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# EFFECT OF INTERNAL CONTROLS POLICY ON OPTIMAL REVENUE COLLECTION IN KENYA REVENUE AUTHORITY

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***Abstract:*** **The study examined the effect of internal control policy on optimal revenue collections in KRA. The theoretical base for the study was founded on optimal theory of taxation. The study applied positivism research philosophy. A descriptive correlational research design was employed in the study. The target population comprised of all the revenue officers working in the 34 KRA stations in the six regions across the country. The study sampled a total of 313 revenue officers in 34 KRA stations. The study used both primary and secondary data. Questionnaires containing close ended questions were used in the collection of primary data. The collected data was analyzed using statistical package for social sciences (SPSS) version 24 computer software. Descriptive statistics as well as inferential statistics were used in data analysis. Data was presented in charts and tables accompanied by relevant discussions of the findings. Findings from the correlations indicated that internal controls had a significant influence on optimal revenue collection. Regression analysis indicated that internal controls had a significant influence on revenue collection. The study concluded that internal controls had a vital role in determining optimal revenue collection in KRA. The study recommended that the organization should sets up strong internal control policies that will go a long way in enhancing the achievement of the organizations objectives of optimizing revenue collection. Internal control policies enable enhanced accountability, facilitates tracking of transactions to avoid wastage of KRA resources and prevent fraudulent activities within the organization.**

***Keywords:*** **Internal Controls, Kenya Revenue Authority, Optimal Revenue Collection, Revenue Collection.**

## 1. INTRODUCTION

Public revenue collection is an integral component of fiscal policy and administration in any economy because of its influence on government operations. It is the fuel of every government as it is the main instrument through which government funding is ensured. Tax revenue collection should comply with best practices of equity, ability to pay, economic efficiency, convenience and certainty (Visser & Erasmus, 2005). For any government to match in performance with the growth and expectations of its citizens, it needs to increase its fiscal depth without incurring costly recurring overheads (Gidisu, 2012).

There is an increasing need by the government to collect much revenue by way of taxes to face the increasing financial expenditures budgeted by the country. Automated systems have been proven to be capable of introducing massive efficiencies to business processes that can result in increased revenue collections (Zhou & Madhikeni, 2013). Application of technological solutions towards the strategic goals for government is a key step towards transforming government into an entity that can keep abreast of the needs, requirements and expectations of today's modern world (de Wulf & Sokol, 2005).

Studies have been done across the world in regard to the optimization of revenue collection. Imam and Jacobs (2007) estimated the impact of corruption on the revenue-generating capacity of different tax categories in the Middle East and found that the low revenue collection as a share of GDP there compared to other middle-income regions was due in part to corruption. This suggests that corruption is one of the factors that influence amount of taxes collected by governments. This view is also held by Ajaz and Ahmed (2010).

UNCTAD (2006) in their report indicated that system based automation approaches are important vehicles for achieving efficiency in tax administration. The report noted that automation impacts on the efficiency of tax administration. According to a study conducted in Ghana by Gidisu (2012) on the automation system procedure of the Ghana revenue authority on the effectiveness of revenue collection, Ghana Revenue Authority (GRA) adopted the UNCTAD developed Automated System for Customs Data and Management, which is fully integrated and covers the complete tax clearance process. The system handles customs declarations, accounting procedures, transit and other suspense procedures, generation of trade data that can be used for statistical and economic analysis (United Nations Economic Commission for Europe, 2007).

The public revenue collection challenge should be broadly conceptualized within the tax reform initiatives. System modernization is key in improving the efficiency and effectiveness in revenue collection. No doubt the traditional form of fiscal receipts will always be an essential part of the tax administration system (UNCTAD, 2008). Through system automation, a tax collection agency will be able to meet their revenue collection targets at the grassroots as well as less tax avoidance and evasions. Automation of the custom system falls under the Public Administration sector and its objective is to improve the efficiency and effectiveness both at the national level and in the county governments.

Fjeldstad and Rakner (2003) stated that, most sub-Saharan countries are faced with a tri-lemma with respect to taxation: First, there is an urgent and dire need for more revenue to enable the countries to provide even the most basic of public services and maintain government resources as well as resolving of crises that arise; Second, those economically able are few, and they do not want to pay taxes, in-fact, they spend a lot of their money to acquire tax planning and avoidance services; and Third, those without economic ability, who are the majority, have almost nothing to tax and resist paying taxes anyway.

Muhaki (2009) undertook a research on factors affecting revenue collections in local government in Uganda. Findings from the study show that constraints both endogenous and exogenous to the existing local revenue generation in the district hinder the prospects for a significant increase in local revenue. Gyamfi (2014) researched on effective revenue mobilization by districts assemblies in Ghana. Finally, the study found that some of the problems undermining revenue mobilization are inadequate data on revenue sources, lack of enforcement of revenue mobilization bye laws, inadequate revenue collectors and their training.

Over time, Kenya has moved from being a low tax burden country to a high tax burden country, yet the country faces the obvious need for more tax revenues to maintain public services. Given the high tax burden, prospects to raise additional revenue seem bleak. In addition, Kenyans are yet to accept a tax paying “culture”. On one hand, those with political power and economic ability are few and do not want to pay tax. On the other hand, those without political power are many, have almost nothing to tax, and do also resist paying taxes. Since no one enjoys paying taxes, there is mistrust between those collecting taxes and taxpayers. This mistrust generates a game theoretic coexistence between tax agents and tax payers, with agents perceiving taxpayers as criminals unwilling to pay their taxes, and tax payers wary of government agencies’ high-handedness in collection of taxes (KRA, 2004). This creates the need for the tax agents to improve their image by building trust and public confidence.

According to Smith, the subject of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities that is in proportion to the revenue which they respectively enjoy under the protection of the state. Governments use different kinds of taxes and varying tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities (Hunter, 2010).

According to the IMF (2003), Kenya’s tax system has performed better than average, for Africa, in the past three decades. In 1989/90, Kenya’s tax revenue collection was 23.3% of GDP. Revenue collection peaked in 1995/96 at 30.4% of GDP, as a result of economic liberalization, and thereafter, declined to 20.5% of GDP in 2002/03, before increasing to 22.0% in 2007/08. This superior performance was attributed to a stronger tax administration system and a relatively large formal sector. The reforms of the 1970s and early 1980s, as well as the introduction of VAT in 1990, which widened the tax base, enabled GoK to mitigate for revenue losses resulting from the reduction in and removal of import and export tariffs, which were imposed both by global (WTO) conventions, as well as the structural economic adjustment measures.

Empirical analysis by Muriithi and Moyi (2003) suggests that tax reforms in Kenya under the TMP have led to improved productivity of direct taxes. In particular, administrative reforms (such as lower tax rates, PIN) aimed at eliminating "avenues for evasion and corruption". However, Kenya's performance effectiveness indicators suggest that whilst the tax effort is high, there is potential to increase tax revenue collection as a percentage of GDP by reducing the tax gap.

**Government Policies and Revenue Collection**

Sound fiscal responsibility is central to achieving macroeconomic stability and ensuring that the benefits of economic growth. On the revenue side, the Government must continue its efforts to broaden the tax base through tax policy reforms and modernization of domestic tax and custom administration (Bird, 2009). It is viewed that in most emerging economies fiscal governance is reflected only in how deep a country can cut into its fiscal deficit, rather promoting a better tax system to mobilize more revenue to prevent it (Djankov et al., 2010).

Kenya has experienced significant changes in its economy over the last four decades. One of the striking characteristics of Kenya at present is that unlike many other Sub-Saharan countries today, it is a high tax-yield country with a tax-to-GDP ratio of over 20 per cent. As a result, Kenya is able to finance a large share of its budget, while external donor finances are used to cover a much smaller share than in other countries of the region. Presently, external donors' aid forms a paltry 3.9% while the bulk of government expenditure is financed through taxation, which the government aims to keep at or above 22% of GDP (GoK, 2014). This however does not mean that Kenya has a high tax collection ration since its base is still extremely narrow. According to Murithi and Moyi (2013), like most developing countries, Kenya has had to contend and still contends with the common problems that plague tax systems of developing countries. These, they identify to include, the existence of tax systems, with rates and structures that are difficult to administer and comply with and that are unresponsiveness both to growth and discretionary tax measures hence offering low tax productivity. In addition, the tax collection strategy raise little revenue but introduce serious economic distortions as well as provide opportunities for differential treatment of individuals and businesses in similar circumstances, and that are selective with regard to tax administration and enforcement, and skewed in favor of those with the ability to defeat the system. This means that for the country to increase its revenue collection, it needs to modernize its collection policy and carry out the necessary tax reforms that will yield an increased tax base.

**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. KRA was established for assessment, 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).

As part of the reform package, the Kenya Revenue Authority (KRA) was designed with autonomy (self-governance) enhancing mechanisms, including self financing mechanisms, a Board of Directors with high-ranking public and private sector representatives, and sui generis personnel systems (Taliercio, 2004). Thus, KRA amalgamated the five main revenue departments that were initially in the Ministry of Finance namely Customs Duty, Excise Duty, Sales Tax, Income Tax and Corporate Tax). By running on business principles and by being semi-autonomous, KRA was designed to be less vulnerable to political interventions and to have the leverage to recruit, retain, dismiss and promote quality staff by paying salaries above civil service terms. This was intended to motivate staff and reduce corruption. But there are concerns that KRA exists mainly to respond to the demands of IMF and World Bank and not domestic concerns over equitable taxation and the disincentive effects of taxation on economic activity (KIPPRA, 2004).

The Kenya Revenue Authority focuses on effective methods of revenue collection so as to meet the country's budget revenue targets. The tax base in Kenya, as in most sub-Saharan African countries, is extremely narrow. So far, attempts to increase tax revenue have focused on closing the 'taxation gap' and expanding the tax base. The main policies recommended by the IMF have led to trade liberalization, the transition from a sales tax to a system of VAT (IMF, 2005). Such policies have been adopted by most African countries with Kenya being no exception.

Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue collection has been enhanced. However, a number of processes remained manual and KRA was 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 a fundamental aspect of management stewardship responsibility to provide interested parties with reasonable assurance that their organization is effectively controlled and that the information they receive are accurate and dependable.

To achieve their purpose, KRA is divided into regions such as North Region, Rift Valley Region, Western Region, Southern Region and Central Region and departments such as Customs Services Department, Domestic Services Department, Road Transport Department and Support Services Department. KRA administers different types of taxes under different Laws (Acts) such as Income Tax, Value Added Tax, Custom duties and Excise Tax among many others (Kuria 2013).

## 2. STATEMENT OF THE PROBLEM

Kenya revenue authority has continuously failed to meet its revenue collection targets. Between the years 2010 to 2014, the shortfalls in target revenue collection were 2.5%, 2%, 1%, 1.4% and 10.4% respectively. In the year 2016 the treasury reported that Kenya revenue authority had collected sh. 811 billion against a target of sh. 911 billion set by the treasury for the period between July 2015 and March 2016. This was a shortfall of sh. 100 billion (11% deficit). Treasury had set a 20.9% revenue growth target for the taxman but KRA only met about half that target after it posted an 11.7 per cent growth (KRA 2016). These shortfalls in tax collection have resulted to the prolonged government budget deficit that arises every fiscal year.

In an attempt to increase efficiency in revenue collection, the government has instituted several policy measures. For instance, in the year 2005, KRA adopted a policy requiring the automation of their tax collection and went ahead to introduce Electronic Tax Registers (ETRs) to ensure full remittance of VAT by retailers. This was done to replace the manual paper system of filling tax returns. ETRs enables taxpayer internet based PIN registration, returns filing, payment registration to allow for tax payments and status inquiries with real-time monitoring of accounts (Waweru, 2013). The government has moved further to enhance the efficiency of KRA by enhancing the competence of staff through enhancing their recruitment procedures and increasing the training programs and bench marking. On the other hand the government has strengthened internal control mechanisms, revised their tax incentive policies and tax regulations. It is however not clear how these policy measures have impacted on the revenue collection efficiency. This study seeks to fill this gap by assessing the influence of government policy measures on optimal revenue collection in Kenya revenue authority.

Few studies have been done in Kenya to address revenue collection by Kenya revenue authority. A study by Andrew (2014) looked at the effect of integrated tax management system on tax compliance by small and medium sized enterprises in Nairobi central business district. Further Faith (2014) did a study of the effect of internal controls on revenue collection by county governments in Kenya. Further Ndunda, Ngahu and Wanyoike (2015) did a study analyzing factors influencing optimal revenue collection by County governments in Kenya a case of Nakuru County. It is evident that none of these studies have addressed the case of revenue collection countrywide but have concentrated on smaller regions. Further, to the researchers' knowledge no study has been able to address the effect of government policy measures on optimal revenue collection and especially in the Kenyan context. As such no study has been able to determine which of the government policy measures worked and which has not. Therefore this study will be seeking to examine the effect of government policy measures on optimal revenue collection in Kenya revenue authority.

## 3. OBJECTIVES OF THE STUDY

Effect of internal controls policy on optimal revenue collection in Kenya revenue authority

## 4. RESEARCH HYPOTHESIS

Internal controls policy does not significantly affect optimal revenue collection in Kenya revenue authority

## 5. CONCEPTUAL FRAMEWORK

**Internal Controls**
- Supervision
- Transparency
- Internal Audits
- Tax Tracking

**Optimal Revenue Collection**
- Level of Compliance
- Target and Actual Collections
- Revenue Collection

**Independent Variables** → **Dependent Variable**

### 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. In pursuit of organizational objectives regarding reliable financial reporting, effective and efficient operations, managers and boards of organizations resort to establishing internal control systems in ensuring effective outcomes (Crawford et.al., 2011). Internal controls are meant to ensure the achievement of objectives in the area of effectiveness and efficiency of operations, reliability of financial reporting and compliance with the applicable laws and regulations. Internal controls help in safeguarding assets, preventing and detecting errors, fraud, waste, abuse and mismanagement.

Monitoring is undertaken by means of an audit process. Audits can be described in two forms, namely internal and external auditing. The Institute of Internal Auditors (IIA, 2014) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Based on the characteristics of good governance, internal auditing enables an organization to "accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2014).

It is believed that properly designed and enforced internal control systems will normally lead to better financial reporting procedures as well as giving rise to a reliable report that improves management accountability function of an institution (Doyle, et al. 2007). However, the prospect of achievement is determined by limitations inherent in all internal control systems. In this respect, Emasu (2007) explains that internal control systems can only ensure reasonable rather than complete guarantee to the achievement of the organization's objectives which are instituted by an institution's management and board of directors.

## 6. THEORETICAL REVIEW

### Optimal Theory of Taxation.

The theory of optimal taxation can be seen as a recipe for minimizing the costs of taxation. The costs on which this literature focuses are, as already noted, the efficiency costs of a distorted tax system. But the more direct costs of administration and compliance play little or no role in the analyses, and the theories of tax evasion (James, 2002). So far, the potential gains from using the insights of the tax evasion literature in the study of optimal taxation have not been fully exploited, although for some aspects of taxation the evasion perspective is obviously highly relevant.

This is true, at least to some extent, with respect to the degree of progressivity of the personal income tax, and even more so with respect to the interface between personal and company taxation and the degree of differentiation of the indirect tax system. The literature on tax evasion should be seen as a way to bring issues of tax administration into the focus of the theoretical literature on tax design (Ghura, 2006). The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The social welfare function is based on the utilities of individuals in the societies, in its most general analyses; this literature uses a social welfare function that is a nonlinear function of individual utilities.

Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility (Graham, 2000). To reduce the problem facing the revenue collection, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. It is important to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides (Hazel, 2005). The tax incentives are given to encourage the consumption of a particular product with the aim of optimizing the consumers' welfare. This theory is relevant for the study in establishing the role of tax incentives in enhancing revenue collection in KRA.

## 7. EMPIRICAL REVIEW

**Internal control and optimal revenue collection**

Fight (2002), sates that revenue which is mostly in cash is the most liquid of assets and is susceptible to loss if not properly controlled. Therefore, it is extremely important that, all departments handling cash implement and adhere to strong internal controls (Angelovska, 2010). The recent financial crisis has put revenue collection and its management through effective internal control system back in the spotlight, forcing treasurers to focus their efforts on ways to improve their companies' revenue management (San José et al., 2008).

Internal controls are measures that organizations institute with the aim of ensuring that the objectives, goals, and mission of the organization are met (Rezaee, 2002). They refer to set of organizational policies and procedures that ensure any transaction is processed in the appropriate way to avoid waste, theft and misuse of organization resources. Through internal control systems, organizations achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations.

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements (Doyle et al., 2005).

According to Fadzil et al. (2005), an effective internal control system unequivocally correlates with institutional success in meeting its revenue target level. Effective internal control for revenue generation and maintenance involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its institutional objectives (Ittner et al., 2003).

Internal controls can be classified under; preventive, detective, and corrective (Singleton et.al, 2006). Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem.

Musya, (2014) undertook a study to examine the part played by internal control system in the collection of revenue by county governments in Kenya. The research was conducted using both qualitative and quantitative approaches. The study established that weak internal controls activities and lack of proper information and communication systems 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 county governments in Kenya.

Using the analytical approach and focusing on control activities and monitoring, Berra (2010) investigate the effects of penalties and other internal controls on employees' propensity to be fraudulent. Data was collected from both managers and non-managerial employees. The result showed that the presence of control activities separation of duties increases the cost of committing fraud. Thus the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further it was established that segregation of duties is at least cost fraud detergent for non-managerial employees, but for managerial employee, maximum penalties are the least cost fraud disincentives. The results suggest the effectiveness of preventive controls (control activities) such as segregation of duties is dependent on the detective controls (monitoring).

**Optimal Revenue Collection**

Experts on taxation in developing countries strongly agree that there is considerable potential to increase tax revenue in most low-income countries. In its 2011 policy paper on the subject, the IMF stated that an increase was not only possible but also desirable (IMF 2011). The findings of the World Bank study presented in the previous section (Minh Le et al. 2012) confirm that most low income countries have both low tax collection and low tax effort, the latter indicating that tax revenues are below their potential level (Torres, 2013). In addition to having revenue below potential, many LICs still face tax shares (of GDP) below 15% which is considered a reasonable threshold for ensuring government functioning.

Governments in developing countries face great challenges in collecting tax revenues, which result in a gap between what they could collect and what they actually collect. One of this challenges according to Muita (2011), is the embracing of emerging technologies and tax payment methods that are more efficient so as they can reduce wastage. One of the technologies he argues is electronic tax system which so far has been embraced by the Kenya Revenue Authority. Baingana (2011) noted that improvement in administration would lead to increased revenue performance. He further argued that, if a tax is well administered, then inevitably revenue collections have to increase. It is the only way one can be able to know whether a tax is well administered or not.

According to initiative for policy dialogue working paper series (2009), Kenya has the trappings of a modern tax system, including, for example, a credit-invoice VAT, a PAYE individual income tax with graduated but arguably moderate rates, and a set of excise taxes focused on the usual suspects (alcohol, cigarettes, gasoline, etc.). However, with up to 70 percent of GDP produced and possibly as much as 75 percent of labor employed in the informal sector, the ability of the tax system to raise sufficient revenue with minimal distortions is severely circumscribed. In such an environment, raising around one-fifth of GDP in tax revenue is likely to impose very large distortionary costs on the economy. Continued reform of both the policy instruments and the administrative and enforcement capacity of the tax system is therefore imperative.

According to Gcabo and Robinson (2007), tax collection is important to any country even though it is not favoured or understood by the country's citizens. They went on to argue that, though the taxpayers acknowledges the need to pay taxes and enjoy the benefits offered by the government in form of public service, tax compliance is not favoured by the majority. It is critical that the importance of tax compliance is understood because it determines how the government shapes the lives of its citizens (Oberholzer, 2008). Bird (2012) revealed that in most developing countries, more than half of the potential tax revenues tend to remain uncollected. This he further accredited to the large volume of the informal sector, dominated by the small business owners.

Applying cost benefit analysis models, Sandmo (2005) explained the interplay between tax underpayment and the tax authority's effort to identify and limit tax frauds. This occurs in circumstances where agents gamble by underpaying taxes, and where the probability of detection and the resultant penalties are determined by the resources committed by the regulator, and the efficacy of institutions. These models identify several factors explaining tax underpayment, including the tax burden, the stringiness and efficacy of enforcement, the penalties associated with tax underpayment, and the degree of risk aversion. Using Chilean tax revenues to estimate the impact of changes in enforcement spending, Engel et al. (2001) find that 1 USD of additional enforcement spending increases VAT revenues by 31 USD, and a 10 percent increase in spending could reduce evasion from its current rate of 23 to 20 percent. Keen and Simone (2004) argued that, revenue may increase provided trade liberalization occurs through tariffication of quotas, eliminations of exemptions, reduction in tariff peaks and improvement in customs procedure.

Stotsky and woldemariam (2007) undertook studies in Sub-Saharan country on tax efforts that revealed many sub-Saharan Countries in African face difficulties in raising tax revenue for public purpose. The study undertaken was to measure the determinants of tax share of the tax GDP and construct a measure of tax effort. In another study on tax efforts under taken in Arab countries by Nagy (2000) revealed that Tax Revenue performance varies across Arab countries. Study concluded that Tax revenue trends are not uniform across these Arab countries. Some countries have enjoyed sustained increases in tax revenue shares in recent years while others have seen tax revenue shares weaken.

In Kenya, KRA has sought to boost tax compliance by introducing sanctions such as electronic monitoring, audits, compliance checks, investigations and shutting of non-compliant taxpayers businesses, heavy penalties and prosecution of tax evaders. There is also a whistle brower rewards to those who volunteer information that leads to recover of taxes. This sanctions and the reward has helped in improvising the general level of tax compliance (KRA. 2013).

Kenya is regarded as a low income country and therefore tax compliance of Kenya has significantly been low with tough duty of warranting resourceful and effective tax administration. Kenya revenue authority performs education monthly to all newly registered taxpayers so as to improve tax compliance. Whether the increased taxpayer education has led to improved tax compliance has not been captured in any observed study (KRA, 2011).

## 8. RESEARCH METHODOLOGY

The study will apply a positivism research philosophy. Research philosophy is the development of the research background, research knowledge and its nature (Saunders & Thornhill 2007). Research philosophy is also defined as a research paradigm. paradigm is a way of thinking about and conducting a research. It is not strictly a methodology, but more of a philosophy that guides how the research is to be conducted. Research paradigm and philosophy comprises various factors such as individual's mental model, his way of seeing things, different perceptions, and variety of beliefs towards reality. The study will apply mixed design including descriptive survey design and correlation research design. The descriptive design will be used since the study will gather quantitative and qualitative data that describe the nature and characteristics of government policy measures and optimal revenue collections in Kenya revenue authority. According to Sekeran (2003), descriptive research design is a type of design used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The target population will be comprised of all the revenue officers working in the 34 KRA stations in the six regions across the country. There are six regions including Nairobi, Southern region, Northern region, Central region, Rift Valley region and Western region. KRA has a total workforce of 4,539 employees distributed in various stations within the country. The targeted respondents will be comprised of the revenue officers in the customs and excise department, domestic taxes department, heads of audit departments, heads of compliance departments, managers of debt departments and the managers of tax payer recruitment and education section. These comprise of 1646 employees working in these departments. These will form the study's target population. Sampling technique will be used where a sample size of 313 respondents will be selected as the respondents of the study. The study will use questionnaires to collect primary data. Secondary data will be obtained from KRA records and information from the government national treasury guided by a data collection sheet. Orodho (2004) observes that a questionnaire is an instrument that is used to gather data and allows measurement for or against a particular viewpoint. Structured and open-ended questions will be used to collect primary data from the field. The same questionnaires will be pilot tested to ascertain the extent to which the instrument collects the intended data and eliminate ambiguous questions, and improve on validity and reliability. Cronbach's alpha will be used to measure the reliability of the instrument. The use of closed-ended questionnaires will contribute towards gathering of both quantitative and qualitative data. Descriptive statistics method will be applied to analyze quantitative data where data will be scored by calculating the percentages, mean' STD deviation and Variance. This will be done using Statistical Package for Social Sciences (SPSS) version 24 computer software. Inferential statistics will be applied through correlation analysis and the use of multiple regression analysis. Data collected will be subjected through econometric tests to check that the assumptions of multivariate analysis are met before being subjected to regression analysis. The data will be checked for linearity, normality, multi-collinearity and homoscedasticity of residuals. The correlation analysis will be used to establish statistical significance, the nature of the existing relationship between the dependent variable and the independent variables. The regression analysis will be used to determine the statistical significance, the influence or effect that the independent variables have on the dependent variable.

For the purpose of this study, the researcher applied a descriptive research design. A descriptive study is concerned with establishing the rate of recurrence with which something occurs or the association between variables. The study population was composed of deposit taking SACCOs in Nyandarua County which are under SASRA regulation. There are 61 deposit taking SACCOs operating in four sub-counties of Nyandarua County. Given that the sample population is not too big, the study adopted a census where all the SACCOs were included in the study. Primary methods of data collection were used in the study. The study employed the use of questionnaires as the main tools for collecting data. A questionnaire is a research instrument which consists of a series of questions designed to assist the researcher in getting information from the respondent (Mugenda & Mugenda, 2010). The questionnaire contained structured questions. Questionnaires helped the researcher to collect large amount of data in large areas within a short time thus saving time for the study. The questionnaire composed of short structured closed ended statement constructed on a 5 point Likert scale. The instrument was pilot tested where Cronbach alpha (α) was used to test the reliability of the instrument. , data was processed and analyzed by using descriptive statistics and inferential statistics. Tabulation of data was used to enable a meaningful description of the distribution of scores with the use of frequencies and percentages, means and standard deviation presented in tables. Inferential statistics was done to establish the relationships between variables and the strength of prediction. This was done using correlation, simple linear regression analysis and multiple regression analysis.

## 9. FINDINGS AND DISCUSSIONS

The researcher distributed 313 questionnaires to the respondents for the purposes of data collection out of which, 276 of them were returned. This constitutes 88.2% which exceed 70% suggested by Mugenda and Mugenda (2003) as very good. According to Babbie and Mouton (2002) a response rate of above 50% is adequate for analysis thus a response rate of 88.2 % in this study was considered adequate.

### 9.1. Quantitative Analysis

**Internal Control Mechanisms**

The second study objective sought to examine the influence of internal control mechanisms on optimal revenue collection in Kenya revenue authority. The questionnaire was first tested for sampling adequacy using KMO test and factorability of the inter-item correlation matrix using Bartlett's test of sphericity. The findings from the analysis were as presented in Table 1

**Table 1: KMO and Bartlett's Test on Internal Control Mechanisms**

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .715 |
| | Approx. Chi-Square | 127.067 |
| Bartlett's Test of Sphericity | df | 28 |
| | Sig. | .000 |

The analysis gave a KMO value of 0.715 which was above 0.5 as recommended by Field (2005). As such the instrument was considered adequate for data collection. The Bartlett's test of sphericity chi-square value of 127.067 was found to be significant at $p<0.05$. This indicated that the data matrix was not an identity matrix and hence allowing for factorability of the correlation matrix. Principal component analysis was done using Eigen value criterion as the method of extraction. This was to enable the identification of the sub-component of internal control mechanisms. The findings from the analysis gave the results shown in table 2

**Table 2: Total Variance Explained on Internal Control Mechanisms**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings[a] |
|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total |
| 1 | 4.341 | 54.262 | 54.262 | 4.341 | 54.262 | 54.262 | 3.736 |
| 2 | 1.325 | 16.568 | 70.830 | 1.325 | 16.568 | 70.830 | 3.199 |
| 3 | .970 | 12.126 | 82.956 | | | | |
| 4 | .593 | 7.407 | 90.363 | | | | |
| 5 | .259 | 3.231 | 93.594 | | | | |
| 6 | .228 | 2.854 | 96.448 | | | | |
| 7 | .188 | 2.352 | 98.800 | | | | |
| 8 | .096 | 1.200 | 100.000 | | | | |

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Principal component analysis demonstrated the presence of two factors for internal control mechanisms with Eigen values greater than one accounting for upto 70.83% of the total variance in internal control mechanisms items. A clear factor solution was obtained for 8 items in internal control mechanisms. A pattern matrix was generated to explore the distribution of the eight items across the two extracted factors. The findings from the analysis were as shown in Table 3

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**Table 3: Pattern Matrix[a] on Internal Control Mechanisms**

| | Component | |
|---|---|---|
| | 1 | 2 |
| KRA has instituted proper control mechanisms to enhance accountability within its operations | | -.710 |
| All transactions are tracked to avoid wastage and theft of KRA resources | .867 | |
| Internal audits are conducted regularly to enhance the reliability of KRA financial performance in tax collection | .948 | |
| Through properly established internal control mechanism, KRA has been able to meet its revenue targets in different regions | | -.778 |
| Internal control measures enables the institution to detect problems before they occur in revenue collection | .675 | |
| Inadequate internal control mechanisms have led to embezzlement of funds through collusion to fraud | | .790 |
| Through segregation of duties and thorough supervisions, it's difficult for employees to engage in fraudulent activities | .894 | |
| Through continued internal financial control, KRA has improved in its objective of meeting revenue collection targets | | -.756 |

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
a. Rotation converged in 6 iterations.

The pattern matrix demonstrated that four of the items loaded strongly on the first component (internal audit) and another four items on the second component (transparency). The aspect that KRA has instituted proper control mechanisms to enhance accountability within its operations had a loading factor of 0.71 on transparency. Conversely, that through properly established internal control mechanisms, KRA has been able to meet its revenue targets in different regions had a loading of 0.778 on transparency. Further, the assertion that inadequate internal control mechanisms have led to embezzlement of funds through collusions to fraud had a loading of 0.790 on transparency. Additionally, the aspect that through continued internal financial control, KRA has improved in its objective of meeting revenue collection targets loading strongly on transparency with a loading of 0.756. Further, in regard to transparency, the aspect that internal audits are conducted regularly to enhance the reliability of KRA financial performance in tax collection had the strongest loading factor of 0.948. That through segregation of duties and thorough supervisions, it's difficult for employees to engage in fraudulent activities had the second highest loading on transparency with a loading factor of 0.894. The assertion that all transactions are tracked to avoid wastage and theft of KRA resources had a loading of 0.867 still on transparency. Further that internal control measures enable the institution to detect problems before they occur in revenue collection had a loading factor of 0.675 on transparency.

The study further proceeded to examine respondent views in regard to internal control mechanisms. The data was collected in Likert scale of 5 point scores. The frequencies in percentages, means and standard deviations were extracted to depict the respondent views. The findings from the analysis were as presented in Table 4.

**Table 4: Descriptive Statistics on Internal Control Mechanisms**

| | SA (%) | A (%) | N (%) | D (%) | SD (%) | Mean | Std. Dev |
|---|---|---|---|---|---|---|---|
| KRA has instituted proper control mechanisms to enhance accountability within its operations | 27.9 | 54.7 | 12.7 | 2.5 | 2.2 | 4.04 | .839 |
| All transactions are tracked to avoid wastage and theft of KRA resources | 24.6 | 39.5 | 23.6 | 8.7 | 3.6 | 3.73 | 1.042 |
| Internal audits are conducted regularly to enhance the reliability of KRA financial performance in tax collection | 26.1 | 51.4 | 15.6 | 5.4 | 1.4 | 3.95 | .875 |
| Through properly established internal control mechanisms, KRA has been able to meet its revenue targets in different regions | 17.8 | 46.7 | 17.8 | 15.2 | 2.5 | 3.62 | 1.025 |
| Internal control measures enable the institution to detect problems before they occur in revenue collection | 14.1 | 41.3 | 29.3 | 12.3 | 2.9 | 3.51 | .978 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Inadequate internal control mechanisms have led to embezzlement of funds through collusion to fraud | 7.2 | 19.9 | 33.3 | 29.7 | 9.8 | 2.85 | 1.077 |
| Through segregation of duties and through supervisions, it's difficult for employees to engage in fraudulent activities | 20.7 | 43.1 | 25.4 | 8.0 | 2.9 | 3.71 | .980 |
| Through continued internal financial control, KRA has improved in its objective of meeting revenue collection targets | 19.6 | 47.1 | 21.7 | 7.6 | 4.0 | 3.71 | .997 |
| Valid N (listwise) | 275 | | | | | | |

The researcher observed that majority of the respondents agreed that KRA has instituted proper control mechanisms to enhance accountability within its operations. 54.7% and 27.9% of the respondents agreed and strongly agreed respectively. The aspect registered a mean of 4.04 and a standard deviation of .839. They agreed that all transactions are tracked to avoid wastage and theft of KRA resources where 39.5% of the respondents agreed and 24.6% of them strongly agreed registering a mean of 3.73 and a standard deviation of 1.042. Findings established that respondents agreed that internal audits are conducted regularly to enhance the reliability of KRA financial performance in tax collection where 51.4% of the respondents agreed while 26.1% of them strongly agreed registering a mean of 3.95 and a standard deviation of .875.

In addition, a mean of 3.62 and a standard deviation of 1.025 were recorded where 64.5% of the respondents strongly and/or agreed that through properly established internal control mechanisms. KRA has been able to meet its revenue targets in different regions. The researcher observed that respondents agreed that internal control measures enable the institution to detect problems before they occur in revenue collection. 41.3% and 14.1% of them agreed and strongly agreed respectively recording a mean of 3.51 and a standard deviation of .978. On the other hand, respondents were not sure whether inadequate internal control mechanisms have led to embezzlement of funds through collusion to fraud. 27.1% of the respondents strongly and//or agreed, 33.3% of them were undecided while 39.5% of the respondents strongly and/or agreed. This assertion registered a mean of 2.85 and a standard deviation of 1.077.

On the other hand, 43.1% of the respondents agreed while 20.7% of them strongly agreed that through segregation of duties and through supervisions, it's difficult for employees to engage in fraudulent activities. This had a mean of 3.71 and a standard deviation of .980. A majority of the respondents comprising of 66.7% strongly and/or agreed that through continued internal financial control, KRA has improved in its objective of meeting revenue collection targets recording a mean of 3.71 and a standard deviation of .997. Majority of the responses on the various items save for three items returned standard deviation values less than one. This demonstrated that the respondents were in close agreement in their views regarding the assertions.

Therefore the researcher observed that according to the respondents, KRA had in place an elaborate internal control framework. This enables the KRA avoid fraud and keep track of all revenue transactions. Hence, internal control framework was demonstrated to be paramount in the operations of the Kenya Revenue Authority. The findings affirm Angelovska (2010) findings who asserted that it is extremely important that all departments handling revenue implement and adhere to strong internal controls. On the other hand, Barra (2010) established that the presence of internal control increases the cost of committing fraud. Ewa and Udoayang (2012) noted that strong internal control mechanisms are deterrence to the staff against committing fraud.

**Optimal Revenue Collection**

The study further sought to examine the state of revenue collection in Kenya revenue authority. The questionnaire on revenue collection was first taken through factor analysis to determine the suitability of the questionnaire items in measuring the optimization of revenue collection. The KMO and Bartlett's test were used to measure for the sampling adequacy and the factorability of the inter-correlation matrix. The findings from the analysis were as presented in table 5.

**Table 5: KMO and Bartlett's Test**

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .764 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 90.643 |
| | df | 21 |
| | Sig. | .000 |

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From the analysis, the KMO measure of sampling adequacy was 0.764 which was far above the recommended threshold of 0.5 (Field, 2005). Thus the sampling adequacy of the questionnaire was found to be satisfactory. The Bartlett's test of Sphericity chi-square value of 90.643 was found to be significant at $p<0.05$ level of significance. This shows that the identity matrix is not an identity matrix hence allowing for factorability of the inter-correlation matrix.

The study undertook principal component analysis using Eigen value criterion for the latent factor extraction. The findings from the analysis were as presented in Table 6.

**Table 6: Total Variance Explained**

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 4.162 | 59.450 | 59.450 | 4.162 | 59.450 | 59.450 |
| 2 | .899 | 12.842 | 72.292 | | | |
| 3 | .650 | 9.291 | 81.583 | | | |
| 4 | .473 | 6.752 | 88.335 | | | |
| 5 | .357 | 5.098 | 93.433 | | | |
| 6 | .312 | 4.464 | 97.897 | | | |
| 7 | .147 | 2.103 | 100.000 | | | |

Extraction Method: Principal Component Analysis.

From the analysis, one component was extracted with an Eigen value greater than one accounting for 59.45% of the total variance in revenue collection. A clear factor solution was obtained for seven of the revenue collection items. A component matrix was derived to demonstrate the factor loadings on the extracted component. Findings from the analysis were as presented in Table 7.

**Table 7: Component Matrix[a]**

| | Component |
|---|---|
| | 1 |
| KRA has recorded increased level of tax compliance among individual tax payers | .733 |
| KRA has been able to reduce the gap between actual collection and projected collection | .820 |
| KRA has been able to reduce the amount of potentially uncollected revenue | .827 |
| KRA has been able to meet its tax collection targets | .658 |
| Through proper data storage facilitated by TCA,KRA has managed to make almost accurate revenue collection projections | .695 |
| Over the past few years, KRA has been registering increased number of new tax payers as a result of increased monitoring and efficiency | .831 |
| Use of ICT has greatly enhanced revenue collection by KRA | .813 |
| Extraction Method: Principal Component Analysis. | |

a. 1 components extracted.

The component matrix showed that all the questionnaire items had strong factor loadings on the extracted component. The item with lowest factor loading had a loading value of 0.658 while the item with the highest loading factor had a factor loading of 0.831. Hence, all the seven items in the tax collection questionnaire had loading factors greater than 0.4 hence were appropriate for gathering data regarding optimal revenue collection.

As such, the study further sought to establish respondents' views regarding optimal revenue collection in Kenya revenue authority. Findings were generated in frequencies, means and standard deviation values. Frequencies in form of percentages demonstrated respondents' choices across the Likert scale while means gave the mean responses. The standard deviation values were used to demonstrate the extent to which the respondents agreed with each other in regard to views on the various items. The findings from the analysis were as presented in Table 8.

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**Table 8: Descriptive Statistics on Revenue Collection**

| | SA (%) | A (%) | N (%) | D (%) | SD (%) | Mean | Std. Dev |
|---|---|---|---|---|---|---|---|
| KRA has recorded increased level of tax compliance among individual tax payers | 33.7 | 51.4 | 9.8 | 2.9 | 2.2 | 4.12 | .858 |
| KRA has been able to reduce the gap between actual collection and projected collection | 14.9 | 54.0 | 20.3 | 10.1 | 0.7 | 3.72 | .864 |
| KRA has been able to reduce the amount of potentially uncollected revenue | 14.1 | 49.6 | 23.2 | 10.9 | 2.2 | 3.63 | .931 |
| KRA has been able to meet its tax collection targets | 9.4 | 37.7 | 29.7 | 17.8 | 5.4 | 3.28 | 1.037 |
| Through proper data storage facilitated by TCA; KRA has managed to make almost accurate revenue collection projections | 12.0 | 42.8 | 28.3 | 12.7 | 4.3 | 3.45 | 1.003 |
| Over the past few years, KRA has been registering increase number of new tax payers as a result of increased monitoring and efficiency | 30.4 | 52.9 | 9.8 | 5.8 | 1.1 | 4.06 | .855 |
| Use of ICT has greatly enhanced revenue collection by KRA | 41.3 | 44.9 | 9.8 | 2.9 | 1.1 | 4.22 | .823 |
| Valid N (listwise) | 276 | | | | | | |

Findings established that majority of the respondents comprising of 85.1% strongly and/or agreed that KRA has recorded increased level of tax compliance among individual tax payers. This assertion had a mean of 4.12 and a standard deviation of .858. They also agreed that KRA has been able to reduce the gap between actual collection and projected collection where 54.0% of the respondents agreed and 14.9% of them strongly agreed recording a mean of 3.72 and a standard deviation of .864. Respondents agreed with the statement that KRA has been able to reduce the amount of potentially uncollected revenue. 49.6% and 14.1% of the respondents agreed and strongly agreed with a mean of 3.63 and a standard deviation of .931. On the other hand, respondents were not sure whether KRA has been able to meet its tax collection targets. 46.1% of the respondents agreed, 29.7% of them were neutral while 23.2% of the respondents disagreed. This had a mean of 3.28 and a standard deviation of 1.037. Although majority of the respondents agreed that through proper data storage facilitated by TCA; KRA has managed to make almost accurate revenue collection projections, the statement had a mean of 3.45 and a standard deviation of 1.003. On the other hand, respondents agreed that over the past few years, KRA has been registering increase number of new tax payers as a result of increased monitoring and efficiency where 52.9% and 30.4% of the respondents agreed and strongly agreed respectively recording a mean of 4.06 and a standard deviation of .855. Finally, a majority of the respondents agreed that (M=4.22, SD=.823) use of ICT has greatly enhanced revenue collection by KRA. 44.9% of the respondents agreed while 41.3% of them strongly agreed.

**Relationship between Internal Control Policies and Optimal Revenue Collection**

The analysis was further done to examine the relationship between internal control mechanisms and revenue collection in Kenya revenue authority. The composite mean scores for internal control mechanisms were computed and correlated with the composite mean scores of revenue collection in the Kenya revenue authority. Pearson product moment correlation coefficient was used to demonstrate the relationship. The findings from the analysis were as shown in Table 9

**Table 9: Correlations between Internal Control Mechanisms and Revenue Collection**

| | | Internal Control Mechanisms |
|---|---|---|
| Revenue Collection | Pearson Correlation | .598** |
| | Sig. (2-tailed) | .000 |
| | N | 276 |

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

An average positive significant (r=.598, p=.000) relationship between internal control mechanisms and revenue collection was established. The relationship was significant at a level of significance of $p<0.05$. As such, this demonstrates that internal control mechanisms are an important factor in determining the level of revenue collection in KRA. Hence, to improve on revenue collection in Kenya revenue authority, internal control mechanisms in the institutions need to be enhanced. The findings are in line with Muthusi (2017) who established a positive significant relationship between internal control activities and the organizational performance of a firm. Etuk (2011) indicated that weak internal control systems are the cause of dismal performances within organizations as a result of undetected fraud. Further, Nyambura (2013) observed that failures and dismal revenue performances were due to ineffective internal control mechanisms within the organization. Therefore, the study notes that internal control framework is paramount in enhancing optimal revenue collection.

The study further examined the effect of internal control mechanisms in line with the second objective of the study which was to examine the influence of internal control mechanism on revenue collection in Kenya Revenue authority. The following hypothesis was formulated to achieve this endeavor.

**$H_{02}$:** There exists no significant effect of internal controls policies on optimal revenue collection in Kenya revenue authority.

From the hypothesis, internal controls policies were assumed to have no significant effect on optimal revenue collection in Kenya revenue authority. To ascertain the truth of the assumption simple regression analysis was done at 5% level of significance. The findings from the analysis were as shown and presented in the subsequent discussion

**Table 10: Model Summary on Internal Control Policies and Optimal Revenue collection**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .598[a] | .358 | .355 | .50846 |

a. Predictors: (Constant), Internal Control Mechanisms

The model summary demonstrated that internal control policies and optimal revenue collection have an R-squared value of 0.358. This means that internal control policies potentially accounts for 35.8% of the total variation in optimal revenue collection in Kenya revenue authority. Controlling for extraneous variables, the adjusted R-squared value was 0.355 meaning that internal control policies controlling for extraneous variables accounts for 35.5% of the total variation in optimal revenue collection in Kenya revenue authority. To confirm the significance of the contribution of internal control policies on optimal revenue collection, analysis of variance gave the results shown in Table 11

**Table 11: Anova[b] on Internal Control Policies and Optimal Revenue Collection**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 39.465 | 1 | 39.465 | 152.651 | .000[a] |
| | Residual | 70.838 | 274 | .259 | | |
| | Total | 110.303 | 275 | | | |

a. Predictors: (Constant), Internal Control Mechanisms

b. Dependent Variable: Revenue Collection

Table indicated an F-value ($F_{(1,\ 274)}$ =152.651, p=.000) that was significant at $p<0.05$ level of significance. This demonstrated that internal control policies significantly affect the level of revenue collection in Kenya revenue authority. Hence, the null hypothesis **$H_{02}$**, that there exists no significant effect of internal control policies on optimal revenue collection in Kenya revenue authority was consequently rejected. The study thus concluded that internal control policies play a very significant role in determining optimal revenue collection in Kenya revenue authority. These findings are in tandem with Brian (2013) findings who established that the level of internal controls influences the amount of revenue collection. The model coefficients table was as shown in Table 12

**Table 12: Coefficients[a] on Internal Control Policies and Optimal Revenue Collection**

| | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| Model | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 1.381 | .197 | | 7.021 | .000 |
| | Internal Control Mechanisms | .660 | .053 | .598 | 12.355 | .000 |

a. Dependent Variable: Revenue Collection

From the model coefficients, the following simple regression equation was fitted.

$\mathbf{Y}$=1.381 + 0.660 $\mathbf{X_2}$ $\mathbf{R^2 = 0.358}$

**(.197) (.053)**

Where

Y is optimal revenue collection

$X_2$ is internal control policies

From the equation, with all other factors held constant, revenue collection remains at a constant level of 1.381 units. However, one unit change in internal control policies results to a change in revenue collection by a multiple factor of 0.660 units. As such, internal control policies substantially contribute to optimal revenue collection in Kenya revenue authority. Muasya (2014) in his study also established that internal controls significantly affect revenue collection. In his study, he established that weak internal control activities and deficiency of proper information and communication system creates room for collusion and fraud, loss of revenue and embezzlement of accumulated revenue. In line with this, CBK (2012) noted that internal control is important in controlling and mitigating risks and achievement the organizational performance objectives. Internal control mechanisms helps to set up communication networks that assist in effective communications in a broad sense enabling flow of information flowing down, across, and up within an institution (Theofanis et al., 2011).

## 10. CONCLUSIONS AND RECOMMENDATIONS

### 10.1 Conclusions of the Study

In consideration of the findings of the study, it was concluded that internal controls significantly influence optimal revenue collection in KRA. Findings from correlation analysis demonstrated and confirmed this by indicating that internal controls have statistically significant relationship with optimal revenue collection in Kenya revenue authority. Therefore, the state of revenue collection in KRA is greatly dependent on policies on internal controls.

### 10.2 Recommendations of the Study

The study established that internal control policies significantly influence optimal revenue collection in Kenya revenue authority. both correlation and regression analysis were awash with evidence that internal control policies are positively correlated as well having a positive significant influence on optimal revenue collection. Thus, enhancing the internal control mechanisms goes a long way in enhancing revenue collection. Thus the study recommended that the organization sets up strong internal control policies that will go a long way in enhancing the achievement of the organizations objectives of optimizing revenue collection. Respondents demonstrated that internal control policies enable enhanced accountability, facilitates tracking of transactions to avoid wastage of KRA resources and prevent fraudulent activities within the organization.

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