

**EFFECTS OF INTERNAL CONTROLS ON REVENUE  
COLLECTION: A CASE OF KENYA REVENUE AUTHORITY**

**BY**

**MWACHIRO D. BRIAN  
REG. No.: D61/68652/2011**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
(MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER 2013**

## **DECLARATION**

This research proposal is my original work and has not been presented for a degree in any other university.

Signed: .....Date: .....

Mr. Mwachiro Brian

D61/68652/2011

This research proposal has been presented for examination with my approval as the university supervisor.

Signed: .....Date: .....

Mr. Luther Otieno

School of Business

## **ACKNOWLEDGEMENT**

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

## **ABSTRACT**

The Kenya Revenue Authority was formed at a time when revenue collection was very low and the need to expand the tax base was necessary. KRA then embarked on an ambitious project of reviewing its operations and coming up with internal control mechanisms to enhance revenue collection. The objective of this study therefore was to closely look at the internal controls in operation at Kenya Revenue Authority with a view to establish whether such internal controls have produced any meaningful results in increased collected revenue. The research was conducted using both qualitative and quantitative approaches. Questionnaires were used on a population of 38 respondents in gathering primary data for the study. The data collected was then analyzed and findings have revealed that the five components of control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work. The study established that weak internal controls have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA.

## TABLE OF CONTENTS

DECLARATION .....	i
ACKNOWLEDGEMENT .....	ii
ABSTRACT.....	iii
TABLE OF CONTENTS.....	iv
LIST OF TABLES .....	vii
LIST OF FIGURES .....	viii
LIST OF ACRONYMS .....	ix
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1 Background of the study .....	1
1.1.1 Internal Control System .....	2
1.1.2 Revenue Collection.....	3
1.1.3 Kenya Revenue Authority.....	3
1.2 Research Problem .....	4
1.3 Research Objective .....	5
1.4 Value of the Study .....	5
CHAPTER TWO .....	7
LITERATURE REVIEW .....	7
2.1 Introduction.....	7
2.2 Control Theory.....	7
2.3 Internal Controls .....	8
2.4 Internal Control Framework .....	11
2.5.1 Control Environment .....	12
2.5.2 Risk Assessment .....	13
2.5.3 Control Activities.....	13
2.5.4 Information and Communication.....	13
2.5.5 Monitoring .....	14
2.6 Internal Controls in Revenue Collection.....	14
2.6.1 Segregation of Duties.....	14
2.6.2 Custody of assets.....	15
2.6.3 Authorization .....	15
2.6.4 Internal Audit .....	16
2.6.5 Records controls.....	16
2.6.6 Management supervision .....	16
2.7 Revenue collection.....	17
2.8 Conclusion .....	19
CHAPTER THREE .....	20
RESEARCH METHODOLOGY.....	20
3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Study Population.....	20
3.4 Study Sample .....	20
3.5 Data Collection .....	21
3.6 Data Analysis .....	21
CHAPTER FOUR.....	22

DATA PRESENTATION AND DISCUSSION OF FINDINGS.....	22
4.1 Introduction.....	22
4.2 Quantitative data presentation and discussions.....	22
4.1.1 Gender characteristics of respondents .....	22
4.1.2 Education characteristics of respondents .....	23
4.1.3 Description of the Positions of respondents in the organization.....	24
4.1.4 Description of age groups of respondents.....	25
4.1.5 Respondents years of service .....	26
4.2 Examining the functionality of the Control Environment .....	27
4.2.1 Descriptive statistics on Control Environment .....	27
4.2.1.1 Accounting and Financial management system.....	28
4.2.1.2 Management commitment on the operations of the system.....	28
4.2.1.3 Organization Structure .....	28
4.2.1.4 Policies and procedures in the organization.....	29
4.2.1.5 Periodic reviews to correct errors in the system .....	29
4.2.1.6 Management Integrity .....	29
4.2.1.7 Ethical values upheld .....	30
4.3 Risk Assessment functionality .....	30
4.3.1 Descriptive statistics on Risk Assessment. ....	30
4.3.1.1 Existence of Internal Affairs department.....	31
4.3.1.2 Internal affairs sufficiently staffed.....	31
4.3.1.3 Adequate software .....	31
4.3.1.4 Employees have knowledge of risk areas .....	31
4.3.1.5 Revenue collection procedures .....	31
4.3.1.6 Management address revenue leakage.....	32
4.4 Functionalities of the Control Activities.....	32
4.4.1 Descriptive statistics on Control activities.....	32
4.4.1.1 Separation of roles of approvals .....	32
4.4.1.2 Supervision by senior staff.....	33
4.4.1.3 Action taken to address weaknesses .....	33
4.4.1.4 Restriction of access to valuable information .....	33
4.4.1.5 Employee rotation.....	33
4.4.1.6 Independent reconciliation of revenue collection .....	33
4.5 Information and Communication.....	34
4.5.1 Descriptive statistics on Information and Communication.....	34
4.5 Monitoring .....	35
4.5.1 Descriptive statistics on Monitoring and Evaluation component .....	35
4.6 Examining the collection performance .....	35
4.6.1 Descriptive statistics on Collection performance .....	35
4.6.1.1 Collection target.....	36
4.6.1.2 Realistic target .....	36
4.6.1.3 Improved collection .....	36
4.7 Correlation Analysis .....	36
4.7.1 Internal Controls and Revenue Collection in KRA .....	37
4.7.2 Relationship between the Control Environment and Revenue Collection.....	37
4.7.3 Relationship between Control Activities and Revenue Collection.....	37

4.7.4 Risk Assessment helps attain Revenue Collection .....	38
4.7.5 The impact of Information and Communication on the attainment of Revenue Collection.....	38
4.7.6 The impact of Monitoring on the attainment of Revenue Collection Target.....	38
CHAPTER FIVE .....	39
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	39
5.1 Introduction.....	39
5.2 Summary of findings.....	39
5.2.1 Functionality of the internal control system .....	39
5.3 Conclusion .....	40
5.4 Recommendations.....	40
5.5 Limitation of the Study .....	41
5.6 Suggestion for further research.....	41
REFERENCES .....	42
APPENDICES .....	45
Appendix I: Questionnaire.....	45
APPENDIX 2: WORK PLAN.....	49
APPENDIX 3: BUDGET .....	50

## LIST OF TABLES

Table	Page
2.1 Revenue collection performance over the year.....	78
4.1 Gender characteristics of respondents.....	22
4.2 Education level of respondents.....	23
4.3 Position held in the organisation.....	24
4.4 Age group of respondents.....	25
4.5 Years of service.....	26
4.6 Mean and standard deviation of control environment.....	28
4.7 Mean and standard deviation of risk assessment.....	30
4.8 Mean and standard deviation of control activities.....	32
4.9 Well elaborate channels of communication.....	34
4.10 Reviews and monitoring of internal control systems.....	35
4.11 Mean and standard deviation of collection performance.....	35
4.12 Zero-order correlation analysis.....	36



## LIST OF FIGURES

Figure	Page.
2.1 Conceptual Framework of Internal Control.....	11
2.2 Variance in revenue collection since 2006.....	18
4.1 Gender frequency.....	23
4.2 Education level of respondents.....	24
4.3 Position held by respondents.....	25
4.4 Age group representation.....	26
4.5 Percentage years of service.....	27

## **LIST OF ACRONYMS**

APL	Audit Practice Committee
BOD	Board of Directors
CIT	Cash-in-Transit
COSO	Committee of Sponsoring Organization of Treadway Commission
ERP	Enterprise Resource Planning
FASB	Financial Accounting Standards Board
ICS	Internal Control Systems
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
SEC	Securities Exchange Commission
SOX	Sarbanes-Oxley Act

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Any entity of whichever form or size should put in place its own system of controls in order to achieve its objectives (Mwindi, 2008). A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olumbe, 2012). While writing a report on Capital Markets Regulators Reign in on Rogue Firms for the Standard Media in May 2013, James Anyanzwa stated that the recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies internal control structures. This research paper is intended to look into the correlation between internal controls and revenue collection in Kenya Revenue Authority (KRA).

KRA was established in 1995 as an Act of Parliament. Initially it was set up as the department of taxes and customs and excise and it was under the control of the Ministry of Finance. KRA was formed mainly to facilitate in widening the tax base by streamlining tax expenditure, minimize revenue leakages and enhance trade by expediting smooth and quick clearance of goods. Cognizance of the fact that viability will be enhanced with efficient internal controls and established accounting systems KRA embark on huge capital outlay in procuring and establishing accounting software like the Simba system, ITMS, ORACLE and implemented the relevant internal controls to ensure continued viability. Although the organization has committed itself to the large capital expenditure on soft ware packages and internal controls there are still widespread claims and perception that there are a lot of leakages through unscrupulous activities within the organization. This raises the fundamental question of whether the whole effort on the investment was in vain. The study therefore will seek to explore the effectiveness of the internal controls in KRA's revenue collection given the claims and perceptions to the contrary. The paper will try to verify whether the huge capital outlay on accounting software and the internal control systems put in place by KRA has any impact in the revenue collection.

Due to the important role that effective internal control systems play in the achievement of corporate objectives, the Commissioner continued to say that plans were under way to upgrade the Internal Control (Audit) unit to help achieve the objectives of the Authority.

From the above, it is therefore imperative to say that, internal controls play a significant role in helping managers to achieve their goals hence the need for this study to investigate the effects of internal controls on revenue collection at Kenya Revenue Authority.

### **1.1.1 Internal Control System**

According to Hamed (2009), Internal Control System refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business. Internal Control System is all the methods and procedures followed by the management in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation of all the useful financial information (Keitany, 2000). Hongming and Yanan (2012), adds that Internal Control System resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. It is directly linked to the organizational structure and the general rules of the business.

Whittington (2001) has defined that a system of internal control extends beyond those matters which relate directly to the functions of accounting and the financial statements. In addition, he notes that internal control is a systematic procedure which will lead to evaluate the degree of correlation between those established criteria and the real results of the business.

Internal Control, as defined from the APC (Auditing Practices Committee, 1980), is an independent examination and certification from an inspector appointed by the business to control the finances according to the legal framework established each time.

From the forgoing therefore, the objective purpose of Internal Control is on the one hand, the allowance of specific and high level of services offered towards the management, and on the other hand, the allowance of assistance towards the members of the organization for the most effective practicing of their duties. Internal Control Systems are being implemented in businesses as tools that add up value to the company. In this way, we can achieve a systematic approach

towards the most effective operation of the organization, as a unity (Schleifer and Greenwalt, 1996). Finally, as mentioned by the COSO report internal control is defined as a procedure which offers fundamental security to the business concerning the credibility of financial affairs. The report defines internal control and describes a framework for internal control. But the difference of this report is that it also provides criteria for the management to utilize so as to evaluate controls.

### **1.1.2 Revenue Collection**

Awitta (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time.

The Financial Accounting Standard Board(FASB) Concept Statement 6, Elements of Financial Statements (December 1985) have defines revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity's ongoing major or central operations. In addition, Hongreen (2002) described revenue as inflows of asset (almost always cash or accounts receivables) received for products or services provided to customers. However, KRA have referred revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

### **1.1.3 Kenya Revenue Authority**

Kenya revenue Authority was established by an act of parliament in 1995 as a semi-autonomous government agency responsible for revenue collection. The overall objective was to provide operational autonomy in revenue collection and enable its evolution into a modern, flexible and integrated revenue collection agency i.e. KRA was established for assessment, collection, collection and enforcement of laws relating to revenue. The Act made KRA —a central body for the assessment and collection of revenue, for the collection and enforcement of laws relating to

revenue and to provide for connected purposes. The Authority is under the general supervision of the Minister of Finance as an agent for the collection and receipt of revenue. KRA currently collects around 95% of government revenue. (Odundo 2007).

Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue collection has been enhanced. However, a number of processes remain manual and KRA is yet to operate as a fully integrated organization. (Yusuf 2007).

To achieve the above targets, the management of KRA must adopt measures to ensure that available resources are prudently used to obtain value for money from resources allocated to them. Management in turn should generate operational data with which they evaluate the efficiency and effectiveness of their operation. It is fundamental aspect of management stewardship responsibility to provide interested parties with reasonable assurance that their organisation is effectively controlled and that the information they receive are accurate and dependable. Developing a strong system of internal control systems provides this assurance.

## **1.2 Research Problem**

Slanislav (2006) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization. This same idea is reflected in Kaplan (2007), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States in the 1990s, as demonstrated by the collapse of Enron and WorldCom.

The incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company's ability to effectively collect revenue but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating. For the enhancement of the attainment of the mission and goals of the company, it is therefore necessary that these hindrances be removed. The management of

the company should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation. (Efozie 2010)

Despite the internal controls that exist in Kenya Revenue Authority, collection remains below target and resources are poorly managed. This may be because the internal controls that are in the organization are weak or are undermined by the employees. It is in this backdrop that Kenya Revenue Authority in 2011 formally entered into a Memorandum of Understanding with the Kenya Anti-Corruption Commission in the fight against corruption. The Authority recognized corruption as a major threat to revenue collection and led to development of the KRA Integrity Action Plan, which laid emphasis on leadership, transparency and business reform and modernization with the aim of reducing and ultimately eliminating corruption in revenue collection.

Thus, the purpose of this study is to examine and evaluate the internal control system in operation at Kenya Revenue Authority with a view of knowing whether strengthening of internal controls can have any effect of revenue collection and to answer the question “To what extent has internal controls enhanced revenue collection in KRA?”

### **1.3 Research Objective**

The main objective of this study is to evaluate internal controls which have been put in place by Kenya Revenue Authority and their impact on revenue collection.

### **1.4 Value of the Study**

This study would be important to KRA in formulating policies and procedures for collection and checking on corrupt tax collection official. The study would create awareness as to the level of internal controls which have been put in place and to use the recommendations proposed to add in to the already implemented. To the practice therefore, the study would help managers to understand how internal controls work and how to implement them and to know the areas of revenue leakage.

The findings of this research would also contribute to theories by providing additional evidence to support the existing theories. Researchers will use information in this study as part of literature review while carrying out other research on the impact of internal control on revenue collection.

This research will also be helpful to the Kenyan government in coming up with the budget and setting out collection target for the revenue collection body.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This research is intended to assess the effect of internal controls on revenue collection with emphasis in Kenya Revenue Authority. The review of available literature therefore attempted to establish whether there is a correlation between Internal Control as an independent variable and revenue collection as a dependent variable. The review particularly focused on; Control environment, Internal Audit, Control activities, Information and Communication and Monitoring the main components of Internal Control as proposed by Committee of Sponsoring Organizations of the Tread way Commission, COSO. The review examined the common systems of internal controls employed by the organizations.

#### **2.2 Control Theory**

Control theory has been described as “an interdisciplinary branch of engineering and mathematics that deals with the behavior of dynamical systems with inputs. The external input of a system is called the reference. When one or more output variables of a system need to follow a certain reference over time, a controller manipulates the inputs to a system to obtain the desired effect on the output of the system.

The objective of a control theory is to calculate solutions for the proper corrective action from the controller that result in system stability, that is, the system will hold the set point and not oscillate around it. Systems have inputs and outputs to bring a product after processing and so inputs and outputs of a control system are generally related by differential equations.

Setting objectives, budgets, plans and other expectations establish criteria for control. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components-such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements.

## **2.3 Internal Controls**

Puttick (2001) has assert internal controls as a set of organizational policies and approved internal processes (internal controls) crafted by management of an organization to ostensibly achieve management's primary objective of ensuring that the business operates flawless. He further explained that a business is said to be running smoothly if they are able to stick to the management policies, to protect the organization assets, set up a system that would stop and eradicate manipulation of the accounting information.

Kenneman (2004) describes internal control as those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. He explains, in simple terms that, internal control can be defined as those processes that management relies on to make sure things don't get goofed up. (Mwindi, 2008)

Internal control is a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the area of: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulation (The Committee of Sponsoring Organizations of the Treadway Commission (COSO)). Expanding on the COSO definition, Financial Management Journal (2005), said Internal control represents an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement. (Esmailjee, 1993).

Internal controls have existed from ancient times. Michino (2011) reported that "in Hellenistic Egypt there was a dual administration with one set of bureaucrats charged with collecting taxes and another with supervising them. Brink (2009) contends that, internal control as a concept has existed as early as there have been substantive relationships. He added, its origin can be documented and traced back to civilized communities that existed around 5000 B.C. The governments of these empires imposed a number of taxes on individuals and business. For the proper accounting and collection of these taxes, an elaborate system of checks and counterchecks was established. Such early internal control systems were designed primarily to minimize errors

and safeguard state property from dishonest tax collectors. He continued that, the Mesopotamian civilizations, which existed about 3000 B.C., also utilized elaborate systems of internal controls. Summaries of the transactions were prepared by scribes who did not provide the original list of receipts and payments. Documents of that period contained ticks, dots, and check-marks indicating the existence of the auditing function during those times”.

There are other researchers who have recognized the importance of internal control but their researches did not bring the relationship between internal control and revenue collection. These researchers have formed part of the related studies for the research and include:

The Sarbanes-Oxley Act of 2002 (SOX) requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. (Michino, 2011).

John (2011) asserts that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure. They emphasize these features in their marketing literature, asserting that these systems will help firms improve the effectiveness of their internal controls as required by SOX. (Ongeri, 2010).

Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits. Karagiorgos et al (2008). Studies have shown that internal control reduces agency costs with some even arguing that firms have an economic incentive to report on internal control, even without the requirements of SOX. Deumes and Knechel (2008). Their argument assumes that providing this additional information to the principal (shareholder) about the behavior of the agent (management) reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital. Other research has found that weaknesses in internal controls are associated with increased levels of earnings management Amudo *et al.* (2009). Earnings management is the agency problem that motivated SOX legislation in the first place, specifically earnings manipulation by Enron, WorldCom. (Mawanda, 2010).

Internal controls have played a major role in moderating the agency problem in corporations for many years. Accordingly, Samson et al. (2006) document several internal control procedures used by the Baltimore and Ohio Railroad as early as 1831. (Mawanda, 2010).

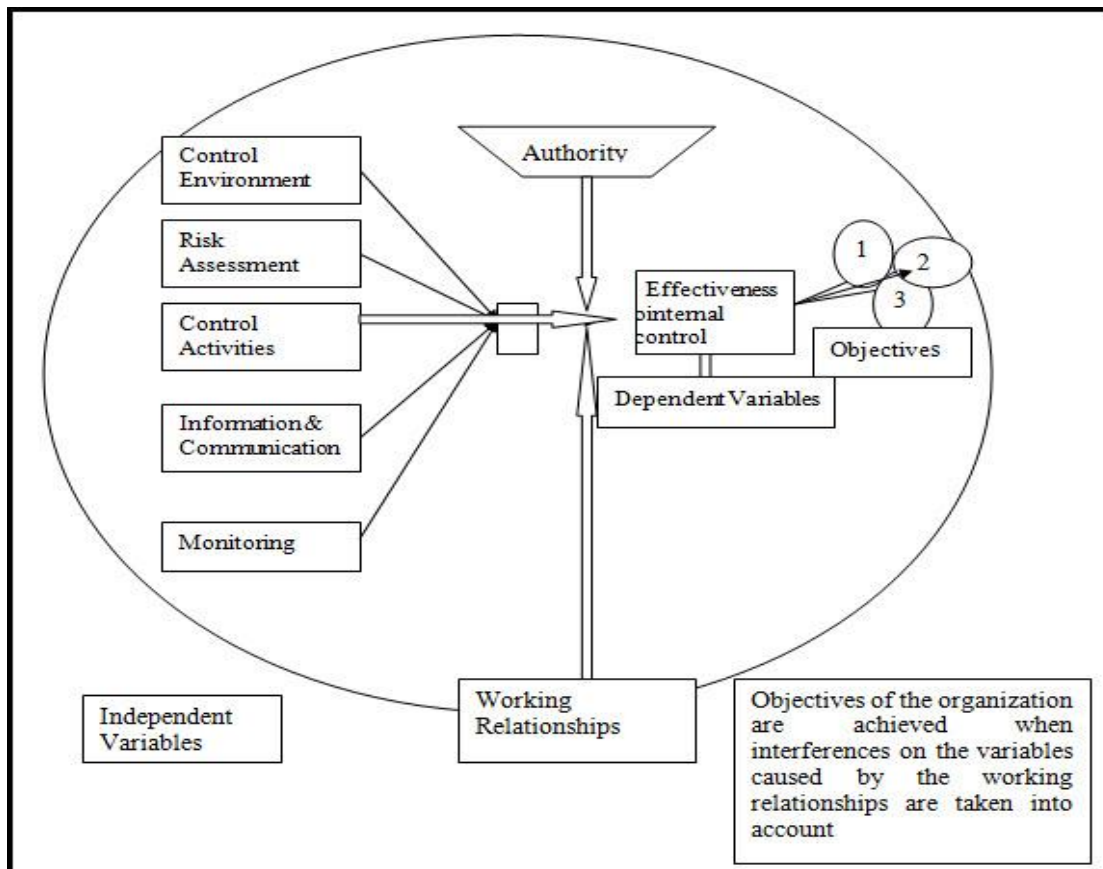
During the 1980s, several high-profile audit failures led to creation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), organized for the purpose of redefining internal control and the criteria for determining the effectiveness of an internal control system (Simmons 1997). They studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies, independent auditors, educational institutions, the Securities Exchange Commission (SEC), and other regulators (COSO 1985). The product of their work is known as the COSO Internal Control—Integrated Framework (Simmons 1997). The framework also points out that controls are most effective when they are “built into” the entity’s infrastructure (COSO 1992,) and further states that “built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions” (COSO, 1992).

In their publication on Principles of Auditing and other Assurance Services, Whittington and Pany (2001), attempt to explain the meaning, significance of Internal Controls and the Components of a Company’s internal controls. They also attempt to explain the relevancy of internal controls in large scale business organizations. In their book while borrowing the definition of the Committee of Sponsoring Organizations (COSO); Internal Control- Integrated Framework, Whittington & Pany.2001 define Internal control as “a process effected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.” They emphasize that internal controls is a process and not an end in or of itself. They note that internal controls provide reasonable but not absolute assurance about the attainment of an entity’s objectives.

## 2.4 Internal Control Framework

The Internal Control conceptual framework components comprise of dependent and independent variables. The effectiveness of an internal control framework is the dependent variable. This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organization's objectives. Owusu (2012). Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable. The organization realizes preset objectives of efficient and effective operations, collection of accurate, reliable and informative financial reports that comply with relevant legal and regulatory requirements.

**Fig. 2.1: The Conceptual Framework of Internal Control**



*Source: COSO Internal control framework*

Firms need five interrelated components of an Internal Control Structure to ensure strong control over their activities. These are: control environment, risk assessment, control activities,

Information and communication, and monitoring components. The extent to which each component is implemented is influenced by the size and complexity of the firm, type of industry, management philosophy, and corporate culture. (Ongeri, 2010).

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

### **2.5.1 Control Environment**

The control environment is the foundation of the five elements in the internal control framework. Its designation and operation not only affect the enterprise' overall activity, but the other four elements. Therefore control environment directly affects the effect of implementation of internal control framework and the modern enterprises should establish a suitable internal control environment.

The control environment usually includes the following context:

Personnel integrity and quality. The staffs play a dual role: on one hand, they are the subjects of internal control in the organization and control the implementation of their assignment; on the other hand, they are the objects of internal control in the organization and supervised and controlled by the other. Any item of internal control system shall not go beyond the staffs' integrity and quality that creates, manages, implements and supervises the system.

The management style and management idea. The manager's management style and management idea influence the way of managing of the enterprises, especially the manager individual glamour and the ability to make decision .Managers control the enterprise mainly by designing the organization and management mechanism, authorizing and designing the system. Organization structure. Organization structure including organization structure settings, responsibilities allocation, what position of the person in the organization is and what power and responsibility he have. Organization structure is the grantee for the enterprise to achieve overall

goal and enterprises should plan, execute, control and supervise based on the structure of the organization.

### **2.5.2 Risk Assessment**

Risk assessment system is divided into three steps: risk identification, risk analysis and evaluation, risk control and report.

Risk identification. It asks the enterprise to judge and analyze risks, including its nature, types, and reasons of the occurrence, etc.

Risk analysis and evaluation. Risk analysis and evaluation needs quantitative analysis of digital information collected by mathematical method in order to make the risk management based on scientific basis. The result of risk analysis and risk evaluation is the probability of occurrence and size of the risk so as to provide a dependable basis for decision-making.

Risk control and report. As to risk analysis and assessment, management should consider how to control risk. The method of controlling risk usually is to transfer risk, adverse risk and disperse risk.

### **2.5.3 Control Activities**

Control activities are to make management instructions designed could be effective implementation of various policies and procedures. Control activities can help enterprises to ensure that it has already took measures to reduce a loss according to realization the goal of the enterprise. From the point of daily business activities, control activities including authorized management. It refers to that the manager decentralize powers his subordinate to make them have the right to address the problem and make a choice and share corresponding responsibility.

This refers to define the authority and responsibility according to the principle of combining functions of department and it's characteristic. Business process and operation procedures. Business process is the procedure of all the business. An operation procedure is to say how to operate of every matter in detail.

### **2.5.4 Information and Communication**

Enterprise management activities can be divided into the plan, organization, coordination, reports, etc. When managers exercise these functions, messages are always the most basic

support, namely, all the enterprise business activities are inseparable from information. Therefore, the information function is the basis of management activities and the level of information processing ability is one of the most important symbols of the level of management. And this information must be delivered timely to those who fulfill its responsibility and other responsible ones in some form. Completing the information transmission is communication and it can translate the abstract goal and plans into language that encourage employees.

### **2.5.5 Monitoring**

Monitoring and used to evaluate the quality of enterprise internal control performance by tracking and monitoring the internal control frame and operational status and take the necessary actions to ensure that internal control can operate effectively. Monitoring can be divided into continuous monitoring and individual assessment. Continuous monitoring activities usually are that the management department and each staff at various levels inspect, analyze and evaluate the effectiveness and efficiency of production and operating activities of their respective during execution of the internal control system. It is a kind of self control mode. The higher the level is, the less individual evaluation need. Individual assessment is to evaluate the internal control system regularly and is usually done by the relatively independent internal audit department.

## **2.6 Internal Controls in Revenue Collection**

KRA was formed to develop improve on revenue collection measures as well as making sure that all revenue leakages are closed. It was also to ensure that it expedites trade by putting in place those measures that allow controlled movement of goods and services. KRA therefore have put in place those measures to reduce the leakages. They invariably include segregation of duties, custody of assets, strict authorization procedures, internal audit, the use of passwords, proper record controls and management supervision. (Obat, 2010).

### **2.6.1 Segregation of Duties**

This doctrine states that if certain aspects are performed by one individual there is a chance that that person can fraudulently convert the assets of the organization to own self and also manipulate the accounting records. In accounting for revenue in KRA the three aspects underlying any revenue transaction which are authorization, execution and recording are performed by different individuals. There must be a clear separation between those initiate



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

### **2.6.2 Custody of assets**

KRA has put in place requisite measures for the protection of company assets. The measures are meant to ensure that only those authorized have access to the organization's assets.

- In the case of some border posts where there are no banking facilities money is transported from these ports of entry in fully armored cash in transit (CIT) vehicles. The cash is contained in cash boxes which are sealed and locked.
- In the event that money is not banked within stipulated time (24hrs) due to unforeseen reasons, the money is kept under lock in a safe in a storeroom. These storerooms and safes have locking facilities with adequate control over keys.
- In high cash volumes environment, cash in hand is kept to a minimum by regularly clearing tills during the day and banking the takings promptly. Again if cash is not banked until the following day their receipts are locked in a safe overnight.

Apart from the physical controls to protect assets and or revenue, further control is indirectly introduced by regularly counting assets and comparing quantities with those recorded. The realization that any perceived shortages are likely to be thoroughly checked to establish the cause of the shortage will definitely lessen or prevent misappropriation. (Puttick et al 2008).

### **2.6.3 Authorization**

The obligation to safeguard the revenue of KRA requires that transactions are entered into the systems once they have been authorized by the appropriate individual and that each transaction conforms to the terms of its authority. If an individual tries to enter unauthorized transactions in the system, the system would deny access due to lack of authority to execute the transaction in question.

The use of passwords ensures that no one has the right to enter unauthorized information which might distort revenue generation. The use of Passwords discourages individuals to undertake corrupt activities as transactions are continuously monitored online. (Matamande, 2012).

#### **2.6.4 Internal Audit**

One important aspect of internal control is the internal audit. KRA carries out internal audits regularly and randomly in all departments. Internal audit is an effective tool in revenue management because internal auditors are employees by KRA hence they are better placed to understand the accounting systems, the control procedures and the control environment. It is believed that internal controls induce discipline in the organization's workforce. Risk resulting from failure to safeguard assets from theft and failure to maintain adequate controls to ensure adequate accounting records are mitigated or reduced. (Matamande, 2012).

#### **2.6.5 Records controls**

KRA's accounting records are such that all transactions that occur are timely recorded and correct values are properly accounted for in the accounting records in. Where manual accounting systems is used accounting records consists of source documents on which details of transactions will be initially recorded. Transactions are recorded on receipts.

To enhance control, KRA also perform the following tasks:

- The accuracy of information and amounts recorded on source documents are checked by independent person other than those responsible for their preparation before recorded. These independent persons perform checks and should sign source documents as evidence of having performed the task.

There are also daily balancing and reconciliation of cash books and the bank statements to test the accuracy and reliability of the accounting records. (KRA Audit manual, 2008).

#### **2.6.6 Management supervision**

These are controls over the controls. They involve the following:

- Monitoring that laid-down procedures are operating as they were designed to, and that delegated responsibility have been properly discharged
- Analyzing error detected by internal controls and taking remedial action to prevent further similar errors and fraud from occurring in the future.

- Considering changes and improvements to internal controls systems where the weaknesses have been exposed.
- Conducting surprise counts of cash on roadblocks and tollgates comparing amounts with corresponding records. This helps minimizing revenue leakages. (Matamande, 2012).

## 2.7 Revenue collection

Holzer and Kimes (2002) have defined revenue as the monetary unit received during a period of time. It may also mean the gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization's mission, and income from fundraising activities, membership dues, and financial investment.

While the KRA have termed revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

According to Wikipedia collection has been defined as the act or process of collecting something while the Macmillan dictionary has defined collection as the activity of collecting money for a particular purpose, or the money that is collected.

Over the years KRA has been surpassing targets as set by the Ministry of Finance from. The only exception is in 2008 which was largely because of the effects of post election violence. In 2010, revenue collections translated into 9% of the previous year's collection. This meeting of targets can be attributed to various revenue enhancement measures that have been put in place such as internal controls, internal and client audits, border patrols, authorization and segregation of duties. However there is still room for improvement by KRA in performing its mandate as a revenue collector. There are some areas where manual accounting is practiced and there is an urgent need to computerize the areas if revenue leakages are to be minimized.

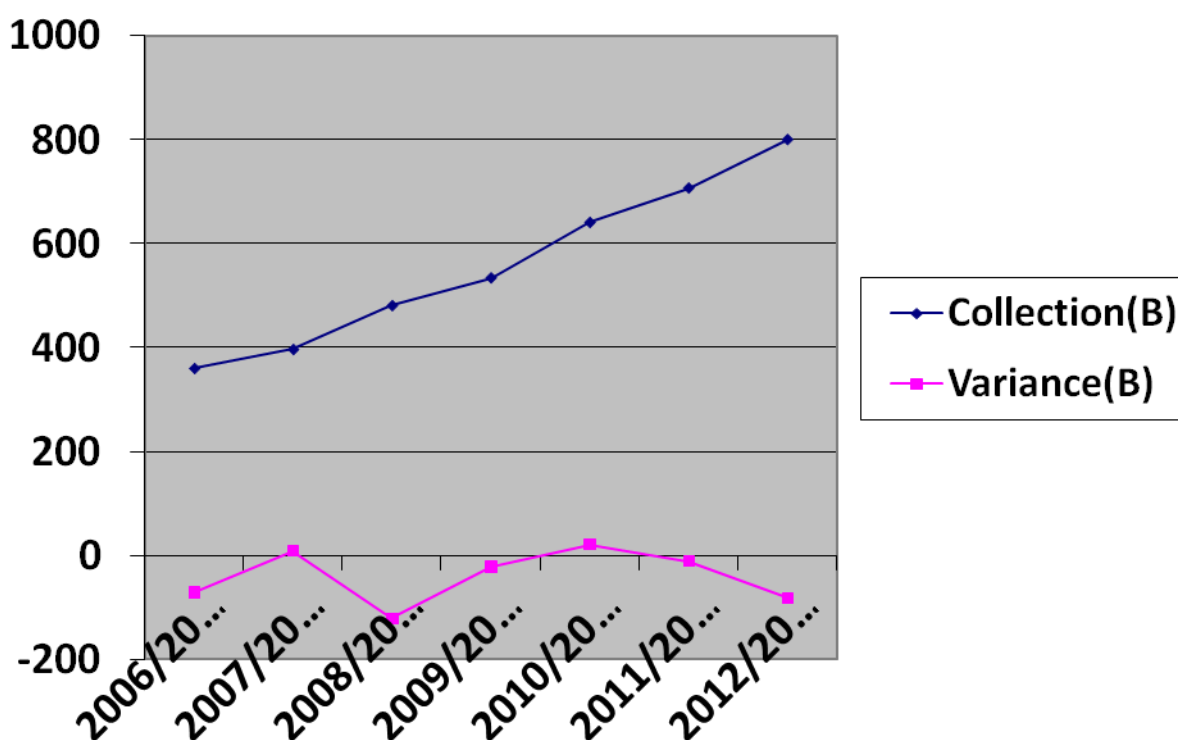
**Table 2.1: Revenue collection performance over the years**

Year	2006/ 2007	2007/ 2008	2008/ 2009/	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013

Total Collection (Ksh in Billion)	360.2B	397.0B	481.3B	534.6B	641.2B	707.3B	800.5B
Variance (Ksh in Billion)	-70B	+9.2B	-120B	-20.9B	+21.2B	-10.7B	81.3B

*Adopted from KRA annual revenue reports 2006:2013*

**Fig.2.2: Variance in revenue collection since 2006**



From the figure above it is apparent that revenue collection has been growing at an increasing rate since the Financial Year 2006/2007. This can be attributed by the level of internal controls put in place by KRA. The Financial report 2004/2005 has also indicated that revenue performance in 1995/1996 was 122B compared to 274B in the year 2004/2005. In 1995/1996 internal control were still weak with the revenue body having just been formed.

## **2.8 Conclusion**

From the Literature review, several researchers seem not to have delved their research into the relationship between internal controls and revenue collection. However this research will try to bring clearly the correlation effect of internal control and revenue collection and the conclusions be confirmed or dispelled after empirical evidence has been obtained from the research.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This Chapter focuses on the methods that was be used to collect data and analyze it. It greatly concerns the research design, the population to be studied, the sample selection procedures and sampling techniques, data collection techniques employed, and data analysis employed. The questionnaire model was based on the COSO framework.

#### **3.2 Research Design**

The study was conducted using descriptive case study using causal/explanatory research. An explanatory case study is used to explore causation in order to find underlying principles. Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. Keitany, J. L. (2000) explains correlation as the determination of whether or not and to what extent an association exists between two or more variables. Correlation therefore was be used as a means of trying to examine the effect that internal control brings to revenue collection.

#### **3.3 Study Population**

The research targets Kenya Revenue Authority staff since most employees are directly or indirectly involved in decision making and controls.

#### **3.4 Study Sample**

The study basically targeted top and middle level management members because they are the Custodians of Internal control. The researcher therefore used purposive sampling techniques in selecting interviewees with an option of replacing those who don't wish to respond to the researcher's plea.

Purposive sampling is where the Researcher consciously decides who to include in the sample. It was used simply because the study was targeting custodians of the internal control systems. It also ensured that only people with relevant information are sampled.

### **3.5 Data Collection**

Data was collected using both primary and secondary data collection techniques. Primary data was gathered basically through structured questionnaires and interviews. Secondary data on the other hand was gathered through review of available relevant materials. The researcher also used a combination of structured questionnaires and interviews. The main instrument of data collection to be used was the questionnaire.

### **3.6 Data Analysis**

The data was analyzed using both statistical and narrative methods. Correlation was used as a way of assessing the effect of internal controls and revenue collection. Narrative analysis was also used to explain the qualitative results of the survey.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND DISCUSSION OF FINDINGS**

#### **4.1 Introduction**

This chapter presents the output of data analysis. The presentations are in form of tables and statements. The presentation is according to the objectives of the study.

#### **4.2 Quantitative data presentation and discussions**

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, education levels, position held, age and length of service in the organization.

##### **4.1.1 Gender characteristics of respondents**

The study examines and describes the gender details of respondents in this study and details of their respective gender is presented in table 4.1 below

**Table 4.1: Gender characteristics of respondents**

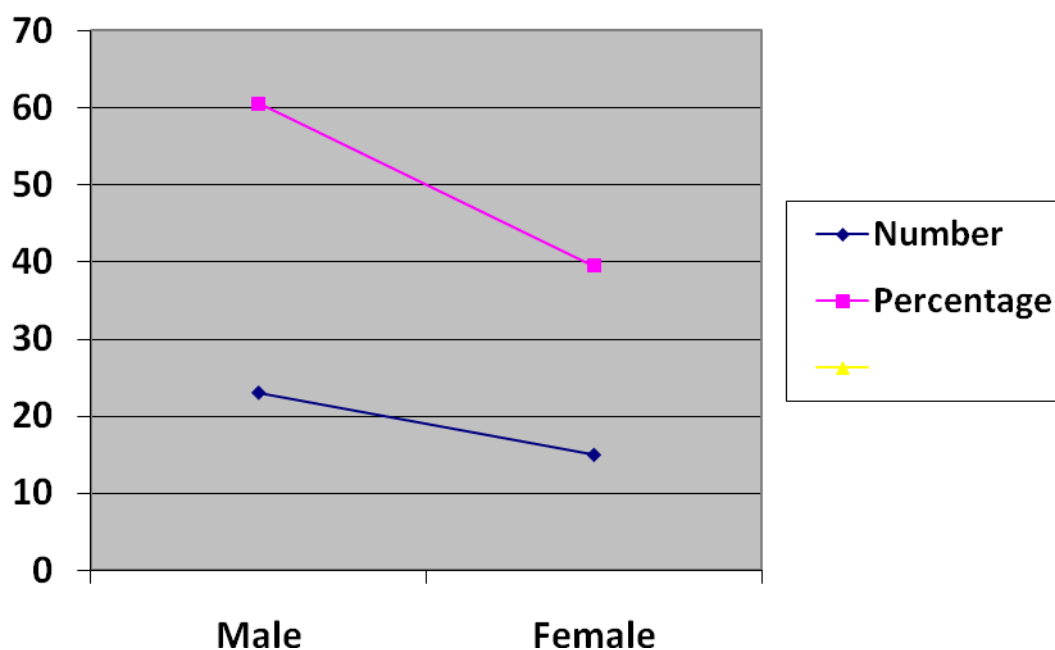
<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	23	60.5
Female	15	39.5
<b>Total</b>	<b>38</b>	<b>100.0</b>

*Source: Primary data*

Table: 4. 1 above reveals that 60% of the respondents were males and 40% were female. This could indicate that there are still low levels of employment of females in Kenya Revenue Authority. The findings represent the views of the two sex groups about internal control systems and revenue collection in Kenya Revenue Authority. This was necessary for the study to get a balanced picture of the respondents' views.



**Fig. 4.1: Gender Frequency**



#### 4.1.2 Education characteristics of respondents

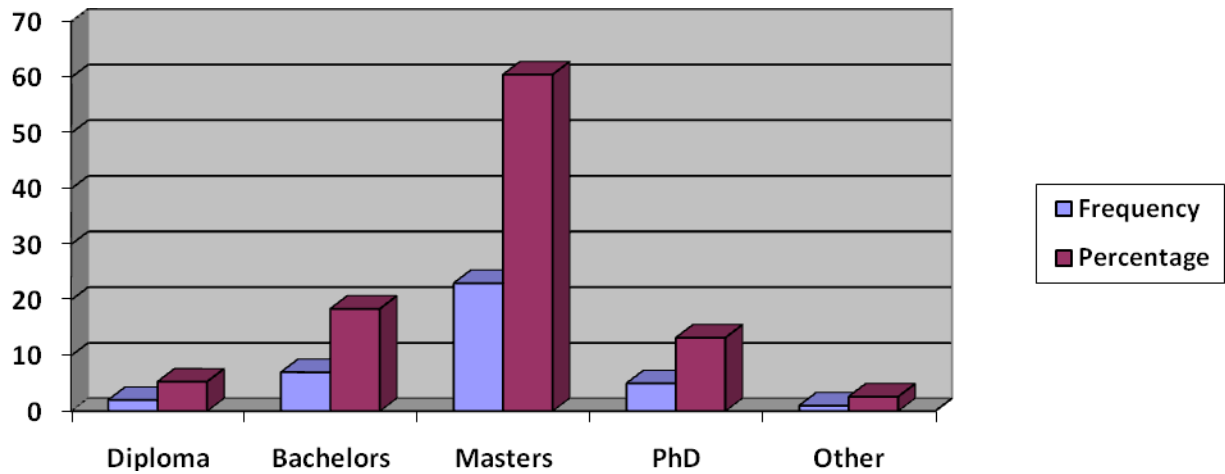
Details about the education levels of respondents were obtained as presented in the table below.

**Table 4.2: Education Levels of Respondents**

Qualification	Frequency	Percentage
Diploma	2	5.3
Bachelors	7	18.4
Masters	23	60.5
PhD	5	13.2
Other	1	2.6
<b>Total</b>	<b>38</b>	<b>100.0</b>

*Source: Primary data*

**Fig. 4.2: Education level of respondents**



In table 4.2 above, it can be revealed that majority of respondents who are also the employees show that they hold masters degree, followed by bachelors, PhD, diplomas and others in the orders of 60%, 18%, 13%, 5% and 3% respectively. This means that the respondents are adequately qualified persons academically.

#### **4.1.3 Description of the Positions of respondents in the organization**

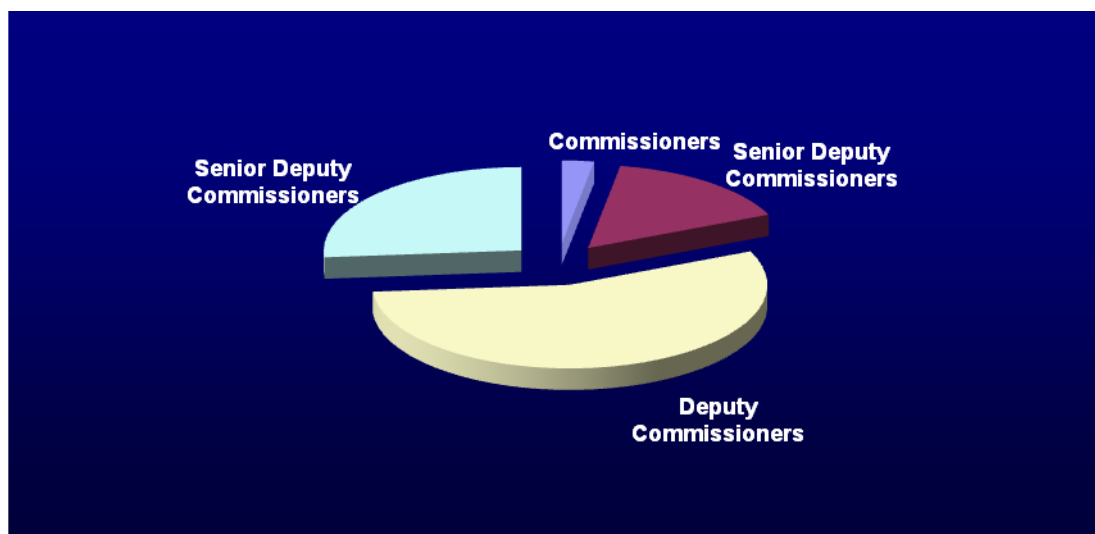
The study sought and obtained details about the positions held by the respondents in the organization for purposes of understanding their role in the variables of study. Details of the respondents and their positions are shown in table 4.3 below:

**Table 4.3: Position held in the organization**

Position held	Frequency	Percentage
Commissioners	1	2.6
Senior Deputy commissioners	6	15.8
Deputy commissioners	21	55.3
Senior Assistant commissioners	10	26.3
<b>Total</b>	<b>38</b>	<b>100</b>

*Source: Primary data*

**Fig 4.3: Position held by respondents**



The analysis results in table 4.3 show that majority of respondents in this study are Deputy Commissioners (21), followed by Senior Assistant Commissioners (10), Senior Deputy Commissioners (6), and Commissioner (1). These represent 55%, 26%, 16% and 3% respectively. From the above description, it can be revealed that the majority of the respondents in this study are those directly responsible for or directly involved in the implementation of the Internal Control System. Therefore, their responses are deemed to reflect what actually takes place in the organization.

#### **4.1.4 Description of age groups of respondents**

The study obtained details about the age groups of the respondents for purposes of understanding their age and possibly the experience they possess in their respective positions. Details of the findings are shown in table 4.4 below.

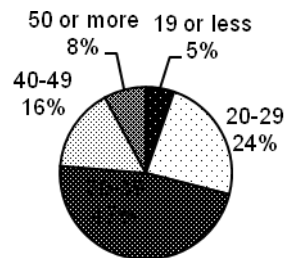
**Table 4.4: Age Groups of Respondents**

Age group	Frequency	Percentage
19 or less	2	5.3
20-29	9	23.7
30-39	18	47.4

40-49	6	15.8
50 or more	3	7.9
<b>Total</b>	<b>38</b>	<b>100.0</b>

*Source: Primary data*

**Fig. 4.4: Age group representation**



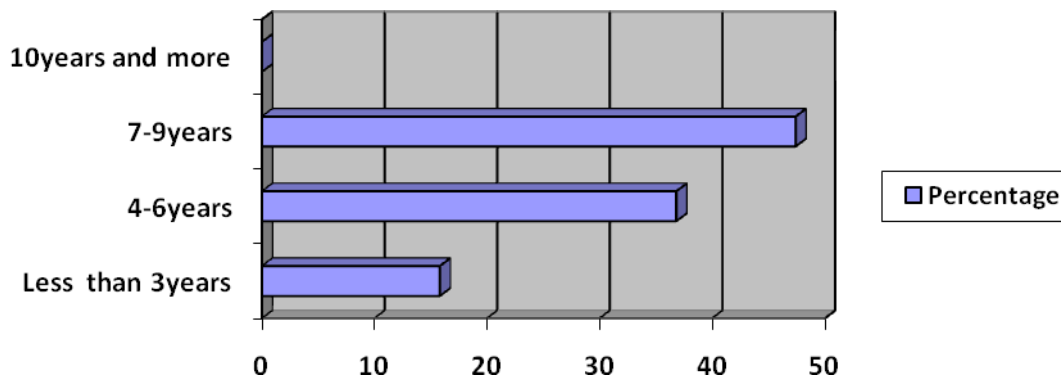
From the description above it is clearly evident that the majority of the respondents are in the age bracket of between 30-39, followed by 20-29, 40-49, 50 and more and 19 or less in the orders of 47%, 24%, 16%, 8% and 5% respectively. It can therefore be concluded that the majority of the respondents are in the most productive age brackets of their life and are reasonably experienced.

#### **4.1.5 Respondents years of service**

The respondents' years of service were deemed important to evaluate the level of experience the respondents have in the organization. Details from the survey are given as shown on the table below.

**Table 4.5 Years of service**

<b>Number of years</b>	<b>Frequency</b>	<b>percentage</b>
Less than 3 years	6	15.8
4-6 years	14	36.8
7-9 years	18	47.4
10 and more years	0	0
<b>Total</b>	<b>38</b>	<b>100</b>



**Fig 4.5: percentage years of service**

From Figure 4.5 above it is evident that majority of the respondents have served in the organization for between 7 to 9 years with a representation percentage of 47.4% followed closely by those who have served in the organization for between 4-6 years at 36.8%. the number of years of service will demonstrate the experience and continuity with the internal controls which have been put in place.

## 4.2 Examining the functionality of the Control Environment

The study sets to analyze and reveal how the Control Environment of the organization actually performs, and details are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references.

### 4.2.1 Descriptive statistics on Control Environment

Variables on control environment are discussed below.

**Table 4.6: Mean and Standard deviation of Control Environment**

	N	Min	Max	Mean	Standard Deviation
Accounting and Financial Management System	38	2	5	4.08	.882
Management commitment	38	2	5	3.71	.984
Organization structure	38	2	5	3.24	.943
Policies, procedures and documentation	37	1	5	2.78	1.004
Segregation of roles	38	1	5	3.21	.935

Management is of high integrity	38	1	5	3.29	1.137
Ethical values exists among staffs	38	1	5	3.11	1.034
Internal and independent External audit	38	1	5	3.08	1.124

*Source: Primary data*

In table 4.5 are details of the measures of effectiveness of the control environment under different key statements obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

#### **4.2.1.1 Accounting and Financial management system**

The study found that the respondents seem to agree that the Institution has an accounting and financial management system in place with a mean value of 4.08 which appears to be close to the maximum of 5. However, the standard deviation of 0.882 shows that there is a clear variation in the responses provided by the respondents about the existence of the accounting and financial management system.

#### **4.2.1.2 Management commitment on the operations of the system**

Respondents seemed to agree that management is committed to the operation of the Accounting and Financial management system as reflected by the mean value of 3.7 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.984 suggests varied responses regarding management's commitment to the Accounting & Financial management system. Management commitment to the operations of the Accounting and financial management system rhymes with Whittington and Pany's assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. That control environment; especially management philosophy and operating style is the foundation for all other components of internal control.

#### **4.2.1.3 Organization Structure**

In Table 4.6 above, respondents provided their understanding in regard to organization structure affect implementation of the controls and their perceptions show mean of 3.24, implying that they agree with the statement. But since the mean appears so close to the actual average, then the

need to closely focus on the variation. Thus, a standard deviation of 0.943 suggests significant differences in responses as regards the organization structure. The finding is in line with Mawanda (2008) who advocated for management (control environment) as the cornerstone for an effective internal control system.

#### **4.2.1.4 Policies and procedures in the organization**

The results as reflected in table 4.6 show a mean of 2.78. This is below the mean average, implying that respondents disagree as to the statement regarding policies and procedures of the operation of the system. Consequently, a greater standard deviation figure of 1.004 raises concerns regarding the policies and procedures of the operations of the organization system. The figure of standard deviation further reveals that the respondents had varied opinion about policies and this could also mean that besides disagreeing about policies, they could also be in disagreement with the type of policies and procedures provided by management. The results are at odds with Whittington and Pany (2001)'s requirement for management to include programs for preparing, verifying and distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

#### **4.2.1.5 Periodic reviews to correct errors in the system**

The results of the survey in table 4.6 suggest that respondents seem to agree that appropriate action is normally taken by management to correct errors in the operations of the system, although the standard deviation of 0.935 provided by the same respondents suggests that they possess varied understanding about the aspect of the measures taken to correct any weaknesses in the controls. This could also imply that measures taken are sometimes, not communicated or formal. Management's action to correct misfeasance in the system is an indication of management's commitment to the operation of the internal control system.

#### **4.2.1.6 Management Integrity**

The results of the survey as revealed by Table 4.6 suggest that management acts with Integrity. This is evident when the mean of respondents as computed by the system is well above the average (i.e. 3.29). Nevertheless, the corresponding standard deviation of 1.137 suggests that respondents had a significant variation in responses on management integrity in the execution of their role. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context.

#### 4.2.1.7 Ethical values upheld

The analysis results in table 4.6 reveal that to some extent, ethical values are upheld in all management decisions as reflected by a mean value slightly above average, 3.11. However, even then the respondents seemed to have varied responses regarding ethical values in all management decisions as revealed by a standard deviation of 1.034.

### 4.3 Risk Assessment functionality

Risks are events that threaten the accomplishment of objectives. They ultimately impact an organization's ability to accomplish its mission. Risk assessment is the process of identifying, evaluating and determining how to manage these events.

#### 4.3.1 Descriptive statistics on Risk Assessment.

**Table: 4.7: Mean and Standard deviation of risk assessment**

	N	Min	Max	Mean	Std Deviation
Existence of Internal Affairs Department	38	2	5	4.00	.900
Internal affairs department is adequately staffed	38	1	4	2.55	.921
Software installed and ICT aid in collection	38	1	5	2.79	1.069
Employees know risk areas in revenue leakage	38	2	5	3.13	.844
There are properly laid down procedures on revenue collection	38	1	5	2.92	1.056
Revenue leakages have been addressed by management	38	1	5	3.11	.894
There is laid down procedures on revenue risk identification	38	1	5	3.34	1.076
Surveillance officers are adequate	38	1	4	2.68	.852
There is adequate involvement of all staff in internal controls	38	1	5	3.08	.882

*Source: Primary data*

In the Table 4.6, the researcher set out to examine the risk assessment function as a way of examining the functionality of the internal control system. The test statements were equally ranked in terms of their mean and standard deviation. The details of the survey are discussed as follows.



#### **4.3.1.1 Existence of Internal Affairs department**

From the results in table 4.6, it is clearly evident that respondent were almost in total agreement as to the existence of the internal affairs function in the organization as reflected by a mean value of 4.0. However, the standard deviation of 0.9 suggests variations in responses by the various respondents. It shows that the work of internal affairs department is recognized.

#### **4.3.1.2 Internal affairs sufficiently staffed**

Results of the survey shows a mean of 2.55 which is below the average; this suggests that respondents do not believe that the internal affairs department is sufficiently staffed. However, a standard deviation of 0.921 suggests varied responses as to whether the internal affairs department is sufficiently staffed. There should be another monitoring body in what Gerrit and Mohammad (2010) refer to as a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal Audit function.

#### **4.3.1.3 Adequate software**

Table 4.6 shows respondents seem to disagree as to whether the system software is adequate for ease of collection of revenue. With a mean of 2.79 which is below the average of 3. However, a standard deviation of 1.069 suggests a significant variation in the responses. There is need to install new and up to date software to aid in collection and curd revenue loss.

#### **4.3.1.4 Employees have knowledge of risk areas**

The mean of 3.13 and standard deviation of 0.844 have shows varied response among managers which cast doubts as to the awareness of revenue leakage areas among employees in Kenya Revenue Authority.

#### **4.3.1.5 Revenue collection procedures**

Revenue collection is the main business of KRA but managers are not in agreement as to well laid down procedures of collection with a mean of 2.29 and standard deviation of 1.05 which shows the varying response to the question.

#### 4.3.1.6 Management address revenue leakage

The response has revealed that management of KRA has responded to prior revenue leakage points and revelations with a mean value of 3.11 although the standard deviation under the same test revealed a variation in responses generated.

### 4.4 Functionalities of the Control Activities

Control activities are tools - both manual and automated - that help prevent or reduce the risks that can impede accomplishment of the organization's objectives and mission. Management should establish control activities to effectively and efficiently accomplish the organization's objectives and mission.

#### 4.4.1 Descriptive statistics on Control activities

**Table 4.8: Mean and standard deviation of Control Activities**

	N	Min	Max	Mean	Std Deviation
Approvals are segregated	38	1	5	3.42	1.244
Close supervision	38	1	5	3.08	.906
Corrective action	38	1	5	3.21	1.119
Information sharing	38	1	5	2.97	1.119
Periodic employee rotation	38	1	5	3.05	.998
Independent reconciliation of collection	38	1	5	2.51	1.197

*Source: Primary data*

Findings of the control variable as a tool for internal control has been analyzed and presented as below.

##### 4.4.1.1 Separation of roles of approvals

The results of the survey suggest that respondents agree there is a clear approval procedure while executing their duties. This is shown by a mean of 3.42. However a significant standard deviation of 1.244 is a clear manifestation of varied responses from respondents as far as clear approval is concerned. Mawanda (2008) has suggested that segregation of approvals such that no one person should handle all aspects of a transaction from the beginning to the end.

#### **4.4.1.2 Supervision by senior staff**

The table 4.8 reveals that respondents agree that there is appropriate supervision of junior staff by their seniors managers. This is revealed by a mean value of 3.47. The standard deviation of 0.893 reveals that there were varied responses from the respondents interviewed. Mawada (2008) says that the lack of supervision by senior staff is an indication of deficiencies in strategic which if not addressed may lead to material internal control weaknesses.

#### **4.4.1.3 Action taken to address weaknesses**

The respondents agree that corrective action is normally taken to address weaknesses as shown by a mean value of 3.21. This value is close to the midpoint position, implying that respondents were almost not sure as to whether corrective action is taken to address weaknesses. However, a significant standard deviation of 1.119 shows that there are very varied responses as far as responses to the control test is concerned. Action being taken to address weaknesses in the system is an indication of the commitment by management.

#### **4.4.1.4 Restriction of access to valuable information**

The respondents were almost indifferent as whether staffs can have access to valuable information without the consent of senior managers. This is revealed by a mean value of 2.97 although the standard deviation of 0.971 indicates the respondents varied greatly as far as this test was concerned. This may be an indication of lack of segregation of duties which may impact on the reliability of information

#### **4.4.1.5 Employee rotation**

Senior managers as respondents were not sure as to whether controls are in place to periodically rotate employees to different locations. This is revealed by a mean value of 3.05 which is very close the average of 3 However, the deviation of 0.998 suggests varied responses to the test from the respondents interviewed. The finding could be a failure by Human Resource Section.

#### **4.4.1.6 Independent reconciliation of revenue collection**

The results of the survey as reflected in table 4.8 suggest that respondents disagree with the reconciliation of collected revenue. This is revealed by a mean value of 2.51. However, a significant standard deviation of 1.096 suggests that respondents varied greatly in their responses

to the test statement. The failure by the management to have an independent body to reconcile its collection could result to over reporting of collection.

## 4.5 Information and Communication

This is still one of the internal control system components and was addressed as shown here under.

### 4.5.1 Descriptive statistics on Information and Communication

This item on the pre survey assessed respondents' perception and expectation on usage of information and communication in KRA.

**Table. 4.9: Well elaborate channels of communication**

Likert Ranking, X	1	2	3	4	5	Total
No. of response, W	7	19	3	9	0	38
Percentage response	18	50	8	24	0	100
XW	7	38	9	36	0	90
<b>Mean score</b>	<b>90/38=2.4</b>					

*Source: Primary data*

Four questions that are closely related to Information and Communication were analyzed inferentially. The results indicate that:

Majority of the senior managers, 50% being the respondents agree that there are well elaborate information and communication guidelines in the system and that the channels of communication for reporting is followed. However, there was no response who strongly disagreed on the use of information and communication.

In as much as there are good channels of communication, most managers strongly disagree that procedures have been put in place for handling complaints from taxpayers and majority of the respondents also strongly agree that complaints against employees are handled in a professional manner with non who strongly disagrees. There were also varying response as to the timeliness of receipt of relevant and reliable reports for decision making with 39% of the respondents being not sure as to the timeliness and 47% of them disagree that they receive timely, relevant and reliable reports for decision making.

## 4.5 Monitoring

This is the last component of the internal control system and comes after all the systems have been put in place. This aspect involves checking to see whether the systems put in place are working effectively.

### 4.5.1 Descriptive statistics on Monitoring and Evaluation component

This item on the pre survey assessed respondents' perception and expectation on monitoring of systems in KRA.

**Table 4.10: Reviews and monitoring of Internal Control System**

Likert Ranking, X	1	2	3	4	5	Total
Number of respondents, W	0	8	1	12	17	38
Percentage of response	0	21	3	32	44	100
XW	0	16	3	36	85	140
<b>Mean score</b>	<b>140/38=3.7</b>					

Of the 38 respondents interviewed for the survey, 17 of them being represented as 44% strongly disagree that management periodically review internal controls with none of the respondents strongly agreeing as to the reviews. However, majority of the respondents agree that KRA unachieved targets are communicated in timely bases to the staff and reviews are made on those targets, with majority of those respondents not sure as to the usage and effectiveness of system monitoring mechanisms which have been put in place within KRA.

## 4.6 Examining the collection performance

Collection performance of Kenya Revenue Authority was examined by analyzing data collected and computing for the mean and standard deviation of the responses. Details of these analyses are shown in table 4.9 below.

### 4.6.1 Descriptive statistics on Collection performance

**Table 4.11: Mean and standard deviation of collection performance**

	N	Min	Max	Mean	Std Deviation
Collection has	38	1	5	4.77	1.213

improved over the year					
KRA has been meeting its target	38	1	5	2.59	.956
Target set for collection is realistic	38	1	5	2.64	1.046

*Source: Primary data*

#### **4.6.1.1 Collection target**

From the information managers believe that KRA has not been achieving its collection target as set by the Minister for Finance. This is demonstrated by the mean value of 2.59. However, a significant standard deviation value of 0.956 under the same test revealed varied responses from their response.

#### **4.6.1.2 Realistic target**

The table shows that the target set per office to meet over the financial year is not realistic and they strain to achieve. This is shown by a mean value of 2.64 although the standard deviation of 1.046 under the same test revealed varied responses from the respondents. Collection target should be based on employee ability and sound controls.

#### **4.6.1.3 Improved collection**

Senior managers have demonstrated that revenue collection has improved over the years even though unrealistic set targets have not been met, with a mean value of 4.77. However, a standard deviation of 1.046 reveals varied responses from the respondents interviewed over the same test.

### **4.7 Correlation Analysis**

The zero order correlations were used to establish the relationship between the independent and dependent variable. The Pearson's correction test was employed to execute this as shown below.

**Fig 4.12: Zero-order Correlation Analysis**

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
Control Environment	<b>1.000</b>						
Control Activities	.531	<b>1.000</b>					

Risk Assessment	.330	.377	<b>1.000</b>				
Information & Communication	.416	.384	.283	<b>1.000</b>			
Monitoring	.395	.470	.426	.429	<b>1.000</b>		
Revenue Collection	.482	.339	.447	.317	.482	<b>1.000</b>	
Internal Control Systems	.512	.393	.300	.423	.460	.489	<b>1.000</b>
Correlation is significant at the 0.01 level (2-tailed)							

*Source: primary Data*

#### **4.7.1 Internal Controls and Revenue Collection in KRA**

The findings revealed a significant positive relationship between Internal Control Systems and Revenue Collection ( $r=0.4489$ ,  $P>0.01$ ). This means that when internal controls improve it may result into improvement in collection. The study further revealed that good Internal Control Systems only contribute 48.9% to collection 51.1% to other factors not included in this study and need further studies to reveal them and their contributions.

#### **4.7.2 Relationship between the Control Environment and Revenue Collection**

From Table 4.9, it is revealed that there is a statistically significant positive relationship between the Control Environment and Revenue collection, ( $r = 0.482$ ,  $P<0.01$ ) was found. This implies that KRA should establish a sound and clean Control Environment to increase its collection target. The top management and board of directors should ensure that the tone from above is good for all staff that implements development programs. The study further revealed that Control Environment only contribute 48.2% to revenue collection leaving 51.8% to other factors not included in this study and need further studies to reveal them and their contributions.

#### **4.7.3 Relationship between Control Activities and Revenue Collection**

A statistically significant positive relationship between Control Activities and revenue collection in KRA ( $r = 0.339$ ,  $P<0.01$ ) was found. This means that if control activities are adhered to, KRA will definitely attain revenue collection targets. The study further revealed that control activities only contribute 33.9% to collection leaving 66.1% to other factors not included in this study and need further studies to reveal them and their contributions.

#### **4.7.4 Risk Assessment helps attain Revenue Collection**

There is a positive relationship between the Risk Assessment and Revenue Collection in KRA ( $r = 0.447$ ,  $P < 0.05$ ) as shown by the study. This implies that KRA should carry out regular Risk Assessments to be able to identify risks that will expose them to failure to attain their set objectives hence failure to attain their target collection. The study further revealed that Risk Assessment only contribute 44.7% to collection leaving 55.3% to other factors not included in this study.

#### **4.7.5 The impact of Information and Communication on the attainment of Revenue Collection**

Findings further reveal that there is a direct correlation between Information and Communication and Revenue Collection in KRA ( $r = 0.317$ ,  $P < 0.01$ ). This means that the more information is communicated in the right time and accurately the more the chance that KRA will collect more taxes. Information must be communicated in the right time and it should be accurate and necessary for meaning full decisions to be made. The study further revealed that good information and communication systems only contribute 31.7% to revenue collection leaving 68.3% to other factors not included in this study and need further studies to reveal them and their contributions.

#### **4.7.6 The impact of Monitoring on the attainment of Revenue Collection Target**

The study demonstrated that there is a significant relationship between Monitoring and Revenue Collection in KRA ( $r = 0.482$ ,  $P < 0.01$ ). This means that the more KRA carry out monitoring of its systems the more revenue it will collect. The study further revealed that good monitoring systems contribute 48.2% to revenue collection.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents summary of findings, discussions, and relevant conclusions, study recommendations and suggestions for further investigations.

#### **5.2 Summary of findings**

From the findings in chapter four, the study was able to establish the impacts of Internal Control System on the five control variables of Control Environment, Risk Assessment, Control Activity, Information and Communication and Monitoring variables. These variables have a direct effect on the level of collection of revenue in KRA under the set controls.

##### **5.2.1 Functionality of the internal control system**

The study through primary and secondary data found out that the organization has put in place good internal control systems to aid in collection and fraud control. KRA has acquired the Simba system for use by the Customs service and ITMS for use in collecting domestic taxes. These systems are centrally controlled and passwords are issued on need bases. The accounting and financial management section is also equipped with the latest accounting packages for reporting and accounting purposes. These systems are monitored and reviewed periodically to correct errors and malpractices.

The study has also revealed that separation of roles and responsibilities with KRA has been elaborately assumed which has helped in proper supervision by senior managers. The people who are involved in assessment of taxes for example are not mandated to collect the tax rather the role is designated to a responsible officer. Further authority to payment and approvals and the actual payment is done by different people for accountability purposes.

The study further showed that KRA has not been meeting its target over the years as set by the ministry of finance except for only two years in the last 8 years. This has been attributed to either unrealistic targets or sheer greed by officers who lack integrity. Nevertheless, the study has illustrated that revenue collection has grown in an increasing rate every year.

Information and communication in KRA is effective with regards to timely receiving of reports for decision making. However, reporting of incidences of lack of integrity by taxpayers is still a challenge. Most managers do not interact freely with their junior officers and taxpayers have difficulties in accessing information from KRA.

The internal controls has not been reviewed for the last three years and that monitoring of the internal controls is not tasked to only one department but every senior manager. This has made it difficult to take responsibility for any actions or inactions as a result of failure to any system. The system monitoring mechanism is not well manifested.

### **5.3 Conclusion**

Based on the findings of the study, it is concluded that there is a direct correlation between the level of internal controls and the amount of revenue collection by KRA. The level of internal controls can be measured by the effectiveness of those controls. Where there is an effective control system in place then revenue collection also goes up as demonstrated by the amounts collected when KRA had not put in place any controls with the time the organization started effecting controls.

### **5.4 Recommendations**

The research has achieved a substantial ground with regard to KRA and their systems of control which has opened up the organization for further research work. Future study should link KRA to level of compliance by taxpayers to ascertain how the two relate in respect to each other. The study should also be done with comparison to other revenue bodies to recommend for other revenue collection measures. A replication of this study should be done after some time to find out if there are any changes that might have taken place as a result of time difference and then comparisons to be made with the current data, so that viable recommendations can be drawn.

It is further recommended that the top management hierarchy to be reviewed to curb duplication of duties which has been evidenced by the study.

### **5.5 Limitation of the Study**

The research only interviewed respondents from the rank of Commissioners to Senior Assistant Commissioners. Other research can extend their samples to other lower ranks.

Some respondents interviewed are also mandated to oversee some internal controls thus there biasness in their respondents.

Lack of co-operation from some respondents who were unwilling to part with information they thought will be too confidential to disclose was a challenge. To overcome this; the study sought demystify the study to the respondents by explaining to them the purpose of the study. Few scholars have written about the impact of internal control systems in revenue collection.

### **5.6 Suggestion for further research**

The results from the study point out a number of opportunities for further research into tax competencies, compliance costs and tax compliance. Future research should attempt to collect data from County Governments to find out whether the effectiveness of Internal Control System in achieving value in county governments takes the same trend as that for Kenya Revenue Authority.

Further research could also examine the impact of total quality management on revenue collection in Kenya Revenue Authority or the relationship between effectiveness of internal control system and fraud in an organization because fraud is perceived to be one of the main threats to the organizations' performance.

## REFERENCES

- Amudo A (2009). Evaluation of Internal Control Systems: A Case study from Uganda. *International Research Journal of Finance and Economics*. 27<sup>th</sup> issue.
- Awitta, M. (2010). *Effectiveness of Revenue Collection Strategies at Kenya Revenue Authority in Nairobi*. Unpublished Research Paper, University of Nairobi.
- Badara et al (2005). Impact of the Effective Internal Control System on the Internal Audit Effectiveness at local government level. *Journal of Social & Development Sciences*; Jan2013, Vol. 4 Issue 1.
- Beretta, S et al. (2010). *The Relationship between Board Monitoring and Internal Control System Disclosure in Different Regulatory Environment*. Department of Economics and Management, University of Padova
- Brink N (2009). Theoretical Approach in an Internal Control System: A Conceptual framework and usability of Internal Audit. *International Journal of Economic Sciences and Applied Research* 4 (1): 19-34.
- Byanguye, M (2007). The effectiveness of Internal Control System in achieving value for money in School facilities grant; a case of Kamuli District Local Government. Makerere University.
- Committee of Sponsoring Organization of the Treadway Commission, (COSO) 1992, *Internal Control-Integrated Framework*, AICPA, New York.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO); (1985, 1992, 2005, 2012). *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples*.
- Deumes and Knechel 92008). Economic incentives for voluntary reporting on internal risk management and control systems.
- Esmailjee A E K (1993). *Internal Control: The Case of Nyayo Bus Corporation*. Unpublished MBA Project Report, School of Business, University of Nairobi.
- Fiscal Affairs Department, (2011). International Monetary Fund: Revenue Mobilization in Developing Countries.
- Financial Accounting Standards Board of the Financial Accounting Foundation (1985)
- Francis B A and Wonham W M. The Internal Model Principle of Control Theory.
- Gerrit S and Mohammad J (2010). Monitoring Effects of the Internal Audit function: Agency theory versus other explanatory variables. *Internal journal of Audit*. Blackwell publishing

Limited.

Hamed, A. (2009). A clear Look at Internal Control: Theory and Concept. Unpublished MBA Research Paper. University of Nairobi

Hongming, C and Yanan, S. (2012). *An Empirical Study on the Correlation between the Internal Control and Enterprise Value-Based on the Information System.*

Honggreen C and Datar M (2002). Cost Accounting: A managerial Emphasis. New Delhi, Prentice Hall. 10<sup>th</sup> Edition

John J.M (2011). The impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Controls over Financial reporting.

Kaplan E and Schultz Y (2007). The Effect of Social Confrontation on Individuals' intentions to Internally report fraud. *Behavioral Research in Accounting American Accounting Association* Vol. 22, No. 2.

Keitany, J. L. (2000). *The Internal Audit Control Function and its Implication for Risk Assessment by the External Auditor: A Case of Quoted Companies.* Unpublished MBA Project Report, School of Business, University of Nairobi.

Kenneman, P. (2004). Checks and Balances-Tips to Establish Effective Internal Controls: *N f perspective Journal* 15 (1) Spring.

Kuria, K, Ngumi, P and Rugani, J. (2013). Factors affecting Rental Income Tax Compliance among Landlords in Kilifi Municipality in Kenya. *Prime Journal of Business Administration and Management (BAM)*.2251-1261. Vol. 3(5), pp. 997-1008, May 22nd, 2013.

Matamande, et al (2012). *The effectiveness of internal controls in revenue management. A case study of Zimbabwe Revenue Authority.* University of Zimbabwe.

Mawanda, S. P. (2008). *Effects of Internal Control Systems on Financial Performance in an Institution of Higher Learning in Uganda: A Case of Uganda Martyrs University.*

Michino, P. W. (2011). *A Survey of the Impact of Internal Controls on Operational Efficiency among Non-Governmental Organizations in Nairobi.* Unpublished Research Thesis. University of Nairobi.

Miriithi, K. (2004). *Internal Control in the Public Sector.* Unpublished Research Thesis. Kampala International University, Uganda.

Ngugi, K. M. (2011). *A survey of Internal Control Systems among the Listed Private Companies and the Public Sector Companies in Kenya.* Unpublished Research Thesis. University of Nairobi

- Obat, J. (2010). The effectiveness of Internal Control Systems in achieving value for money in School facilities grant: The case of Kamuli District Local Government, Uganda. *Universal Journal of Accounting and Finance* 1(1): 29-33, 2013
- Odundo, A. (2007). *Effect of Information System on Revenue Collection by Local Authorities in Homa Bay County, Kenya*. Universal Journal of Accounting and Finance, Kenyatta University
- Olumbe, C.O. (2012). *The relationship between Internal Controls and Corporate Governance in Commercial Banks in Kenya*. Unpublished Research Thesis. University of Nairobi.
- Ongeri, S. N. (2010). *An Assessment of the Effectiveness of Internal Audit Systems in the Management of Decentralized Funds in Kenya: A Study of Local Authority Transfer Funds in Kisii Municipal Council*. Unpublished Research Thesis. University of Nairobi.
- Owusu, S. K. (2012). Revenue Mobilization and its Impact on the Development of District Assemblies: The study of Kpando Municipal Assembly. *University Journal. Department of Business and Economics*.
- Puttick, V. E. (2008) *The principles and practice of Audit: Business and Economics*. Revised Edition. McGraw Hill High Education.
- Samson, A. and Vincent, C. (2006). Impact of the effective Internal Control System on the Internal Audit effectiveness at Local Government Level. *Journal of Social and Development Sciences*. University of Ghana.
- Simmons, M. (1997). *COSO. The framework of Internal Control: A strategic Approach to Internal Audit*. Article on Internal Audit.
- Slanislav, K. (2006). Tax Revenue Prediction under Condition of Perfect Control over Tax Collection Authority. *Journal of department of Business and Economics*. Columbia University.
- Whittington, P. (2001). *Principles of Auditing and other Assurance Services*. McGraw Hill High Education. 5<sup>th</sup> Edition.
- Yussuf, A. (2007). *Tax reforms and Revenue Mobilization in Kenya*. Unpublished Research Thesis Jomo Kenyatta University College of Agriculture and Technology.
- Zimbabwe Revenue Authority Magazine (2001-2010)-Reviews

## **APPENDICES**

### **Appendix I: Questionnaire**

#### **Appraisal of Internal Controls in Kenya Revenue Authority**

This study is purely academic and respondents are assured that whatever information is provided will be highly confidential.

Instructions: Please kindly tick the box that clearly expresses your view about a question.

#### **A. Personal Data**

1. Sex

Male ☐ Female ☐

2. Education Level

Diploma ☐ Bachelors ☐ Masters ☐ PhD ☐ Other ☐

3. Position being held

Commissioner ☐ Senior Deputy Commissioner ☐ Deputy Commissioner ☐ Senior Assistant Commissioner ☐

4. Age

19 or less ☐ 20—29 ☐ 30—39 ☐ 40—49 ☐ 50 or more ☐

#### **B. Control Environment**

5. KRA has good Accounting and Financial Management System in place

Strongly agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

6. KRA Board of Directors are committed to the Internal Control System implementation

Strongly agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

7. There is a well elaborate Organization Structure in KRA

Strongly agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

8. Policies, procedures and documented as well defined

Strongly agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

9. Systems have been put in place to correct and avoid errors

Strongly agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

10. The Management and the BOD are people of high Integrity

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

11. The company's culture, code of conduct, human resource policies and performance reward systems support the business objectives and internal control systems.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

### **C. Risk Assessment**

12. KRA has formulated the Internal Affairs Department

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

13. There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

14. KRA has installed software and ICT up to date to help in revenue collection

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

15. The employees have knowledge of revenue leakage areas

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

16. Collection procedures are well documented

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

17. Revenue loss and risks have been identified by management

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

18. Measures have been put in place for risk identification

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

19. There are surveillance officers to identify risk areas

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

20. KRA staff are adequately involved in internal controls

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

### **D. Control Activity**

21. Policies and procedures exist to ensure critical decisions are made with appropriate approval.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

22. There is proper and close supervision of junior staff at KRA



Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

23. There are elaborate mechanisms put in place to address weaknesses of controls

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

24. Sensitive information is restricted to certain employees only

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

25. There is a system in place to ensure that employees are rotated periodically.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

26. Independent reconciliations of revenue collection on regular basis is done

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

## **E. Information and Communication**

27. There is effective reporting of revenue targets to be achieved in a particular year

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

28. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

29. Procedures have been put in place for complains by taxpayers

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

30. Complains against staff are handled in professional manner by management.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

31. Management receives timely, relevant, and reliable reports for decision-making

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

## **F. Monitoring**

32. Management assess the system of control from time to time

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

33. There are regular and periodic reviews of collection before the end of year report

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

34. KRA has an independent monitoring unit

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

35. There is appropriate communication to the management on the effectiveness of the ongoing monitoring processes on risks and control matters.

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

36. Management or approved personnel reviews results of audit

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

37. Periodically, management reviews audit or internal control systems are in place

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

## **G. Collection Performance**

38. Collection has been hitting the target for the last 6 (six) years

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

39. Collection targets set by The Ministry of Finance is realistic and achievable

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

40. There has been improved collection each year for the last 6 (six) years

Strongly agree [ ] Agree [ ] Not Sure [ ] Disagree [ ] Strongly Disagree [ ]

## APPENDIX 2: WORK PLAN

ACTIVITY		WEEK									
		1	2	3	4	5	6	7	8	9	10
	Pilot testing										
	Instrument Validation										
	Actual Data Collection										
	Data Processing										
	Data Analysis& Interpretation										
	Report writing										
	Report Submission										
	Week 1 start after Project defense										

### APPENDIX 3: BUDGET

	Quantity	Unit cost (Kshs)	Total cost (Kshs)
STATIONERY			
Laser papers	10 Reams	400	4,000
Writing pads	10	100	1,000
Flash disks	3	2000	6,000
Photocopying services and internet time			14,000
Printing	Proposal and Final paper	20 per page	15,000
Data Analysis			20,000
<b>Total</b>			<b>60,000</b>