THE EFFECT OF ENVIRONMENTAL FACTORS ON REVENUE COLLECTION IN KITUI COUNTY

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DECLARATION

This research project proposal is my original work and has not been presented for award of any degree in any University for examination purposes.

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D61/82238/2015

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

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DEDICATION

To my family for their never ending support to be the person I have become; here is to those friends who believed in me.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ANOVA   Analysis of Variance

CG's   County Governments

GOK   Government of Kenya

ICT   Information and communication Technology

KRA   Kenya Revenue Authority

LAIFORMS Local Authorities Integrated Financial Operations Management Systems

SBP   Single Business Permit

SPSS   Statistical Package for Social Science

USA   United States of America

ABSTRACT

This study aimed at establishing how environmental factors have an impact in collection of revenue in the county government of Kitui. The objectives under study were; staff competences, political interference, internal control and staff motivation. The study was undertaken in Kitui County government. The target population comprised of 216 respondents. A sample size of 65 was drawn from the population using stratified technique. The study used questionnaires to collect data from the respondents. The questionnaires were both open and closed ended. This was helpful since the respondents gave their opinion about the study objectives and it did not limit them. The questionnaires were designed to reflect the study variables. Descriptive statistics such as mean, standard deviation and frequency distribution was used to analyze the data. Presentation of data was done through pie charts and tables. The study established that staff competences, political, internal control and staff motivation had a significant influence on collection of revenue in Kitui County. Recommendations to the county government of Kitui were given by this study; if implemented could have a positive impact on revenue collection in the county. Some of the recommendations were: the county should offer training opportunities and refresher courses to its employees, adoption of E- revenue which would seal all revenue leakages and increase accountability of revenue collectors, sensitization of the community about the importance of paying taxes is helpful to curb and reduce tax evasion by traders.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is the primary source of income of a state. Taxation can be defined as a means in which a state gets revenue into its budget. A state cannot survive without taxing its citizens. This is because it has services to delivery to its people and also to fully operate effectively and efficiently (Akrani, 2010).The government collects taxes to provide the public with goods and services such as roads, law enforcement, schools, and hospitals. Before devolution, local authorities used to collect revenue. After devolution, counties took this responsibility given powers by the Kenyan constitution. There are 47 counties in Kenya. As stipulated in the constitution, the counties get their revenue from various sources. Some of these are rent, land rates and SBP's. These counties have revenue collection target depending on their revenue base (Ngugi, 2016).

To finance their operations, counties need to optimize their collection on revenue. Kitui is one of the 47 counties in Kenya. It has not been meeting its revenue target. The county has been facing a quite number of environmental challenges in revenue collection. These challenges are either external or internal. External challenges are those which an organization has no control of though they are manageable. On the other hand internal environmental factors are those which can be controlled.

These environmental factors have caused Kitui County to have huge fiscal gaps in its budget. This has affected its service delivery to its people. The county has been collecting much less than what the defunct authorities used to; a reason that necessitated this study.

This study will look at three theories that are relevant to this research; these are: agency theory, the ability to pay theory and the cost of service theory. The agency theory is a theory that explains relationship between a principal and an agent (Jensen and Meckling, 1976). The ability to pay theory states that taxes should be based upon the amount of money one earns. Those who earn more should pay higher taxes (Smith, 1776). Cost of service theory assumes that, cost incurred by a state to provide some of the services must be met by the people who benefit from the same. The tax burden should be equivalent to the benefit a taxpayer receives from a state (Smith, 1776).

1.1.1 Environmental Factors

An organization operates in both internal and external environment. Internal environment consist of those factors which an organization has control of such as internal controls, human resource, structure, culture of an organization, among other factors (Duricic, 2013). External environment is that environment which an organization has no control of for example political, social, demographic, economic environments which affect the operations of a firm (Isiac, 2014). Environmental factors can be measured using various aspects. Ataro (2016) undertook a study where he had internal controls as one of the factors that did affect revenue collection in Trans Nzoia County. He measured internal controls using organization structure, risk associated, integrity and commitment to competence. Internal factors like staff competence can be measured by staff skills and capabilities, information technologies, trainings among others. Staff motivation is also important in collection of revenue. It can be measured by working conditions, salary and wages just to mention a few.

1.1.2 Revenue Collection

The revenue can be defined as the income that the company receives from normal operations including service provision (Kirimi ,2013). Revenue is a source of income for county governments. Some of the sources of revenue in county governments are: single business permit, land rates, fees and charges, cess, rent, fines and penalties. Each county has its own Finance Act. This finance Act gives counties the mandate to collect revenue. After devolution the public was incorporated in matters of revenue. This is seen where the public is allowed to participate in preparation of County finance bill. The finance bill becomes an Act after county assembly approval. Revenue collected can be measured in terms of targets met, transparency, efficiency and effectiveness of revenue collection (Ataro, 2016).

1.1. 3 Environmental Factors and Revenue Collection

Environmental factors are very crucial when it comes to matters of revenue collection. These factors can impact revenue collection positively or negatively. These factors can be internal or external. Some of these factors are determinant of revenue collection.

Ataro (2016) undertook a study on factors affecting revenue collection in Trans Nzoia County. He established that competences of staff will affect revenue collection. Lack of staff competences has a negative impact on revenue collection because these staffs do not implement tax policies as it is required.

In his study, internal controls affect revenue collection. He established that lack of proper internal controls affect optimal revenue collection in that there will be loopholes for revenue leakages. Political inference is another environmental factor that affects optimal revenue collection. Political interference has a negative impact on revenue collection. Utterances of some politicians during rallies differ with tax legislation and thus jeopardizing tax yields (Kasozi, 2016).

1.1.4 Kitui County

Kenya's 2010 constitution created the county governments with a view of easing service delivery to Kenyans and to be better responsive to the needs of the citizens they serve (Ratanya, 2010). Kitui is among the 47 counties in Kenya. It has eight sub counties. The persons in charge of revenue collection in these sub counties are senior finance officers. The officers are usually given a revenue target to meet each financial year. Kitui County has twelve ministries including Kitui town and Mwingi Town administration which it recently incorporated. This county through ministry of Finance and Economic planning prepares the county finance bill each financial year. The bill goes through the process of public participation and through county assembly. After approval it becomes an Act which gives a legal backing to the county government to collect revenue (Ngugi, 2016). Internal controls being an environmental factor are applicable to matters of revenue collection In Kitui County. Internal controls are an example of internal environmental factor. Inspection of SBP's to ensure correct tax rates are charged is one of the internal controls.

LAIFORMS is also another control used in management of revenue. It monitors usage of accountable documents used for collecting revenue. Motivation is another factor that can impact revenue collection in this county. Motivation can be monetary or non- monetary. Staff competence is another factor that is applicable to revenue collection in Kitui. Skills and capabilities of staff should impact positively on revenue collection.

1.2 Research Problem

Environment is very important when it comes to operations of an organization. Those factors can be internal or external factors. An organization usually has strength and weaknesses.

Some of the strength can be, having effective internal controls, hiring competent staff among others. External factors can never be controlled but they can be properly managed. Some of these factors are: technological, political and legal factors among others (Duricic, 2013). Environment will have a big impact on revenue collection. Optimal revenue collection is dependent on both external and internal environmental factors (Ngugi, 2016).

Kitui County government is required by the Kenyan Constitution to mobilize revenue. This revenue should aid in financing their operations. However, there have been a number of challenges hence this county has not been able to optimize on revenue collection. This has caused the county to have a deficit in its budget. The taxes collected by the Kitui county government should be used in provision of services to the taxpayer.

These services include: construction and maintenance of markets, construction of drifts, maintenance of public slaughters, and construction of bus- parks to help control vehicles, improving health services, construction and maintenance of roads.

Counties have from the past over relied on the National government for funding their operations to the point of pushing for a referendum. The referendum was aimed to increase county funds to a minimum of 45 percent from the current 15. This clearly shows that their exist hitches in revenue collection in Kenya. Poor revenue collection contributes to huge fiscal gaps. County governments are facing challenges to fund their expenses. When these counties fail to optimally collect requisite revenue, the general public will be negatively affected by not getting services that are of importance. (Ngungi, 2016).Allocation by the national treasury is barely enough so is the revenue collected. There are factors that influence collection of revenue, a reason that necessitated this particular study.

A number of studies have been done in the field of tax mobilization: A research by (Ngungi, 2016) on factors influencing optimal revenue collection in Kiambu County revealed that public participation, legislation, technology and competency are some of the factors affecting optimal revenue collection in counties. On his part, Ndunda (2015) researched on factors influencing optimal revenue collection in counties. Further, Maina (2010) undertook a research on factors affecting revenue collection in Kenyan local authorities; he found out that some of the major factors affecting optimal revenue collection are effectiveness and efficiency.

From the above studies there has been little research on some of the environmental factors affecting revenue collection in Kenya. This study therefore will aim to bridge the gap by assessing how political interference, little or no motivation of staff absorbed from local authorities, lack of internal controls and staff competences affect optimal revenue collection. The study will aid in answering; what is the effect of environmental factors on revenue collection in Kitui county Government?

1.3 General Objective

To establish how environmental factors affect revenue collection in Kitui county Government.

1.3.1 Specific Objectives

i. To examine the effect of political interference in revenue collection.

ii. To examine the influence of staff motivation on collection of revenue.

iii. To establish how internal controls have an impact on revenue collection.

iv. To determine how staff competences influence revenue collection.

1.4 Value of the Study

A number of stakeholders including the County Government of Kitui, Kenya Revenue Authority, Controller of Budget, the office of the auditor general, national treasury officials and the researcher in the subject area will benefit from this study. The general control environment within the county government is fundamental in preventing income leakage and the general accountability of the collected funds.

This study will examine best practices in the environment that the County Government of Kitui can emulate. The study will also highlight the challenges in the environment hindering the optimal revenue collection. This would be of critical importance to the offices of the controller of budget, national treasury officials, Kenya Revenue Authority and the office of the auditor general as these are the bodies that have the capacity to assist the county governments in strengthening their processes, systems and procedures in the control environment for better revenue collection.

The study is expected to make recommendations to optimize revenue collection in Kitui County. This study will help the county to focus on the specific factors that have been generated; such recommendations should aid in achieving efficiency in revenue collection. The research findings will help the general public and the society to understand some of the factors that hinder optimum revenue collection in county governments.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical review that will be relevant to the study, empirical review from similar past studies and conceptual framework.

2.2 Theoretical Review.

This section will explore theories that are in line with the study.

2.2.1   The Agency Theory

Jensen and Meckling (1976) describe Agency Theory as the relationship between the principal and agents. The theory is concerned with delegating some decision making authority to the agent by the principal. Organizations must put measures and controls to ensure that the agents don't act in their self-interests or in a manner that jeopardizes the interests of the principal. Therefore policies, procedures, and technology must be put in place to ensure the agents faithful execution of their mandates (Leictich, 2012).

In relevance to this study, Agency theory aims at establishing the benefits of the relationship between the principal and the agent. Kitui County will be the principal and Kitui employees will be its agents. The principal monitors its agent's activities. This is with regards to the collection of revenue. County revenue staff collects revenue from traders in the county. They do this on behalf of their employer, the County government. The staff use the County finance Act to collect revenue. All the 47 counties in Kenya

have their own finance Act. These Acts are developed from Finance bills which pass through public participation and county assemblies.

2.2.2 Ability to Pay Theory

Ability to pay taxes is one of the theories of taxation. The theory was developed by Adam Smith in 1776. This theory states that taxes should be based upon the amount of money one earns. Those who earn more should pay higher taxes and the less income earners should pay less. This theory tends to charge tax on the traders ability to pay. The ability to pay theory is based on the assumptions that those who posses income or wealth should contribute to the support of public functions according to their relative abilities (Ebimobowei, 2012).

This theory is relevant to this study. One of the canons of taxation is the ability to pay. Traders must have that ability to pay for revenue to be collected. Kitui County should have proper, just and equitable tax structures to enable traders pay their taxes. The tax structures should not be complex but simple. This will avoid tax evasion and avoidance by traders. Kitui county government uses finance Acts to collect its revenue. For example in this county, the finance act is divided into five categories, that is: headquarter, mwingi town, sub counties, upcoming towns and other towns. Traders in these categories pay different rates of taxes for the same business. Business operators in the headquarter that is Kitui town dig dipper in their pockets with regards to tax matters compared to their counter parts in other remote towns. The ability to pay thus applies to the revenue collection in Kitui county government.

2.2.3 The Cost of Service Theory of Taxation

Cost of service theory assumes that, cost incurred by a state to provide some of the services must be met by the people who benefit from the same. The tax burden should be equivalent to the benefit a taxpayer receives from a state. This theory is based on the principle of equity and Justice (Smith, 1776).

The government collects taxes to provide the public with goods and services such as, law enforcement, and construction of slaughter houses, market sheds, roads, drifts, bus parks, public toilets, schools, and hospitals (Akrani, 2010). In relevance to this study, the Cost of service theory of taxation establishes the importance of traders to pay taxes. Counties collect revenue so as to provide services to the public. Traders should thus pay their tax obligations so as to enjoy these services. For instant, single business permit is the most common type of taxes collected by Kitui County from traders. These traders in turn get various benefits such as: construction of roads, bus parks, schools, hospitals, bridges, public toilets, parks, market sheds and public slaughter houses.

2.3 Determinants of Revenue Collection in Counties

Revenue collection is determined by several factors, among them: internal controls, staff competencies, staff motivation and political environment.

2.3.1 Internal Control

According to Hamed (2009), Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls

11

established by the management and whose purpose is the successful function of the business. The internal controls are therefore used by an organization's management to provide a reasonable assurance regarding the effectiveness and efficiency of operations, the reliability of the financial reporting and the compliance of the applicable laws and regulation (Okiro, 2013). In his study carried out in Nairobi County, he established that proper internal controls have a positive impact on revenue collected.

The study found an increase in the revenue collected by the County Government of Nairobi after the introduction of the ICT solutions in term of e payment of service. This shows internal controls has an impact on collection of revenue in counties.

2.3.2 Staff Competences

The empirical findings suggested that staff competences are important determinant of revenue collection. Ngugi (2016) did a research in Kiambu County on factors that affect revenue collection. Staff competences was one of the factors he established determined optimal collection of revenue. In his study staff competences can be measured by skills and capabilities staff possess. Effective training does improve productivity of county staff. Training does equip staffs on knowledge on matters of tax legislation. This will aid these staff to charge the correct tax amount on traders leading to effectiveness and efficiency in revenue collection. Some counties like Nairobi have adopted E- revenue. Okiro (2016) established in his study that staff competences will affect revenue collection directly.

Staffs who aren't conversant with technology find it a challenge in their duty of collecting revenue. He established that staffs that are competent reported high revenue collection. The author did conclude staff competence can be enhanced through training. Training will have a positive impact on staff knowledge which will lead to optimal, effective and efficient collection of revenue in counties.

2.3.3 Political Environment

According to Kasozi (2016) political interference has a negative impact on revenue collection. He established that utterance of some politicians on tax policies are contrary to the stipulated tax legislation.

This will thus lead to low revenue collection. Independence of revenue collection is also jeopardized. This will in the end affect operations of revenue sections in an organization. Revenue staff are intimidated by these politicians and given threats. Hence the staffs are not able to make sound decisions and their overall performance and productivity is greatly affected. In his study Kasozi (2016) concluded that revenue collection is affected by interference of politicians thus revenue fall short of the targets set.

2.3.4 Staff Motivation

Motivation of staff has a big impact on revenue collection. Motivated staffs usually are more productive compared to those that aren't. Motivated staffs also go that extra mile to ensure an organization meets its goals and objectives. This clearly shows staff motivation is one of the determinants of optimal revenue collection in Counties. Motivation can be monetary or no- monetary. Non-monetary motivation can be in terms of: recognition, job

enrichment, working conditions, delegation, and appreciation among others. Some of the monetary incentives are: profit sharing, financial incentives, bonus, salary, and wage. In their study Deci and Ryan (1985) found out that there is a positive relationship between motivation of staff and performance of staff in an organization.

2.4 Empirical Review

This section will examine previous literature on the influence of environmental factors on revenue collection.

Roach (2010) did a research on taxes in the United States of America; History, Fairness, and Current political issues. The research was intended to provide basic understanding of political, economic and social context of the entire USA tax system.

The study found out that political leaders promote their agenda by using tax legislation by initiating various tax reforms. These reforms were not in line with the tax policies set. Roach (2010) established that political leaders interfere with tax legislation for there on political gain. Secondary data was used to collect relevant information. It was concluded that political interference affect tax collection.

Zhou (2013) did a research on Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe. Secondary data was used to get relevant information. The study found out that corruption had a negative impact on revenue collection in Zimbabwe. The study established that the creation of Zimbabwe Revenue Authority has unified tax collection however revenue leakages arising from smuggling, under invoicing has remained a major challenge.

The author concluded that staff competence is very crucial in revenue collection. Competent staffs comprehend tax laws and are able to charge the correct tax amount from traders.

Mtasiwa (2013) did a research on the factors causing inefficiency in tax revenue collection in Tanzania. Primary and secondary data were used. A sample size of 200 respondents including 100 Tanzania revenue workers and 100 tax payers was used. The study found out that the Tanzania Revenue Authority is facing revenue collection challenges due to tax evasion, tax avoidance, tax complexities, and misuse of tax exemptions extended to business traders by tax officials. Tax officials also faced challenges in administrating tax laws. Mtasiwa (2013) concluded that staff competences affect collection of revenue in Tanzania. Low competent staffs are not familiar with the existing tax legislation. This leads to low collection of revenue.

In the context of the effect of control environment on the revenue collection, Kigenda (2014) examined The Effect of Internal Controls on Revenue Collection by Local Administration Councils in Uganda. The control environment was examined through four metrics that is: management monitor of the of the implementation of the internal control system, integrity of the management in the execution of their duties, provision of feedback to the junior offices on the internal control systems dynamics and the delegation and follow up on the required actions to get feedback results on the performance of the delegated tasks. The study found out that control environment has an impact on revenue collection.

Kaffour (2015) on the study of Internal Control Functions and Revenue Collection at the Coca-Cola Bottling Company of Ghana Limited examined the relationship between control environment and revenue collection. Secondary data was used in this study. To measure the aspect of the control environment within the Coca- Cola bottling company, Kaffour examined on whether the management decisions were made collectively, existence of a code of ethics, communication levels on the internal control expectations and appropriate behaviors, and existence of the control system to test adherence to the given code of conduct. The study found out that internal controls have an impact on revenue collection.

In the context of the reforming tax policies and revenue mobilization Kafela (2009) examined the importance of simplicity and enforceable laws in the collection of taxes in East and West Africa. The countries under study were Ghana, Kenya, Ethiopia and Uganda. Secondary data was used to collect information. The author found out that educating taxpayers is of importance. Revenue collectors should be familiar with tax law. Educating staff will be very important since they will know the correct tax amount to charge on traders. The study concludes that developing countries have challenges implementing their tax systems.

Torome (2013) in his study examined the relationship between revenue mobilization and performance of Kenyan local Authorities. A descriptive research design was used. 175 local authorities was the target population. Secondary data was used to collect relevant information. Torome (2013) established that educating revenue staff is important.

The author concluded that budgeting has an impact on mobilization of revenue. The author recommends that collection of revenue should be privatized. This will ensure efficiency and effectiveness in collection.

Okiro (2013) did a research on The Effect of E Payment System on Revenue Collection in Nairobi County. The researcher examined impact of technology on revenue. Secondary data was used to collect relevant information. The study found that revenue collected did increase after the introduction of the ICT solutions in term of e payment of services. In this context, Okiro (2013) noted an increase in the revenue collection between 2014/2015 and the 2013/2014 financial years. However, not all revenue streams recorded an increase in revenue collection. This was attributed to poor introduction of the e payment system in those areas such as in the parking and rate collection areas.

Gaku (2014) did a research on The Relationship between Internal Control Systems and Revenue Collection. The study was carried out in Athi Water Services Board. The study used secondary data to collect data. This study used five aspects to measure the control environment including management monitoring of the implementation of control functions, degree of integrity of the management, management feedback, ethical values and financial management. The study found out the management closely monitored the implementation of internal controls though the responses were varied in relations to the management commitment to monitor implementation of internal controls.

Ngugi (2016) did a research on the factors affecting optimal revenue collection in Kiambu County. The study found out that public participation, legislation, staff competency and technology influence optimal revenue collection in Kenyan counties. The target population was 100 respondents. The research design adopted was descriptive design. The study used secondary data and questionnaires to collect relevant data. The author concluded that to achieve optimality in revenue collection, changes in technology must be embraced, realistic tax policies should be established, revenue staffs should be trained to comprehend these tax policies and apply them in revenue collection, the public should be involved in legislation of tax laws this is seen in public participation of county finance bill that is used in collection of revenue.

Ataro (2016) researched on the factors affecting revenue collection efficiency in Kenyan Counties. The research was carried out in Trans-Nzoia County. The author used stratified sampling technique. Secondary data was used. The target population was: employees and the management of the county government of Trans- Nzoia, revenue collectors, traders, Chief Officers, members of county assembly, county executive committee members, clerks to the assembly and the county secretary. The study found out that motivation and training of staff enhance the efficiency of revenue collection, employing strong audit systems and controls in managing revenue collected minimizes on loss of revenue collected.

2.5 Conceptual Framework

The research will be done to determine the expected relationship between various variables; that is the dependent variables and the independent variables.

Utterances of politicians at times differ with tax legislation of county governments jeopardizing tax yields and putting the independence of revenue collection in question (Kasozi, 2016).

Therefore this study will prove that there is an expected negative relationship between political interference and revenue collection. In his study Bird (1993) established that developing countries have numerous challenges administering tax. The researcher concluded that high illiteracy of revenue clerks will lead to low revenue collection. Lack of enough qualified staff puts a constraint in administration of tax. Tax clerks are at times not knowledgeable on tax laws and regulations.

Mwachiro (2013) in a study on the Effects of Internal Controls on Revenue Collection at KRA examined the aspect of control environment on revenue collection. The control environment was considered in terms of existence of management commitment of the operations systems, organizational structure, policies and procedures of an organization, review of periodic errors in the systems, and management integrity. The study did conclude that there is statistically significant positive relationship between the control environment and revenue collection. This implied that KRA should establish a sound and clean Control Environment to increase its collection target.

Staff motivation is an important element in management. Motivation can be monetary or non- monetary. Deci and Ryan (1985) established that when staffs are not motivated they are vulnerable to both internal and external challenges. This is because they don't go the extra mile with regards to their work. This will lead to underperformance of the organization. There is an expected positive relationship between staff motivation and revenue collection.

As outlined in figure 2.1, the independent variables include: Political interference, staff competence, and internal controls and staff motivation while dependent variable is revenue collection in the County Government. It is presumed that the forecasted independent variables affect revenue collection in the county of Kitui.

Figure 2.1: Conceptual Framework

Independent variables   **Dependent variable**

Environmental factors   **Revenue collection**

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┌─────────────────────────────┐
│ Internal controls           │
│   • Organization structure  │─────────┐
│   • Integrity               │         │
└─────────────────────────────┘         │
                                        │
┌─────────────────────────────┐         │
│ Political interference and  │         │          ┌──────────────────────┐
│ Corruption                  │         │          │ Revenue Collection   │
│   • Revenue collection      │─────────┼────────▶ │   • Targets          │
│     policies                │         │          │                      │
└─────────────────────────────┘         │          └──────────────────────┘
                                        │
┌─────────────────────────────┐         │
│ Staff Competences           │         │
│   • Skills and capabilities │─────────┤
│   • Training                │         │
└─────────────────────────────┘         │
                                        │
┌─────────────────────────────┐         │
│ Staff motivation            │         │
│   • Working conditions      │─────────┘
│   • Salary and promotion    │
└─────────────────────────────┘
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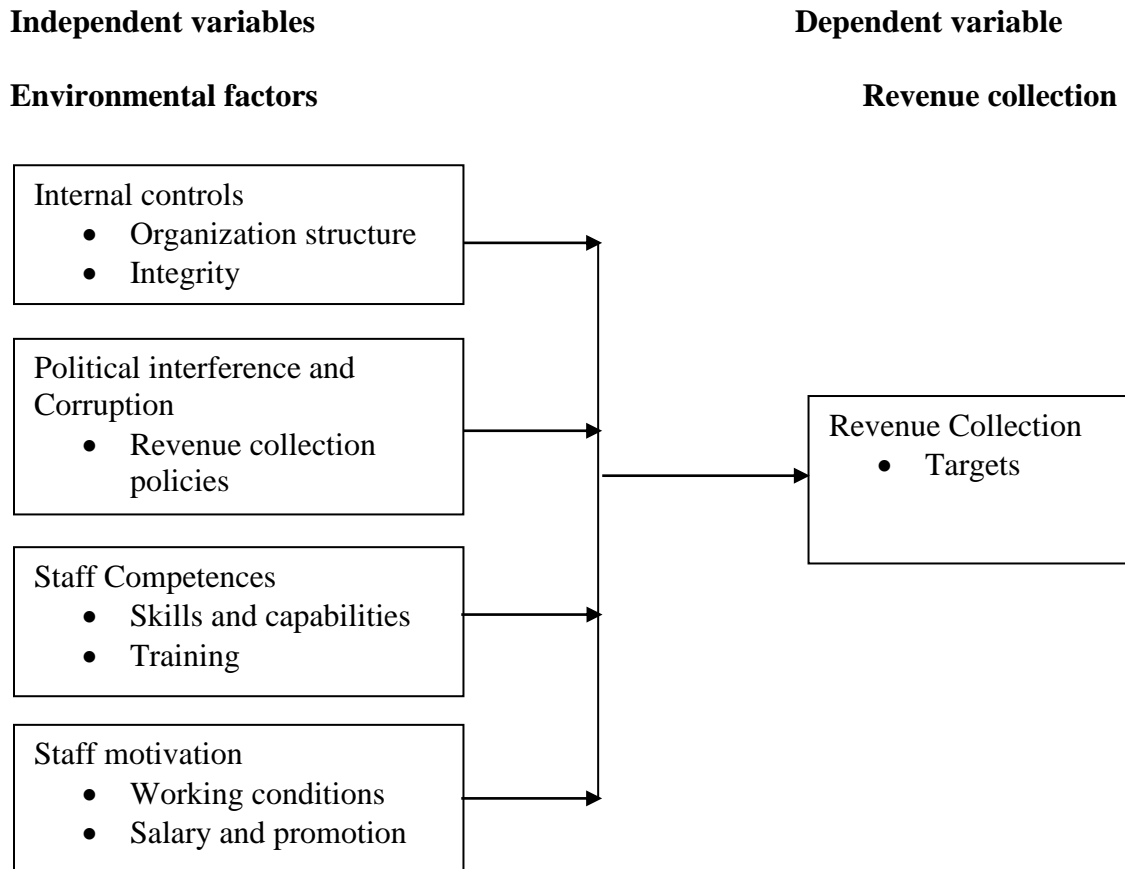
Source: Research findings

2.6 Summary of Literature Review

From the examination of the study, environmental factors have an influence on revenue collection. Failure to address such factors usually hinders optimal collection of revenue. Those environmental factors can be internal or external. Internal factors like staff motivation, internal control and staff competences can be controlled by an organization. External environmental factors are beyond the control of an organization. These factors such as political interference can be properly managed so as to achieve objectives, goals of an organization.

21

There are several scholars who have examined the concepts of the environment effect on revenue collection such as Zhou (2013), Ngugi (2016), Kaffour (2015), Gaku (2014), Okiro (2013), Mwachiro (2013), and Kigenda (2014). However, there has been little research on how the political environment affects revenue collection. Most of these studies were done before devolution in Kenya. This study will look in depth of how environmental factors affect revenue collection in Kitui County

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the research design, target population, sampling, data collection instrument, data collection procedures, and data analysis will be determined.

3.2 Research Design

Research design has been defined as the scheme, outline or plan that is used to answer the research problems or arrangement of conditions for collection and analysis of data in a manner to achieve research objective (Kothari, 2004).The study adopted a descriptive case study. This method is deemed appropriate for this study as the study was interested in the examination of the effect of the environmental factors on revenue collection.

3.3 Target Population

Target population is regarded as a group of a real set of persons, events or objects from which the researcher generates the results of the research study (Mugenda, 2003). The target population of this study was a census of all the six county ministries involved in revenue collection in Kitui County. (APPENDIX II).

3.4 Sampling

Sampling is the process of choosing a subset of the population to represent the views and opinions of the entire population (Orodho, 2008).

The sampling method that was used is the Stratified sampling due to the ability of the members of the population to have an equal chance of being selected hence eliminating any bias. Stratified technique arrived at 65 respondents as illustrated below.

Table 3.1 Sampling

STRATUM	NUMBER OF EMPLOYEES	RESPONDENTS
Finance and economic planning	77	23
Agriculture and water	22	7
Health and Sanitation	37	11
Environment and Minerals	32	10
Kitui Town Administration	28	8
Mwingi Town Administration	20	6
TOTAL	216	65

Source: Research findings

3.5 Data collection

The study utilized the structured questionnaire for the purpose of data collection. The structured questionnaire is a series of questions in which the respondents are given options to select dependent on their opinions or status on a given aspect. There are several advantages associated with the structured questionnaires which advised their use in this study. These advantages include ease of distribution and data collection, ease of data analysis, standardization of the questions and cost efficiency

3.6 Data validity and reliability

Data validity refers to the credibility of the results obtained from the analysis of data that is under study. Data reliability refers to the ability to get the same results when data is analyzed (Mugenda, 2003). Validity brings out the authenticity of the results. Data collected should be credible. Questionnaires were used to test data reliability. The use of a questionnaire is time and cost effective. The reliability of the questionnaire is ability to give consistence results when repeated under similar circumstances.

3.7 Data analysis

The data analysis is the process of bringing order, structure and meaning to the mass of information collected (Cooper & Schindler ,2003). Data was analyzed using both the descriptive and inferential statistics. Descriptive statistics was used to summarize the qualitative data with the results presented in tables. The descriptive statistics that was used included the means, standard deviations and frequency distributions. Inferential statistics was be used to draw conclusions.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter outlines analysis of data, their interpretations and presentation of findings based on the objectives of the study.

4.2 Questionnaire Return Rate

The population of this study was all the six ministries that are involved in revenue collection in Kitui County in which 30% of the employees working in them were randomly selected as the respondents. Out of 65 targeted respondents who were given questionnaires to fill, 62 of them returned completely filled feedback forms. This constituted 95.38% response rate. Mugenda and Mugenda (2003) indicated that a respondent rate of 50%-70% is sufficient for a study; a response of 95.38% was therefore adequate for this study.

4.3 Background Information

The study sought for the background information of the respondents with respect to the ministry of the respondent, gender, level of academic qualification, and the period the respondent has been working in the county.

4.3.1 County Ministries

The findings shows that the respondents were from all the six Ministries that are involved in revenue collection in Kitui County with Finance and Economic Ministry accounted for

35.5%, Health and Sanitation 16.1%, Agriculture, Water and Irrigation accounted for 11.3%, Environment, Energy and Mineral resource 12.9%, Kitui Town Administration 12.9% and Mwingi Town Administration contributed 11.3% of the total respondent as shown in the pie chart below in figure 4.1 below. This implies that the information gathered was valid and reliable since it reflects the situation in all the six ministries.

Figure 4.1 Ministries in Kitui County
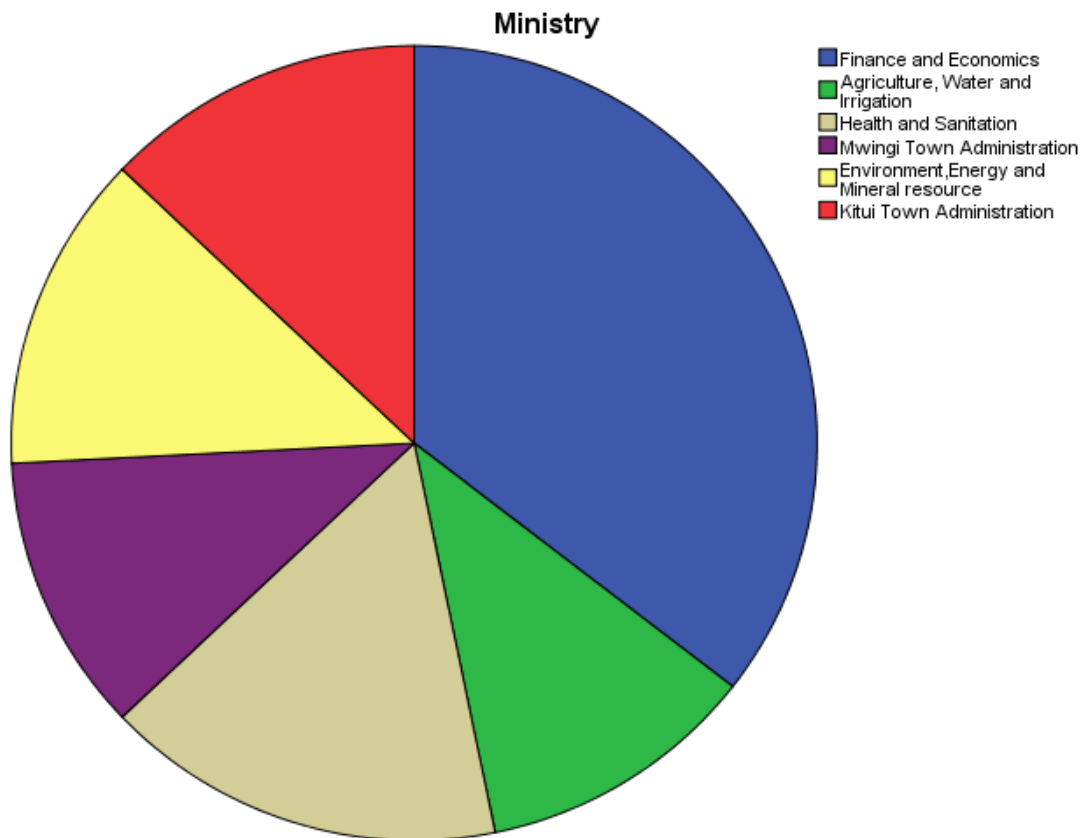
Source: Research Findings

4.3.2 Gender

The findings indicated that out of 62 respondents who returned filled questionnaires, 53.2% were male while 46.8% were female showing that the information gathered was free from gender related biasness

Table 4.1: Gender

|	Frequency	Percent	Valid Percent	Cumulative Percent
Male	33	53.2	53.2	53.2
Female	29	46.8	46.8	100.0
Total	62	100.0	100.0	

Source: Research Findings

4.3.3 Level of academic qualification

The study revealed that 56.5% of the respondents had diploma, 30.6% were undergraduate degree holders, 9.7% had master degree while 3.2% had secondary certificate as shown in figure 4.2 below.

Figure 4.2: Level of academic qualification
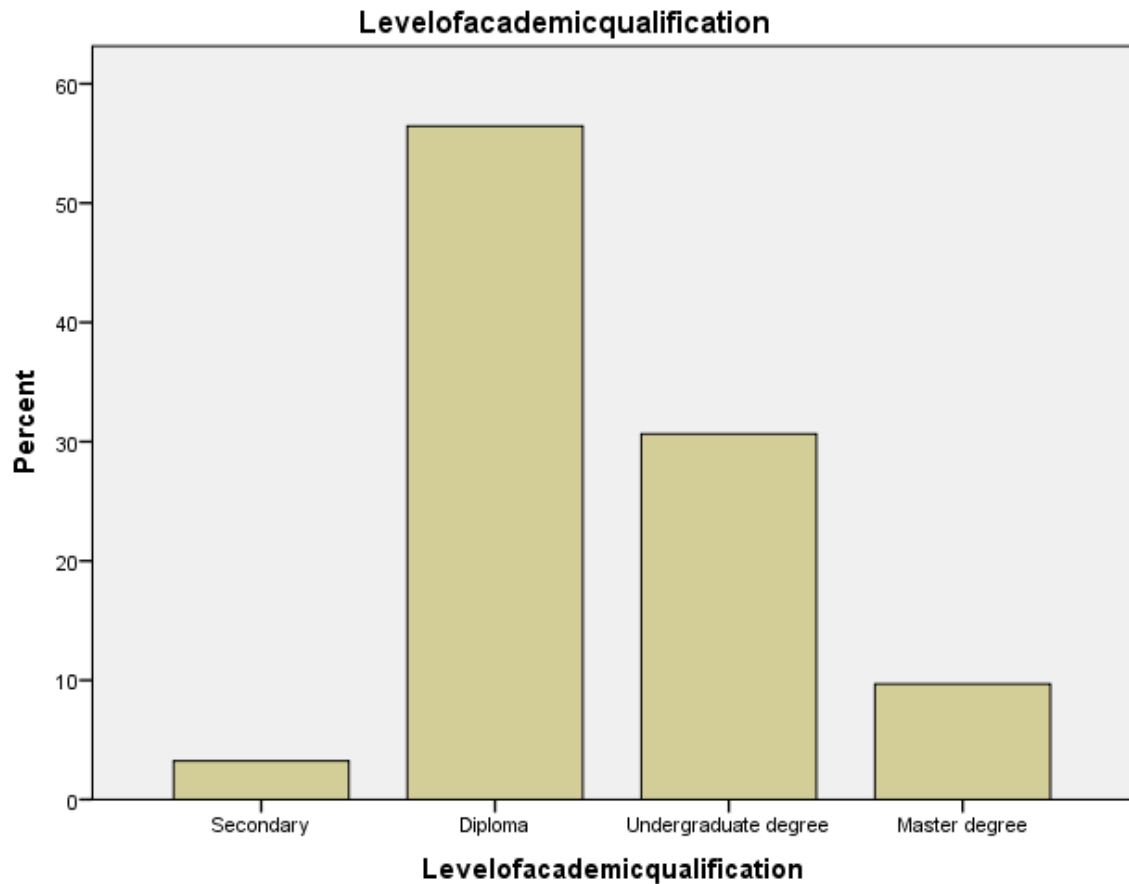
Source: Research Findings

4.3.4 Period of Working in County Government of Kitui

The findings in figure 4.3 shows that the majority of the respondents (46.8%) had worked in Government of Kitui County for over 4 years, 29% had been in this government for 3 years, 12.9 % for 4years and only 6.5% and 4.8% of the respondent had worked in this county government for 1year and 2 years respectively. This implies that the information was gathered from right individuals with relevant experience about the County Government of Kitui.

Figure 4.3 Period of working in County Government of Kitui
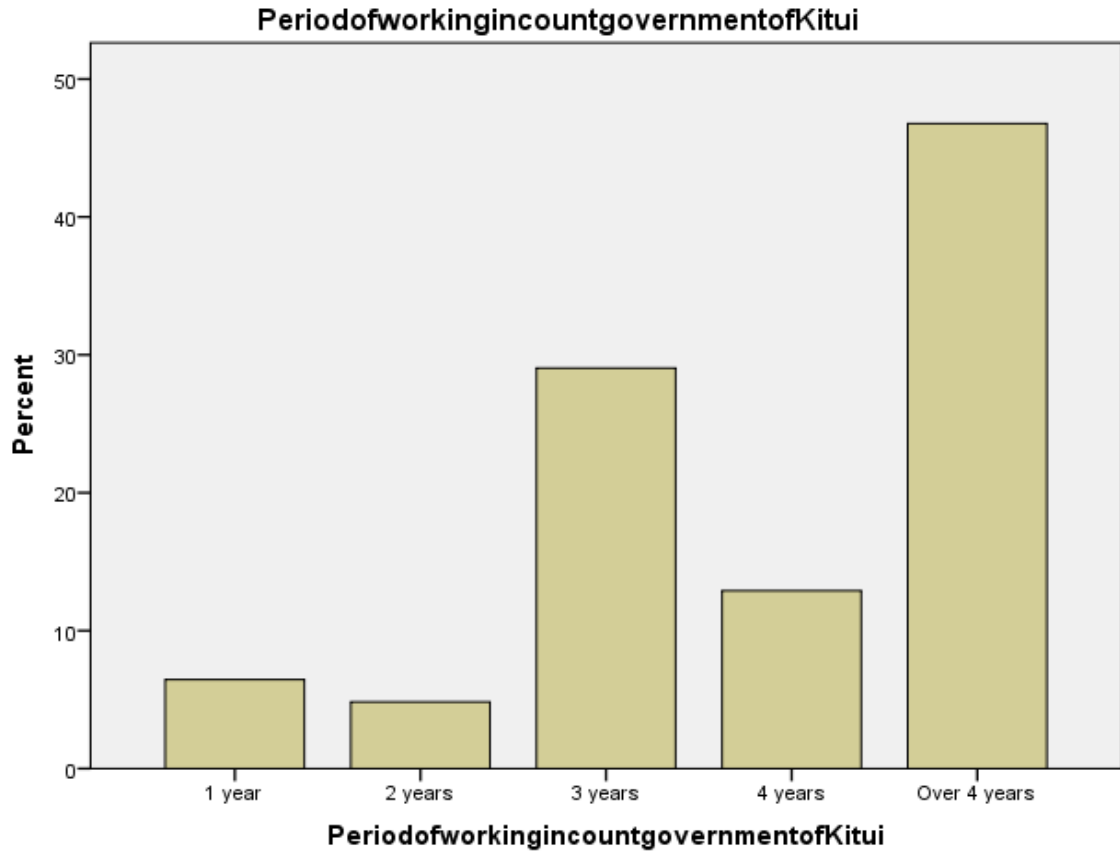
Source: Research Findings

4.4 Environmental Factors affecting Revenue collection

This study was to determine the effect of environmental factors on revenue collection in Kitui County. The study established that Staff Competence largely affected revenue collection with a mean of 4.39, followed by Political interference and Corruption with a mean of 4.37, staff motivation and internal control at a mean of 4.31 and 3.95 respectively as shown in table 4.2 below. This implies that all these factors have significant effect on revenue collection as discussed below.

Table 4.2:Effect of Environmental factors on Revenue collection

Environmental factors	Frequency	Mean	Std. Deviation
Internal control	62	3.95	.711
Staff motivation	62	4.31	.667
Politics and corruption	62	4.37	.520
Staff competence	62	4.39	.732

Source: Research Findings

4.4.1: Internal Control

The study sought to determine whether internal control had effect on revenue collection in Kitui County. The respondents unanimously agreed that it influence revenue collection with 50% indicated influence, 27.4% and 22.6% of the respondents indicated moderate influence and high influence respectively, giving a mean of 3.95 shown in table 4.2 above. This implies that effective internal control improves revenues collection in the county while ineffective internal control result to loss of revenue.

Table 4.3: Internal Control

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Moderate influence	17	27.4	27.4	27.4
Influence	31	50.0	50.0	77.4
High Influence	14	22.6	22.6	100.0
Total	62	100.0	100.0	

Source: Research Findings

The study also sought to establish the effectiveness of internal control in Kitui County. It revealed that most ministries did not have adequate measures to identify risk associated with revenue loss as indicated with a mean of 1.92 and standard deviation of 1.219 in table 4.4 below. The study noted that majority of the ministries in the County Government of Kitui had not put adequate measures to identify risk associated with weak enforcement of revenue collection procedures. This is noted with a mean of 1.94 and standard deviation of 1.291. Majority of the respondents were in disagreement that their ministries were carrying out regular revenue inspection as noted with a mean of 2.03 and standard deviation of 1.342. The study also revealed that most of the ministries were not ensuring strict compliance with the policies and procedures as indicated with a mean of 2.21 and standard deviation of 1.484 in table 4.4. Bureaucracy affected timely decision making within some ministries, indicated with a mean of 2.94 and standard deviation of 1.366.

The respondents were also asked whether their ministries were ensuring integrity and accuracy of financial and operational information, a number of the respondents were in agreement, giving a mean of 3.08 and standard deviation of 1.406 implying that some ministries were still not ensuring integrity of financial and operational information.

Table 4.4 Internal Control Factors

	Mean	Std. Deviation
Ministry has adequate measures to identify risk associated with revenue loss	1.92	1.219
Ministry has put adequate measures to identify risk associated with weak Enforcement of revenue collection procedure	1.94	1.291
Ministry carry out Revenue inspection	2.03	1.342
Ministry ensure Strict compliance with policies and procedures	2.21	1.484
Bureaucracy affect timely decision making within ministry	2.94	1.366
Ministry ensure integrity and accuracy of financial and Operational information	3.08	1.406

Source: Research Findings

4.4.2 Staff Competence

From table 4.2, the study revealed that staff competence was the most effective environmental factors influencing revenue collection in Kitui County with a mean of 4.39. All the respondents accepted that staff competence affect revenue collection with 4.8% indicated little influence, 46.8% and 48.4% of the respondents indicated influence and high influence respectively as shown in Table 4.5 below.

Table 4.5: Staff Competence

	Frequency	Percent	Valid Percent	Cumulative Percent
Little Influence	3	4.8	4.8	4.8
Influence	29	46.8	46.8	51.6
High Influence	30	48.4	48.4	100.0
Total	62	100.0	100.0	

Source: Research Findings

The study was also seeking to find out whether the county staffs had skills and knowledge required to collect revenue, a mean of 4.10 and standard deviation of 0.6 implies that majority of the staff had those necessary skills and Knowledge. The study indicated that majority of the ministries do not offer opportunity for training being noted with a mean of 1.92, a standard deviation of 1.164 implies that there were a few respondents who had such opportunities in their ministries.

The respondents were satisfied that if these opportunities were offered, they were beneficial and relevant to their line of work. The study revealed that majority of the respondents had knowledge to interpret financial bill and they were well conversant with the laws that governs revenue collections as shown in table 4.6 below.

Table 4.6: Staff Competence Factors.

	Mean	Std. Deviation
Required skills and knowledge to collect revenue	4.10	.620
Opportunity for Training and Orientation	1.92	1.164
Trained, was it beneficial and relevant to your line of work	3.66	1.023
Knowledge to interpret to financial bill	4.06	.827
Conversant with laws that govern revenue collection	3.58	1.080

Source: Research Findings

4.4.3 Staff Motivation

Staff motivation was one of the factors indicated by the respondent to have affected revenue collection in Kitui County. This is indicated with a mean of 4.31 and standard deviation of 0.66 as shown in table 4.2 implying that majority of the respondents were in agreement that it had affected revenue collection. The study also established that majority of the staffs working under this County Government are not recognized for the work they

do, this was noted by a mean of 1.90 where a large number of the staffs disagreed that they were being appreciated for the work they do.

However, a standard deviation of 1.238 shows that there were some respondents who indicated that they were being appreciated. Respondents unanimously disagree that working environment was conducive and that promotion and remuneration was being done fairly in their ministries. The respondents disagreed that revenues collector, clerks and other staffs inherited by the county from the defunct council were treated fairly as compared to staff hired after devolution. However, some respondents felt that those staffs were favored; this was indicated with a standard deviation of 1.193 from the analysis as shown in table 4.7.

Table 4.7: Staff motivation

	N	Mean	Std. Deviation
Staff recognized for the work they do	62	1.90	1.238
Working environment conducive for data collection	62	1.73	.944
Fair Promotion and remuneration	62	1.61	.930
Revenues collectors and staffs	62	1.71	1.193

Source: Research Findings

4.4.4 Political Interference

This research also revealed that some county executives were owners of businesses and were not paying tax to the county government; this was found to have a mean of 4.15 implying that majority of the respondents were in agreement that these county executive members were not paying tax.

Nonetheless, some respondent disagreed with findings, being noted with a standard deviation of 1.239. Respondents strongly agreed that political leaders were influencing compliance with county revenue collection policies and procedures. This was found to have a mean of 4.53 and standard deviation of 0.824. There was a mixed reaction among the respondent as to whether the political environment was conducive for smooth revenue collection with majority of the respondents disagree, giving a mean of 2.48 and standard deviation of 1.576 showing that some respondents were in agreement. The research also established that politics was also interfering with public participation of Kitui finance bill as shown in table 4.8

Table 4.8 Political interference

	N	Mean	Std. Deviation
Executive members owns business and not paying tax	62	4.15	1.239
Political leaders influence compliance revenue policy	62	4.53	.824
Political environment suitable for smooth revenue collection	62	2.48	1.576
Politics and public participation on finance bill	62	3.94	1.588

Source: Research Findings

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study giving the implications of the study based on the research objectives, conclusions and recommendations. The study looked at environmental factors affecting revenue collection in Kitui County. The recommendations given in this study are expected to aid the County government of Kitui to achieve efficiency and to optimize its revenue collection.

5.2 Summary

The study examined the effect of environment factors on revenue collection. These factors were: internal controls, political interference, staff competences and staff motivation. It was established that Staff competence largely affected revenue collection with a mean of 4.39, followed by political interference and corruption with a mean of 4.37, staff motivation and internal control at a mean of 4.31 and 3.95 respectively.

It was established that Kitui ministries don't ensure strict compliance of policies and procedures. From the study revenue inspection is not done often and county ministries have not put adequate measures to identify risks associated with revenue loss or leakages. The study also showed that there is weak enforcement of the revenue collection procedures. The study also established that bureaucracy affected timely decision making within some ministries. Some ministries were still not ensuring integrity of financial and operational information.

The study established that political leaders influence compliance of county revenue collection policies and procedures. It was found out that, some county executives are owners of businesses and they do not pay tax; this affected optimal revenue collection. It was also established that politics interfere with the public participation of the Kitui finance bill.

The study established that county does not offer opportunities for training and refresher courses of staff frequently. Those staff who attended trainings affirmed that those training were beneficial and were relevant to their line of work. The study revealed that majority of the respondents had knowledge to interpret financial bill and they were well conversant with the laws that governs revenue.

The study also established that revenue collectors, clerks and other staff inherited by the county from defunct councils aren't remunerated fairly compared to staffs hired after devolution. The study also found out that revenue collectors work in not so conducive environment. It was established that promotion and remuneration is not done fairly. The study also established that majority of the staffs working under this County Government are not recognized for the work they do. This shows that staff motivation did have a significant influence on revenue collection in Kitui County.

It was established that Kitui ministries don't ensure strict compliance of policies and procedures. From the study revenue inspection is not done often and county ministries have not put adequate measures to identify risks associated with revenue loss or leakages. The study also showed that there is weak enforcement of the revenue collection procedures. The study also established that bureaucracy affected timely decision making within some ministries. Some ministries were still not ensuring integrity of financial and operational information.

5.3 Conclusion

This study focused on the environmental factors that affect revenue collection in Kitui County. In line with the study the following conclusions are drawn; there is a positive relationship between internal control and collection of revenue.

Lack of proper controls will create ways for revenue leakages. The study also establishes that staff competence has an effect on revenue collection. Lack of staff competences hinders optimal collection of revenue. This study concludes that there is a negative relationship between political interference and revenue collection in Kitui County. Political interference does hamper optimal collection of revenue. Staff motivation was another environmental factor that affects revenue collection in Kitui County. The study establishes that there is a positive relationship between staff motivation and collection of revenue. The study concludes that low motivation prevents optimal revenue collection in Kitui County.

5.4 Recommendations for Policy and Practice

In light of the findings and the need for Kitui County to provide quality services to its people, the county needs to ensure revenue leakages are sealed to ensure optimal collection of revenue.

The county government of Kitui should increase sensitization on the importance of revenue collection to the community. This can be done through; public participation, rallies, advertisement on radio and television and other platforms. Sensitization will help traders know the benefits of paying taxes such us construction of roads, market sheds, slaughter houses, bus parks, provision of quality health and education services among others. This will increase tax compliance of traders in the county and in the end reduce tax evasion of such traders. Sensitization will also help minimize political interference in revenue collection. Political leaders who are owners of business will be required to pay taxes for the business they own.

The study recommends Kitui County to offer training and refresher courses to its staff. This will enable revenue staff to correctly interpret Kitui County Finance bill. Training of staff will also expose these staffs with the current tax laws and policies that govern collection of revenue. This will aid them charge tax appropriately and thus avoiding overcharging and undercharging of traders. Training of staff is very important due to its ability to motivate staff and empower them. This will hinder intimidation by political leaders and county executives. The staff will be able to carry out their duty effectively and efficiently with regards to collection of revenue in Kitui. Kitui County through the county public service board should review salaries and remuneration of county staffs.

This will motivate workers and in the end reduce corruption which hinders optimal revenue collection.

The study recommends Kitui County to adopt E- revenue. This will seal loopholes for revenue leakages. Automation of revenue is very important as an internal control measure. This will ensure all revenue collected is banked and accounted. Automation will also minimize cash handling by revenue collectors and this will curb corruption among staff. Automation will also ensure accountability of revenue collected.

The county government of Kitui should carry out inspection of revenue collection frequently. This is a very important internal control measure. Inspection will aid the county to establish what other factors that hinder optimal revenue collection and what strategies to deploy. Interaction of staff and management will be made possible through this exercise. This will have a positive impact on the motivation of staff. Inspection exercise will also ensure accountability of revenue staff.

5.5 Limitations of the Study

Not all factors that affect collection of revenue in Kitui County were included in this research. The study was limited to only four factors which are: staff competences, political interference, staff motivation and internal control. Another limitation of this study was limited local studies on how political interference affects revenue collection; this did limit review of similar literature as desired.

5.6 Suggestions of Further Research

The study recommends further research to be done on other factors that affect optimal collection of revenue in Kitui County. A research on why some counties do well in revenue collection compared to others should also be done. This will help those counties realize what others do that they don't; thus increasing their revenue collectio

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APPENDICES

APPENDIX i: Research Questionnaire

I am a Master of business administration student at the University of Nairobi and you have been selected as a respondent in my research entitled "Environmental factors affecting revenue collection in Kitui County." The questionnaire is strictly for academic purpose and information given will be confidential. Kindly fill the questionnaire as accurately as possible by ticking the appropriate response or writing a brief explanation in the spaces provided.

Student name: Ngui Damaris Wayua, Registration number: D61/82238/2015

Supervisor: Dr. Herrick Ondigo

SECTION A: BACKGROUND INFORMATION

Please kindly tick the appropriate box

 1) Gender: ☐ Male   ☐Female

2) Level of academic and professional qualification?

 ☐ Secondary ☐Diploma ☐ undergraduate ☐Masters ☐Phd

Any other……………………………………………………………

 3) How long have you worked in the County government of Kitui

☐1 Year   ☐2years   ☐ 3years   ☐ 4 years ☐ More than 4 years

2) Which ministry do you work in?

Finance and Economic planning   ☐

Agriculture, water and Irrigation   ☐

Health and Sanitation   ☐

Natural resources and Tourism   ☐

Environment, Energy and Mineral Resources ☐

Kitui Town Administration   ☐

Mwingi Town Administration   ☐

SECTION B: RESEARCH STUDY INFORMATION

The following are items in relation to monitoring of the revenue collection at the county government of Kitui In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

1. INTERNAL CONTROL IN KITUI COUNTY

STATEMENT	SA	A	U	D	SD
Does your ministry ensure integrity and accuracy of financial and operational information?					
In your view do you think bureaucracy affect timely decision making within your ministry especially the revenue department?					
Does your ministry ensure strict compliance of policies and procedures?					
In your opinion, does your ministry carry revenue inspection					

STATEMENT					
often?					
Your ministry has put in adequate measures to identify risks associated with revenue loss					
In your opinion your ministry has put adequate measures to identify risks associated with weak enforcement of the revenue collection procedures					

2. STAFF COMPETENCES IN KITUI COUNTY

STATEMENT	SA	A	U	D	SD
Would you say that you have the required skills and knowledge to collect revenue?					
In your opinion, do your ministry offer opportunities for training and orientation?					
If trained, was the training beneficial and relevant with your line of work?					
In your opinion, would you say you have the knowledge to interpret the finance bill?					
Would you say that you are conversant with laws that govern revenue collection?					

3. STAFF MOTIVATION IN KITUI COUNTY

STATEMENT	SA	A	U	D	SD
In your view are staffs recognized for the work done?					

	SA	A	U	D	SD
Is the working environment in your view conducive?					
Can you say promotion and remuneration in your ministry is done fairly					
Do revenue collectors, clerks and other staff inherited by the county from defunct councils treated fairly compared to staff hired after devolution?					

4. POLITICAL INTERFERENCE IN KITUI COUNTY

STATEMENT	SA	A	U	D	SD
Have you ever experience Political interference in revenue collection					
Would you say some county executives are owners of businesses and they do not pay tax?					
In your opinion do you think political leaders influence compliance of county revenue collection policies and procedures?					
Do you think the political environment in your ministry is suitable for smooth collection of revenue?					
Does politics interfere with the public participation of the Kitui finance bill?					

By use of a 5-point scale, comment on how the following factors influence revenue collection in Kitui County. 1= No influence, 2= little influence, 3= Moderate influence, 4= High influence, 5= Very high influence

		5	4	3	2	1
	Internal control					
	Political interference and corruption					
	Staff Competence					
	Staff motivation					

SECTION C: ADDITIONAL INFORMATION

List and explain other factors that affect revenue collection in Kitui county governments;

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THANK YOU

APPENDIX ii: County Ministries In Revenue Collection

1. Finance and Economic planning

2. Agriculture, water and Irrigation

3. Health and Sanitation

4. Environment, Energy and Mineral Resources

5. Kitui Town Administration

6. Mwingi Town Administration