

Factors Affecting Revenue Collection Efficiency in County Governments in Kenya: A Case Study of Trans-Nzoia County

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Abstract: Revenue collection is very crucial for the survival of any organizations. All organizations undertake revenue collections to meet their budgetary obligations. Successful revenue collection means that the ultimate objective of the organization must be well defined. Interference from civil leaders seriously hampers operations in revenue collection in their wards. When the County Governments fail to optimally collect requisite revenues, the public will negatively be affected by being denied vital services. Moreover, the National Government will be overburdened by the financial demand from the County Governments which will ultimately negate the national economy. The objectives were; to determine the effect of revenue collection practices on Revenue collection efficiency, to determine the effect of internal controls on Revenue collection efficiency, to determine the effect of competencies on Revenue collection efficiency, to determine the effect of compliance level on the efficiency of Revenue collection, and to determine the combined effect of revenue collection practices, internal controls, compliance level and compliance level on the efficiency of Revenue collection. The target population were employees and management of the County Government of Trans-Nzoia. Revenue collectors, Traders, Chief Officers, Members of County Assembly, county executive committee members, clerk to assembly and county secretary. The researcher used stratified sampling technique to select employees from the various departments. Stratified sampling techniques identified subgroups in the population and their proportions and selects from each subgroup to form a sample. The findings the study were that land rates are the main sources of revenue collection. The study found out that respondents understand competencies used to collect revenue such as training of staff to improve on the efficiency of revenue collection. The study found out that respondents know internal control systems. The study established that Training of staff enhance the efficiency of the revenue collection as well trained staff will be in a position to perform their duty in a professional manner. The study recommends that , all revenue collection officers should be computerized as a means of internal control systems, training of staff should be done in reference to improving on competencies, and more means of sourcing for revenue should be established by allowing staff to be innovative to allow compliance.

Keywords: Revenue collection, internal control, sourcing, competencies.

I. INTRODUCTION

The County Governments get their revenue from taxation, permit fees, CESS, license fees and other sources. However, their over-reliance on the National Government for funds to a point of calling for a national referendum to have their allocation increased implies that there exists a myriad of challenges in revenue collection at County level. Ngotho & Kerongo (2014), found out that compliance level affects collection of revenue by the revenue collection body. Non-compliance to remission of taxes has been found to be a key determinant of revenue collection. An earlier study by Kiprotich, Momanyi & Nyandusi (2012) showed that Kenya is among many developing countries struggling with the problem of tax non-compliance by the tax payers. From a cross comparative analysis of previous studies and the findings of this study, it is evident that tax non-compliance among business firms does affect revenue collection negatively. According to 42% of the respondents in this study, high tax does not essentially lead to increased revenue collection by the revenue collection body. In Kenya, there has been no real change in tax as a proportion of government revenue or as a proportion of GDP.

Bikas & Andruskaite (2013) avers that in spite of recent reforms, the central government tax systems in many African countries are characterized by an excessive number of different taxes with rate structures that are difficult for taxpayers to understand; this goes to show that, although the reforms have led to tremendous improvement in collection efficiency, there are still numerous hurdles that KRA faces in terms of collection of the much needed tax revenue. Resistance from taxpayers and prospective taxpayers as well as high levels of ignorance has also brought about difficulty in the collection of revenue for the government. The foregoing is a huge problem due to the fact that, County Government operations might stall, projects might derail, and even the workforces might resort to go-slow and strikes as it has hitherto been witnessed in a number of Counties. When the County Governments fail to optimally collect requisite revenues, the public will negatively be affected by being denied vital services. As aforesaid, the County Government employees are bound to fail to be adequately remunerated. Moreover, the National Government will be overburdened by the financial demand from the County Governments which will ultimately negate the national economy. Relative to this, it was fundamental to analyze the challenges that hamper optimal revenue collection by County Governments with a view of coming up with findings and recommendation which if and when implemented the County Governments would be financially self-sufficient. Cleland, (2004) observes that revenue fail because of inadequate senior management, ineffective planning, inappropriate organizational design, lack of well - defined and delegated authority and responsibility, an inefficient system of monitoring, evaluation and controlling, misuse of resources on the revenues, ineffective contingency planning, limited team participation in the execution of revenue decisions, Unrealistic cost estimates and schedules, lack of customer commitment to revenues, limited customer supervision and inadequate management information systems. There exist valuable empirical literatures that study the revenue collection strategies. These include Awitta (2010) and (Gachanja, 2012); however, not much literature investigates actual factors that affect tax revenue collection in Kenya. This study therefore seeks to fill the literature gap in the country specific study by exploring the factors that hamper revenue collection and possible solutions to these factors, as well as those that boost collection of revenue in the County of Nairobi. Nyanumba (2010) established that management of revenue collection in the city council of Nairobi has not been effective. Very little attempt has been made to improve on revenue collection.

Research Objectives:

General Objective:

The general objective of this study was to establish the factors affecting efficient revenue collection efficiency in Trans-Nzoia County

Specific Objective:

The specific objectives of this study were:

1. To determine the effect of revenue collection practices on Revenue collection efficiency
2. To determine the effect of internal controls on Revenue collection efficiency
3. To determine the effect of Staff competencies on Revenue collection efficiency
4. To determine the effect of compliance level on the efficiency of Revenue collection

HYPOTHESIS:

1. Revenue collection practices has no effect on the efficiency of Revenue collection
2. Competencies of revenue collection has no effect on the efficiency of Revenue collection
3. Internal controls has no effect on the efficiency of Revenue collection
4. Compliance level has no effect on the efficiency of Revenue collection

Justification of Study:

This study should contribute valuable knowledge to policy makers like Governors, County Executive Committee members, members of county assemblies, and the collection team who include chief officers, Head of revenue in counties, Accountants ,Auditors, revenue collectors and other staff members involved in the planning and executions of the county budgets in Kenya. It has focused on revenue collection in County Governments an area which has not been properly researched on before. As such it is expected to provide valuable information on this subject. It will therefore be a useful material to managers in CG's in the country.

This study is also expected to make important policy statement through its recommendations. It will also make suggestions on factors affecting revenue collection in CG's in Kenya. Such recommendations should inform policy formulation in CG's in Kenya because they are originated through research. The study also should affect and enhance the

practice of revenue collection in CG's in Kenya. In an attempt to deal with the problem of revenue collection in CG's, the managers will focus on specific factors that have been generated through research. It is therefore wished that this specific knowledge will be used to enhance the quality of management of revenue collection systems in CG's in Kenya and improve service delivery.

2. LITERATURE REVIEW

This study is based on the following theories;

Systems Theory:

Systems theory provides that organizations such as County Governments are like other open systems which of necessity engage in various modes of exchange with the environment (Katz and Kahn, 1966). Systems theory emphasizes the considerations of the relationships between organizations and its environment as well as what goes on within organizations. The systems theory is mainly concerned with the problems of relationships of structures and the constant attributes of objects (Katz & Kahn, 1966). The fundamental idea in the central systems theory is the concept emergence and interactions. (Oso and Owen, 2009).

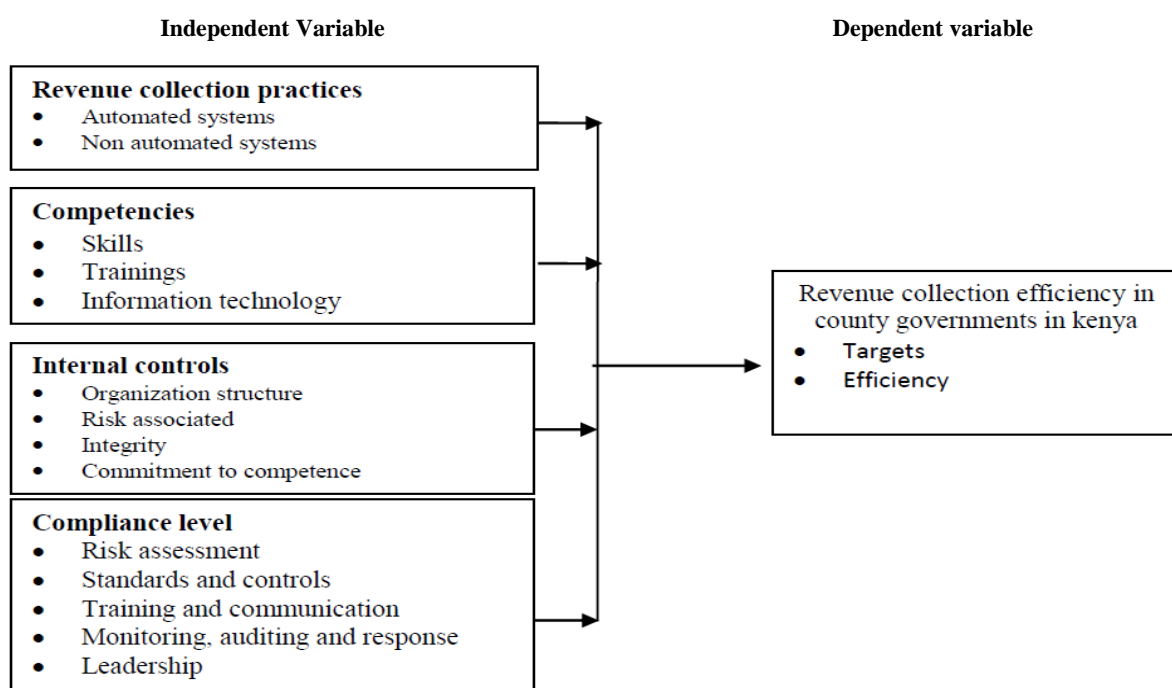
Transactional cost theory:

Transaction cost refers to the cost of providing for some good or service through the market rather than having it provided from within the firm, (Thayer Watkins 1973). In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. More succinctly transaction costs are: (a) search and information costs, (b) bargaining and decision costs, and (c) policing and enforcement costs. Watkin (1973) as explained by Coarse contends that without taking into account transaction costs it is impossible to understand properly the working of the economic system and have a sound basis for establishing economic policy.

Resource based view theory:

This theory encompasses that each firm is characterized by its own unique collection of resources of core competencies. Kay (1995) argues that the source of competitive advantage is the creation and exploitation of distinctive capabilities that are difficult to build and maintain, codify and make into recipes, copy and emulate, and can't simply be bought off the shelf. He identifies three basic distinctive capabilities; (a) Corporate architecture (b) innovation (c) Reputation.

3. CONCEPTUAL FRAMEWORK



4. RESEARCH METHODOLOGY

Research Design:

Research design took a mixed design of qualitative and quantitative means. This study was conducted through a descriptive survey research design approach. The descriptive survey describes and explains the events as they are in the real life context in which they occurred.

Target Population:

The data was collected from employees and management of the County Government of Trans-Nzoia. Revenue collectors, Traders, Chief Officers, Members of County Assembly, county executive committee members, clerk to assembly and county secretary.

Sample Size and Sampling Technique:

The researcher used stratified sampling technique to select employees from the various departments. This was the sample. Stratified sampling techniques identify subgroups in the population and their proportions and selects from each subgroup to form a sample (Oso and Owen, 2005). Factor rotation will be done to ascertain the actual variables of study. According to Yamane formulae, sample size for this study will be obtained using Urbański (2013) as follows;

$$n = \frac{N}{(1 + Ne^2)} \quad \text{Where, } n = \text{the sample size, } N = \text{the size of population, } e = \text{the error of 5 percentage points}$$

$$n = \frac{1762}{(1 + 1762 \times 0.05^2)} = 326$$

Data Collection Methods:

Questionnaires were used as the instrument of data collection. They were designed to collect data addressing the research questions. County Government documents and other official government documents were used for data collection. The closed and open ended questions were employed.

Pilot Test:

A pilot test involved undertaking a small scale study that represented the main research. The test was done. It includes collection of data, instrumentation, Research procedure and finally data analysis and presentation. The pilot test was conducted at the County Government of Busia to validate the accuracy of the research tool. It's believed that the current multi-sourcing practices instrument has content validity as it was developed based on review of the past work that has been developed in the area of multi-sourcing practices critical success factors over the past 25 years.

To ensure that the factors affecting revenue collection in the county, has content validity, i used factor analysis as the most powerful tool used to measure construct validity, where the more variance explained by the factors resulting from the factor analysis, the more powerful the instrument in measuring what is supposed to measure

5. CONCLUSION

The study found out that respondents understand competencies used to collect revenue such as Training of staff to improve on the efficiency of revenue collection, and other methods such as coordinating and reacting in good time in case of any issue, engaging the society to report any corruption cases. This is supported by staff appraisal, and setting targets for the Clarks and other staff that is supported by computerized systems. The study found out that respondents know internal control systems. This is achieved by employing strong audit systems in managing the revenue collection to reduce on loss of revenue and increase the efficiency, followed by accounting and examination of the returns on the revenue collected is employed in the ensuring the efficiency of the collection and use other methods such as automation of the Tax collection systems such as IFMIS, LAIFORM and CESS has been used to increase the efficiency of revenue collection, and Training of the staff and Clerks. The study established that Training of staff enhance the efficiency of the revenue collection as well trained staff will be in a position to perform their duty in a professional manner. Motivated staff

allows efficiency in revenue collection this is supported by Good communication links between the staff and the management, better salary for the staff and lack of computerized system allows corruption. The study sort to find out factors affecting revenue collection practices in Trans Nzoia County. Land rates are the main sources of revenue collection. Several methods of revenue collection should be sort in order to identify other means of raising revenue to the county government. From the study it shows that clients visit respective offices and pay the rates. Computerization of systems is essential internal control system used to eliminate corruption.

The study took the following model $Y = 0.688 + 0.491X_1 + 0.460X_2 + 0.247X_3 + 0.423X_4$

The study recommends that;

- (a) All revenue collection offices should be computerized as a means of internal control systems
- (b) Training of staff should be done in reference to improving on competencies
- (c) More means of sourcing for revenue should be established by allowing staff to be innovative to allow compliance

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