

**EFFECT OF TAX AUDITS ON VALUE ADDED TAX REVENUE COLLECTION IN  
MANUFACTURING FIRMS IN KENYA.**

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## DECLARATION

**I, Monicah Magothe** do hereby declare that this research project is my original work and has not been submitted for a postgraduate diploma in any other university.

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**HDB336-C016-2162/2016**

This project has not been submitted for examination with my approval as the Supervisor

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Above all, God almighty for knowing me even before I was born and having wonderful plans for me always. His plans for my life have always amazed me and I cannot wait to see the next one.

## **DEDICATION**

This research is dedicated to my loving family that has always supported me in all my undertakings. My sister Lydiah Magothe has always been my life number one fan. I am happy to belong.

## **DEFINITION OF TERMS**

### **Manufacturing**

Manufacturing is defined as the process of converting raw materials, components or parts into finished goods that meet a customer's expectations or specifications. Manufacturing commonly employs a man-machine setup with division of labour in a large scale production, (www.ey.com).

### **Medium Taxpayers Office**

Medium Taxpayers Office (MTO) is a division under the Domestic Taxes Department in Kenya Revenue Authority. It was designed in agreement with KRA's Revenue Administration Reforms and Modernization Program (RARMP) as stipulated in the Fourth Corporate Plan covering the period 2009/10 to 2011/12. MTO assists taxpayers whose incomes lie between Kshs. 300 Million and Kshs. 750 Million (KRA 6<sup>th</sup> Corporate Plan, 2015).

### **Tax Audit**

A tax audit is an investigation of an organization's or person's tax return to authenticate that they are appropriately conveying their fiscal information. (Businessnewsdaily.com, 2016).

### **Tax compliance**

Level of conformity by a taxpayer to the tax regulations and requirements of their country for instance by income declaration, online return and online payment of tax due within the set time. (Money control.com, 2018).

## **Value Added Tax**

It is a consumption tax placed on a merchandise whenever value is added at every phase of the supply chain, from production to the point of sale. The amount of VAT that a consumer pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed (Investopedia.com, 2018).

## **LIST OF ABBREVIATIONS**

<b>DTD</b>	Domestic Taxes Department
<b>GDP</b>	Gross Domestic Product
<b>ICPAK</b>	Institute of Certified Public Accountants of Kenya
<b>KRA</b>	Kenya Revenue Authority
<b>MTO</b>	Medium Taxpayers Office
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>RRA</b>	Rwanda Revenue Authority
<b>PAYE</b>	Pay As You Earn
<b>SDGs</b>	Sustainable Development Goals
<b>SME</b>	Small and medium-sized enterprises
<b>SPSS</b>	Statistical Package for the Social Sciences
<b>TPB</b>	Theory of Planned Behaviour
<b>VAT</b>	Value Added Tax

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## **ABSTRACT**

This study established the effects of the tax audit on VAT revenue collection in manufacturing firms in Kenya. The overall purpose of this study was to find out how tax audits influence VAT revenue collection in manufacturing firms in Kenya. The variables include Desk tax audit, Field tax audit and compliance tax audit. Chapter two discusses the three type of theory used to explain the effect of tax audit on VAT revenue collection. These theories include Economic Deterrence theory, theory of crime and Classical Theory of Tax Compliance. Chapter two also conducted a comprehensive study of relevant empirical studies prior to the impact of tax audits on income collection and tax compliance in jurisdictions other than Kenya. The three research goals and research questions intensively guided the literature review in this chapter. The chapter moreover reviewed the literature decisively with a view to establishing the purpose of knowledge disparity to justify the current study. Chapter 3 outlines a systematic account on conducting the research to acquire the information necessary in covering the effect on tax audit on VAT collection in Kenya. It contains the research methodology approach, research target population sampling frame and sampling technique. Chapter 4 discusses the research findings and its interpretation of the effect of tax audit on VAT revenue collection on selected manufacturing firms in Kenya. Analysis of Descriptive statistics methods was employed and regression of the same was used to ascertain the significant level of tax audit on VAT revenue collection. The study findings in chapter 5 reveals that the three-tax audit tested have a significant effect on VAT revenue collection in Kenya. The thirty companies selected indicated a significant increase in VAT revenue collection as demonstrated by the report within a period of three years of study. This further demonstrates to Kenya revenue Authority to revamp tax audit especially in VAT revenue collection to curb the tax crime such as tax evasion and under declaring of tax and over

declaring of expenses. The findings also indicated on the R square, a variation 61.1 % on VAT revenue collection.

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## **1.0 CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

With worldwide integration, various countries manufacture goods and services by taxable entities. This is a great opportunity to have immense ways to scale down the tax burden by managing transactions. The reality of having corruption, tax protection and high usage of automated financial transactions makes enforcement of tax laws quite a challenge. Without a corresponding upsurge of specialized and technical capability of the revenue management, its likelihood of scrutinizing taxable activity and thwarting tax avoidance are extremely curtailed OECD, (2010). The study therefore aimed to investigate the effect of tax audit on VAT revenue collection in manufacturing sector in Kenya.

Onuoha and Dada (2016) described audit as a way of ascertaining the accuracy and reliability of an organisation's financial information. Establishing the accuracy and fairness of the financial report to provide its guarantee is the main purpose of an audit. Okonkwo (2014), as cited by Onuoha and Dada (2016) defines tax audit as an independent inspection of financial records, tax returns, tax payers yments and other relevant accounts of a taxpayer to authenticate compliance with tax laws, rules and regulations and accuracy and precision of tax remitted by observing the appropriate generally acceptable accounting values and ethics. Collecting revenue is greatly influenced by tax audit in that it promotes deliberate conformity of taxpayer which intensifies revenue. To make sure that the correct taxes are presented, it also regulates the precision of returns. Tax liability can be simply stated and issues that require changes be detected through tax audit. It also enhances collection of tax interests and penalties thus increasing revenue collection. Tax audit also aids to execute amendments to exterminate evasion. Tax audit is therefore constructively linked to Revenue collection, (Harelimana, 2018). An audit provides more than

just an examination as to whether taxpayers have appropriately evaluated and declared their tax liability and fulfilled other responsibilities. Audit plays a wider role in supporting tax compliance, deterring non-compliance and enhancing the confidence of taxpayers in the impartiality and efficiency of the tax system. It thus helps to reinforce social norms and to identify generic issues of potential concern to the functioning of the tax system (OECD, 2018). VAT is a consumer tax levied on the supply of taxable goods or services produced in Kenya and on the importation into Kenya of taxable goods or services. The VAT rate ranges from 0% to 8% and 16%. All those who trade and have a taxable supply income of KSH 5 million per year and above are required by law to register for VAT and then collect and submit VAT on their taxable supplies with an allowance for the recovery of tax paid on the purchase of inputs. There are provisions for deliberate registration even when a trader is below the KES 5 million threshold. Only registered traders are required to charge VAT. (Law on VAT, 2013)

VAT is the tax that is mostly carefully audited and one of the tax liabilities in many countries with a higher likelihood of being under-reported. A fully developed tax audit approach would be effective methods of detecting tax anomalies as the debit / credit (D / C) ratio. This is a proxy for the sales ratio over purchases over a selected period of time.. This is practiced in most developing countries. Debits are the whole value-added tax that taxpayers charge when selling goods or services. The Credits are the value-added tax already charged to taxpayers when they acquire, among others, goods or services necessary for production and retailing. Variance in debits and credits is the net VAT liability of taxpayers (VAT Act, 2013).

### **1.1.1. Global perspective of tax audit practices**

Factors affecting tax audits are similar in most countries, although the conditions and approaches may vary depending on the different countries. A study conducted by the OECD on influencing the Compliance Environment for Small and Medium Enterprises observed how administrative processes could be reshaped to enhance compliance and tax audit was one of the key findings as an effective process. For example, in Singapore, the Inland Revenue Authority of Singapore (IRAS) introduced an Assisted Self-Help Kit (ASK) for Goods and Services Tax (GST) registered enterprises. This was intended to facilitate tax compliance among small and medium-sized enterprises. ASK is a full self-assessment Compliance package for SMEs which includes guidelines and checklists for internal business processes and GST filings to ensure that current and past GST submissions are correct. Where a business uses the ASK review to apply for or renew a GST scheme, a tax practitioner with GST accreditation must conduct or certify the review. The system has been found to be more efficient.

Switzerland has adopted an audit process that integrates in the risk selection model and personal assessment of a general risk by the tax expert or their idea of the potential business risk. The process includes developing ideas of which companies or behaviors could be risky and should therefore be audited more frequently than the average taxpayer from their everyday activities. Afterwards, together with some basic documentation to support his idea, the tax experts submit an assessment of a general risk or a new idea to the team responsible for assessing the tax risks.

This dedicated team analyzes the idea and if the analysis of the outcome is positive, that is, the idea appears to be good, then the idea proves to be good. The idea is tested in a sample of field audits and evaluated. If from the evaluation the performance of the idea results higher than usual risk-oriented cases, the idea is integrated as a new risk indicator (OECD 2018).

Audit tools were used to detect tax evaders and formally enforce the Federal Inland Revenue Service (FIRS) Audit Unit on any organization. Audit mechanisms such as risk engine tool are used to determine tax evaders or non-compliant taxpayers. According to the statutory mandate and the provisions of the tools, companies identified shall undergo either tax audit or tax inspection following statutory mandate and the provisions of Sections 58 and 60 of the Companies' Income Tax Act (Cap. 21 LFN 2004) and Sections 26 and 27 of the Federal Inland Revenue Service, (Establishment Act ,2007).

### **1.1.2 Regional perspective of tax audit practices**

African was obliged to employ audit principles in ancient times. In his study, Iheanyi (2014) reported that scribes had long been mandated to collect tax in Egypt. At some point, cooking oil was taxed by the scribes. To ensure that people did not avoid the tax on cooking oil, they audited all homes to ensure that the right amount of oil was used and that people did not use the remaining oil from other food preparation procedures as an alternative to the taxed oil. In Rwanda, they put in place the revenue management reform so that the country can be empowered to handle the growing complexity of businesses and tactics of tax avoidance. According to the Rwanda Auditor General's (2015) report, minimal tax coverage and many controversial audit results are tax audit challenges. This resulted in a reduction in the number of taxes assessed by the RRA Appeals Committee in 145 instances where 43% disputed cases.. There have also been weak revenue-protection structures that are highly dependent on informants rather than evaluating remarkable findings that already exist to develop more revenue-protection policies. The failure to collect all potential income could be linked to a tax administration system characterized by the absence of adequate domestic taxpayer registration, gaps in taxpayer databases already in place and taxpayer non - registration.

### **1.1.3 Kenyan perspectives of tax audit practices**

Kenya Revenue Authority established under KRA Act of 1995 has legal authority to conduct tax audits and taxpayer review. This curbs the loss of income owed by incorrect returns to the Kenya government. The powers, however, have legal limitations. Tax audits have laid down rules and regulations that tax managers and their consultants should understand well in order to carry out the complicated and demanding procedures. In tax auditing, taxpayers are examined to determine if they have assessed and declared their tax liability and performed their duties appropriately. Tax audits are more comprehensive and wider than other types of investigations, such as overall desk checks, compliance calls / assessments or matching programs for documents (Adediran et al. 2013). Okello (2014) explained in his study that tax audit faces various challenges such as non - automated risk analysis, minimal access to third - party information, control over all tax returns, audit selection depending on the decision of senior officials, as well as having no nerve center for tax audit function with its national policy and plan.

The functions of KRA tax audit are managed at each tax office located country-wide. Kenya Revenue Authority has made various changes to the tax audit procedure by focusing more recently on desk audit than on field audit. The aim of the study is to determine how the tax audit affects the VAT income of selected manufacturing companies in Kenya.

#### **1.1.3.1 Manufacturing Firms in Kenya**

Kenya's manufacturing firms have kept growing as we neared the end of the 19<sup>th</sup> century and on to the 21<sup>st</sup> century. While most of them have not become large manufacturing firms, Kenya's manufacturing firms continue to be the most advanced in East Africa. This growth should be expected to grow fast in the near future as Kenya's Big 4 Agenda target to grow Manufacturing's GDP contribution to 15%, (*kam.co.ke*). This implies that the country will continue being a preferred target for investors interested in manufacturing due to its personnel, a fruitful

agricultural industry making it a reliable spring of raw materials for agricultural manufacturing, resourceful support services, (*informationcradle.com*). Good transport infrastructure makes gives Kenya an upper hand to being a gateway to landlocked East and central Africa region.

The manufacturing sector is quite varied with the main action being conversion of agricultural raw materials. Other activities include electronics manufacture, assemblage of vehicles and computer components, publications, and other types of processing, (*informationcradle.com*).

The manufacturing industry is proactive about its growth and hosted the first international steel forum in the year. The local Steel sector has grown over the years, and establishment of stronger partnerships with global investors would be vital to attain the desired growth in the sector and the economy, (*kam.co.ke*).

Due to Kenya's manufacturing advantages, many multinational establish manufacturing plants in Kenya for domestic and international consumption. Kenya is also proactive in seeking international partnerships. While the growth points to economic growth, it may open loopholes for tax evasion and avoidance. There is need for a matching effort to ensure that tax profits are not at stake.

The most common Manufacturing Industries in Kenya includes Small-scale consumer goods (plastic, furniture, batteries, textiles, clothing, soap, cigarettes, flour), Agricultural products, Horticulture, Oil refining, Aluminum Industries, Steel Industries, Lead Industries, Cement Industries , Commercial ship repair, (*informationcradle.com*).

#### **1.1.4 Desk tax audit**

This is the type of audit by which tax officers examine the records and books of taxpayers in the office of the tax authority either in manual format or electronic formats. Tax audits can be performed through a phone interview, email with a list of multiple questions, Skype etc. (TaxKenya.com). The tax audits are based on the physical copies or electronic records and account books submitted by the taxpayer to the tax authority. There is more reliance on technology in this kind of tax audits. This audit category tends to constitute the majority of audit interventions in most jurisdictions.

#### **1.1.5 Field tax audit**

Tax officers leave their offices and go to the premises of a taxpayer to conduct tax audits. The officers examine from the premises of the taxpayer and may request physical or electronic format copies of the records. These types of tax audits are heavily dependent on what the taxpayer submitted to the tax authority and what the taxpayer paid. In these types of tax audits, closer examination and scrutiny of taxpayer affairs is plausible, (Tax Kenya.com). Regular assessment officers, by the nature and scope of their work, may only conduct limited desk audits by reviewing accounts and returns. It is in the interest of the tax authorities to check this handicap and to improve tax compliance that they carry out field auditing physically conducting the exercise in the office of the taxpayer, (KRA manual, 2015).

#### **1.1.6 Compliance tax Audit**

The audit scope is all-inclusive. It usually involves a thorough investigation of all the information applicable for a specified time to calculate a taxpayer's tax liability. The purpose is to determine the precise tax liability. Some countries conduct comprehensive audits as part of random audit programs used to collect data on degree, type and accuracy for compliance

research and/or automated audit selection formulae development. As they are very comprehensive, in-depth audits usually have high undertaking costs. Comprehensive program of in-depth audits will involve the use of substantial resources to reduce the taxpayer coverage rate that could otherwise be achieved through the use of different types of audits, (OECD, 2006).

## **1.2 Statement of the Problem**

KRA tax audit functions are managed by regional Tax Service Offices located in KRA regions across the country. Kenya Revenue Authority has made several changes to the tax audit procedure for instance focusing more recently on desk audit than on field audit. The objective of the study is to determine how the tax audit affects the VAT income of selected Kenyan manufacturing companies

Regulatory enforcement by audit-based method has generally addressed nearly all the failures or conformity risks induced by most taxpayers. Kenya's low tax-to-GDP ratio shows that a lot of tax remains uncollected, despite the fact that the government has implemented a number of interventions to increase the ratio and reduce the dependence on aid. When it comes to paying tax, non-compliance is tussle hassling the country. Daily Nation (2016) argues that failure to collect all potential revenue could be linked to the tax administration system characterized by inappropriate tracking of registered domestic taxpayers, gaps in prevailing taxpayer databases and not registering certain taxpayers. This leads to low reporting of tax audits and many disputed audit results resulting to lower amounts of tax assessed. Such are issues that pose some of the challenges facing the authority. Cases of incapacity to comply with the relevant tax rules are inevitable, whether due to the lack of knowledge of taxpayers, negligence, irresponsibility and deliberate evasion, or administrative deficiencies. These are regular issues dealt with by the

authority. Tax audit then becomes of paramount importance as a mechanism for checking whether taxes are actually and accurately registered.

One important function of tax auditing is to increase the ability to manage revenue when it is performed properly. Whether tax audit affects the collection of VAT revenue in Kenya is an issue that needs to be investigated. VAT generally remains below expectations despite the increased taxable transactions, particularly among companies dealing with registered tax withholding agents, particularly in large taxpayers such as government agencies. Furthermore, in the recent past, large taxpayer offices have failed to meet their annual targets, despite the number of business growths with a number of them converting from medium-sized taxpayer offices to large taxpayer offices.

Therefore, the study is necessary to find out how tax audit affects the collection of VAT revenue within MTO manufacturing sector. While tax audit is key to government service delivery, it has been silently ignored in developing countries predominantly. Some researchers have been conducted in Africa however. One example is Samuel and De Dieu (2014) that assessed the effect of the audit of financial reports on tax revenue increases in Rwanda. His findings were that the tax audit made it easier to increase the revenue of the country. Another study was conducted by Ibrahim, Yusuf and Bello (2014) examining the role of tax auditing and investing in Nigerian economic development sustainability. Their conclusion was that the auditors should maintain the important values of professional morals while performing consultancy services and while frequently acting for taxpayers in dealing with the tax authority involved.

Melat (2016) examined the issues affecting how effective a tax audit in Ethiopia was for big business. He found that organizational factors (that is department audit quality, management support) had a significant impact on tax audit effectiveness. He identified key structural factors

associated with backgrounds, structures, functions, and response. These studies were conducted outside of Kenya, however, and a related study is required to provide a comparative analysis. In Kenya, Mirera(2014) conducted a study on income collection as a result of a tax audit. The study findings show that tax audit effectively influences income collection by promoting taxpayers ' deliberate compliance, thereby increasing income. However, the study was general, as it did not look at a particular sector and specific liability as in the case of the study done.

In a study, Niu (2010) tried to find a useful link between the audit and deliberate compliance. The conclusion was that in many literature studies there is an underestimation of how productive audit was. The study of the effect of tax audit on manufacturing firms is non-existent from the available literature and therefore the study aimed to bridge the gap by determining the effect of tax audit on VAT revenue on manufacturing firms. This research was relevant as it was intended to find out how tax audits are linked to the collection of VAT revenue in Kenya.

### **1.3 Objectives of the Study**

The overall purpose of this study was to find out how tax audits influence VAT revenue collection in manufacturing firms in Kenya. The objectives were:

- a) Finding out the impact of Desk Tax audits on VAT revenue collection on manufacturing firms in Kenya.
- b) Establishing the effect of Field Tax audit on VAT revenue collection on manufacturing firms in Kenya.
- c) Establishing the effect of Compliance Tax audit audits on VAT revenue collection on manufacturing firms in Kenya.

## **1.4 Research Questions**

The study tried to answer to the following research questions as follows:

- a) How do Desk Tax audits affect VAT revenue collection on manufacturing firms in Kenya?
- b) How do Field Tax audits affect VAT revenue collection on manufacturing firms in Kenya?
- c) How do Compliance Tax audits affect tax VAT revenue collection on manufacturing firms in Kenya?

## **1.5 Justification of the Research Study**

This study aimed to provide facts about the effects of tax audits on the collection of VAT revenue and highlight measures to be taken for the successful use of tax audits to enhance collection of revenue in Kenya. It was also intended to promote voluntary tax compliance culture. KRA's findings would benefit all stakeholders in improving revenue collection and services. The result should be relevant when planning tax audit rules, guidelines and values for policymakers. The result also provides tax auditors with an independent assessment of issues that make them more efficient. This relates primarily to the application of tax audit principles and ethics and the conduct of a tax audit.

## **1.6 Scope of the Research Study**

The study was to establish how tax audits influence VAT collection in manufacturing industries. The study focus was on taxpayers in the manufacturing sector in KRA's MTO office. The process involved identifying the companies that were audited, checking their VAT returns in the iTax system for the year prior to audit, the year of audit and the year after audit and noting the revenue declared.

### **1.7 Limitations of the Research Study**

Time was a limiting factor for the researcher as the researcher was working on a full-time employment. This was overcome by taking annual leave from the work place. Another challenge was the fact that KRA information are confidential in nature and most of the officer were not willing to participate in giving out the information. This was however mitigated by obtaining an introducing letter from Kenya School of Revenue Administration which requested that the researcher be allowed to obtain secondary data from KRA reports.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides an independent assessment of issues for tax auditors that make them more efficient. This mainly concerns the application of the principles and ethics of tax auditing and the conduct of a tax audit. Criticism of existing literature on the effect of tax audits on income collection advanced by various scholars provides a rich setting for research that has been extensively discussed. To conclude, a summary has been drawn from this literature review and the research gap was discussed in detail as well.

### **2.2 Theoretical Literature Review**

This chapter discusses the three type of theory used to explain the effect of tax audit on VAT revenue collection. These theories include Economic Deterrence theory, theory of crime and Classical Theory of Tax Compliance. The theories were described in details and correlated with the study.

#### **2.2.1 Economic Deterrence Theory**

Becker's Theory of Economic Deterrence (1968) falls within criminology. The theory is based on the impression that it would be possible to prevent crime by individuals if the outcome of performing a crime outweighs the benefit of the crime itself. This is the impression that everyone can consciously distinguish between rights and wrongs and the penalties for wrongdoing or choose to comply with or disregard the law after assessing the rewards and penalties.

However, the overall effectiveness of prevention is difficult to prove because only those who commit crime, not the dissuaded, come into full force by law enforcers. Therefore, we may never know why others are not committing an offense. This theory implies that economic and business

motivations encourage crime with the possibility of their actions going unnoticed. They carefully assess the circumstances to determine whether they have tax compliance or tax avoidance options. Taxpayers are constantly looking for opportunities to evade tax by exaggerating their spending while reducing pre-tax turnover to pay less tax (Hanefah, Ariff & Kasipillahi, 2012).

Deterrence can be realized disciplinarily and persuasively in several ways. This means that deterrence can take the form of stepping up the detection possibility of raising the tax rate or imposing harsh penalties (Fischer et al, 1992). It may take the form of better education, increased advertising/publicity, and incentives as an alternative (Hite, 1989). The economic deterrence model has been usually in use to assess tax evasion and compliance from a theoretical viewpoint (Jackson & Milliron, 1986). Most taxpayers will cite impartiality as key issues that impact tax compliance, according to Porschke and Witte (2011). Where taxpayers are willing to assume that taxation is impartial, the reverse is also true. In such a situation, tax audit is considered a mechanism for dissuading tax evasion.

Studies on the theory of deterrence, however, assessed the effect of tax auditing on compliance as opposed to the effect of tax auditing on collection of VAT revenue. As such, tax compliance was used as a tax audit procedure dependent variable instead of using it to assess the effectiveness of tax audit. In other words, tax compliance is one of the tax auditing procedure's measures of effectiveness. This means that using tax compliance as a dependent variable can make it difficult to evaluate the fundamental and effective relationships. OECD (2016) reinforces this theory by stating that tax audit increases the collection of revenue by promoting voluntary compliance by taxpayers that helps to increase revenue. It also ensures that proper taxes are submitted by determining the accuracy of returns. Tax liability can be easily reported with tax

audit and issues requiring modifications to support a credible and convincing method of the theory of deterrence.

### **2.2.2 Theory of Crime**

Crime theory affirms people's rationality as actors acting in a way that maximizes their predictable usefulness. Becker (1968), argued that authorities should balance properly between detecting non-compliers and statements to the extent that non-compliance is deemed irrational. In the early seventies, Allingham and Sandmo (1972) expanded Becker's work on criminal economics to include taxation. They inspected the decision of taxpayers to evade taxes when their tax returns were filed.. They also investigated the connection between the rate of penalization for tax evasion at the time, the possibility of detection and the extent of tax evasion involving individuals, Allingham and Sandmo (1972). Their findings were that these variables had a connection, that is, high rate of penalization and the ability to detect tax evasion rates among taxpayers.

In the 1980s, most researchers began to question the cost of dissuasion on their own to regulate behaviour. They began to refocus their compliance with research rather than deterrence and began to realize the importance of persuasion and collaboration as a compliance regulatory mechanism. In fact, research has shown that the use of threats and legal compulsion, particularly when perceived as illegal generate unwanted behaviour.. Most likely, these actions will increase non-compliance. (Murphy and Harris 2007), creative compliance, (McBarnet 2003), criminal behaviours or opposition (Fehr and Rokenbach 2003). Adediran, Alade & Oshode (2013) supports the theory. Taxpayer is an evader mostly about paying tax and therefore the need for persuasion.

In paying his tax liability, the taxpayer is always reluctant. Nevertheless, the use of tax audit has helped generate revenue for the government. Implementing national tax laws, investigating and punishing tax offences, safeguarding national income, safeguarding tax arrangements, promoting compliance and ensuring the implementation of tax laws are the fundamental roles of tax auditing. Tax audit must be based on the facts and the people-based tax laws, principles and guidelines and strengthen cooperation with the judiciary and other related departments.

### **2.2.3 Classical Theory of Tax Compliance**

Initially formulated by Toggler (1970), this classical theory of tax compliance is also called the A-S models based on the theory of deterrence. The theory assumes that the taxpayer maximizes the tax evasion risk's expected utilities, balancing the benefits of successful tax dishonesty against the risky likelihood that tax authorities will snatch and penalize them (Sandmo, 2005). Alabede et al (2011) argued that the theory of deterrence depends heavily on tax audit and penalty. They also claimed that due to intimidation and restrictions, this tax compliance theory causes taxpayers to pay. Trivedi and Shehata (2005) say that the dissuasive theories suggest that taxpayers "play the audit lottery," that is, they calculate the economic results of various compliance.

Verboon and Dijke (2007) claimed that the principle of the tax compliance deterrence model is primarily to investigate the collaboration between the possibility of detection and the severity of penalties which should affect non-compliance. Brook (2001) stated that classical theory is based solely on economic analysis, whereas social and psychological variables are equally important in taking into account the issue of tax non-compliance. Hasseldine (2000), Torgler (2002) and Kirchler (2007) are some of the major studies on the effects of deterrence on compliance. Elffers (2000) and Braithwaith (2003) argued that if deterrence (that is the probability of detection and

severity of punishment) were to be a very important variable in compliance exposure in most societies in the world, rational individuals would be non-compliant because the deterrence levels are minimal. The theory has supported the need for revenue authorities to carry out audited reports or audits to determine compliance

### **2.3 Empirical Review**

Since tax authorities in different countries are paying close attention to collecting VAT income, several studies have been conducted on how tax audits affect income collection and tax compliance. Harelimana (2018), for example, conducted a study on the impact of tax auditing on Rwanda's revenue collection. The study's main purpose was to determine the impact of tax auditing on Rwanda's revenue collection. The research study found that the tax audit had an impact on the collection of revenue. There is a significant relationship between the tax collected before and after the audit, according to the t-tests. This was a clear indication of an increase in income collection by tax audit. In reality, that means the more income is collected the more the tax audit is conducted. The conclusion was therefore that the tax audit is directly related to the collection of income.

In Ekiti State, Nigeria, Olaoye & Ayodele (2018) conducted a study on the effects of the tax audit on tax compliance. The study used primary data to randomly distribute 60 questionnaires to the Federal Inland Revenue Service and the Ekiti State Board of Internal Revenue Service Staff. The findings revealed that the information fitting multinomial logistic regression model was meaningful with the p-value of 0.040 implying that the tax audit can influence tax compliance. The study generally decided that tax audits in Ekiti State, Nigeria, had no significant impact on the culture of tax compliance

Samuel (2014) conducted a study on how the audit of financial statements by taxpayers had an impact on the growth of tax revenue. Research results indicated that the tax audit increased the rate of compliance that had a positive impact on RRA's tax revenues. The study also revealed that, due to profound examination, tax audit impedes and helps to recognize evasion and fraud in taxation processes and evaluation of taxpayers' financial statements until they get the taxpayers who underreport their income. This leads to the growth of tax revenues. The non-compliant taxpayers were charged with paying fines and penalties in addition to the main amount of taxes owed. In addition, the research showed that if penalties and fines are paid in the event of non-compliance, all taxpayers generally try to comply with tax laws even if they are not audited.

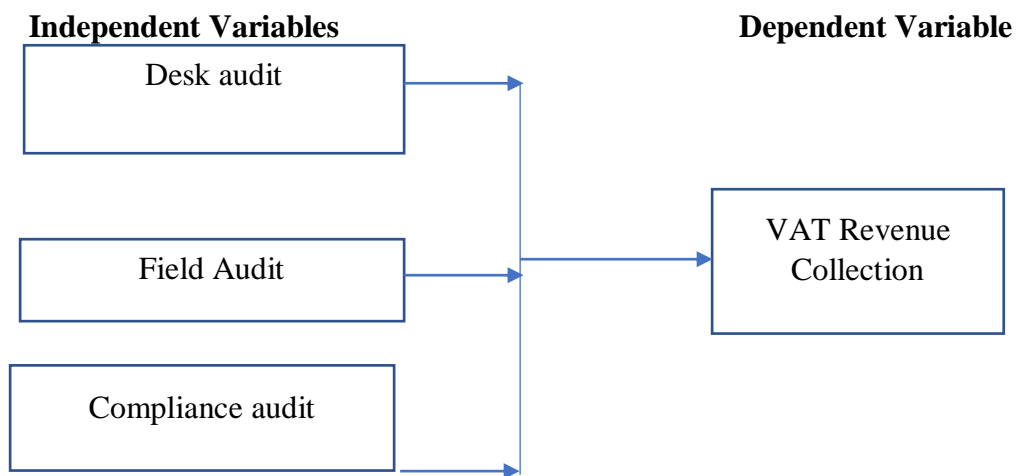
Mebratu (2016) conducted a study using secondary macro data on the impact of tax auditing on federal tax compliance in Ethiopia. The Pearson correlation and bivariate regression result showed a strong Relation between the probability of audit detection and the level of tax compliance. The result also showed a strong relationship between the number of files audited and the level of tax compliance. The study found that since the tax audit's influence on enhancing the compliance of taxpayers is substantial among other actions, the country's revenue authorities and other stakeholders should emphasize the tax audit task by acquiring the necessary staff and requirements to advance compliance by taxpayers, thereby increasing tax revenue for countries.

Another Opoku (2015) study focused on the role of tax audit in the Ghana Revenue Authority's revenue mobilization. The study found that tax audit is a key component in any effort to enhance revenue generation and is a key player in Ghana's tax administration. The self-assessment scheme used in Ghana and Kenya calls for an effective tax audit to maximize tax collection. In a study, Niu (2010) found a strong correlation between auditing and voluntary compliance. The findings suggested that in many literature studies the audit output may be underestimated. It

reminds us that we should also consider the audit effect on voluntary compliance when considering the output of the audit work in addition to the direct audit collections. That is why the finding provides some motivations for tax professionals and tax authorities to strengthen the audit power and better restructure their audit organization and increase revenue generation for the state.

## 2.4 Conceptual Framework

This research study proposes a conceptual framework in which the independent variables are desk audit, field audit and compliance audits. The dependent variable is the VAT revenue collection.



*Figure 1: Conceptual Framework*

### 2.4.1 Desk tax audit

This is the type of audit by which tax officers examine the records and books of taxpayers in the office of the tax authority either in manual format or electronic formats. Tax audits can be

performed through a phone interview, an email with a list of multiple questions, Skype etc, (TaxKenya.com). The tax audits are based on the physical copies or electronic records and account books submitted by the taxpayer to the tax authority. There is more reliance on technology in this kind of tax audits. In this type of tax audits, a thorough examination of the records and books may not be tenable. In desk tax audits (TaxKenya.com), however, tax audits for compliance purposes are feasible. While they may involve examining documents and records, they often involve letter or telephone communication with the taxpayer to obtain explanations or information on potential risk issues.

This audit category tends to constitute the majority of audit interventions in most jurisdictions. Desk audits, although less profound, allow for greater coverage at lower cost of possible (deliberate or accidental) tax return errors. Such verification measures increasingly involve the automatic checking of returns against other data held by the tax administration, including the identification of anomalies. In all these cases, where there are serious problems, they can be escalated to a limited scope or a comprehensive audit. Devos (2014) states that it is important for tax audits to function effectively in a self-assessment tax system because they drive taxpayers' compliance behaviour. Ultimately, this can be quantified by stepping up the possibility of being apprehended instead of enacting sanction

#### **2.4.2 Field tax audit**

Tax officers leave their offices and go to the premises of a taxpayer and from there conduct tax audits. The officers examine from the premises of the taxpayer and may request physical or electronic format copies of the records. These types of tax audits are heavily dependent on what the taxpayer submitted to the tax authority and what the taxpayer paid. In these types of tax audits, closer examination and scrutiny of taxpayer affairs is plausible, (Tax Kenya.com).

Regular assessment officers, by the nature and scope of their work, may only conduct limited desk audits by reviewing accounts and returns. It is in the interest of the tax authorities to check this handicap and to improve tax compliance that they carry out field audits, physically conducting the exercise in the office of the taxpayer, (KRA manual, 2015).

However, the taxpayers are formally notified of the auditor's arrival before the audit begins, and the auditors' requirements for documents to be audited will also be requested in advance. Field audit involves physical verification at a taxpayer's premises of documentary evidence and materials to confirm the facts and figures of the tax returns filed. The scope or depth of verification depends on the outcome of the tax auditor's desk audit work as well as the audit exercise risk factors. Those items that are likely to have high tax yield potential will normally receive special attention. The tax audit is usually performed by the back duties (KRA manual, 2015).

### **2.4.3 Compliance tax Audit**

The audit scope is all-inclusive. It usually involves a thorough investigation of all the information applicable for a specified time to calculate a taxpayer's tax liability. The purpose is to determine the precise tax liability. Some countries conduct comprehensive audits as part of random audit programs used to collect data on degree, type and accuracy for compliance research and/or automated audit selection formulae development. As they are very comprehensive, compliance audits usually have high undertaking costs. Comprehensive program of in-depth audits will involve the use of substantial resources to reduce the taxpayer coverage rate that could otherwise be achieved through the use of different types of audits, (2006 OECD).

These types of tax audits are thorough examinations that, over several years of income, mostly cover all aspects of a tax and several types of tax. While in-depth tax audits are similar to normal

tax audits, there is a deeper examination of account records and books. Tax officers have different abilities and different experiences. Tax officers conducting in-depth tax audits are therefore more experienced and have a range of other skills including technology, forensics, psychology, etc. In-depth tax audits are mostly a mixture of desk and field audits based on taxpayers information, Tax authority information, and third-party information. The tax audits cover several years of income and all tax systems that the tax authority administers. Great amounts of tax obligations are raised in most cases (TaxKenya com 2019).

According to Ayalew (2014), tax auditing is considered effective by enabling tax auditors to educate taxpayers about tax enforcement, enhance record keeping and tax detection, recover more tax and penalize non-compliance. Isa and Pope (2011) conducted a study examining the range of insights from taxpayers on the experience of tax auditing. Their argument was if there is an effective tax audit.

## **2.5 Critique of the existing literature**

Studies that were conducted focused primarily on the impact of tax audits on tax compliance, and these studies were mostly conducted in other African countries, not Kenya. Studies conducted in Kenya focused primarily on the impact on income collection of tax audits. Consequently, the current study should, complete the disparity in expertise by focusing on the impact of tax audits on the collection of VAT revenue, particularly on manufacturing firms, as VAT revenue contributes a large percentage of Kenya's total tax revenue. In order to increase tax compliance and income, more research on tax audits and the findings and recommendations made available to the public should be carried out.

## **2.6 Chapter Summary**

Chapter two conducted a comprehensive study of relevant empirical studies prior to the impact of tax audits on income collection and tax compliance in jurisdictions other than Kenya. The three research goals and research questions intensively guided the literature review in this chapter. The chapter has reviewed the literature decisively with a view to establishing the purpose of knowledge disparity to justify the current study. Once the disparities in knowledge were recognized, the researcher then set up a conceptual framework to function as the model for the research study in answering the research questions. The next chapter will focus on the researcher's methodology.

## **2.7 Research gaps**

Several research studies on tax audits and income collection and tax compliance were conducted in Kenya, Rwanda, Ghana and Nigeria. Harelimana (2018) conducted a study on the impact of Rwanda's tax audit on income collection. The main objective of the study was to determine the impact of the tax audit on Rwanda's revenue collection. Olaoye & Ayodele (2018) conducted a study on the impact of the tax audit on tax compliance in Ekiti State, Nigeria. The study used primary data randomly distributed to Ekiti State's Federal Inland Revenue Service and Board of Internal Revenue Service staff, which distributed 60 questionnaires. The main objective was to examine the tax audit's impact on tax compliance in Ekiti, Nigeria. Samuel (2014) conducted a study on how tax revenue growth was affected by the audit of taxpayers' financial statements. Research results indicated that the tax audit increases the rate of compliance, which in turn will have a positive impact on the tax revenues to be collected by RRA.

Mebratu (2016) did a study on the impact of tax audit on tax compliance in Ethiopia, at federal level by using secondary macro data. The main objective of the study was to examine the impact

of tax audit on tax compliance. Another Opoku (2015) study focused on the role of tax audit in the Ghana Revenue Authority's revenue mobilization. The study's main goal was to know whether the practice of tax auditing plays an important role in tax administration. In a study, Niu (2010) found a positive link between auditing and voluntary compliance. The finding suggests that the productivity of the audit may be low.

Analysis of these research studies reveals that Kenya has never conducted any research study on the effect of tax audits on the collection of VAT revenue. This study seeks to fill this gap by assessing Kenya Revenue Authority's effects of tax audits on VAT revenue collection. In many developing countries, with value added tax (VAT) becoming a major source of revenue, it is good to consider ways of maximising this type of revenue.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The chapter outlines a systematic account on conducting the research to acquire the information necessary in covering the three research objectives. This chapter encompasses of different approaches adopted when conducting the study. It includes the research methodology approach, research target population sampling frame and sampling technique.

### **3.2 Research Design**

Kothari &Garg (2016) define research design as the procedure of data collection and analysis in a way that targets combining relevance of the research purpose. It is concerned in describing a population with respect to important variables with the major emphasis being establishing the relationship between the variables (Kothari, 2006). The study employed Descriptive research.

The other purpose of descriptive research design is describing the characteristics of the population being studied which were taxpayers in medium tax office dealing with manufacturing industry. (Lavrakas, 2008) stated in his thesis that descriptive research helps in defining the relationship among other comparable studies on how online systems such as iTax has contributed to the success of tax compliance global wise and nationwide. Descriptive design is also suitable in a study of large firms like manufacturing industries.

A research study done by Wasao (2014) utilized the descriptive study design by using it to effectively analyse the relationship between technology and levels of tax compliance in terms of on-line filing of tax returns and on-line remittance of taxes due and found out that descriptive design is more effective. Odongo (2016) in his research study also utilized the descriptive study design approach to analyze the possible relationship subsisting between electronic filing system and tax compliance levels demonstrated by the degree of adherence to electronic filing of returns

for various taxes and their tax due remittance. The research study was able to establish the relationship.

### **3.3 Target Population**

According to Kothari (2006), a population references group of people, events or things having a mutual observable characteristic. The target population was manufacturing sector in KRA Medium Taxpayer Office. The study considered manufacturing firms which had been subjected to tax audit in the year 2015/2016 tax collection period.

### **3.4 Sampling Frame**

According to Schindler and Cooper (2001), a sampling frame comprises of a list of people used by the researcher in obtaining information about the study. The researcher used the list obtained from medium tax payers office showing the manufacturing companies that were subjected to audit within the 2015/2016 year. This helped in obtaining more details from the iTax system on how payment was done the year preceding and the year succeeding the tax audit period. The researcher used a list sampling frame consisting of audited firms in the Medium Taxpayers office.

### **3.6 Data Collection Instruments**

In data collection, the researcher describes the main instrument(s) for collecting data from the respondents, Schindler and Cooper (2001). Secondary data relating to VAT revenue collection among the selected manufacturing industries was obtained from KRA revenue reports. This obtained within medium taxpayer's office based in Upper hill Ushuru towers building. Thirty selected companies that had been subjected to tax audit were analyzed and report tabulated for further analysis

### **3.7 Data collection procedure**

The study adopted time series data collection method to determine the effect of tax audit on VAT revenue collection in Kenya. Secondary data was collected from medium taxpayer office. The researcher obtained from MTO office a summary report of 2015/2016 audit. The researcher then did an investigation of what the firms did and excluded firms that were not in the manufacturing sector and also those in manufacturing sector not registered for VAT due to their nature of operations. The researcher was left with a list of 30 firms. From there, the researcher looked at the VAT returns of the selected firms in the iTax system and noted the revenue that was declared in the year 2014/2015, 2015/2016 and 2016/2017.

### **3.9 Data analysis**

The secondary data obtained from the audit section were run in SPSS software tool and multiple regression was used in the examination. The analyzed data were presented in form of tables. The mean was obtained and the data was further subjected to correlation test, regression test and coefficient test.

#### **3.9.1 Analytical Model**

Regression analysis was used. Regression measures the causal relationships between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable. The study also adopted multi regression model to determining the impact of tax audits on VAT revenue collection.

The research analytical model is depicted by the equation given below:

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

Where:

$Y$  = VAT revenue collection

$\beta_0$  = constant (coefficient of intercept)

$X_1$  = Desk audit

$X_2$  = Field audit

$X_3$  = Compliance audit

$\beta_1, \beta_2, \beta_3$  = regression coefficients.

$\pi$  = error term, takes into account all the possible factors that would possibly influence the dependent variable though not captured in the model

## CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

### 4.0 Introduction

This chapter discuss the findings made in the study, it gives an illustration of the descriptive statistics in terms of proportional number of companies audited, the average amount of VAT collected in the companies before, during and after the auditing period, the change in VAT collected based on the three types of audit used, and to answer the research questions and objectives, a regression analysis of the change in VAT collected in the companies as a result of the type of audit carried out.

### 4.1 Proportion of companies audited on field audit

Out of the 30 companies sampled in the study, the proportional distribution of the companies in terms of the number which had a desk audit carried out in them was as shown in Table 4.1;

**Table 4.1.1 Proportion of companies audited field audit**

<b>Desk Audit</b>	<b>Frequency</b>	<b>Percentage</b>
Audit Not Carried Out	8	26.7
Audit Carried Out	22	73.3
Total	30	100.0

The results shown in table 4.1, illustrates that a good number of companies had field audit carried out in them. In terms of field audit, the results were as illustrated in Table 4.2;

**Table 4.1.2 Proportion of companies audited on desk tax audit**

<b>Field Audit</b>	<b>Frequency</b>	<b>Percentage</b>
Audit Not Carried Out	11	36.7
Audit Carried Out	19	63.3
Total	30	100.0

It is also evident in table 4.2, that a significant number of companies were desk audited. Lastly the distribution in terms of compliance audit was as illustrated in Table 4.3;

**Table 4.1.3 Proportion of companies audited on compliance tax audit**

<b>Compliance Audit</b>	<b>Frequency</b>	<b>Percentage</b>
Audit Not Carried Out	6	20.0
Audit Carried Out	24	80.0
Total	30	100.0

The results shown in table 4.3, also illustrates that a significant number of companies were compliance audited. Comparing the results in three figures above, it can be seen that compliance audit was the most carried out type of audit in the sampled companies, followed by field audit and the desk audit. Given the proportional variation in the types of audit carried out, it is evident that out of 30 sampled companies in the study, at least one audit had been carried out among the three types of audit therefore the sampled companies had sufficient data to help with the investigation in the study which was seeking to determine the impact of audit in revenue collection.

## **4.2 Revenue Collection**

The descriptive statistics of the amount of VAT collected in millions of Kenyan Shillings, before audit, during and after audit was as illustrated in table 4.1;

**Table 4.2.1 Revenue collection on a three years span**

	Number of companies	Minimum	Maximum	Mean	Std. Deviation
Initial VAT collected	30	8.66	133.39	56.57	33.29
VAT collected During Audit	30	17.39	143.66	69.23	35.66
VAT collected After Audit	30	27.28	171.68	87.87	37.92

The findings illustrated by table 4.1, shows that the amount of revenue collected by KRA from the companies increases all the way during and after audit. Based on the results, the average revenue before auditing was 56.57 million, which shifted to 69.23 million during audit and to 87.87 million after audit. The 95% confidence interval for the average VAT collected from similar companies before auditing shows that the VAT was between  $56.57 \pm 11.92$  million, during auditing it was  $69.23 \pm 12.76$  million and after auditing it was  $87.87 \pm 13.56$  million. This illustrates an average increase in the amount of VAT collected in general as a result of audit.

### 4.3 Correlation Analysis

**Table 4.3.1 Correlation Coefficient**

		Desk audit	Field audit	Compliance audit	
<b>VAT revenue collection</b>	Pearson Correlation (2-tailed)	1.000			
<b>Field Audit</b>	Pearson Correlation (2-tailed)	.662**	1.000		
		0.14			
<b>Compliance audit</b>	Pearson Correlation (2-tailed)	.718**	.	.1000	
		0.072	.0358		
<b>Desk Audit</b>	Pearson Correlation (2-tailed)	.558	.711	.531	.1000
		001	0021	042	.

N=30

Correlation significant at the level of 0.05 level(2-tailed)

Using Statistical Package for Social Sciences software for data analysis, Correlation analysis was used to describe the relationship between VAT collection and Desk tax audit, Field tax audit and compliance tax audit as shown above. The table below clearly shows that there is a significant positive relationship between desk audit and field audit ( $r=0.662$ ,  $p<0.05$ ). This could be due to the fact the two function goes in hand in hand. To conduct field audit, you need to conduct a preliminary desk audit while conducting risk profile and after the work the officer has to carry out desk audit again to monitor the transaction. Desk audit and compliance audit shows positive

correlation  $r=0.558$ ,  $p<0.05$ ). The finding from the correlation analysis also shows a weak positive correlation between field audit and compliance audit ( $r=0.718$ ,  $p<0.05$ ).

However, desk audit and VAT revenue collection were found to be relatively weak correlation compared to the rest. This could be explained by the fact that majority of tax payers would only declare the correct amount if the tax officers visited their premises and therefore desk audit still could not yield much result as far as tax audit is concerned. The relationship shows ( $r=0.558$ ,  $p<0.05$ ). While compliance audit and revenue collection show the highest positive significant level of ( $r=0.718$ ,  $p<0.05$ ).

#### 4.4 Regression Analysis

In a bid to determine the effect of tax audit on VAT revenue collection, multiple linear regression analysis was utilized to describe the relationship of desk tax audit, field tax audit and compliance tax audit on VAT revenue collection. Table 4.3.1 displays the values of R and R<sup>2</sup>. R is the correlation coefficient which shows the relationship between the study variables. R squared is coefficient of determination which describes the variables in the dependent variable in case of any alteration in the independent variable. Adjusted R squared was used to determine any unbiased estimate of the population. Predictors: desk audit, Field audit and compliance audit when constant.

**Table 4.4.1 Regression Model Summary**

Model	R	R Squared	Adjusted Squared	R
1	.782 <sup>a</sup>	.611	.607	.638

a. Dependent Variable: VAT revenue collection

b. Predictors: (Constant) Desk audit, Field audit, Compliance audit

The findings in table 4.3.1 depict that the value of R squared was 0.611 which explain the variation of 61.1% on VAT revenue collection at 95% confidence level. This can be interpreted as 61.1 % change on VAT revenue collection are contributed by the predators which include; Desk audit, field audit and compliance audit. The remaining 38.9 % could be explained by other variables not accounted for in this study. This indicate a true effect of tax audit on revenue collections. R denotes to the correlation coefficient. This value portrays the point of relation between the VAT revenue collection and the three types of audit used in the study It can vary between 1 to-1. In this study, R is 0.782, which is an indication of a strong positive correlation VAT revenue collection and tax audit such Desk audit , Field audit and Compliance audit. From the findings it can be interpreted that tax audit has a significant effect on VAT revenue collection.

#### 4.4.2 Analysis of Variance

**Table 4.4.2: Analysis of Variance**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig</b>	
<b>1</b>	Regression	28.929	3	9.647	10.938	0001b
	Residual	492.156	557	.882		
	Total	521.095	560			

a. Dependent Variable: VAT revenue collection

b. Predictors: (Constant) Desk audit, Field audit, Compliance audit

Table 4.4 shows the level of significance of the regression estimation model. The analysis shows that the model adopted was significant in expounding the relationship between the above-mentioned model at 5% level of significance. Analysis of variance shows that F is 10.938 >0.001. This implies that the regression equation was well defined. The coefficient of the regression indicates that there was a strong relationship between VAT collection and Desk audit and Field audit and compliance audit. The analysis of variance of the predictors of the model has a significance of 0.001 which is less than P-value Of 0.05 and also within the acceptable range.

#### 4.5.1 Regression of Model Coefficients

**Table 4.5.1 Regression Model Coefficients**

Model	Unstandardized		Standardized	T	Sig
	Coefficients		Coefficients		
	B	Std Error	Beta		
Constant	1.017	.981		1.134	0.000
Desk audit	.563	.520	.613	.576	0.002
1 Field audit	.682	.685	.637	.655	.0001
Compliance audit	.825	.769	.874	.837	.0000

a. Dependent: VAT collection

From in the table above displaying multiple regression, the equation

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \pi$  becomes:

$Y = 1.017+ 0563X_1 + 682X_2+ 0825 X_3$  Where:

Y = VAT revenue collection

$\beta_0$  = constant (coefficient of intercept)

$X_1$  = Desk audit

$X_2$  = Field audit

$X_3$  = Compliance audit

$\beta_1, \beta_2, \beta_3$  = regression coefficients.

$\pi$  = error term

The assumption coefficients ( $\beta_0$ ) demonstrates the influence of all the three-independent variable to the variation in the dependent variable. According to the regression equation established, holding all independent factors a constant then VAT revenue collection will be average (1.017). This constant is significant in the model as it has  $p=.000$  which is less than the 5% level of significance taken for this study.

### **Desk Audit**

As displayed on the table above. The result also indicates that desk audit ( $\beta= .563, p=.002$ ) has significant effect VAT revenue collection. This shows that when all the independent variables are constant, a unit increase in tax rate will lead to a .563 increase in VAT revenue collection.

### **Field Audit**

The results also depict that Field audit ( $\beta=0.682, p=.001$ ) has apposite significant effect on VAT revenue collection. This can be interpreted to mean that one unit improvement in Field audit will lead to a .682 VAT collection when all other factors remain constant .

### **Compliance Audit**

The results in addition indicates that compliance audit ( $\beta= 0.825, p=.000$ ) had a strong positive significance to revenue collection. This implies that when other independent variables are held constant, a unit increase in compliance audit will result to a .825 increase in VAT revenue collection.

From the analysis, all the three variables were found to have a positive significant level with compliance audit portraying the highest level of positive significance on VAT revenue collection at .825 followed by Field audit at .682. At third distance was desk audit showing the least significant effects of .563. This indicates that the model was effective in demonstrating the relationship between the different types of tax audit. The study resonates with a study done by Okoye (2013) which investigated the impact of tax audit on revenue income among tobacco manufacturers in Nigeria and found out that tax audit and practice can increase the revenue base of the government and can also minimise incidents of tax evasion in the country. The findings therefore conclude that all the three types of tax audit tested on the study does effect VAT revenue collection in Kenya.

## **CHAPTER FIVE CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This study aimed at establishing the effect of tax audit on VAT revenue collection in the manufacturing sector in Kenya. The types of audit considered for the study were desk tax audit, field tax audit and compliance tax audit. It also reviews the findings of the study done with specific reference to the topic variables. Research questions were used instead of research hypothesis. Data was analysed and the results interpreted and the findings were correlated with both theoretical literature, empirical literature and available. The summary was drawn based on the specific objectives. The recommendations were then outlined based on the conclusions and discussion of the findings.

### **5.2 Summary of the Findings**

The study findings reveal that the three-tax audit tested have a significant effect on VAT revenue collection in Kenya. The thirty companies selected all indicated a significant increase in VAT revenue collection as demonstrated by the report within a period of three years of study. This further suggests to the Kenya revenue Authority to revamp tax audit especially in VAT revenue collection to curb the tax crime such as tax evasion, undeclaring of Tax and over declaring of expenses. The findings also indicated on the R square, a variation 61.1 % on VAT revenue collection. Furthermore, the study demonstrates a strong positive relationship between the study variables, both independent and dependant variable. From the findings of the ANOVA, the study found that desk audit, Field audit and compliance audit positively influence VAT revenue collection. This resonates with the finding of Mebratu (2016) when conducting a study on the impact of tax audit on tax compliance in Ethiopia. Demonstrated in his study was a significant positive effect of tax audit on tax compliance. This therefore concurs with most of the studies done on the effect of tax audit as effective way of increasing revenue collection.

### **5.2.1 Desk tax audit**

The regression analysis had the lowest positive relationship between desk audit and VAT revenue collection with a significant level of 0.04. At 5% level of significance and 95% level of confidence, desk audit was the least among other variables. This could be explaining the ineffectiveness of desk audit in Kenya. For KRA to improve revenue collection they must not rely on desk audit but also focus more on other tax audit such as compliance audit and field audit. Furthermore, from the findings on correlation analysis, the study found that there was positive correlation between desk audit and VAT revenue collection at .563. This resonates with a study done by Devos (2014) which describes desk audit as a self-assessment tax system, which is significant for tax audits to function if efficiently used. This is due to the fact that they contribute to changing compliance behavior of taxpayers other than applying enforcement.

### **5.2.2 Field tax audit**

From the finding in chapter four above, the study findings reveals that there was strong positive relationship between field audit and VAT revenue collection with a significant level of 0.010. At 5% level of significance and 95% level of confidence, Field audit portrays the highest level of significant compared to the rest. This is due to fact that when tax auditors visit the taxpayers' premises, they are able to ascertain the accurate amount of tax due and this is therefore contributing to large amount of tax to be collected. Furthermore, from the findings on correlation analysis, the study found that there was a strong positive correlation between field audit and VAT revenue collection at .682 which was the second highest in the category. The findings resonated with Harelimana (2018) research on the impact of tax audit on revenue collection in Rwanda. The findings also reveal that field tax audit was more effective than other types of tax audits which were under investigation in Rwanda

### **5.2.3 Compliance tax audit**

From the findings it is clear that compliance tax audit has a significant effect on VAT revenue collection. The study depicts that there was a strong positive relationship between compliance audit and VAT revenue collection at 5% level of significance and 95% level of confidence. Compliance audit had the highest effect on VAT revenue collection. The correlation test also reveals a strong relationship between compliance audit and VAT revenue collection at 825. Compliance audit comprises a detailed investigation of all information applicable to the computation of a taxpayer's tax liability for a specified time. The main challenge of compliance is the cost involved in terms of time and expenses. The findings concurs with the Olaoye & Ayodele (2018) findings who examined the effects of tax audit on tax compliance in Ekiti State, Nigeria and the study reveals that indeed tax compliance has a positive effect on tax compliance.

### **5.2.4 VAT revenue collections**

From the audit report, it can be concluded that VAT revenue collection tremendously increased between the year 2014/2015 to the year 2016/2017 as a result of tax audit. This was mainly contributed by the three types of audit which includes; desk audit, field audit and compliance audit and the correlation result portrays an existence of a relationship among all the variables and VAT revenue collection. The interpretation indicated 61.1% VAT revenue collection can be explained by the independent variables which were all strong and had positive effect on excise duty collection. Significant level of all variables were less than a p-value of 0.05. VAT revenue collection is one of the taxes which are posing a challenge due to high level of undeclared and non-remittance of the VAT Tax collection. The findings agree with the study carried out by Niu (2010) which demonstrate a positive association between the audit and the voluntary compliance. The finding suggests that the audit productivity may be under estimated in

many studies in the literature. Therefore, tax audit is a very significant exercise which should be researched extensively and findings be made public for the scholar and revenue authority bodies.

### **5.3 Conclusion**

From the study it can be concluded that tax audit has a significant level of positive effect to VAT revenue collection. The study is supported by other several studies which have been done most of which are outside Kenya. When tax audit is adopted with clear objectives and with trained, professional and dedicated staff, VAT collection will increase tremendously. The three types of the tax audit tested all indicated a positive significant effect on VAT revenue collection. Kenya Revenue Authority therefore should invest on Tax audit with qualified and trustworthy staffs who possess high level of ethical values to collect the tax that are still being held by taxpayers

### **5.4 Policy Recommendations**

#### **5.4.1 Recommendation on Desk tax audit**

From the study findings, the researcher recommends a reconstitution of a strong department with qualified staff and those that possess ethical values to conduct audit based on VAT obligation only. In addition to this, the audit policy should be reviewed to incorporate emerging issues to ensure it can solve the current issues relating to audit in Kenya. The audit policy should govern the process of compliance audit stating the objective to be achieved, the structure governing the audit process and how frequent the audit process should be performed. In addition to this, Tax auditors should be subjected to special training such as paramilitary to ensure they can work in all regions and circumstances. The iTax system needs to be enhanced to ensure those who have trade in vatable products are captured in the system. Implementing Value Added Auto Assessment is a factor which is improving VAT revenue collection.

#### **5.4.2 Recommendation on field audit**

From the findings, it is highly recommended that field audit be done to be done more frequently to enable the KRA to improve VAT collection. The field audit should be properly monitored by officers of higher ranks to minimise chances of field officers colluding with the taxpayers and compromising the objective of the exercise.

In addition, the government and the national treasury should put in proper law governing those perpetrators of the law whether tax officers or taxpayers.

#### **5.4.3 Recommendation on compliance audit**

The government of Kenya and the tax authority should come up with a good tax policy that stipulates the process and procedures of compliance tax audit. In addition to this, the government should work on streamlining tax administration and allocation of funds to recruit more staff and reskill the staff to be able to carry out a comprehensive tax audit as stipulated in the tax procedures, governing acts, tax rates among other fundamental issues that influence taxes in and across the country's boundaries. The iTax system should be enhanced to enable automatic compliance check before taxpayers pay the tax due

#### **5.5 Suggestions for further study**

The study recommends further similar study in other sectors in Kenya. The study also recommends different approach of methodology to be used in similar research by using both primary and secondary methods of collecting data. Effect of tax audit should also be conducted on other tax head such as excise duty collection and income tax collection. Last but not least the study proposes a study on effect of tax audit on corporate tax on company listed on stock exchange

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## Appendix 1

No	TAXPAYER NAME	SECTOR
1	AFRICALLA LILLIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
2	BILA SHAKA CROWN	AGRICULTURE AND MANUFACTURING SECTOR
3	CHEMUSIAN COMPANY LTD	AGRICULTURE AND MANUFACTURING SECTOR
4	ENKASITI FLOWERS	AGRICULTURE AND MANUFACTURING SECTOR
5	GARDEN FLORA EXPORTS	AGRICULTURE AND MANUFACTURING SECTOR
6	KEIGOI TEA FACTORY CO LTD	AGRICULTURE AND MANUFACTURING SECTOR
7	LIKI RIVER FARM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
8	MAJI MAZURI FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
9	OLERAI LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
10	PENTA TANCOM	AGRICULTURE AND MANUFACTURING SECTOR
11	SCHREURS EAST AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
12	THE EAST AFRICAN SEED COMPANY LTD	AGRICULTURE AND MANUFACTURING SECTOR
13	XPRESSIONS FLORA LTD	AGRICULTURE AND MANUFACTURING SECTOR
14	AGRIFLORA (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
15	BLACK PETALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
16	CREATIVE ROSES LTD	AGRICULTURE AND MANUFACTURING SECTOR
17	EQUATOR FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
18	GREENLANDS AGROPRODUCERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
19	KENYA CUTTINGS LTD	AGRICULTURE AND MANUFACTURING SECTOR
20	LIVE WIRE LTD	AGRICULTURE AND MANUFACTURING SECTOR
21	MAKINDU GROWERS & PACKERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
22	P. J DAVE FLORA	AGRICULTURE AND MANUFACTURING SECTOR
23	POLLEN LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
24	SHALIMAR FLOWERS (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
25	VALENTINE GROWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
26	ZENA ROSES LTD	AGRICULTURE AND MANUFACTURING SECTOR
27	AQUILA DEVELOPMENT COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
28	BLOOMING OASIS	AGRICULTURE AND MANUFACTURING SECTOR
29	DELAMERE ESTATES LTD	AGRICULTURE AND MANUFACTURING SECTOR
30	FAIRY FLOWERS KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
31	HARVEST LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
32	KENYA FRESH PRODUCE EXPORTERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
33	LONGONOT FARM LTD	AGRICULTURE AND MANUFACTURING SECTOR
34	MARIDADI FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
35	P J DAVE EPZ LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

36	PRESSMAN HBV (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
37	SOLO PLANT LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
38	VAN KLEEF	AGRICULTURE AND MANUFACTURING SECTOR
39	BATIAN FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
40	BUDS AND BLOOMS LTD	AGRICULTURE AND MANUFACTURING SECTOR
41	DELAMERE HOLDINGS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
42	FARMERS WORLD LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
43	ISINYA ROSES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
44	KISIMA FARM LTD	AGRICULTURE AND MANUFACTURING SECTOR
45	MAASAI FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
46	MOSI FLOWERS	AGRICULTURE AND MANUFACTURING SECTOR
47	P J DAVE FLOWERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
48	PRIGAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
49	SOUTH SIOUX FARMS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
50	WILMAR AGRO LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
51	BEAUTY LINE LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
52	CARNATION PLANTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
53	DOMINION FARMS LTD	AGRICULTURE AND MANUFACTURING SECTOR
54	FIDES	AGRICULTURE AND MANUFACTURING SECTOR
55	KABIANGA DAIRY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
56	KORDES ROSES EAST AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
57	MAGANA HOLDINGS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
58	MWAGU ANIFEEDS LTD	AGRICULTURE AND MANUFACTURING SECTOR
59	PANDA FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
60	REDLAND ROSES	AGRICULTURE AND MANUFACTURING SECTOR
61	STOCKMAN ROZEN KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
62	WILDFIRE LTD	AGRICULTURE AND MANUFACTURING SECTOR
63	BIGOT FLOWERS KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
64	CHANNAN AGRICULTURAL CONTRACTORS KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
65	DWA ESTATES	AGRICULTURE AND MANUFACTURING SECTOR
66	FLORENSIS KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
67	KAREN ROSES LTD	AGRICULTURE AND MANUFACTURING SECTOR
68	LATHYFLORA KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
69	MAHEE FLOWERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
70	OCEAN AGRICULTURE (EA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
71	PANOCAL INTERNATIONAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
72	SCHREURS NAIVASHA LTD	AGRICULTURE AND MANUFACTURING SECTOR
73	TERRASOL KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
74	WINCHESTER FARM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
75	ISINYA FLOWERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
76	BLUE WAVE	AGRICULTURE AND MANUFACTURING SECTOR
77	FLAME TREE AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
78	JULIO INVESTMENTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
79	LUMAT COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
80	NATURES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
81	PIONEER FOODS	AGRICULTURE AND MANUFACTURING SECTOR

82	UNI-PLASTICS LTD	AGRICULTURE AND MANUFACTURING SECTOR
83	CANON CHEMICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
84	FRM (E .A) PACKERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
85	JUST JUICE ENTERPRISES	AGRICULTURE AND MANUFACTURING SECTOR
86	MANHAR BROTHERS (K ) LTD	AGRICULTURE AND MANUFACTURING SECTOR
87	NIGHTROSE COSMETIC (1971)LTD	AGRICULTURE AND MANUFACTURING SECTOR
88	PYRAMID PACKAGING	AGRICULTURE AND MANUFACTURING SECTOR
89	USAFI SERVICES LTD	AGRICULTURE AND MANUFACTURING SECTOR
90	ALISON PRODUCTS (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
91	CRYSTAL WORLD AGENCIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
92	GRAND BEVERAGES LTD	AGRICULTURE AND MANUFACTURING SECTOR
93	KEDSTAR INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
94	MASHWA BREWERIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
95	OASIS LTD(TROPIKAL BRANDS (AFRIKA) LIMITED)	AGRICULTURE AND MANUFACTURING SECTOR
96	RUBI PLASTICS	AGRICULTURE AND MANUFACTURING SECTOR
97	VINEPACK INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
98	ALPINE COOLERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
99	CRYWAN ENTERPRISES	AGRICULTURE AND MANUFACTURING SECTOR
100	HOMEBOYZ ENTERTAINMENT LTD	AGRICULTURE AND MANUFACTURING SECTOR
101	KENYA ORCHARDS LTD	AGRICULTURE AND MANUFACTURING SECTOR
102	MDI LTD	AGRICULTURE AND MANUFACTURING SECTOR
103	PATIALA DISTILLERS (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
104	SBC	AGRICULTURE AND MANUFACTURING SECTOR
105	ZHENG HONG KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
106	AMSTEL TRADING COMPANY	AGRICULTURE AND MANUFACTURING SECTOR
107	EUROPEAN PERFUMES	AGRICULTURE AND MANUFACTURING SECTOR
108	HYDROLAB	AGRICULTURE AND MANUFACTURING SECTOR
109	KIFARU INDUSTRIES	AGRICULTURE AND MANUFACTURING SECTOR
110	MIBBS VENTURES	AGRICULTURE AND MANUFACTURING SECTOR
111	PEARLY WATERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
112	STYROPLAST LTD	AGRICULTURE AND MANUFACTURING SECTOR
113	BISCEPT LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
114	FAI AMARILLO LTD	AGRICULTURE AND MANUFACTURING SECTOR
115	JETLAK FOODS	AGRICULTURE AND MANUFACTURING SECTOR
116	LAARE SPRINGS K LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
117	MILLY FRUITS PROCESSOR LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
118	PENBON ENTERPRISES	AGRICULTURE AND MANUFACTURING SECTOR
119	TOP RANK INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
120	ALPHA KNITS LTD	AGRICULTURE AND MANUFACTURING SECTOR
121	BAGS AND BALERS MANUFACTURES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
122	BUYLINE INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
123	COATES BROTHERS (E A) LTD	AGRICULTURE AND MANUFACTURING SECTOR
124	CRAFTSMAN ENTERPRISES (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
125	DIAMOND CHEMICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
126	EAST AFRICAN EDUCATIONAL PUBLISHERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

127	FARMCHEM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
128	GRAND PAINTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
129	HWAN SUNG INDUSTRIE KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
130	KEL CHEMICALS LTD	AGRICULTURE AND MANUFACTURING SECTOR
131	KWALE INTERNATIONAL SUGAR COMPANY LTD	AGRICULTURE AND MANUFACTURING SECTOR
132	MATCH MASTER LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
133	MINERAL ENTERPRISES LTD	AGRICULTURE AND MANUFACTURING SECTOR
134	NARCOL ALLUMINIUM ROLLING MILLS LTD	AGRICULTURE AND MANUFACTURING SECTOR
135	PACKAGING MASTERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
136	PRESSMASTER LTD	AGRICULTURE AND MANUFACTURING SECTOR
137	ROTO MOULDERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
138	SILVER STAR MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
139	TECHNO STEEL INDUSTRIES	AGRICULTURE AND MANUFACTURING SECTOR
140	ULTRAVETIS EAST AFRICA LTD	AGRICULTURE AND MANUFACTURING SECTOR
141	VETERAN PHARMACEUTICALS LTD	AGRICULTURE AND MANUFACTURING SECTOR
142	ANGELICA MEDICAL SUPPLIES	AGRICULTURE AND MANUFACTURING SECTOR
143	BANBROS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
144	CABRO EAST AFRICA	AGRICULTURE AND MANUFACTURING SECTOR
145	COLOUR PACKAGING LTD	AGRICULTURE AND MANUFACTURING SECTOR
146	DAFRA PHARMA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
147	DILPACK KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
148	ECONOMIC INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
149	FIT TIGHT FASTNERS	AGRICULTURE AND MANUFACTURING SECTOR
150	HEAVY ENGINEERING LTD	AGRICULTURE AND MANUFACTURING SECTOR
151	IMPALA GLASS INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
152	KENS METAL INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
153	LABH SINGH HARNAM SINGH LTD	AGRICULTURE AND MANUFACTURING SECTOR
154	MAYFEEDS (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
155	MODANA PHARMACEUTICALS LTD	AGRICULTURE AND MANUFACTURING SECTOR
156	NAS PLASTICS LTD	AGRICULTURE AND MANUFACTURING SECTOR
157	PAPER CONVERTERS KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
158	PROGRESSIVE INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
159	RUPA MILLS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
160	SUPA BRITE LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
161	TECHPAK INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
162	UNISEL PHARMA (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
163	WEETABIX EAST AFRICA LTD	AGRICULTURE AND MANUFACTURING SECTOR
164	ARCOS MATTRESSES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
165	BIODEAL LAB LTD	AGRICULTURE AND MANUFACTURING SECTOR
166	CANDY KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
167	COMET PLASTICS LTD	AGRICULTURE AND MANUFACTURING SECTOR
168	DAWA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
169	DORALCO KENYA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
170	ELGITREAD (KENYA) LIMITED (now treadsdirect limited)	AGRICULTURE AND MANUFACTURING SECTOR
171	FLAMINGO TILES	AGRICULTURE AND MANUFACTURING SECTOR

172	HEBATULLAH BROTHERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
173	INDUSTRIAL PROMOTION SERVICES (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
174	KENSALT LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
175	LAKE TURKANA WIND POWER LTD	AGRICULTURE AND MANUFACTURING SECTOR
176	MEDISEL KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
177	MODERN LITHOGRAPHIC KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
178	NATIONWIDE ELECTRICAL INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
179	PLASTIC PRODUCTS CO LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
180	RADBONECLARK KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
181	SAICARE ENTERPRISES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
182	SYNERGY GASES KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
183	THE JOMO KENYATTA FOUNDATION	AGRICULTURE AND MANUFACTURING SECTOR
184	UNITED BAGS MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
185	WELLCOME TRUST RESEARCH LABORATORIES	AGRICULTURE AND MANUFACTURING SECTOR
186	ARKAY INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
187	BOSKY INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
188	CATALYST CHEMICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
189	COMPLAST INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
190	DEEPA INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
191	DREAMCOAT AUTOMOTIVE REFINISHING PRODUCTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
192	ENNSVALLEY BAKERY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
193	FRIENDSHIP CONTAINER MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
194	HENKEL POLYMER CO LTD TRADING AS HENKEL CHEMICALS E	AGRICULTURE AND MANUFACTURING SECTOR
195	JUMBO FOAM MATTRESS INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
196	KENWEST CABLES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
197	LONGHORN KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
198	MEGH CUSHION INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
199	MOUNT MERU MILLERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
200	OCEAN ENGINEERING WORKS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
201	POLY SACK KTD	AGRICULTURE AND MANUFACTURING SECTOR
202	RAZCO LTD	AGRICULTURE AND MANUFACTURING SECTOR
203	SALAMA PHARMACEUTICALS	AGRICULTURE AND MANUFACTURING SECTOR
204	SYNRESINS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
205	TOP PAK LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
206	VALUE PAK FOODS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
207	WIRE PRODUCTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
208	A PLUS PVC TECHNOLOGY COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
209	AUTO SPRINGS MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
210	BOUNTY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
211	CHEMICAL AND SOLVENTS (E A) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
212	CONINX INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
213	DELUXE INKS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

214	DUNE PACKAGING LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
215	ESLON PLASTICS OF KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
216	GALAXY PAINTS & COATINGS LTD	AGRICULTURE AND MANUFACTURING SECTOR
217	HIGH CHEM EAST AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
218	KARSAM SERVIETTES COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
219	KENYA HYDRAULICS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
220	MACMILLAN KENYA (PUBLISHERS) LTD	AGRICULTURE AND MANUFACTURING SECTOR
221	MELVIN MARSH INTERNATIONAL	AGRICULTURE AND MANUFACTURING SECTOR
222	MURINGA HOLDING LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
223	OCEANIC OIL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
224	POLYFLEX INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
225	REGAL PHARMACEUTICALS LTD	AGRICULTURE AND MANUFACTURING SECTOR
226	SANA INDUSTRIES COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
227	TARPO INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
228	TROPICAL SUNSHINE PRODUCTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
229	VARIETY FLOORING WORKS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
230	WONDERNUT KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
231	AFRO PLASTICS (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
232	BAG AND ENVELOPE CONVERTERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
233	BULLPAK LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
234	CHODA FABRICATORS LTD	AGRICULTURE AND MANUFACTURING SECTOR
235	CONTINENTAL PRODUCTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
236	DERA CHEMICAL INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
237	EAGLE INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
238	EUROPA HEALTHCARE LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
239	GOLDEN BISCUITS (1985) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
240	HOMA LIME CO LTD	AGRICULTURE AND MANUFACTURING SECTOR
241	KARTASI INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
242	KENYA SWEETS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
243	MALINDI SALT WORKS LTD	AGRICULTURE AND MANUFACTURING SECTOR
244	MIDCO TEXTILES (EA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
245	MUSTEK EAST AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
246	PACKAGING MANUFACTURES (1976) LTD	AGRICULTURE AND MANUFACTURING SECTOR
247	PREMIER COOKIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
248	RHINO SPECIAL PRODUCTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
249	SANPAC AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
250	TECHNO PLAST LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
251	UCHUMI CHEMICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
252	VENUS METAL DEVELOPERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
253	THE BREAKFAST CEREAL COMPANY (KENYA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
254	ABYSSINIA IRON AND STEEL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
255	ALPHA GRAIN MILLERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
256	BETA BAKERS COMPANY LTD	AGRICULTURE AND MANUFACTURING SECTOR
257	CELLO THERMOWARE LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
258	DIPCHEM EAST AFRICA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

259	GLACIER PRODUCTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
260	KEITT EXPORTERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
261	KINANGOP DAIRY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
262	LINCO STORES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
263	MEGA PACK (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
264	OSHO GRAIN MILLERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
265	PREMIER TRADING CO LTD	AGRICULTURE AND MANUFACTURING SECTOR
266	QUALITY MEAT PACKERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
267	SAAB ENTERPRISES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
268	SIGMA FEEDS LTD	AGRICULTURE AND MANUFACTURING SECTOR
269	STAR FLOWERS KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
270	TOSHA PRODUCT KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
271	VESTERGAARD FRANDSEN (EA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
272	ABCOS INDUSTRIAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
273	ADIX PLASTICS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
274	ARICHEM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
275	BIO CORN PRODUCTS EPZ	AGRICULTURE AND MANUFACTURING SECTOR
276	CENTRAL ELECTRICAL INTERNATIONAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
277	ECONOMY FARM PRODUCTS (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
278	GLOBE PHARMACY LTD	AGRICULTURE AND MANUFACTURING SECTOR
279	KEN KNIT KENYA LTD	AGRICULTURE AND MANUFACTURING SECTOR
280	KINGS COMMODITIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
281	MADHUPAPER (K) LTD	AGRICULTURE AND MANUFACTURING SECTOR
282	METAL CANS & CLOSURES KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
283	PAN PHARMACEUTICALS LTD	AGRICULTURE AND MANUFACTURING SECTOR
284	PRIME STEEL MILLS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
285	RAJCHEM POLYMERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
286	SAHAJANAND ENTERPRISES LTD	AGRICULTURE AND MANUFACTURING SECTOR
287	SIGMA SUPPLIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
288	SUNPAR PHARMACEUTICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
289	TRICHAMP INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
290	VIVEK INVESTMENTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
291	AKIYDA TWO THOUSAND LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
292	ASHTON APPAREL EPZ LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
293	BOOTH EXTRUSIONS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
294	CHANIA FEEDS MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
295	ELDOHOSP PHARMACEUTICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
296	GOLD CROWN BEVERAGES KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
297	KENYA TENTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
298	KISUMU CONCRETE PRODUCTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
299	MAMA MILLERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
300	NAKU MODERN FEEDS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
301	PATCO INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
302	PROCTOR & ALLAN (EA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
303	RANGEHEM PHARMACEUTICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

304	SALUTE HOLDINGS LTD	AGRICULTURE AND MANUFACTURING SECTOR
305	SILKER AGENCIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
306	SUNTAN LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
307	UNICORN PHARMA (K ) LTD	AGRICULTURE AND MANUFACTURING SECTOR
308	WARIDI LTD	AGRICULTURE AND MANUFACTURING SECTOR
309	ALLIANCE GARMENT INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
310	AUTO ANCILLARIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
311	BRUSH MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
312	COAST METALS TRADERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
313	EQUATORIAL NUT PROCESSORS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
314	HALAR INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
315	KENYA VEHICLE MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
316	KONGONI RIVER FARM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
317	MANIPAL INTERNATIONAL PRINTING PRESS LTD	AGRICULTURE AND MANUFACTURING SECTOR
318	NAKURU TANNERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
319	PIPE MANUFACTURERS LTD	AGRICULTURE AND MANUFACTURING SECTOR
320	PROMASIDOR (KENYA) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
321	RIPPLE PHARMACEUTICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
322	SARRCHEM INTERNATIONAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
323	SLAPPER SHOE INDUSTRIES LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
324	TECHPACK KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
325	UNITED FOOTWEAR LTD	AGRICULTURE AND MANUFACTURING SECTOR
326	WOOD PRODUCTS (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
327	ALLTEX EPZ LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
328	BAHATI INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
329	CANON ALUMINIUM FABRICATORS LTD	AGRICULTURE AND MANUFACTURING SECTOR
330	COLOUR LABELS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
331	FISH PROCESSORS (TWO THOUSAND) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
332	INTERLINK PETROLEUM LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
333	KEPPEL INVESTMENTS LTD	AGRICULTURE AND MANUFACTURING SECTOR
334	L G HARRIS & CO (EA) LTD	AGRICULTURE AND MANUFACTURING SECTOR
335	MAROO POLYMERS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
336	NDUKI AGROCHEMICAL COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
337	PLANTATION PLANTS KENYA LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
338	PROTEX KENYA EPZ LTD	AGRICULTURE AND MANUFACTURING SECTOR
339	RODS & STEEL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
340	SELECTA KENYA GMBH & CO KG	AGRICULTURE AND MANUFACTURING SECTOR
341	SPECIALIZED ALUMINIUM RENOVATORS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
342	THERMOPAK LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
343	VALLEY CONFECTIONERY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
344	ZINGO INVESTMENTS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
345	ALPHA FINE FOODS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
346	BAKHRESA GRAIN MILLING (K) LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
347	CAPRIN STATIONERS LTD	AGRICULTURE AND MANUFACTURING SECTOR

348	CYNENERGY COMPANY LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
349	GALAXY PHARMACEUTICAL LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
350	IPS CINERGY	AGRICULTURE AND MANUFACTURING SECTOR
351	KHS EA LTD	AGRICULTURE AND MANUFACTURING SECTOR
352	LEGORN FEEDS INTERNATIONAL LTD	AGRICULTURE AND MANUFACTURING SECTOR
353	MEDISEL NAIROBI LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
354	NITRO CHEMICALS LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
355	POLYTANKS LTD	AGRICULTURE AND MANUFACTURING SECTOR
356	PWANI FEEDS LTD	AGRICULTURE AND MANUFACTURING SECTOR
357	ROSETO LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
358	SHREE SAI INDUSTRIES LTD	AGRICULTURE AND MANUFACTURING SECTOR
359	SPICE WORLD LIMITED	AGRICULTURE AND MANUFACTURING SECTOR
360	THIKA CLOTH MILLS LTD	AGRICULTURE AND MANUFACTURING SECTOR
361	VERT LIMITED	AGRICULTURE AND MANUFACTURING SECTOR

## Appendix 2



KENYA REVENUE  
AUTHORITY

ISO 9001:2015 CERTIFIED

REF: KESRA/NRB/028

12<sup>th</sup> March, 2019

TO WHOM IT MAY CONCERN

**RE: MONICAH NYAMURWA MAGOTHE- REG. NO. HDB336-CO16-2162/2016**

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Post Graduate Diploma in Tax Administration.

The named student is undertaking Research on "Effects of Tax Audit on VAT Revenue Collection in the manufacturing sector."

The purpose of this letter is to request your good office to assist the above student with the information on Audited Tax Payers to enable her finalize her project.

Thank you.



Dr. Marion Nekesa,  
Head Research & Post Graduate Studies(Tax)

KESRA

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*Tulipe Ushuru Tujitegemee !*

