitioned into disjoint sets called strata. Random sampling was used within the strata since it maintains statistical regularity and ensures that the sample selected portrays similar composition and features as the population and thus representative (Kothari, 2004).

3.5 Data Collection

The study was a cross sectional survey and collected primary data using self-administered questionnaires which are based on the objectives, research hypothesis and the literature. The format of the instrument is adopted with modification from Lavermicocca, & Buchan (2015), whereby most questions are closed ended with only a few open questions for clarification. Sapiei et al (2014); Makara & Rametse, (2017) used such a questionnaire to study perceptions, compliance costs and compliance behavior. An introductory statement that specified the purpose of the research as purely academic was used to assure confidentiality and encourage respondents to be objective in their responses (See Appendix I). A drop and pick method was applied in order to accord respondents sufficient time to answer questions. Due to the widespread distribution of the sample, four research assistants were be trained to help in collecting data. The training principally covered personal presentation skills, etiquette and ethical considerations

3.6 Pilot Testing

According to Kothari (2006), pilot-testing is an important step in research process because it reveals vague questions and unclear instructions in the instruments. The instruments of the study were piloted among 10 respondents who were not part of the sample size. The test-retest techniques were used to test the validity of the research instruments; it involved administering the same instrument twice to the same group of subjects. A time lapse of one week between the first test and the second tests was given. Reliability of the research instruments was tested by administering them to the same group of individuals on two separate occasions. The results were compared by correlating the sets of scores and calculating reliability coefficient. The responses from the two tests were correlated using Pearson Product Moment Correlation, and a reliability index reported.

3.7 Reliability of Research Instrument

Reliability is the degree to which an instrument yields the same results each time it is put into measurement under constant conditions (Saunders *et al.*, 2009). A reliable study is trustworthy if the appraises give similar results in different times, if same findings are got by different observers and if there is transparency in the findings of the raw data (Sekaran, 2012). Table 3.2 shows the results that indicated that selection of audit cases had a reliability of (0.811) field work (0.956), audit standard (0.746), and lastly Revenue collection (0.890). The highest instrument had Cronbach Alpha value of 0.890 while the lowest had a reliability of 0.746 this implied that all instruments of the study were reliable for measurement. Sekaran (2012) indicated that an absolute value which is equal to or greater than 0.7 indicates high coefficient. Cooper and Schindler (2010) argue that a Cronbach's alpha coefficient value equal or greater than 0.5 is regarded to be an indication of reliability. This study adopted a coefficient of 0.5 as the benchmark for reliability.

Table 3.2: Reliability Test

Factor	Cronbach's		
	Number of items	Alpha	Conclusion
Selection of audit cases	7	.811	Reliable
Field work	6	.956	Reliable
Audit Standard	6	.746	Reliable
Revenue collection	7	.890	Reliable

Source: Author (2020)

3.8 Validity of Research Instrument

Validity is the degree to which an instrument measures what it is supposed to measure (Kothari, 2004). Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. Content validity for the present study questionnaire was determined through piloting, and the responses of the subjects were checked against the study objectives. The pilot test with a randomly selected sample 10 respondents was carried out.

3.9 Data Analysis

Data collected were analyzed using Statistical Packages for Social Sciences (SPSS) software. This particular software is preferred because of its user-friendliness and accessibility. Data were presented in tables, summary statistics of the mean, and standard deviation. A regression analysis was also used by the investigator to determine the connection between independent variables and dependent variable.

The regression analysis model took the format below:

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

Where,

Y = Revenue Collection (Dependent variable)

β_0 denotes (an intercept), the unknown parameter which may represent a scalar or a vector

$\beta_1, \beta_2, \beta_3$, denote sensitivity (slope) independent variables X_1, X_2 , and X_3 respectively

X_1 = Selection of Audit Cases Variable

X_2 = Field Work Variable

X_3 = Post Audit Standards Variable

ϵ – Denotes residual (error), an error term at 95% confidence level

3.10 Operationalization of Study Variables

This section highlights the variables of the study and their indicators, data collection instruments and the measurement scale.

Table 3.3: Operationalization and Measurement of Study Variables

Variables and Indicators	Source	Data Instrument	Scale	Data Analysis
Independent Variables				
Selection of audit cases <ul style="list-style-type: none"> • Screening • Computer analysis • Analysis of compliance 	Ladi, & Henry, (2015)	Questionnaire	5-Point Likert Scale	Multiple Regression
Field work <ul style="list-style-type: none"> • Arranging for audit visits • Information concerning importer 	(Castro & Scartascini, 2015).	Questionnaire	5-Point Likert Scale	Multiple Regression
Post audit standard <ul style="list-style-type: none"> • Confidentiality • Integrity and transparency • Equality 	Niu (2010)	Questionnaire	5-Point Likert Scale	Multiple Regression
Dependent Variable				
Revenue collection <ul style="list-style-type: none"> • Fines • Offences • Timeliness of clearance • Efficiency of service delivery 	(Mehmet, 2015).	Questionnaire	5-Point Likert Scale	Multiple Regression

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis of the collected data effect of post-clearance audit on customs revenue collection by customs service department in Kenya and its interpretation. It gives the response rate in relation to gender, age, highest level of education, number of years in operation, sales level of business per annum and size of business in terms of the number of employees.

4.2 Response Rate

The research targeted 284 respondents in collecting data regarding post-clearance audit on customs revenue collection. 284 questionnaires were distributed out of which 234 were received, 7 questionnaires were rejected due to improper incompleteness. The 227 questionnaires were filled correctly hence accepted which represent a response rate of 79%. Given the prejudices that taxpayers normally harbor towards tax compliance questions, this rate was commendable. A 50% response rate is adequate, 60% good and above 70% is rated very good (Mugenda and Mugenda, 2003). A similar assertion was confirmed by (Kothari, 2004) and therefore, based on these views, a 60% response rate for this research was good.

4.2 Demographic Analysis

The demographic characteristics of the respondents were analyzed as summarized below.

4.2.2 Age of Respondents

Result on age shows that most respondents were more than 31-40 years 37.4%, followed by 41-50 years were 29.9%. Below 30 years had (17.6%). Above 50 years were 14.9%. This implies that most majority of employee were middle aged.

Table 4.1: Respondents' Age Group

Age Group	Frequency	Percentage
Below 30 years	40	17.6
31 – 40 years	85	37.4
41 – 50 years	68	29.9
Above 50 years	34	14.9
Total	227	100

4.2.3 Level of Education

Further, the study sought to determine the extent to which the respondents had pursued education. Results in table 4.2 show that majority 37% had acquired education up to undergraduate, 27.7% had studied up to the diploma level, 24.2% had acquired education up to secondary level, Post graduate level were 7.9% while the rest 3.1% had pursued education up to primary level. The results show that most of respondent at in Mombasa port are educated and thus they are equipped with requisite skills for their various business.

Table 4.2: Highest Education Level

	Frequency	Percent
Primary Certificate	7	3.1
Secondary Certificate	55	24.2
Education Diploma	63	27.8
Under Graduates	84	37
Post Graduates	18	7.9
Total	227	100.0

4.3 Statistical Assumptions

Assumptions testing were carried carefully to check and avoid incorrect assumptions that could generate inaccurate conclusions and in particularly statistical assumptions. Testing for assumptions is beneficial as it ensures that the assumption is met and helps avoid type I and II Errors, Owino, 2014). Prior to data analysis, assumptions for normality and multicollinearity were checked.

4.3.1 Test for Normality

In parametric analysis, an assumption is made to the effect that the data under test has a normal distribution and hence the use of measures of location or central tendency. Most statistical procedures for instance regression and t- test are based on the assumption of normality (Ghasemi & Zahediasl, 2012). The various techniques of testist normality include the Kolmogorov-Smirnov, Shapiro-Wilk, Lilliefors and Anderson Darling. This study used the Shapiro-Wilk test which is the most powerful normality distribution test according to Razali and Wah (2011). As a rule of thumb, the Shapiro-Wilk test should be above 0.05 for the assumption to be met. Table 4.3 presents the results for this test.

Table 4.3: Test for Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Selection of audit	0.256	227	0	0.880	227	0.76
Field work	0.383	227	0	0.883	227	0.32
Audit standard	0.301	227	0	0.914	227	0.28
Revenue collection	0.452	227	0	0.893	227	0.37

Source: Author (2020)

4.4 Descriptive Statistics

4.4.1: Effect of selection of Audit

The study sought to determine whether selection of audits had any influence on revenue collection in Mombasa port. The table 4.4 below shows the findings of from the respondents.

Results proves that, every audit case is always accompanied by administration of penalties with a mean score of 2.67. Respondents agreed that Audit visits are conducted more often by the mean of 3.75 .The statement on the use of tax audit cases has helped in the generation of revenue to the government had a mean score of 3.89. Results also indicated that Compliance officers consider audit cases to be of high priority had a mean score 4.17. Audit cases arise from physical verification of documentary materials at the premises of a taxpayer to confirm the figures of the tax returns filed by the mean of 3.80 . There is a well-defined criterion of case allocation had a mean score of 4.14. On audit cases, there is always a special attention paid to those items likely to have high tax yield potentials with a mean score of 4.05.

Table 4.4: Effect of selection of Audits on revenue collection

Statement	Mean	Standard Deviation
Every audit case is always accompanied by administration of penalties	2.67	1.239
Audit visits are conducted more often	3.75	.765
The use of tax audit cases has helped in the generation of revenue to the government	3.89	.754
Compliance officers consider audit cases to be of high priority	4.17	.726
Audit cases arise from physical verification of documentary materials at the premises of a taxpayer to confirm the figures of the tax returns filed	3.80	1.082
There is a well-defined criterion of case allocation	4.14	.799

On audit cases, there is always a special attention paid to those items likely to have high tax yield potentials	4.05	.894
------------------------------------------------------------------------------------------------------------------	------	------

3.78

Total

4.4.2: Effect of Field Work

The study sought to determine field work had any influence on revenue collection in Mombasa port. The table 4.5 below shows the findings of from the respondents. Field visits are irregular due to difficulties with transport and the lack of money for allowances with a mean score of 3.67. Respondents agreed that Over reliance on field work for revenue collection may result to the evasion of taxes with a the mean score of 3.21 .The statement on During field visits, field officers collude with the tax payers to under-declare the total tax owed as well as other businesses owned by the had a mean score of 3.68. Results also indicated that inadequate staffing and the lack of transport hinder field visits approach of revenue collection had a mean score 2.86. Field visits may be inefficient since audits by headquarters staff are very infrequent had a mean score of 3.95. Revenue collection may be evaded through collusion and stealing when there are no field visits by revenue collection field officers had a mean score of 4.43.

Table 4.5: Effect of Field work on revenue collection

Statement	Mean	Standard Deviation
Field visits are irregular due to difficulties with transport and the lack of money for allowances	3.67	.869
Over reliance on field work for revenue collection may result to the evasion of taxes	3.21	.870
During field visits, field officers collude with the tax payers to under-declare the total tax owed as well as other businesses owned by the individual	3.68	1.200
Inadequate staffing and the lack of transport hinder field visits approach of revenue collection	2.86	.833
Field visits may be inefficient since audits by headquarters staff are very infrequent	3.95	1.043

Revenue collection may be evaded through collusion and stealing when there are no field visits by revenue collection field officers	4.43	.656
Total	3.63	

4.4.3: Effect of Audit Standard

The table 4.6 shows the findings of from the respondents proves that Post audit shows that after an audit, a firm would report a higher sales growth rate with a mean score of 2.51. Post tax audit shows that tax payers do not usually cooperated with tax audit personnel during the exercise had a mean score of 3.81 .Respondent agreed that Post tax audit reduce the problems of tax evasion had a mean score of 4.24. Results also indicated that Relevant Tax Authority (RTA) employ tax audit towards achieving targeted revenue had a mean score 4.16. Post audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit the mean of 3.91. Post audit standard is an ineffective way to increase compliance had a mean score of 4.30.

Table 4.6: Effect of post Audit Standard on Revenue Collection

Statement	Mean	Standard Deviation
Post audit shows that after an audit, a firm would report a higher sales growth rate	2.51	1.037
Post tax audit shows that tax payers do not usually cooperated with tax audit personnel during the exercise	3.81	.857
Post tax audit reduce the problems of tax evasion	4.24	6.43
Relevant Tax Authority (RTA) employ tax audit towards achieving targeted revenue	4.16	.818
Post audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit	3.91	1.262
Post audit standard is an ineffective way to increase compliance	4.30	.817
Total	3.82	

4.4.4: Effect of Post –Clearance Audit on Revenue Collection

The table 4.7 below shows the findings of from the respondents. Respondents agreed that Audit standards enhance tax revenue collection with a mean score of 4.16. Respondents agreed that Selection of audit cases enhances compliance the mean of 2.91 .The statement on Revenue collection face many challenges and these tend to reflect the preconditions for success had a mean score of 4.30. Results also indicated that Field work has enhanced tax revenue collection had a mean score 4.10. Post-clearance audit should be carried out more times in a year by the mean of 4.31 The implementation of innovative revenue collection methods enhances cooperation among customs officers for effective revenue collection had a mean score of 3.12. Tax administration involves determining tax liabilities on the basis of existing tax laws with a mean score of 4.05.

Table 4.7: Effect of Post-Clearance Audit on Revenue Collection

Statement	Mean	Standard Deviation
Audit standards enhances tax revenue collection	4.16	.818
Selection of audit cases enhances compliance	2.91	1.012
Revenue collection face many challenges and these tend to reflect the preconditions for success?	4.30	.714
Field work has enhanced tax revenue collection	4.10	.689
Post-clearance audit should be carried out more times in a year	4.31	.706
The implementation of innovative revenue collection methods enhances cooperation among customs officers for effective revenue collection	3.12	.835
Tax administration involves determining tax liabilities on the basis of existing tax laws	2.42	1.273
Total	3.61	

4.5 Inferential Statistics

4.5.1 Correlation Analysis

Hall (2015) defines the Pearson's Correlation Coefficient (r^2) variables representing a set of numerical data, and normalized to the square root of the variances. Table 4.8 illustrated the Pearson Correlation Matrix and all the independent variables had positive correlations with the dependent variable. There is a strong positive correlation of $r = 0.468$ between selection of Audit and revenue collection. There is also a strong positive correlation of $r = 0.612$ between field work and revenue collection. Lastly there is a positive correlation of $r = 0.271$ between Audit standard and revenue collection. From the study findings field work variable has the strongest strength on revenue collection Variable, followed by selection of audit while audit standard has the least strength of independent variables factors on dependent variable of revenue collection.

Table 4.8: Correlations Statistics of Independent and Dependent Variables

		Revenue Collection	Selection Audit	Field work	Audit Standard
Revenue collection	Pearson Correlation	1			
Selection of audit	Pearson Correlation	.468	1		
Field work	Pearson Correlation	.612	.367	1	
Audit Standard	Pearson Correlation	.271*	.416*	.251*	1

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

Source: Author (2020)

4.5.2 Regression Analysis

The study conducted multiple regression to establish the effect of selection of audit, field work and audit standard on the revenue collection.

4.5.3 Effect of Selection of Audit on Revenue Collection

Regression was performed to determine the impact of selection of audit on revenue collection and the results were resented in table 4.9. The results indicates that selection of audit had a positive correlation with revenue collection up to 79.4% ($R = 0.794$). These results indicate that the independent variable selection of audit, caused a variation of 63% ($R^2=0.630$ and adjusted $R^2= 0.623$) in the revenue collection. This implies that 37% of the variation in revenue collection was not due to the selection of audit, but other factors. (F value= 23.157, $p= 0.000 < 0.05$)

Table 4.9: Goodness of Fit Test for Selection of Audit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.794 ^a	.630	.623	.96067		

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.323	1	27.323	23.157	.000 ^b
	Residual	71.426	226	.316		
	Total	98.749	227			

Model		Coefficients			T	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	1.166	.255		4.572	.000
	Selection of audit	.304	.059	.794	5.152	.000

Source: Author (2020)

4.5.4 Effect of Field Work on Revenue Collection

Regression was performed to determine the impact of field work on revenue collection and the results were resented in table 4.10. The results indicates that field work had a positive correlation with revenue collection up to 69.2% ($R = 0.692$). These results indicate that the independent variable field work, caused a variation of 47.8% ($R^2=0.478$ and adjusted $R^2=0.469$) in the revenue collection. This implies that 52.2% of the variation in revenue collection was not due to the field work, but other factors. (F value= 19.7168, $p= 0.003 < 0.05$).

Table 4.10: Goodness of Fit Test for Field Work

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.692 ^a	.478	.469	.63874	

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.605	1	88.605	19.7168	.000 ^b
	Residual	11.744	126	.093		
	Total	100.349	227			

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.829	.199		9.1907	.000
	Field Work	.513	.124	.692	4.137	.003

Source: Author (2020)

4.5.5 Effect of Audit Standards on Revenue Collection

Regression was performed to determine the impact of audit standards on revenue collection and the results were resented in table 4.11. The results indicates that audit standards had a positive correlation with revenue collection up to 80.1% ($R = 0.801$). These results indicate that the independent variable audit standards, caused a variation of 64.1% ($R^2=0.641$ and

adjusted $R^2 = 0.634$) in the revenue collection. This implies that 35.9% of the variation in revenue collection was not due to the audit standards, but other factors. (F value= 53.833, $p = 0.000 < 0.05$)

Table 4.11: Goodness of Fit Audit Standards

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.801 ^a	.641	.634	.61149		
ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.725	1	24.725	53.833	.000 ^b
	Residual	37.924	226	.167		
	Total	62.649	227			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.459	.224		6.513	.000
	Audit standards	.362	.115	.801	3.147	.000

Source: Author (2020)

4.5.6 The Overall Effect of the Study Variables on Value Added Tax Compliance

Regression was carried out to determine the combined influence of selection of audit, work and audit standards on revenue collection. The model's goodness of fit, analysis of variance and the regression coefficients are presented in table 4.12. The overall correlation coefficient indicate a reasonably strong relationship between the dependent and independent variables. The results indicates that selection of audit, field work and audit standards had a positive correlation with revenue collection up to 71.1% ($R = 0.711$). These results indicate that the independent variables caused a variation of 50.5% ($R^2 = 0.505$ and adjusted $R^2 = 0.498$) in the revenue collection. This implies that 49.5% of the variation in

revenue collection was not due to the audit standards, field work and audit standards but other factors. (F value= 63.262, p= 0.000< 0.05)

Table 4.12: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.607	.040		15.175	.002
	Selection of audit	.386	.058	.086	6.655	.000
	Field work	.225	.066	.611	3.409	.000
	Audit standards	.395	.102	.096	3.872	.001
R		0.711				
R Square		0.505				
Adjusted R Square		0.498				
F Value		63.262				
Sig		0.000 ^b				

a Dependent Variable: Revenue collection

b Independent Variables: (Selection of audit, field work and audit standards)

Source: Author (2020)

Regression equation:

$$Y = 0.607B + .386X_1 + .225X_2 + .395X_3 + e$$

The Regression equation shows that the independent variables and dependent variable were statistically significant. A unit change in selection of audit, field work and audit standards increase revenue collection by 0.386, 0.225 and 0.395 respectively.

4.6 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.15 show an F statistics value of 63.262 with a significance level of 0.000 which was less than the conventional probability of 0.05 significant level. Hence establishing the model is statistically significant. The implication is that each independent variable contributes significantly to changes in the dependent variable

4.7 Discussion of the Findings.

4.7.1 Effect of Selection of Audit on Revenue Collection

First objective of the study was to establish the effect of selection of audit on revenue collection and from the findings this study was statistically significant at a p value of 0.000 which is less than 0.05 the conventional probability significance level. For instance, according to Traister, (2019), claims that when it comes to tax payment problems, the taxpayer is a dodger. Therefore, he requires be seductively motivating or compelling to pay what he expects. However, the use of tax audit has helped the state generate income. Adediran, Alade & Oshode (2013), said that, like economic audit, tax audit includes collecting data and processing it to determine an organization's level of compliance with territorial tax legislation. For a good audit, the auditor must organize his job in such a manner that the task is fully and effectively achieved.

4.7.2 Effect of Field Work on Revenue Collection

Second objective of the study was to establish the effect of field work on revenue collection and from the findings this study was statistically significant at a p value of 0.000 which is less than 0.05 the conventional probability significance level. Similar study done by Ross (2016) conducted a survey and established in Uganda and established that the collection of timber royalties was dealt with in detail because it is the only complex system of forest revenue collection and accounts for almost 60 percent of the complete collection of revenue. The revenue collection scheme is comparatively easy for the other kinds of forest products (charcoal, firewood, poles, among others). The producer simply visits the office of the DFO to pay for the quantity taken or to obtain for a specified period of time a license to deal in the products. The Forest Ranger in charge gathers the revenue in some instances and submits it to the DFO later. Like the timber royalties, however, fees can be avoided by

collusion and stealing, as well as when there are no field visits by field officers who collect revenue.

4.7.3 Effect of Audit Standards on Revenue Collection

Second objective of the study was to determine the effect of audit standards on revenue collection and from the findings this study was statistically significant at a p value of 0.000 which is less than 0.05 the conventional probability significance level. The study was in agreement with Mittone (2006) explores that initial audit experience in the "tax life" of taxpayers is a more efficient way to improve compliance than subsequent audits. The Kastlunger et al, (2009) experimental research study also indicates that, since the efficacy of audit and penalties cannot be completely checked, timely audits of taxpayers' tax lives have a positive impact on compliance

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECCOMENDATIONS

5.0 Introduction

The study results, discussion and recommendations are discussed in this chapter. The primary objective of the study was to determine effect of post-clearance audit on customs revenue collection within customs service department in Mombasa Port. The study also identified the effect on the dependent variable revenue collection at the customs (fines, and offences) and independent variables (selection of audit cases, field work and post audit standards).

5.1 Summary of Findings

The study assessed determine effect of post-clearance audit on customs revenue collection within customs service department in Mombasa Port. The assessment was done against the influence of three independent variables namely selection of audit, field work and post audit standards

5.1.1 Effect of selection of audit on Revenue Collection

The first objective was to determine the effect of selection of audit on revenue collection in Mombasa Port. Correlation analysis showed that selection of audit and revenue collection are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between selection of audit and revenue collection

5.1.2 Effect of Field Work on Revenue Collection

The second objective was to establish the effect of field work on revenue collection in Mombasa Port. Correlation analysis showed that field work and revenue collection are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between field collection and revenue collection

5.1.3 Effect of post audit standards on Revenue Collection

The third objective was to determine the effect of post audit standards on revenue collection in Mombasa Port. Correlation analysis showed that post audit standards and revenue collection are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between post audit standards and revenue collection

5.2 Conclusions

The conclusions of this study were informed based on the findings of the study. The study concludes that: selection of audit affect revenue collection in Mombasa. This is because Compliance officers consider audit cases to be of high priority and there is a well-defined criterion of case. On field work the study concludes that, Field visits may be inefficient since audits by headquarters staff are very infrequent and Revenue collection may be evaded through collusion and stealing when there are no field visits by revenue collection field officers. Finally, conclusion on post audit standards, had reduce the problems of tax evasion. Results also conclude that Relevant Tax Authority (RTA) employ tax audit towards achieving targeted revenue collection

5.3 Recommendations

The findings revealed a statistically significant relationship between post-clearance audit on customs revenue collection within customs service department in Mombasa Port. The study recommends that the government should have policy of selection of audit, field work and post audit standards on revenue collection. However, on post audit standards KRA should put more emphasis through Post audit standard since it is an ineffective way to increase compliance

5.4 Limitations of the Study

In the process of conducting this study, some limitations were apparent which were related to data collection. The first limitation was in getting an adequate sample as there is always a natural chance that sample taken may fail to represent the population. To avert this limitation, a scientific method of sample determination was used. The second limitation relates with the type of data that was used. This study used primary data which ideally is about perceptions of respondents whose factual existence or not may not be substantiated. Regardless of these two limitations, this study is valuable and has immense benefits to the theory of taxation, management practice and to policy making

5.5 Areas for Further Research

The study shows that collection of audit cases, field visits and post-audit standards are methods that the customs administration department uses to enhance customs clearance procedures in Kenya. The study suggests that other customs clearance research areas should be undertaken in Kenya, Nairobi, Nakuru and Kisumu in the three main cities. The report also suggests more research to find out why Kenya's traders are clearing up none-custom and increasing tax evasion activities.

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APPENDICES

APPENDIX I: CONCENT

TO: THE RESPONDENT

FROM: INNOCENT

RE: RESPONDING TO THE ATTACHED QUESTIONNAIRE

I am carrying out a study on the effect of imports declaration on revenue collection in Kenya. In this quest, I will be determining the effect of selection of audit cases, the effect of the field work, and the relationship between post audit standards and revenue collection by KRA, customs department. The study is in partial fulfillment of the requirement of the award of the postgraduate diploma in customs administration at Jomo Kenyatta University of Agriculture and Technology. This is an academic research, all the information you provide in this questionnaire will be kept in strict confidential and only used for purposes of this research.

I kindly request for to fill the attached questionnaire to the best of your knowledge.

Your name or other identifying information is not required on this document.

Thanking you in advance,

Yours sincerely,

Innocent

APPENDIX II: QUESTIONNAIRE

SECTION A: PERSONAL INFORMATION

1. Your Name (optional): _____ Sub-County: _____

2. Age:

18-25yrs [] 26-35yrs [] 36-45 yrs []

46-55yrs [] 56-65yrs [] 66Yrs and above []

3. What is the highest level of education you have completed?

Primary school [] Secondary school [] Certificate []

Diploma [] Undergraduate [] Post Graduate []

Other (specify)

SECTION B: SELECTION OF AUDIT CASES

The following are statements on the effect of selection of audit cases on revenue collection by customs department in Kenya. Please indicate how you agree with the statements on a scale of 1-5

1-Strongly Disagree 2- Disagree 3- Neither agree nor disagree 4- Agree 5- Strongly Agree

Selection of Audit Cases	1	2	3	4	5
Every audit case is always accompanied by administration of penalties					
Audit visits are conducted more often					
The use of tax audit cases has helped in the generation of revenue to the government.					
Compliance officers consider audit cases to be of high priority.					
Audit cases arise from physical verification of documentary materials at the premises of a taxpayer to confirm the figures of the tax returns filed.					
There is a well-defined criterion of case allocation.					
On audit cases, there is always a special attention paid to those items likely to have high tax yield potentials.					

SECTION C: FIELD WORK

7. The following are statements on the effect of field work on post clearance revenue and revenue collection by customs department in Kenya. Please indicate to which degree you agree with the statements on a Linkert scale on 1-5.

1-Strongly Disagree 2- Disagree 3- Neither agree nor disagree 4- Agree 5- Strongly Agree

Field Work	1	2	3	4	5
Field visits are irregular due to difficulties with transport and the lack of money for allowances.					
Over reliance on field work for revenue collection may result to the evasion of taxes.					
During field visits, field officers collude with the tax payers to under-declare the total tax owed as well as other businesses owned by the individual.					
Inadequate staffing and the lack of transport hinder field visits approach of revenue collection.					
Field visits may be inefficient since audits by headquarters staff are very infrequent					
Revenue collection may be evaded through collusion and stealing when there are no field visits by revenue collection field officers.					

SECTION D: POST AUDIT STANDARDS

9. The following are statements on the effect of post audit standards on revenue collection by customs department in Kenya. Please indicate how you agree with the statements on a scale of 1-5.

1-Strongly Disagree 2- Disagree 3- Neither agree nor disagree 4- Agree

5- Strongly Agree

Post Audit Standards	1	2	3	4	5
Post audit shows that after an audit, a firm would report a higher sales growth rate.					
Post tax audit shows that tax payers do not usually cooperated with tax audit personnel during the exercise					
Post tax audit reduce the problems of tax evasion,					
Relevant Tax Authority (RTA) employ tax audit towards achieving targeted revenue.					
Post audit scheme simply provides each self-report of income an equal chance of being chosen for verification by an audit					
Post audit standard is an ineffective way to increase compliance.					

SECTION 6: TAX REVENUE COLLECTION

2. Evaluate the following statements and tick where appropriate under the choices

below

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

Disagree

Statement	1	2	3	4	5
Audit standards enhances tax revenue collection					
Selection of audit cases enhances compliance					
Revenue collection face many challenges and these tend to reflect the preconditions for success?					
Field work has enhanced tax revenue collection					
Post-clearance audit should be carried out more times in a year					
The implementation of innovative revenue collection methods enhances cooperation among customs officers for effective revenue					
Tax administration involves determining tax liabilities on the basis of existing tax laws					