INTERNAL AUDIT UNIT FUNCTIONS ON OPERATIONAL PERFORMANCE OF KENYA REVENUE AUTHORITY IN SELECTED REGIONS

Samson Nakhungu Owuyu

A Thesis Submitted in the Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (Accounting) of Masinde Muliro University of Science and Technology

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DECLARATION

I declare that this Thesis is my original work prepared with no other than the indicated sources and support and has not been presented elsewhere for a degree or any other award.

Signature………………….……………. Date………………………………

Samson Nakhungu Owuyu

MBA/G/01-70087/2020

CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance of Masinde Muliro University of Science and Technology of a Thesis entitled "*Effect of Internal Audit unit functions on operational performance of Kenya Revenue Authority among selected Region.*"

Signature………………….……………. Date………………………………

Dr. Oseno Ben

Department of Accounting and Finance

Masinde Muliro University of Science and Technology

Signature………………….……………. Date………………………………

Dr. Rosemary Nanyama Mumaraki

Department of Business Administration Management Science

Masinde Muliro University of Science and Technology

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DEDICATION

This thesis is dedicated to my parents Mr./Mrs. Owuyo together with my wife and sons Ethan and Phenias having supported me through my education. They gave me unconditional support throughout the research period, reason and motivation to pursue further education and to their constant reminder that failure is not an option.

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ABSTRACT

An internal audit unit is a creation of the management on the basis that the unit operates independently for the purpose of advising the management. The main objective of this study was to investigate the effect of internal audit unit functions on operational performance at the Kenya Revenue Authority. Specifically, the study sought to examine the effect of monitoring of internal control systems, risk assessment and management, audit recommendations review and financial reports evaluation on operational performance of Kenya Revenue Authority Southern and Nairobi regions. Theories that were used to guide the study are control theory, agency theory and performance theory. Causal research design was used in conducting the study with the target population being the Kenya Revenue Authority officers. The study targeted 253 respondents comprising of Finance Employees, Audit Employees and Investigation Employees. Stratified random sampling was used to select 155 respondents from the three departments. Piloting was done in Kisumu KRA office. Validity was established using content and construct validity. Reliability was established using Cronbach Alpha. Data collection was done by use of a questionnaire. Data analysis was done by use of both descriptive statistics and inferential statistics. Descriptive statistics was presented in percentages, frequencies, mean and standard deviation while inferential statistics involved correlation analysis and linear regression at 0.05 significance level. The study findings were presented in the form of tables. The study found out that monitoring of internal control systems had a significant effect on operational performance among the KRA staff in the selected regions ($p=0.000< 0.05$). Risk assessment and management had a significant effect on operational performance among the KRA staff in the selected regions ($p=0.000< 0.05$). Audit recommendations review had a significant effect on operational performance among the KRA staff in the selected regions ($p=0.000< 0.05$). Financial reports evaluation had a significant effect on operational performance among the KRA staff in the selected regions ($p=0.000< 0.05$). The study concluded that monitoring of internal control systems offered guidance and follow ups on performance. Financial reports evaluation led to objectivity and accuracy in the course of duty. The study recommends that monitoring of internal control systems, risk assessment and management, audit recommendation review and financial report evaluation should be prioritized so as to improve operational performance. This would help build a strong internal control system objective on performance. Kenya Revenue Authority management should assess risk and provide mitigation measures that could lead to operational performance. That KRA should up audit exercises and conduct interim as well as final audits and make use of audit recommendations given to enable operational performance. Finally, the study recommends that KRA should always make financial reports in accordance to law and hence review them to establish areas to be improved for operation performance. The study recommends research for farther studies on all KRA regions and departments. The study can cover all staff from high level to support staff and explored based on other audit functions such as audit planning to enhance operational performance.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

IAU	Internal Audit Unit
ICMS	Integrated Customs Management System
ICS	Internal Control System
ICT	Information and Communications Technology
ICT	Information Communication Technology
ITax	Integrated online Tax System
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
RECTS	Regional Electronic Cargo Tracking System
SME	Small and Medium Enterprises
VTDP	Voluntary Tax Disclosure Program

OPERATIONAL DEFINITION OF TERMS

Auditing	An internal inspection of aspects of an organization by qualified internal or external personnel or entities. This is done for reasons such as quality checks, risk identification, and degree of compliance to policies.
Audit Recommendations Review	Assessing audit suggestions, prioritizing by importance, checking implementation status, analyzing effectiveness, addressing outstanding issues, and planning corrective actions for improvement.
Financial Reports Evaluation	Is analyzing financial reports to assess the organization's financial performance, stability, and compliance, identifying strengths, weaknesses, trends, and areas for improvement.
Internal Audit Unit	This is a department within an organization comprising of personnel tasked with providing independent and unbiased checks and review on various tenets of an organization.
Internal Control Systems	A framework designed to manage and protect organizational assets and guide proper internal practices among internal stakeholders.
Monitoring of Internal Control Systems	Refers to the ongoing process of evaluating the effectiveness of the internal audit unit functions of the KRA.

Revenue Mobilization	The action of obtaining financial resources from economic activities such as taxation.
Risk Assessment and Management	Is a systematic process of identifying, analyzing, evaluating, and responding to risks that may affect the achievement of an organization's objectives.
Stakeholders	Individuals who are directly or indirectly affected by an organizations action and can be classified as internal and external stakeholders. Employees, managers, and investors are internal stakeholders, while government, citizens, consumers, and communities are external stakeholders.
Strategy	An action plan followed to attain certain long – term or short-term goals.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Internal audit is an autonomous and purposeful activity within an organization that aims to identify weaknesses, risks, strengths, and opportunities. Its goal is to add value to the organization by addressing and reducing risks and weaknesses, while also enhancing areas of potential growth (Kotb, Elbardan & Halabi, 2020). Maina (2018) conducted a study in Kenya to identify the factors that influence the efficacy of internal audit functions in Government ministries. An internal audit unit is a department within the Kenya Revenue Authority (KRA) responsible for ensuring that all internal processes are free from obstacles.

The absence of transparency among taxpayers is a significant contributor to the inefficiencies of tax administration and collection, ultimately resulting in tax evasion or avoidance (Ojong, Anthony & Arikpo, 2016). An internal audit unit guarantees that the procedures in place accurately assess the extent to which an organization's operations comply with the laws and regulations set by the country and the policies established within the business (Eton & Chance, 2022). The study aims to assess the correlation between the functions of the Internal Audit Unit and the operational performance of the KRA in specific locations.

Entities in different parts of the world are formed on a basis of external and internal strategic tenets such as goals, values, mission, vision, objectives, market opportunities, and challenges (Grant, 2021). These factors act as guidelines to the entities towards their quest for prosperity and competitiveness. In a dynamic business world, the business environment and three societal interests push entities towards taking keen interest in aligning all their operations towards external and internal tenets of competitiveness. To determine how leading companies in North America, Europe and Asia develop and sustain strong talent on internal audit management processes and practices in multinational corporation (Stahl, 2012).

The study on principles of effective global talent management. This concluded that talent management best practices can improve an organization. Top performing companies subscribe to a set of principles that are consistent with their strategy and culture. Entities start by undertaking internal action plans and modifications to ensure control, mitigation, risk identification, and improvement of internal structures to support external structures and effect. An integral approach towards attaining internal and external stability within entities hence high revenue performance, in different parts of the world organizations invest in internal audit and control mechanisms (Christ, Eulerich, Krane & Wood, 2021) the study on new frontiers for internal auditing research which provides that internal auditing is a useful and valuable services to organization, agreed that internal control systems enhance organization management leading to improved revenue mobilization.

Lira district in Northern Uganda's local government is responsible for guaranteeing that their internal control systems adhere to the laws, regulations, and operational controls. It is necessary to provide capable internal and external specialists who are responsible for creating a productive and efficient control environment and ensuring effective operations in their organization. Eton, Fabian and Benard (2022) study on internal controls importance in financial accountability. Conducted in the local government of Lira District, Uganda, investigated the significance of control activities, control environment, and monitoring of controls in ensuring financial accountability. The results demonstrate that internal audit controls have a substantial impact on financial responsibility.

In Kenya, the proportion of tax in relation to the country's gross domestic product (GDP) has remained unchanged, according to Onyango (2015). Despite recent reforms, the tax systems of numerous African countries are marked by an excessive proliferation of taxes, accompanied by complex rate structures that provide challenges for taxpayers in terms of comprehension. This demonstrates that the changes have resulted in significant enhancement in collection efficiency, as stated in the KRA's 8th Corporate Plan for the period 2021/2022–2023/2024. The subject focused on achieving efficient revenue mobilization through substantial investment in technology to facilitate decision-making. The Internal Audit has made suggestions about several improvements, which include transitioning from manual revenue collection to direct banking, implementing an Integrated Custom Management System, and implementing an Integrated Tax Management System.

1.1.1 Kenya Revenue Authority

The KRA was established in 1995 by an act of parliament cap 469 of the laws of Kenya. It consistently surpassed its collection goals until the 1998/1999 fiscal year, when it failed to fulfil the target revenue collection. The Authority saw a continuous decrease in performance until the financial year of 2003/2004. However, it managed to rebound and exceed the objective for income collection.

The authority has failed to achieve the aim on seven occasions over the past decade. Opiyo (2020) stated that the challenges observed include ineffective governance, insufficient tax collection, and flaws in the tax system that hinder both horizontal and vertical equity. These issues are attributed to a lack of government cohesion and economic instability. Many underdeveloped countries, such as Kenya, face difficulties in collecting income to promote economic progress.

According to Tamimi, (2021) an internal audit unit is a segment within an organization tasked with the duty of assessing, monitoring, evaluating, rectifying and reporting any risks that may hinder the organization from attaining its goals and objectives. An internal audit unit should be made up of highly qualified professionals who take proactive measures and propose suitable action plans to mitigate potential risks.

Internal audit as a process of business operation also involves ensuring that auditing systems are efficient and do not rely on traditional methods; thus, necessitating embrace of change and innovation through digitalized internal auditing (Karlsen, &Wallberg, 2017). Improved tax compliance as a mentioned key element of transforming KRA's operations entails adopting smart intelligence and investigation. Revenues form an integral composition of Kenya's budget and dictate expansionary fiscal policies in the country (Gatuwa, 2020). Revenues collected from sources such as tax represent the country's financial performance in the form of budget cycle.

The leading regions in revenue collection selected were Southern region with head office in customs house Mombasa and Nairobi region which is the head office of KRA Times tower.

1.2 Statement of the Problem

Tirimba, Muturi, and Sifunjo (2016) assert that public sector organizations worldwide encounter performance difficulties stemming from bureaucracy, intense rivalry from the private sector, limited technological and human resources, corruption, and inadequate strategic management. Hence, exempting staff operational performance in their study. The Kenya Revenue Authority is tasked with the duty of collecting revenue on behalf of the Government of Kenya. Since its establishment in 1995, the authority consistently surpassed its target collections until the 1998/1999 financial year, when it failed to meet the target revenue collection. The pattern of decreasing performance revenue continued until the financial year 2003/2004, when the Authority managed to recoup and exceed the revenue collection objective. However, the authority has surpassed the target on only three occasions in the past decade, thereby falling short of the income collection targets on seven occasions. The primary focus of the study is the underperformance in revenue collections and the inability to reach revenue expectations.

The issues faced by KRA include underdeveloped ICT infrastructure, limited internet access, insufficient knowledge in ICT, and the impact of the global financial crisis in other nations (Mann & Graham, 2018). On business processes and the growing automation of Kenya organisations. The study described some of the difficulties that Kenyan business processes organisation managers have faced in trying to access international works such as luck of management experience. However, it fails to factor in operational performance of staff.

Although numerous studies have been conducted on the performance of the KRA, there is a scarcity of research on the specific elements that influence its success in chosen regions. The aforementioned research (Kimani, 2019) examined the impact of cargo security, tax clearance, performance-based compensation in government agencies, and employee indifference on the productivity of the KRA. It fails to incorporate operational performance of KRA staff.

1.3 Objectives of the Study

1.3.1 General Objective

The study sought to investigate effect of the internal audit unit functions on operational performance of KRA among selected regions.

1.3.2 Specific Objectives

Specifically, study sought to:

i. To determine the effect of monitoring of internal control systems on operational performance of Kenya Revenue Authority.

ii. To examine the effect of risk assessment and management on operational performance of Kenya Revenue Authority.

iii. To establish the effect of audit recommendations review on operational performance of Kenya Revenue Authority.

iv. To determine the effect of financial reports evaluation on operational performance of Kenya Revenue Authority.

1.4 Research Hypothesis

H_{01}: There is no significant relationship between monitoring of internal control systems and operational performance of Kenya Revenue Authority.

H_{02}: There is no significant relationship between risk assessment and management, and operational performance of Kenya Revenue Authority.

H_{03}: There is no significant relationship between audit recommendation review and operational performance of Kenya Revenue Authority.

H_{04}: There is no significant relationship between financial reports evaluation and operational performance of Kenya Revenue Authority.

1.5 Significance of the Study

1.5.1 The Kenya Revenue Authority

The study would provide valuable insights for policy makers and leaders at the KRA regarding internal measures that may be used to optimize the productivity and effectiveness of their internal audit units. This, in turn, would contribute to the achievement of the KRA's primary objective of revenue collection. ICS, or internal control systems, encompass a wide range of frameworks that utilize both tangible and intangible resources to implement quality checks in an organization's operations.

The study has the potential to enhance government policy making, leading to improved tax collection by the KRA. This, in turn, can promote higher tax efficiency, economic growth, and equality. This would facilitate the Government in increasing its domestic revenue through tax collection, which can be utilized to achieve the government's objectives outlined in vision 2030.

This study has the potential to contribute to the existing knowledge for scholars and academicians who are interested in investigating or analyzing the elements that influence the performance of the KRA. It might establish the foundation for more research to be conducted on the same subject.

1.5.2 County Government

The county governments would utilize the findings to enhance their income collecting and administration practices at respective treasuries. This can be accomplished by consistently consulting the study report as a reference tool, as it provides guidance on financial management from both the national government and internal revenue sources.

Professional consultants in accountancy and finance, like the institute of certified public accountants. Finds the study recommendations of great help on enhancement of financial organisation internal control system. Hence, improving productivity.

Other financial institutions will also benefit on the study recommendations to improve on their organisation policy, increase productivity and enhance performance in management of the organisation.

1.6 Scope of the Study

The target population was KRA staff in all the seven regions. A sample size of the high skilled staff working in specified sections which are Finance, Auditing and Investigation. The study was conducted in two regions of KRA categorization which are Nairobi region as well as Southern region. The variables studied have been conceptualized in terms of internal audit unit function and operation performance. The constructs of internal audit unit functions are monitoring of internal control system, risk assessment and management, audit recommendation review and financial report evaluation. Operation performance was measured in terms of revenue collection efficiency, revenue target variance and revenue mobilization efficiency. Internal audit functions constructs are monitoring of internal control system which was examined in terms of financial and non-financial internal control system. Risk assessment and management are risk identification and risk mitigation. Audit recommendation review are assessment audit reports. Financial report evaluation which are quarterly revenue collection reports and annual revenue collection reports. Operation performance was measured in terms of revenue collection efficiency, revenue target variance and revenue mobilization efficiency. The study sampled 155 respondents comprising employees from Finance Department, Internal Audit Department and Investigation Department.

1.7 Limitations of the Study

The research study aimed to address the research questions and achieve the research objectives. The respondents exhibited hesitancy in providing information due to concerns that the information requested may be utilized to intimidate them or portray an unfavorable perception of themselves or their institution. The introductory letter from Masinde Muliro University served to reassure responders that any information provided would be handled with strict confidentiality and solely utilized for academic purposes. Furthermore, the results of this investigation were constrained by the respondents' willingness to furnish precise and dependable data. Nevertheless, the researcher ensured the coherence and assessed the dependability of the gathered data to ensure the success of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section provides a detailed analysis of past and present studies related to the main and specific objectives of the study. The discussion is classified into theoretical, conceptual, and empirical views. The approach is effective in explaining the nexus between variable of the study, thus providing a foundation for making conclusions.

2.2 Theoretical Review

The theoretical approach of the study aimed to analyze the following theories relevant to the general and specific objectives of the study; control theory, agency theory and performance theory.

2.2.1 Control Theory

The control theory was invented by Hirschi (1969) and farther developed to enhance its implementation as espoused by carver and Scheier (1982) explanation of behavior was derived from the original development of controlled systems in the field of biology and engineering is a general approach to understanding the behavior of self-regulating agent (Gude & Peek, 2019). Explicitly, internal controls as a subset of control theory are described as a set of authoritative action plans formulated and implemented by internal stakeholders to accomplish specific goals and objectives hence guaranteeing proper functionality of a business.

This theory indicates that internal controls in an organization starts from the regulations, policies and guidelines put in place and stretch to a national level aimed at ensuring an organization delivers high quality output and maximizes value creation. Effect of the effectiveness of internal controls lies with the various internal and external factors of an organization. Through various factor’s actions, internal control frameworks are built, modified, disrupted or strengthened. The implication is that factors are required to exercise deliberate knowledge of results of their effect, and have intentions towards ensuring they adhere to control structures and guidelines formulated.

Internal control theory significantly contributes to the performance of an organization especially on an innovation front and there is need to have appropriate internal control systems forms a foundation for innovation and technological adoption, Though theirs is arguments against the effectiveness of internal control by indicating that internal control has a significant and negative correlation with innovation and organizational performance since internal control structures possess a weak promoting force for innovation aimed at supporting desired organizational performance.

The main limitation on control theory is insufficient resources Beusch, Frisk, Rosen & Dilla, 2022). Organizations will need additional resources to ensure controls have been put in place. Other limitations are human error, too many controls, inconsistent controls and collusion or fraud perpetrated by individuals in the organization.

2.2.2 Agency Theory

Jenson and Meckling (1976) are credited with the development of Agency theory. According to their theory, which seeks to foster a sense of responsibility and ownership among employees by outlining the management relationships in an organization among different factors including the company's owners, shareholders, managers, and major debt financiers the government of a company is based on conflicts of interest. Consequently, the theory points out the aspect of distribution of power and roles to ensure collective attainment of various goals and objectives in KRA. Therefore, the agency theory champions for establishment of control mechanisms to ensure that organizations risks are assessed, audit recommendations are followed up and financial report are well evaluated.

The assumptions of agency theory are criticized on the basis that the theory assumes behaviors and consequences of individuals are similar, which may not be applicable in the real world. Agents and principals may have a common goal guided by the need to create sustainable benefits for the organization and for various stakeholders (Zogning, 2017). Therefore, workers can unconsciously work to serve and meet organizational interest and needs without being classified as individuals chasing after their own interests. Consequently, the control measures proposed by the agency theory have been criticized and considered to inhibit innovation, initiatives, and visionary steps towards creating remarkable organizational performance.

An agency dilemma arises when there is a fundamental conflict of interest in a relationship where one party is entrusted with the responsibility of acting in the best interests of another party (Alfaryan *et al*, 2024). The limitation pertains to a conflict of interest that arises when the principal and the appointed servant, who acts on behalf of the principal, have conflicting interests. KRA being the main collector of revenue acting on behalf of the Government of Kenya. Hence KRA is a party expected to act in the Government’s best interest being the principal revenue collector.

2.2.3 Performance Theory

Richard Schechner developed performance theory in 1990. According to Elger (2007) the theory posits that the manner in which managers motivate employees is influenced by the environment in which an organization operates. The impact of employee performance management on individual innovation in public organizations. They typically conduct performance by utilizing research to establish and sustain a productive work environment, which in turn ensures that employees feel valued, appreciated, and empowered to contribute to productivity.

Performance theory explains the KRA's exceptional performance by ensuring that staff are motivated to achieve revenue targets through the implementation of appropriate financial risk assessments, audit recommendation follow-ups, and financial report evaluation mechanisms. Performance management theory can also assist managers in comprehending their role in establishing a positive work environment for their employees. This enables them to evaluate the contributions of control systems as they provide guidance on how to more effectively support employee requirements. In general, performance management theories establish objectives and incentives that employees can use to assess their output. The performance management system will be achieved if the performance improves.

Inadequacy of formal appraisal system, which is frequently conducted using a template and is typically scheduled on an annual or biannual basis. This results in an overly formal tone, which restricts the desired outcome (Tsega, 2022). Productivity is the classification of employee performance appraisals, which refer to the failure to meet production targets, quality standards, or timelines.

2.3 Conceptual Review

The conceptual review involves examination of internal audit functions and operational performance. This is explained through revenue collection efficiency, revenue target variance, revenue trend and revenue growth.

2.4 The Concept of Operational Performance

Operational performance refers to the degree of efficiency with which a corporation achieves its goals and objectives (Battesini & Caten, 2021). The study on key factors for operational performance in manufacturing system is a primary concern of industrial firms. However, further advancements are needed to fully understand the correlation between performance and its essential elements. Therefore, there are still numerous unresolved inquiries in the realm of operation and production management regarding the comprehension and control of the interconnection between these crucial components (AlMajali, 2022). Performance measuring entails acquiring valuable insights on performance. The objective is to provide a theoretical structure that can aid wholesale managers in choosing relevant data to assess operational success. The suggested framework covers fundamental operational metrics and key determinants that impact the performance of wholesale enterprises.

2.4.1 Revenue Collection Efficiency

Financial resources are explicit to monetary value allocated within an organization to actualize the attainment of various goals and objectives by helping acquire tangible and intangible resources (Kaburu & Simba, 2020). The concept of resource allocation is an indicator of the efforts of an organization to create value for its various stakeholders and align to growth policies, aspirations, and needs. The availability of resources to be optimally distributed through various departments of an organization stem from the revenue related activities that aid accumulation of resources (Maritan & Lee, 2017).

Therefore, a cycle of sustainable generation and use of resources is created with the aim of sustaining business operations. Resource allocation in organizations has been considered a form of investment with expected returns especially when resources are channeled towards improvement, growth, and sustaining business operations. Allocation of resources follows a strategic process guided by a desire to attain certain desired results. Consequently, it is essential to monitor and incorporate aspects of accountability through auditing in resource allocation.

The concept of resource allocation stems from prior initiatives of a company hence availability of financial resources is a starting point to acquisition of integral tangible and intangible resources in an organization (Katuse, 2018). For instance, availability of financial resources ensures that a company optimally allocates these financial resources towards purchase of tangible resources such as machinery, and technological equipment. On the other hand, intangible resources such as investment in human capital development and human resources sets up a clear path for generation of more income needed to fulfill the obligation of a company.

2.4.2 Revenue Target Variance

It is essential to quantify financial performance of the KRA through revenue collection trends. The trends indicate whether efforts channeled towards revenue collection contribute to a positive or negative growth pattern. Companies rely on trends of key performance indictors to establish the level of value generated by the company and to aid in decision-making by undertaking an evaluative approach to establish causes of the trends. According to Nacheri and Ogolla, (2015) the KRA’s success can be measured based on its depiction of a growing trend in revenue collection and a decreasing trend in indicators of revenue leakages. Upward trends in revenue collection are keen to growth in revenues, performance, effectiveness in revenue mobilization, and strategies employed by the company to attain its main goals.

According to KRA’s Corporate Plan, the thematic areas of focus aimed at attaining a projected upward revenue collection trend are; first, the body aims at realizing set revenue target for each financial year while emphasizing on building a solid tax base KRA Plan 2021/2022–2023/2024. Revenue targets for the KRA are increased each financial year to motivate pooling of efforts to meet and surpass the targets. The projected revenue targets for the financial years 2021/22, 2022/23, and 2023/24, were Ksh. 1.901 Trillion, Ksh. 2.274 Trillion, and Ksh. 2.6556 trillion. The revenue targets are noted to be increasing with each financial year to ensure that actual revenue collected meet and beat the set targets thus contributing to upward trends in revenue collected annually by KRA. Secondly, KRA seeks to provide high quality services to customers and promote elements such as digitalized payment of taxes. Such a strategy ensures that members of the public conveniently pay their taxes which form revenue collected by KRA. Thirdly, creating an upward trend in revenue collection entails adopting business processes that improve the quality of services and operations. KRA seeks to attain this by lowering cost of revenue collection thus creating huge levels of income KRA, KRA (2022) Corporate Plan 2021/2022–2023/2024. Lastly, KRA seeks to invest in hiring and working with performance and goal-oriented employees. Such a strategy contributes to increased levels of revenue collected and high chances of meeting and beating revenue targets.

2.4.3 Revenue Trend

Target setting is used as a strategic and managerial tool in companies to quantify various goals of an organization. Companies set targets and collective pursue a course of action to meet the target while adhering to various strategies would propel the company towards meeting and surpassing the targets. Effective target setting has to follow quantifiable aspects for the purposes of clarity and guidance towards their achievement. Therefore, target setting is not only a measure but also a motivator towards better company performance.

The KRA (2015) Corporate Plan indicates that revenue target setting follows the level of opportunities and weaknesses established and forecasted by a company. Companies adjust their revenue targets based on prevailing and forecasted conditions hence avoid setting too low and too high targets. However, it is imperative to always maintain an upward trend in revenue target setting and push towards beating the targets to ensure feasibility and sustainability of the business.

According to KRA (2015) the KRA had its revenue targets for the financial years 2018/19, 2019/20, and 2020/21 set at Ksh. 1.643 Trillion, Ksh. 1.641 Trillion, and Ksh. 1.615 Trillion respectively. The trend indicated by the set revenue targets is decreasing and may have been attributed to various challenges that limited effective and efficient revenue collection. When compared to the actual revenue collected for the financial years 2018/19, 2019/20, and 2020/21, the figures were; Ksh 1.580 Trillion, Ksh. 1.606 Trillion, and 1.662 Trillion respectively. KRA 8th Corporate Plan 2021/2022–2023/2024. Kenya Revenue Authority only met and surpassed its revenue target in the financial year 2020/21 as it was set way below the other financial year revenue targets. The statistics indicate that revenue targets can be changed at each financial year based on the favorability of the factors that effect the collection of the revenues. Changing the revenue targets by the KRA indicates a trend of targets not going below Ksh 1.6 Trillion, thus this may be considered a threshold.

2.4.4 Revenue Growth

Kenya revenue authority has had a consistent growth in revenue collection despite an economic slowdown occasioned by an unfavorable global fiscal environment (KRA, 2023). KRA recorded a revenue collection growth recording a 6.7% in the financial year 2022/2023. Hence, maintaining an upward trajectory in revenue collection. Revenue performance is affected by the slowed domestic economic growth. The decelerated domestic economic growth is due to adverse impact of multiple shocks that affect the economy. Including a prolonged drought, international conflicts that disrupt supply chain among others.

2.5 Empirical Review

This particular section entails evaluating past and present studies conducted on the impacts of internal audit unit on operational performance. The aim is to establish a two-facet approach of the studies in terms of critic and support. Ibrahim (2020) in his study on the effect of Internal Controls on Revenue Collection at KRA, aimed at establishing the effects of internal controls on revenue collection while making case of KRA the studies adopted a descriptive research design that entailed issuing interview questionnaires 116 to Finance department, 62 to Investigation department and 75 to Audit department hence a total of 253 questionnaires issued.

The results of data analysis indicated a statistically significant and positive nexus between internal Audit functions and operational performance at the KRA. The results conform to expectations that by maintaining and investing in strong internal Audit function, quality of operations tend to rise thus contributing towards attaining set revenue collection targets. Therefore, improved and strong internal Audit functions attributed to investing in internal audit units at various KRA national units affects revenue mobilization positively.

2.5.1 Monitoring of Internal Control and operational performance

Sahusilawane (2020) conducted a study on the effect of Information Technology, Organizational Commitment, Internal Control and Good Corporate Governance Principles on Organizational Performance. The study used descriptive data collection method. Data was analyzed through correlation analysis and multiple regression. The findings were that information technology was found negative and non-significant on organization performance.

This should be addressed in KRA to enhance operational performance. Heyes and Juillet, (2019) conducted a study on isolation and support for change in the public sector. The study was on internal audit profession. Correlation research design was used, while data collection method used was modeling and survey. Data collected was analyzed through Monte Carlo simulation. It was found out that there was a positive relationship between employee isolation and support for change in the public sector. This is insignificant to employee operational performance. The explanation further spills on tasking the success of internal control systems and processes to various actors such as internal auditors, management, and board.

If factored in Kenyan organizations, it will improve internal audit controls and better performance. (Kabuye, Kato, Akugizibwe & Bugambiro, 2019). The study examined the impact of the internal control system working capital management and financial performance of super markets. Correlation research design was used, questionnaire survey was used to collect data while data analysed through regression analysis. It was clear that working capital management is a significant predictor of financial performance. The study was cantered on internal control and not on internal audit functions. Therefore, organizations that develop, execute, and uphold efficient internal controls and possess strong financial reporting systems are likely to improve their financial performance.

The study on effect of internal control on performance of commercial banks in Nigeria (Umar & Dikko, 2018). A survey questionnaire was employed to collect data and it was analyzed using regression analysis. The study used stratified random sampling in a descriptive research design. The study revealed that there is a significant relationship between the four components of internal control and bank performance. The study was limited to bank financial institution unlike organizations with internal audit units. The study demonstrates evidence that internal control components depicted can have positive effect on the performance of banks.

Nyaga, Kiragu and Riro, (2018) conducted a study on influence of internal audit independence on internal audit effectiveness in Kirinyaga county Government. Descriptive research design was adopted, survey questionnaire was used for data collection. Data analyzed using regression analysis. It was concluded that internal audit independence was an important predictor of the effectiveness of audit function in the county Government of Kirinyaga. The study looked at the effectiveness and not the operational performance of the organization.

2.5.2. Risk Assessment and Management and operational performance

A study by Isoh and Nchang (2020) on assessing the impact of operational risk management on financial performance of selected mainstreaming commercial banks in Cameroon. A descriptive research design was implemented where data was collected through a questionnaire to employees from commercial banks from Cameron. Data was analyzed by structured equation modeling.

The study reviled that internal operational risk management practice, monitoring and control and training and reporting have a significant positive impact on financial performance. The study narrowed down to risk assessment and management hence not including internal audit unit functions in other organizations other than the banking sector. If implemented in Kenyan local banks, it will reduce on risks affecting banks earnings.

Abdurrahman, *et al.*, (2020) carried out a study on association between internal auditing and enterprises risk management. Descriptive research design was employed as data was collected from non - financial 165 companies listed in Kuala Lumpur stock exchange during the period 2010 – 2017. Data was analyzed through indexing approach hence, measuring the degree of Enterprise Risk Management adopted by the firm.

Regression analysis was conducted using binomial and poison models to examine the relationship of internal audit and enterprise risk management. Enterprise risk management was observed to have a positive relationship with internal audit and audit committee. The study concentrated on risk management in the organizations hence, operational performance excluded. Improved operation of an organization both local and internationaly arises from a host of factors, risk management contributing to a great extent.

According to Alam, Said, and Aziz (2019), on the role of integrity system, internal control system and leadership practices on the accountability practices in the public sector of Malaysia. Descriptive research design was used, data was collected through questionnaire 109 departments and agencies under 24 federal ministries in Malaysia. Data was analysed using regression and structural equation modelling. The result showed that practices of integrity system and leadership quality had statistically significant positive relationship. However the practice of internal control system showed mixed relationship within the practice of accountability. Integrity contributes to a strong internal control system. However it has no direct link to performance of the organisation, this will have great impact on organisations in Kenya.

Drogalas, Arampatzis and Anagnostopoulou, (2016) conducted a study on relationship between corporate governance, internal audit and audit committee. Descriptive research design was employed, data was collected via a survey questionnaire and analyzed using regression analysis. The results show that corporate governance is positively associated to the consulting role of internal audit. Controlling an organization, rules, practices and processes are involved to ensure proper governance. This promotes a strong internal control system.

However it does not factor in operational performance which is related directly to internal audit functions. The relationship between corporate governance, internal audit and audit committee on risk management and internal audit proposes the involvement of a reliable, effective, and efficient internal audit team that ensures proper management of risk. Explicitly, the internal audit unit is tasked with the duty of ensuring that risk management is effective thus creating assurance to the top management of the performance of a business.

Stojanovic and Andric (2016) study was on factors affecting risk based internal audit implementation in public sector organizations in Saudi Arabia. Description research design was employed, data collected through questionnaire from internal audit managers, internal auditors, accountants and executives working in Saudi public sector agencies. The gathered data were analyzed by applying partial least squares structural equation model. The results show that management support internal auditor role, risk management system and training in risk management all positive and significantly influenced the risk abased internal auditing. The study concentrated on risk based internal audit hence, operational performance not factored. However, risk based internal audit highly contributes to a strong internal control system leading to better organization performance.

2.5.3 Audit Recommendations Review and operational performance

Furqan, *et al,.* (2020) carried out a study on the effect of audit findings and audit recommendation follow up on the financial reports and public service quality in Indonesia. Observation research design was used hence, data collected through 1437 observations from 491 districts and cities for 2014 to 2016. The data illustrated the conditions prior to the adoption of accrual accounting system. The quality of financial reports affects the quality of public service. The study investigated financial reports hence, no emphasis on organization performance. This indicated that audit recommendations follow up yield results when there a joined effort by top management and audit team to ensure that the recommendations are followed through. A collective effort is channeled to ensure that the main objectives of the audit process are attained. Consequently, audit recommendations follow ups ensure that high levels of accountability are maintained and attained. Given that different departments are required to input their contributions towards aligning with audit recommendations and follow ups, collective action is geared towards ensuring proper use, allocation, and conversion of resources into value. Board of management and the internal audit unit jointly supervise audit recommendations follow ups effectively the performance of an organization is likely to improve on the basis that the recommendations hold strength in matters boosting the growth and prosperity of a company. Management review of recommendations contribute to great extent to organizations in Kenya.

Alzeban, (2019) examined the influence of internal audit reporting line and implementing internal audit recommendations on financial report quality. A descriptive research design was used. Data obtained from the annual report of 201UK listed companies and also from survey questionnaire with chief audit executive working within those companies. Data analyzed using regression analysis and measure of abnormal accrual and accrual quality. The findings indicated that, when internal audit report directly to the audit committee, there is significant positive influence upon financial report quality. The study measured the audit report quality which is a contributor of a strong internal control system hence, organization performance improvement. Audit recommendations explicit to financial performance of a company require strict follow ups to since financial resources and performance are key indicators of the value a company creates and shares. Linking this particular intuition to the KRA, its financial performance in terms of revenues collected, targets met, and the degree by which revenue leakages are reduced are effected by effective audit recommendations follow ups. The magnitude of costs associated with ignoring proposed action plans may hinder the effectiveness of the body to play its major role which is to mop up financial revenues to support availability of financial resources in the country. This is applicable to local organizations in Kenya.

Georgiev, (2017) examined specific information management practices that decision makers embrace in order for organizations to achieve international standard organization 9001. The research employed comparative case study method and draws its data from a sample of 21 international standard organization 9001: 2008 certified organizations in Bulgaria. The results show ambivalent behavior towards international standard organization 9001 standard formal requirements. The behavior is expressed through targeted noncompliance with certain regulations. The study was on internal processes and procedures which contributes to organization performance. However not directly linked to internal audit functions and operational performance. Audit recommendations results from audit unit and top management's desires to elevate the position of a company. Therefore, audit recommendations follow up complete the objectives and duties of internal audit unit, thus attaching significance to the process. On how internal audit effectiveness can be operationalized and what factors are available to influence the effectiveness in the study.

Turetken, Jethefer and Ozkan (2020) studied the internal audit effectiveness operationalization and influencing factors. Systematic literature review was conducted to identify relevant publications collect and synthesized evidence on the operationalization of internal audit effectiveness and the factors that potentially influence the effectiveness of internal audit. A thorough analysis of the relevant studies resulted in a comprehensive list of potentially influencing factors. The study introduced a frame work that presents how internal audit effectively can be operationalized hence, omitting operational performance of the organization. It can be argued that the objectively measured effectiveness typically shows the efforts made by the internal auditor but not the outcome of the internal audit that have been reached. Regarding how an organization's internal audit control system affects productivity.

Nimenibo, Samuel, Timothy and Nkanor (2021) examined the impact of the internal audit control system on operational efficiency. The study was surveyed designed and the population comprised all the 34 administrative staff of the Akwa Iborn Transport Company finance, administrative and internal audit department. A sample size of 31 staff was selected for the three chosen department of the company for the study. The data was collected from staff via questionnaire. The study findings reviled a significant relationship between internal audit control and increased revenue generation and net profit. It also reviled a statistics significant impact of the internal audit control system on operational efficiency. The study brought out efficiency in in the organisation unlike operational performance in the organisation. Internal audit control was found to have a substantial correlation with higher revenue production and net profit, according to the study's findings. The report did suggest that Akwa Iborn State Transport firm maintain internal audit units at each of its branches nationwide, staffed by audit experts, and that the firm rotate its branches periodically to check for compliance.

2.5.4 Financial Reporting Evaluation and operational performance

Ajao and Oluwadamilola (2020) studied the internal control systems and quality of financial reporting in insurance industry in Nigeria. The researcher employed a survey research design. Data was collected through random questionnaires to respondents. Descriptive and inferential statistics analysis was used, research hypothesis analyzed using regression analysis. The result reviled that control environment, risk assessment, control activity information and communication and monitoring has a statistical significant positive effect on quality of financial reporting of insurance industry in Nigeria. The study concentrated on quality of reporting hence, excluding organization operational performance. Audit reports ultimately effect pedigree of corporate governance in an organization by providing stewardship guidelines. The contribution of audit reports to operational performance has effect to both locally and international organisations

Zinni, (2019) studied the role of external audit report in achieving comprehensive development indicators. The data was collected through observation study analyzing samples of the audited units in the federal financial control bureau. The researcher used sample analysis representing the reports of the federation financial control bureau for a number of economic units. The results reviled that there is absence of a clear planning policy for investment and lack of economic feasibility for most of the contracted economic projects. The study researched on external audit reports hence, not achieving much on operational performance. Audit reports are considered integral contributors of society awareness creation and building levels of satisfaction among various stakeholders. Audit reports in a company provide an elaborate information for timely decision-making while basing on key components indicated in the audit reports.

Karitu (2022) aimed at assessing the junction between budgetary controls, revenue mobilization, corporate governance and financial sustainability among public universities in Kenya by means of a study on Budgetary Controls, Revenue Mobilization, Corporate Governance and Financial Sustainability among Public Universities in Kenya. The study gathered secondary data for the period 2014–2019 from the 31 Kenyan institutions, therefore obtaining a sample spanning six years. The study applied panel data analysis using a Feasible Generalized Least Squares (FGLS). The findings indicated that budgetary controls and revenue mobilization positively and statistically significantly effect financial sustainability of public universities. Also, the studies established that budgetary controls as a form of internal control, promoted accountability and guided revenue mobilization to bridge revenue gaps. However the study researched on budgetary control and revenue mobilization which contributed little on organization operational performance. Internal controls were augmented by the need to attain components of corporate governance such as accountability.

The measures all points towards the necessity and effect of internal control systems towards expanding revenues collected (Opiyo, 2018). Study on the Effects of internal controls on Customs revenue collection at the Port of Mombasa. Which sought to establish the impacts of effective control system on revenue mobilization in the public sector. The research study entailed collected primary and secondary data for analysis from employees of Ghana Revenue Authority. The findings of the study indicated that there was a string, direct, and positive relationship between revenue collection in the organization and effective internal control system.

A study by Dzigbede (2020) on the role of internal audit unit on revenue mobilization and pedigree of operational performance in Krachi Nchumuru District Assembly was verse. The study adopted a mixed methods approach where quantitative data was collected through close ended survey questionnaires and qualitative data obtained through expert opinions of auditing practitioners. It was established that the internal audit unit contributed significantly to revenue mobilization and operational performance due to implementation of laws regulations and other support structures that uphold the quality of output by the internal audit unit. Auditing and control processes in an organization are further strengthened and augmented with policies, laws, and regulations to ensure that value is created and shared to various stakeholders as intended. Dzigbede (2020) further studied the role of the Internal Audit Unit in Revenue Mobilization and Operational performance in the Krachi Nchumuru District Assembly. From the findings of the study, the policies, laws and regulations effect the quality of audit processes thus impacting internal auditing and external auditing for effective ICS.

Sigilai, (2017) examined revenue mobilization where qualitative and quantitative research designs were used and a sample size of 40 officers was used in the study, analysis results indicated no significant relationship between controlled environment provided by internal audit units in the hospitals and revenue collection. The results would be expected in cases where specific control activities are not adopted to aid in revenue mobilization. For instance, frequent audits of revenue collection processes, audit on staff quality in revenue departments, and quality assessment of the control processes adopted in an organization. Setting up control processes for revenue mobilization may not be enough to register positive or significant impacts and relationships. Specific assessment

and follow up processes should be incorporated to monitor and evaluate the performance of established control processes and systems. Closely related findings by Alfartoosi*et al.* (2021) on the effect of e-accounting and mediated by internal control system on the performance of SME in Iraq they used a quantitative research design and the study aimed at evaluating the relationship between internal control systems and operating performance of SMEs. The findings indicated that components of internal control did not have a significant impact on operational performance of SMEs. However, control environment and control activities had a positive impact on operating performance of the SMEs.
Implementation of proper governance and ICT infrastructure in an organization may be categorized as adopting internal control systems and processes aimed at promoting transparency, accountability, and monitor influx and efflux of resources.

Rotimi, John, Rotimi and Doorasamy, (2021) researched on the assessment of the impact of government revenue mobilization on economic growth in Nigeria they sought to explain the argument by conducting an empirical study to evaluate the role of ICT and proper governance as units of ICS on revenue mobilization. The findings of the study indicated that governance and ICT infrastructure in an organization does not impact the effectiveness of ICS in revenue mobilization. On the flip side, the effectiveness of governance and ICT infrastructure adoption should be followed by audits to assess the risks and quality of investing in proper governance and ICT infrastructure in aiding maximize revenues collected in an organization. The arguments points towards incorporating risk assessment to proactively identify strengths and weaknesses of a strategy implemented to expand the revenue base of an organization.

2.6 Research Gaps

The summary of the research gap outline and compares the empirical findings of past and present studies and how the current research study would fill possible research gaps. The approach compares the strength/superiority of the prevailing studies to past and present studies.

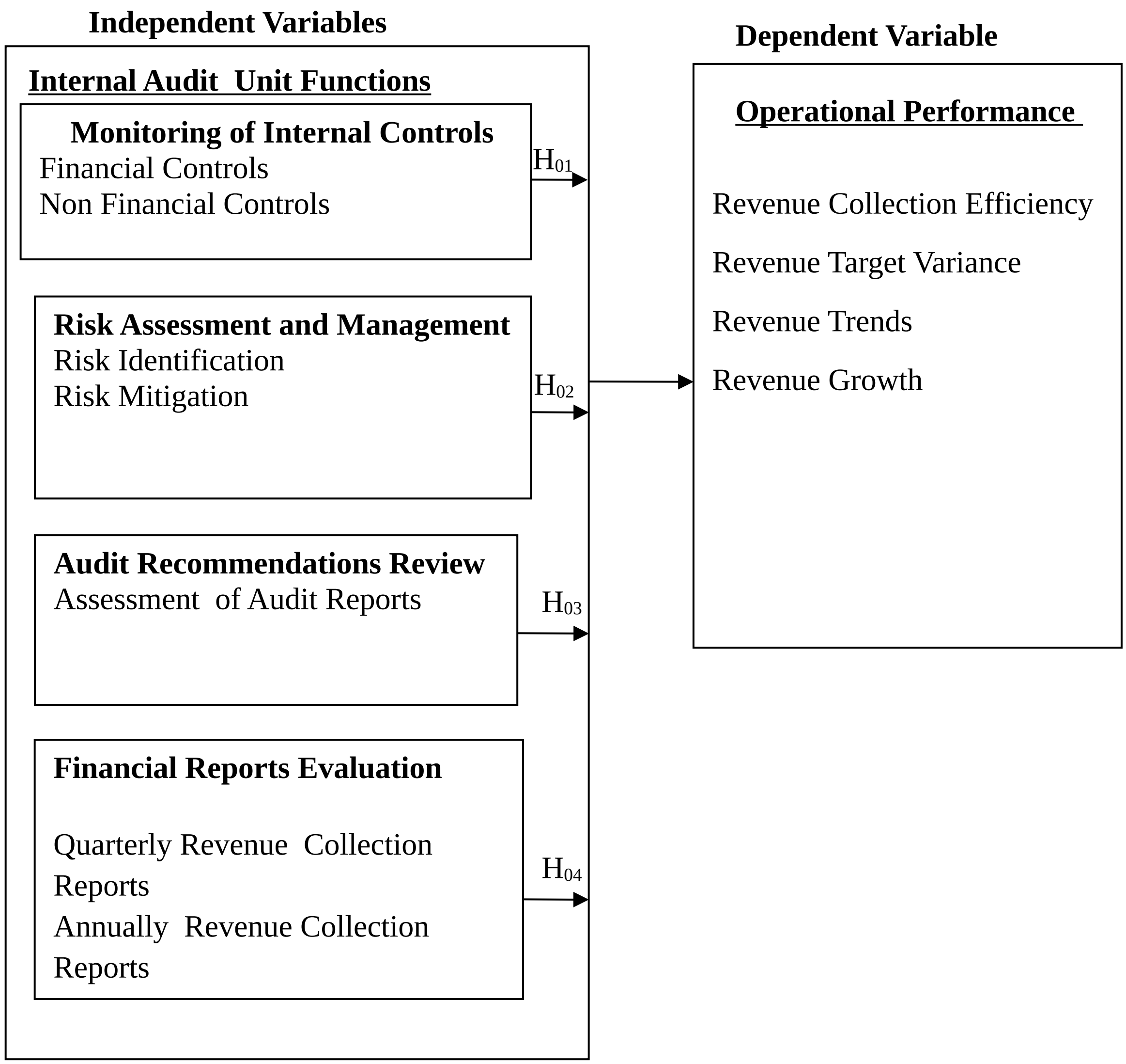

Figure 2. 1: Conceptual Framework

Source: Self- Conceptualization (2023)

Table 2. 1: Summary of Research Gaps

"Author/Year	Focus of study	Research Design	Findings	Research Gaps
Agbenyo, Jiang & Cobblah, (2018).	The impact of effective internal control systems on revenue collection in Ghana while making Ghana Revenue Authority the case organization	The study adopted correlation design. Data was collected using questionnaires and secondary source The study data collected was analyzed by descriptive statistics using mean and percentage.	The findings indicated a direct relationship between internal controls and level of revenue mobilization in Ghana Revenue Authority	The study was in Ghana and based only on examining the relationship between internal control systems and revenue collection
Alfartoosi, & Mohsin . (2021).	The effect of e-accounting and mediated by internal control system on the performance of SME in Iraq	The study employed quantitative research design	The findings indicated that components of internal control did not have a significant impact on operational performance of SMEs	The study was based on accounting only The study was also based on SME and Scoped in Iraq not Kenya
Doorasamy (2021).	The role of ICT and proper governance as units of ICS on revenue mobilization.	The study used Cross sectional design, Pearson correlation and multiple regression	The findings of the study indicated that governance and ICT infrastructure in an organization does not impact the effectiveness of ICS in revenue mobilization	The study checked on the role of ICT only
Dzigbede, (2020)	On the role of internal audit unit on revenue mobilization and pedigree of operational performance in KrachiNchumuru District Assembly	The study used structured questionnaires and experts' opinions Descriptive study design; Inferential statistics was used in the study.	The findings indicated that internal audit impacted positively on revenue mobilization.	It uses quantitative approach to establish the nexus between internal control systems and performance of organizations with revenue mobilization as one of the components
Thyaka, & Kavale (2021).	The effects of internal controls and measures on revenue collection in Kenya.	The study used both primary and secondary data. Primary data was collected through questionnaires. Secondary data was collected by use of desk search techniques from reports.	The findings of the study indicated a positive and statistically significant relationship between internal control system and revenue collection capabilities in KRA.	The study only sought to measure the impact of internal control of KRA performance.
Karitu (2022)	Conducted a study on evaluating the nexus between budgetary controls, revenue mobilization, corporate governance and financial sustainability among public universities in Kenya.	Data collected using primary and secondary sources. The study used the questionnaires containing opened and closed ended questions. The study used descriptive statistics in data analysis.	Study established that budgetary controls and revenue mobilization positively and statistically significantly affect financial sustainability of public universities.	The study was on public universities only
Ibrahim (2020)	Impacts of internal audit unit on revenue mobilization/financial resource mobilization in organizations in Kenya	Data collected using primary and secondary sources. The study used the questionnaires the studies adopted a descriptive research design	The study indicated that there is significant and positive nexus between internal Audit functions and operational performance at the KRA.	The study was based only on internal audit unit on revenue mobilization/financial resource mobilization
Opiyo. (2018)	The Effects of internal controls on Customs revenue collection at the Port of Mombasa.	A descriptive research design was used,	The study indicated that there was a string, direct, and positive relationship between revenue collection in the organization and effective internal control system	The study was enclosed in county of Mombasa only but this study looked into various organizations in Kenya
Katumba & Useni, (2022).	The impacts of effective control system on revenue mobilization in the public sector.	Data collected using primary and secondary data For analysis descriptive statistics using mean and percentage	The study shown that there were no positive relationships between control systems and revenue mobilizations	The study was in Ghana and not in Kenya, the study also focused only on control systems and mobilizations only
Sigilai, 2017).	Assessment of internal control systems effects on revenue collection at Nakuru Level Five Hospital aimed	Data was collected using questionnaires, Qualitative and quantitative research designs were used	Results of the study indicated no significant relationship between controlled environment provided by internal audit units in the hospitals and revenue collection	The study was conducted in hospitals only"

2.7 The Conceptual Framework

The conceptual framework of the study is adopted from the study topic and various studies evaluated in the empirical, theoretical, and conceptual varies. The identified independent variable of the study is Internal Audit Unit functions while the dependent variable is operational performance. The components of IAU functions are: Monitoring of ICS, which has financial control and nonfinancial controls. Risk assessment and management, having risk identification and risk mitigation. Audit recommendations review has assessment of audit report. Financial reports evaluation, has quarterly revenue collection reports and annual revenue collection report while the dependent variable indicators are: revenue collection efficiency, revenue target variance, revenue trend and revenue growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology section entails explaining and elaborating various tenets and guidelines of obtaining quantifiable elements for supporting the various study objectives. The research methodology part determines the pedigree of conclusions and findings of the study. This section is subdivided into study area, research design used, target population, data collection instruments, reliability and validity of instruments, data analysis and ethical considerations.

3.2 Study Area

The study focused on KRA selected regions. The rationale for selecting KRA unit for Southern Region is that the area is an essential entry and exit point for commodities via ocean. The region contains ports, railway station and airports that form points for revenue collection. The Southern Region boarders Tanzania hence exchanges of economic activities between the Region and Tanzania form a base for revenue collection by the KRA. The Southern Region has a population of 1,389,000 people as of 2022 and a geographical size of 219.9 Km^2 thus explaining characteristics that attribute to economic activities for revenue collection/mobilization and successful implementation of internal control systems. The rationale for selecting Nairobi region is based on the following explanations; first, Nairobi is the heart of Kenya, headquarter of the country and critical business hub (Kiprotich, Njuguna & Kilika, 2018). This enables collection of accurate and more representative data from business activities that warrant revenue mobilization activities, performance and control systems. Secondly, KRA’s headquarters are in Nairobi making the region suitable for data collection and study.

3.3 Research Design

The research design adopted for the study was causal research design and descriptive research design. Causal research design entails explaining a cause effect relationship between variables. According to Miller and Ross, (2020) the cause effect relationship is described by the impacts of the independent variables on the dependent variable. Consequently, the research design is suitable for determining the impacts of internal audit unit on operational performance at the KRA Southern Region. However, descriptive research design uses a range of both qualitative and quantitative which is the primary research method. Also, the selected research design may be used to evaluate the relationship between various study variables by discussing the variations in variables as a result of changes in variation of other variables.

The target population of the study is the KRA staff, sample size being specialized staff and explicitly focuses on the three department of Internal audit unit, Finance and Investigation departments (Ogola, 2018). These departments for the target population are integral as they provide primary data that represent the study objectives and variables of study. The internal audit unit verifies their involvement in the process of control for revenue mobilization, while the finance department provides evidence of allocation of financial resources towards control processes and the revenue mobilized.

A researcher was sought to establish the effect of monitoring internal control system, risk assessment and management, audit recommendation review and financial report evaluation independent variables on operational performance. The majority of the respondents were either agreeing or strongly agreeing with specific aspects in independent variables indicating a positive perception of the effectiveness of the internal audit unit in establishing control mechanism.

The dependent variables of operational performance aspect operationalized to help in measuring performance of KRA upon establishing the internal audit unit in Nairobi and Southern regions. The study revealed that the internal audit unit established at KRA has significantly helped in checking on the cost of revenue collected as majority of the respondents agreeing in their opinion and the respondent were in agreement with the essence of establishing internal control systems.

3.4 Target Population

The study target population is the entire staff of KRA in the regions. Therefore the total number according to the human resource department of two regions is 865. A sample size of 155 was obtained from the specific three departments where key informants were coming from. The total number of staff in the three key informants departments were 253. A sample size of 155 was obtained using Yamane taro (1967) hence, a total of 155 questionnaires was issued to employees in the internal audit, Finance and investigation units of the KRA Southern and Nairobi Regions. The rationale for selecting respondents from the internal audit, Finance and investigation departments of the regions is explained by the need to obtain relevant and accurate data regarding the variables of study. The assumption is that employees from the selected departments have knowledge on internal control practices and revenue components.

Table 3. 1: Southern and Nairobi Regions Finance, Audit and Investigation Employees

KRA Southern/Nairobi Region Stations	Number of Finance Employees	Number of Audit Employees	Number of Investigation Employees	Total
Southern Region Hqs - (customs House)	8	9	15	32
Moi International Airport	2	0	0	2
LungaLunga Customs	2	0	0	2
Taveta Customs	2	0	0	2
Nairobi Region - 2nd, 13th, 15th and 29th,Floor, Times tower	100	**0**	**0**	100
25th Floor, Times Tower.	0	35	0	35
Sameer Park.		18	0	18
Wilson Airport	2	0	0	2
Upper hill Pensions Tower		0	60	60
Total Number of Employees	**116**	**62**	**75**	**253**

Source: KRA Southern and Nairobi Region Stations HR Department (2022)

3.5 Sample Size and Sampling Procedure

A stratified random sampling was used to obtain employees where stratus based on finance staff, audit and Investigation. Yamane Taro (1967) sampling framework was adopted. The sample of 155 employees obtained using simple random sampling technique as illustrated below.

Thus

$$n = \frac{N}{1 + N(e)^2} \quad n = \frac{253}{1 + 253(0.05)^2} = \frac{253}{1.6355} = 154.977 = 155$$

Where;

n- Sample Unit,
N- Population Unit
e- error term

Table 3.2: Sample Size

Strata	Population	Sample
Finance Department	116	$\frac{116}{253}\,x\,155 = 71$
Internal Audit Department	62	$\frac{62}{253}\,x\,155 = 38$
Investigation Department	75	$\frac{75}{253}\,x\,155 = 46$
Total	**253**	**155**

3.6 Data Collection Instrument

Primary data was collected using a closed ended questionnaire with questions distributed to collect data on main study variables (Kiprotich *et al*, 2018). The responses were recorded using a 5- Point Likert Scale to determine the levels by which participants 'Agree' with various statements. 1 – Strongly Disagree (SD), 2 – Disagree (D), 3 – Neutral (N), 4 – Agree (A), 5 – Strongly Agree (SA). The questionnaire was designed by researcher himself and it was divided into five sections. Part A collected data on general information, Part B collected data on monitoring of the internal control system, Part C collected data on risk assessment and management, Part D collected data on audit recommendation review, Part E collected financial report evaluation and Part F collected operational performance.

3.7 Reliability and Validity

Reliability and validity tests are essential to determine the quality of data and ultimately the quality of results obtained for making final conclusions. In this research study, reliability of data was evaluated using the Cronbach's alpha value. A Cronbach alpha value of 0.7 and above indicates high internal consistency of the data hence high reliability of the data.

Validity deals with accuracy in construction of questionnaire for this case (Neuman, 2015). The study applied content and construct validity where in content validity; the questionnaire was discussed with experts thus one of the senior accounts in KRA and also with study supervisors. Construct validation based on the use of various factor analysis where variable rotation was undertaken and those with factor loading less than 0.4 were dropped.

3.7.1 Pilot study

This study conducted a pilot test to establish whether the items are valid and reliable in the gathering of the data needed for the research. It was carried out to pre-test data collection instrument for validity and reliability. The aim of the test was of value on research hypothesis and test of processes, methods of collecting the data, samples and recruitment strategies for a major test. Pilot was done to respondents not participating in the final study in this case Western Region Kisumu KRA office finance, auditors and Investigation. This was on 16 staffs thus 10% of the sample (Kothari, 2018). Kisumu KRA office has similar characteristics to the targeted KRA employees. The pilot rectified inconsistencies on the instrument generation.

3.8 Data Analysis

The data collected was analyzed using SPSS version 26 (Statistical Packages for Social Sciences), to obtain the desired results (Şahin & Aybek, 2019). The data analysis approach would cut across descriptive statistics, diagnostic tests (multicollinearity test), correlation analysis, and regression testing. Descriptive statistics included percentage, frequencies, mean and standard deviation. Inferential analysis included Pearson correlation and linear regression were used. This was to investigate the relationship between two quantitative variables. Correlation quantifies the strength of the linear relationship between a pair of variables and regression expressing the relationship in equation form. The study used Pearson Correlation because the data was normal. The research design selected would guide data analysis steps while emphasizing on the main variables of the study (dependent and independent variables). Multiple regression analysis model for prediction of variables and general multiple linear regression model to evaluate the relationship between the dependent and independent variables is given as follows;

Multiple Linear Regression Equation

Multiple and Simple Linear Regression Equation

i. $Y= \beta_0+\beta_1X_1 + \varepsilon$…………………………………………….…..... Model 1

ii. $Y= \beta_0+\beta_2X_2 + \varepsilon$……………………………………………….….... Model 2

iii. $Y= \beta_0+\beta_3X_3 + \varepsilon$…………………………………………….…..... Model 3

iv. $Y= \beta_0+\beta_4X_4 + \varepsilon$ = ……………………………….............................Model 4

Where;

Y = Dependent Variable (Operational Performance)

X_1 is Monitoring of ICS

X_2 is Risk Assessment Management

X_3 is Audit Recommendations review

X_4 is Financial Report

β_0 = the constant

β_{1-4} = the regression coefficient

ε = Error term

3.8.1Diagnostic Tests

Diagnostic investigations were conducted to evaluate the assumptions of multiple regression analysis and Pearson correlation before inferential statistics were used. The provided information is conveyed in the following manner:

3.8.1.1 Normality Test

The literature is rife with statistical mistakes. A normal or Gaussian distribution is assumed by many parametric procedures, such as the t-test, analysis of variance, correlation, and regression. The data was checked for normality using the 95% confidence level Shapiro-Wilk and Kolmogorov-Sminorv tests. The results showed that the data tested did not originate from a normally distributed population if the p-values in the Significance column were less than 0.05, which meant that the null hypothesis was rejected.

3.8.1.2 Multicollinearity Test

Multi-collinearity refers to the mutual dependency of the independent variables. Multi-collinearity arises when the independent variables display a strong connection, usually with a correlation coefficient (r) of 0.9 or above. Multiple regressions are quite vulnerable to this. Tabachnick and Fidell (2001) recommend being cautious when including two variables with a bivariate correlation of 0.7 or higher in the same analysis. Prior to starting, it is advisable to carefully evaluate the ramifications of such a strong link. The Variance Inflation Factor and Tolerance level were used to evaluate the existence of multi-collinearity. A VIF (Variance Inflation Factor) is considered acceptable if it is less than 10 or if the tolerance level is greater than 0.1.

3.8.1.3 Homoscedasticity Test

Homoscedasticity tests, which are essential in statistical analysis, assess the equality of variances within a dataset. They are essential in the validation of assumptions, particularly in regression analysis. The consistency of the variability of data points around the regression line across all levels of the independent variable is guaranteed by homoscedasticity. A failure to meet the assumptions of homoscedasticity could lead to biased parameter estimates and erroneous conclusions. Researchers use these tests to ensure that regression analyses are valid and reliable (Kennedy, 2008; Gujarati & Porter, 2009; Fox, 2015). Researchers used the Levene test to determine whether or not the explained variable's variance was constant across all levels of explanatory factors.

3.8.2 Hypotheses Testing

The tests run with a 95% confidence level indicate that the alpha value for the study's hypotheses is $\alpha = 0.05$. To determine whether to accept or reject the hypothesis, the alpha value is compared to the significance levels of the variables in the test, also known as the p-value. Typically, when the p-value of a test is less than the alpha value, we can reject the null hypothesis and instead accept the alternative hypothesis. When the p-value exceeds the alpha-value, it is not possible to reject the null hypothesis. The test technique for the hypotheses will include regression analysis and evaluation of the significance value (p-value) of each independent variable regression coefficient. This will be compared to the alpha value of the test, which is set at $\alpha = 0.05$.

3.9 Data Presentation

Data was presented in terms of tables, description of the findings were done in each of table used.

3.10 Ethical Considerations

Ethical considerations of the study represent the researcher's aspect of responsibility, through following policy and legal requirement of conducting the study. This particular research study is keen on ethical considerations in collecting data, since authorization from the institution and KRA is needed to collect secondary data. Consequently, the research study was the student's own work and has not been copied from any sources. Ideas used in the paper have been borrowed from other scholarly works and correctly cited to give credit to original scholars and writers.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presented findings from the study conducted about the Effect of Internal Audit Unit Functions on Operational Performance of KRA in the Southern and Nairobi Regions. The aspects covered include despondence rates, reliability and validity test, demographic characteristics of the respondents, descriptive analysis and inferential analysis. Discussions of the findings have also been presented in the chapter.

4.2 Response Rate

Out of one hundred and fifty-five (155) questionnaires issued, 132 were filled and returned representing 85.16% response rate. This exceeds the expected response rate of 60% which is the acceptable level in research according to (Barnett, 2018). The non-response was due to busy schedule of some of the respondents.

Table 4.1:Response Rate

		Frequency	Percentage
Valid	Returned	132	85.16
	Not Returned	23	14.84
	Total	155	100.0

Source: Field Data (2023)

4.3 Reliability and Validity Tests

4.3.1 Reliability Test

The four independent variable constructs (monitoring of internal control systems, risk assessment and management, audit recommendations review and financial reports evaluation) and the dependent variable (operational performance) were subjected to reliability test and the results obtained were shown in Table 4.2.

Table 4.2: Reliability Rate

“Variable Constructs	No of Items	Cronbach alpha	Verdict
Monitoring of ICS	15	.872	Reliable
Risk assessment and management	11	.942	Reliable
Audit recommendations review	5	.919	Reliable
Financial report evaluation	6	.940	Reliable
Operational performance	10	.971	Reliable
Overall operational performance	47	0.929	Reliable ”

Source: Field Data (2023)

The data shown in Table 4.2 indicates that the variable constructs being examined obtained a Cronbach's Alpha value of 0.929, which is higher than the required threshold of 0.7.The internal consistency of data was crucial, as emphasized by Kotheri in 2014.

4.3.2 Validity Tests

Factor analysis is a statistical dimension reduction technique that is employed to investigate the underlying structure of a collection of observed variables. In measurement theory, there is a fundamental assumption of unidimensionality, which states that a collection of elements that make up an instrument measure a single common attribute. In order to examine the connections between a variable and another, it is necessary for the variable to be unidimensional, meaning that the different items used to collect data must be measuring the same characteristics.

Table 4.3: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.767
Bartlett's Test of Sphericity	Approx. Chi-Square	11122.107
	Df	1081
	Sig.	.000

The Kaiser-Meyer-Olkin (KMO) measure of sample adequacy is a statistical method used to assess if the data is suitable for factor analysis. The factor analysis suitability scores range from 0 to 1, with higher values indicating greater suitability. The KMO measure in this output is 0.767, suggesting that the data is suitable for data analysis. Bartlett's test of sphericity is a statistical test that evaluates whether the correlation matrix significantly differs from the identity matrix. This variance indicates that the variables are interrelated and appropriate for factor analysis. The test yields an approximate chi-square value, degrees of freedom (df), and significance level (Sig.). The output indicates that the chi-square value is approximately 11122.107, and it is associated with 1081 degrees of freedom. The p-value (Sig.) is 0.000, indicating a significant difference between the correlation matrix and the identity matrix. This confirms the suitability of the data for analysis.

The computed variance was found to be 82.827. Items that had factor loadings greater than 0.4 were considered to be superior. Hence, the factor loadings for the 47 construct factors varied between 0.6336 and 0.941. These parameters were retained for further research. Tabachnick and Fidell (2007) suggest retaining factors with factor loadings exceeding 0.40 for subsequent analysis, while excluding factors with factor loadings below 0.40 from further investigation. Thus, all components were included, confirming their validity as shown in appendix 8.

4.4 Demographic Characteristics of the Respondents

The study established the general information on gender, designation and working experience at KRA.

4.4.1 Gender of the Respondents

The study examined gender disparity of KRA employees and it was established that 80.00 percent of the employees were male with only 20.00 percent being female as table 4.4 shows;

Table 4.4: Gender of the Respondents

	Frequency	Percentage
Male	106	80
Female	26	20
Total	**132**	**100**

Source: Field Data (2023)

The study revealed that KRA staff in Kenya were dominated by the male gender creating a gender gap in employment. The implication of this gender disparity is that there may be unequal opportunities for career advancement and representation within the KRA workforce. Addressing this imbalance is crucial for promoting diversity, inclusivity, and gender equality in the workplace, which can lead to better organizational performance and employee satisfaction.

4.4.2 Designations as per the Departments

The designation of the respondents who participated in the study were summarized as indicated in Table 4.5.

Table 4.5: Designation Distribution

Department	Designation	Female	Male	Total
Finance department	Assistant manager	1	6	7
	Supervisor	1	6	7
	Officer	5	27	32
	Sub Total	**7**	**39**	**46**
Investigation and enforcement	Manager	1	5	6
	Assistant manager	1	6	7
	Supervisor	1	6	7
	Officer	4	22	26
	Sub Total	**7**	**39**	**46**
Internal Audit	Manager	0	6	6
	Supervisor	7	20	27
	Officer	3	4	7
	Sub Total	**10**	**30**	**40**
	Total	24	108	132

Source: Field Data (2023)

The results in Table 4.5 shows that Finance and Investigation departments had 46% each with Internal Audit department having 40%.Those of high respondents were from Investigation departments with the Audit department closely following. The implication of these results is that the majority of the respondents were from the Finance and Investigation departments, with a slightly smaller proportion from the Internal Audit department. This distribution suggests that the perspectives and insights provided by respondents may be influenced by their respective departmental roles and responsibilities within the organization. It's important to consider how these different departmental perspectives may impact the interpretation and application of the study finding.

4.4.3. Working Experience

The study examined the period served by the respondents at KRA as shown in Table 4.6;

Table 4. 6: Working Experience

	Frequency	Percent
Less than 1 year	14	11
1 – 5 Years	26	20
6- 10 Years	33	25
More than 10 Years	59	44
Total	**132**	**100**

Source: Field Data (2023)

The results shows that a significant number of respondents 44% had served for more than 10 years, with 6-10 years at 25%, followed by 1-5 years at 20% and 11% served for less than one year. From the study findings, majority of the respondents had served for more than ten years hence being adequately informed of the strategic and operational issues of the organization. The implication of these findings is that a considerable proportion of the respondents possess extensive experience and tenure within the organization. This suggests that they likely have in-depth knowledge and understanding of the strategic and operational aspects of the organization. Their tenure may contribute to a deeper insight into organizational challenges and opportunities, potentially enhancing their effectiveness in addressing issues and contributing to decision-making processes.

4.5. Descriptive Analysis

The views of respondents were sought on monitoring of internal control systems, risk assessment and management, audit recommendations review, financial reports evaluation and operational performance in order to establish if they had an effect on operational performance at the KRA. A five (5) point Likert Scale was used where one (1) implied the least and a five (5) the highest positive response (thus, 1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A), 5 =Strongly Agree (SA).

4.5.1 Monitoring of Internal Control Systems on Operational Performance

The researcher sought to establish the effect of monitoring of internal control system on operational performance at the KRA in Nairobi and Southern regions. Monitoring of the internal controls systems was examined in two aspects of financial controls and non-financial controls. One of the key functions of an internal audit department is to monitor the operations of the internal control systems established in an entity. The KRA has an internal audit unit which monitors the efficiency and effectiveness of the ICS in operation at the government agency.

Table 4.7: Financial Controls

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That my organization has established effective and efficient control mechanisms.	132	15	2	5	58	20
The internal audit unit established effective internal financial control system.	132	5	4	8	53	30
That an effective integrated revenue collection system is in	132	4	5	3	47	41

place.						
The internal audit officers are independent in discharging their functions.	132	5	6	22	48	19
Financial reports prepared reflects the operations of my organization.	132	7	5	3	52	33
That books of original entries are properly maintained.	132	6	8	7	51	28
Revenue mobilization audits reports are frequently prepared.	132	8	6	17	32	37

Source: Field Data (2023)

On the financial control the study found out that internal audit of the two regions of KRA have put in place controls mechanisms to enhance operational performance of the Governance agency. For example, majority of the respondent were either agreeing or strongly agreeing with specific aspect in operation at the two regions of KRA. In particular, 58% of the respondent and 20% of the respondent agreed and strongly agreed that the KRA through its internal audit unit has established effective and efficiency control mechanisms as table 4.7 demonstrates. The study found that the internal audit units in the two regions of KRA have implemented control mechanisms to enhance operational performance. Respondents generally agreed or strongly agreed with specific operational aspects in these regions, indicating a positive perception of the effectiveness of the internal audit unit in establishing control mechanisms, as demonstrated in Table 4.7.

These findings are consistent with the research conducted by Nyikuli *et al.,* (2022). Which individual observed that the presence of an internal audit department had an impact on the operational effectiveness of companies. Bubilek (2017) asserts that a well-developed internal control system can have a favorable impact on company operations, risk management, and decision making at all levels of the organization. Nevertheless, Todoravic and Vukoj (2020) observed that the degree of advancement required to oversee the functioning of firms. It was concluded that internal audit in enterprises does not correspond with the achieved development in organization, in a country of a developed market economy.

Hypothesis Decision: There is no significance relationship between monitoring of internal control system and operational performance of KRA. The findings were, there was significant relationship between monitoring of internal control system and operational performance of KRA. Hence, rejecting the null hypothesis.

Table 4. 8: Non – Financial Controls:

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the internal audit staff are regularly rotated.	132	6	11	17	49	17
That the internal audit staff take leave as prescribed in the Human Resource policies of the organization.	132	6	7	18	47	22
That the audit staff are well qualified in executing their responsibilities.	132	5	8	7	48	32
That the organization has put in place physical checks at the critical areas to safe guard the assets.	132	7	5	7	48	33
That the audit staff observes secrecy in password handling.	132	7	8	9	33	42
Separation of duties is observed to check on collusion.	132	6	7	10	48	29
That internal audit staff are appropriately supervised.	132	7	8	14	49	22
The work lord to audit staff is proportionate.	132	7	10	25	32	26

Source: Field Data (2023).

On the non-financial control systems, the study found out that majority of the respondents were either agreeing or strongly agreeing that the non – financial systems put in place at the two regions of KRA were effective in the operations of the organization. However, on the aspect of workload to audit staff, opinion was divided with a significant number of 25.00 percent being uncertain. This means that the management of KRA in the two regions should reexamine their staff establishment.

The study findings agree with Kumari and Weerasooriya (2019) who found out that financial performance is driven by internal control components. In addition, Bashir (2017) study revealed that the state of internal control is positive and contributes to positive performance amongst the commercial banks. This was also revealed by Muriithi (2020) who agreed with the study that corporate governance practice are important in enhancing performance of church base organization.

4.5.2 Risk Assessment and Management

Risk assessment and management involves identification and assessment of the likelihood and potential impact on an organization. Internal controls are then identified evaluated to determine how adequate they are in reducing risks to ensure that risks are at manageable levels. The study therefore examined the aspects of risk assessment and management. The following findings were obtained as Table 4.9 shows;

Table 4.9: Risk Assessment and Management Aspects

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the audit risk plans identifies the risk prone areas and the type of risks.	132	5	8	9	43	35

Risk mapping is done to assess the risk factors on revenue mobilization.	132	7	6	5	50	32
That revenue leakages is a common risk element in my organization.	132	8	17	22	26	27
The cost of revenue collection significantly eats into the revenue being collected.	132	13	33	32	12	10
Fraud cases do feature on revenue mobilization.	132	16	8	29	27	20
That appropriate technology oriented audit tasks are in place to help in the risk identification.	132	6	12	14	51	17

Source: Field Data (2023)

The study revealed that the risk assessment and management parameters established by the KRA in the two regions of Nairobi and Southern are effective and efficient, since most of the respondents were either agreeing or strongly agreeing with the aspects presented. The study highlighted the effectiveness and efficiency of the risk assessment and management parameters implemented by KRA in Nairobi and Southern regions. The majority of respondents expressed agreement or strong agreement with the presented aspects, indicating confidence in the organization's risk assessment and management practices. This suggests that the established parameters are perceived positively and are likely contributing to effective risk management within the organization.

According to Maxmonov (2020), worldwide internal audit standards enable the examination of financial characteristics and the likelihood of risks arising from economic conditions and regulatory frameworks. Rosdini, Fitriyah, and Irawady C. (2019) highlight the significance of internal audit in risk management within local government. According to the findings of Sudirman, Sasmita, Krismanto, and Muchsidin (2021), the internal audit plays a significant role in enhancing the internal control system for detecting fraud at Bank Sulselbar.

4.5.3 Risk Mitigation

Once a risk assessment has been conducted, it will show the risk prone areas and the nature of risks in such areas. Risk mitigation mechanism are then established to counter the risks in terms of various policies. The internal audit unit being the operational and strategic unit in an entity oversees the establishment of risk mitigation tools.

Table 4.10: Risk Mitigation Aspects

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the audit risk plans upon implementation provide mitigation response to the risks.	132	7	6	16	57	14
That the management develop appropriate policies to check on the risks identified.	132	8	7	6	57	22
Staff inductions conducted and retraining done to up their skills on risk mitigation.	132	7	13	14	54	12
That appropriate deterrent actions taken on staff implicated on imparity.	132	7	8	20	42	23
That the top level managers in my organization adheres to the established system in place.	132	10	5	14	49	22

Source: Field Data (2023)

The study shows risk mitigation facets were examined and the findings of in Table 4.10 shows that 57% and 14% of the respondents agreed and strongly agreed respectively that the audit risk plan upon implementation provides mitigation response to the risks. While

57% and 22% of the respondents agreed and strongly agreed respectively that the management have developed appropriate policies to check on the risk mitigation, as demonstrated in Table 4.10.The study delved into risk mitigation strategies, revealing a notable consensus among respondents regarding the effectiveness of audit risk plans and management's policies in mitigating risks. A significant portion of respondents agreed or strongly agreed that these measures contribute to risk reduction. This suggests a proactive approach within the organization towards identifying and addressing potential risks, contributing to enhanced risk management practices and organizational resilience.

The results align with the findings of Lagat and Okelo (2016), which demonstrated that an effective internal control system has a good influence on financial management, particularly when accompanied by suitable policies. However, Magu and Kibati (2016) argue that the internal audit section of the Kenya Farmers Association lacked objectivity, independence, and activity, resulting in its ineffectiveness. Simultaneously, according to Obonyo's (2017) research, a robust internal control structure effectively prevents and detects fraudulent activities, allowing management to promptly address the issue.

Hypothesis Decision: There is no significance relationship between risk assessment and management operational performance of KRA. The findings were, there was significant relationship between risk assessment and management and operational performance of KRA. Hence, rejecting the null hypothesis.

4.5.4 Audit Recommendations Review

Table 4. 11: Audit Recommendations Review Aspects

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the internal audit report	132	8	7	10	58	17

recommendation are implemented accordingly.						
That follow ups are done on internal audit report recommendations by the management of the organization.	132	7	8	6	58	21
Consultations with the affected departments on internal audit report recommendations are done for effective implementation.	132	6	8	7	35	44
That my organization has an implementation plan for executing the internal audit report recommendation.	132	8	7	11	42	32
Resource necessary to implement audit reports recommendations are usually availed by my organization.	132	6	7	17	37	33

Source: Field Data (2023)

The study findings as presented in Table 4.11 shows that the audit recommendations review are conducted at the two regions of KRA; For example, on the implementation of the audit recommendations, over 60.00 percent of the respondents were either agreeing or strongly agreeing that implementation are being effected. Those who agreed accounted for 58.00 percent while those who strongly agreed were 17.00 percent. The study's findings, as portrayed in Table 4.11, suggest a positive sentiment towards the implementation of audit recommendations within the KRA's two regions. Respondents generally expressed agreement or strong agreement with the effectiveness of these implementations. This indicates a widespread perception among respondents that audit recommendations are being appropriately acted upon, reflecting a commitment to enhancing operational effectiveness and compliance within KRA.

Table 4.11 demonstrates that the same pattern was noticed in the other aspects of audit review recommendations, such as the implementation of follow-ups on audit report recommendations or seeking advice from other departments on how to carry out audit recommendations. The study concurs with Mwinamo (2015) that evaluation findings, when disclosed, can serve as crucial input for resource allocation planning, decision making, and prioritization. Contrary to the study's findings, Muchiri and Jagongo (2017) hold a different perspective, asserting that the presence of an internal audit department does indeed have an impact on profitability and return on investment. Langat, Osawa, and Muli (2023) argue that follow-up is crucial in implementing audit recommendations.

Hypothesis Decision: There is no significance relationship between Audit recommendation review and operational performance of KRA. The findings were, there was significant relationship between audit recommendation review and operational performance of KRA. Hence, rejecting the null hypothesis.

4.5.5 Financial Report Evaluation

The essence of evaluating the financial reports at the KRA is to help the management on revenue performance. Various reports are examined by the government agency on monthly, quarterly, semi – quarterly and even annually. The study therefore sought to examine the various aspects of financial reports evaluation and it found out that planning, performance enhancement, preparation of reliable financial reports which could inform trend establishment of revenue growth are applied as Table 4.12 shows;

Table 4.12: Financial Reports Evaluation Aspects

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the quarterly and annually revenue collection reports provide the management with relevant information on revenue mobilization to effect planning.	132	7	10	6	31	46
That based on the quarterly and annually revenue collection reports, necessary checks and balances are put in place for enhanced	132	6	7	8	33	46

performance.						
Automation of financial report system of my organization helps in the preparation of reliable financial reports.	132	7	8	16	33	36
That the financial reports help in establishing the trend of my organization operational of performance.	132	7	8	9	44	32
That the internal annual and quarterly revenue analysis report signals the nature of growth in revenue.	132	7	8	6	46	33
That the management takes seriously the recommendations of the internal audit quarterly and annually revenue reports analyzed.	132	6	8	16	48	22

Source: Field Data (2023)

The study presentation on financial report evaluation was examined and findings of the study in Table 4.12 showed that 33% and 46% of the respondents agreed and strongly agreed respectively that based on the quarterly and annually revenue collection reports, necessary checks and balances are put in place for enhanced performance. While 48% and 22% of the respondents agreed and strongly agreed respectively that management takes seriously the recommendations of the internal audit quarterly and annually revenue reports analyzed, as demonstrated in Table 4.12.

The study findings indicate a positive perception among participants regarding the effectiveness of financial report evaluations. A substantial portion acknowledged that these evaluations contribute to the implementation of necessary checks and balances in revenue collection processes. Additionally, respondents recognized management's commitment to taking recommendations outlined in these reports seriously. These responses reflect a general consensus on the importance of thorough financial reporting practices in enhancing operational efficiency and performance within the organization.

Abbott, Daugherty, Parker and Peters (2016) concur with study finding that joint presence of competence and independence is necessary antecedent to effective International Audit Functions on financial report monitoring. Besides, Iravonga, Ngala, The study conducted by Alala and Maingi (2023) showed that the internal audit program of the county government was effective in attaining its objectives. This resulted in the production of precise and unbiased financial information. The presence of high-quality financial records indicates that the organization is still operational. In Collins' (2014) study, it was discovered that when responsibilities are clearly defined and activities are closely monitored, the limited number of reports generated within a department focus on addressing the flaws in the system.

Hypothesis Decision: There is no significance relationship financial report evaluation and operational performance of KRA. The findings were, there was significant relationship between financial report evaluation and operational performance of KRA. Hence, rejecting the null hypothesis.

4.5.6 Operational Performance

According to the study, operational performance aspects were operationalized to help in the measuring performance of KRA upon establishing the internal audit unit at its regions of Nairobi and Southern. The manipulation of the independent variables aspects of monitoring internal control system, risks assessment and management, audit recommendations review. Reports and financial reports evaluation were examined in terms of their impact on the operational performance of KRA as Table 4.13 shows;

Table 4. 13: Operational Performance Aspects.

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
That the internal audit unit in my organization has helped in checking on costs of revenue collection.	132	7	8	17	52	16
Internal control systems put in place helps on checking on the cost of revenue collection.	132	7	8	11	57	17
The audit risk plans help my department to be proactive in minimizing revenue collection cost.	132	7	6	8	55	24
That revenue target variance are analyzed and necessary corrective measures taken to enhance revenue growth.	132	7	8	10	44	31
That the internal audit unit analyses the revenue trend and advice the management accordingly.	132	7	8	9	44	32
That the internal audit recommendations to the investigation department has helped on increasing revenue growth.	132	10	9	11	41	29
That the financial reports as analyzed by the internal audit helps my organization in determining the revenue target.	132	7	10	9	43	31
That the risk assessment and management strategies initiated by my internal audit unit have helped in enhancing revenue growth.	132	9	7	11	61	12
That the financial and non-financial control mechanisms recommended by the internal audit are implemented by the management.	132	8	7	9	44	32
That the revenue trend reports analyzed by the internal audit unit usually signals the differences in terms of revenue growth.	132	7	8	14	58	13

Source: Field Data (2023)

The study revealed that the internal audit unit established at KRA has significantly helped in checking on the cost of revenue collection as 52.00 percent agreeing and 16.00 percent strongly agreeing in their opinion. A similar trend was observed on the other aspect of the study where the respondents were either agreeing or strongly agreeing on the essence of establishing internal control systems, at 57.00 percent and 17.00 percent respectively. The findings underscore the vital role of the internal audit unit within KRA, with a majority of respondents acknowledging its effectiveness in controlling revenue collection costs. Similarly, respondents expressed strong support for the establishment of internal control systems, affirming their importance in ensuring operational integrity. These results highlight the recognition among stakeholders of the significance of robust internal mechanisms in enhancing organizational efficiency and accountability.

Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) agree with the research results that the internal audit function significantly contributes to improving the accountability of statutory corporations in Uganda. Musah (2018) found that the autonomy of the internal audit department and the promotion of competence in internal audit work positively influence the efficacy of internal audit. Asaulu, Adedokun, and Monday (2016) offer an opposing perspective to the study, contending that the internal audit system in public enterprises is not fully independent and is constrained by constraints in its professional expertise. These constraints derive from the difficulties posed by insufficient resources, which impede the system's capacity to efficiently carry out its responsibilities.

4.6 Diagnostic Tests

The researcher conducted preliminary tests to check whether the collected data met the regression analysis's assumption before utilizing inferential statistics. The outcome of this exam was of utmost importance as it dictated the methodology to be employed in data analysis, namely whether to employ a parametric test or a non-parametric test for inferential analysis.

4.6.1. Normality test

The data's normality was assessed using both the Shapiro-Wilk and Kolmogorov-Sminorv tests at a 95% confidence level. The null hypothesis was rejected if the p-values in the Significance column were less than 0.05. This indicates that the examined data did not originate from a normal-distribution population. This study's overarching goal was to evaluate financial reports, operational performance, risk assessment and management, audit recommendations, and internal control system monitoring data using a normality test. The findings were shown in table 4.14.

Table 4.14: Normality Test

	Kolmogorov-Smirnov[a]		**Shapiro-Wilk**	
	Statistic	**Sig.**	**Statistic**	**Sig.**
Monitoring of internal control systems	.165	.108	.851	.506
Risk assessment and management	.210	.314	.810	.168
Audit recommendations review	.181	.138	.851	.482
Financial reports evaluation	.128	.220	.859	.523
Operational performance	.137	.252	.839	.312

Source: Field Data (2023)

The Kolmogorov-Smirnov (KS) and Shapiro-Wilk (SW) tests results, as presented in Table 4.14, suggested that the residuals adhered to a normal distribution ($p > .05$). Consequently, the statistical tests for normalcy yielded substantial results, leading to the utilization of a parametric test. The findings presented in Table 4.11 indicate that the data gathered on the monitoring of internal control systems, risk assessment and management, audit suggestions evaluation, financial reports appraisal, and operational performance conformed to a normal distribution. Therefore, we accept the null hypothesis since the data conforms to a normal distribution and exhibits normal distribution characteristics. Consequently, since the normality tests yielded significant results, it is appropriate to utilize parametric tests for the analysis. The results were validated using standard Q-Q plots, as evidenced in Appendix 9.

4.6.2 Heteroscedasticity

The study utilized the Levene statistic to test the null hypothesis that the variance of the dependent variable was the same across all levels of independent factors. The results were shown in Table 4.15.

Table 4.15: Test for Homogeneity

	Test of Homogeneity of Variances			
	Levene Statistic	**df1**	**df2**	**Sig.**
Monitoring of internal control systems	1.209	1	131	.265
Risk assessment and management	2.103	1	131	.352
Audit recommendations review	1.819	1	131	.544
Financial reports evaluation	0.452	1	131	.429
Operational performance	0.941	1	131	.331

Source: Field Data (2023)

Sanyal (2017) states that the null hypothesis is rejected if the p-value is less than 0.05, but accepted if the p-value is more than 0.05. The results in Table 4.15 are particularly noteworthy, as they demonstrate that the p-value exceeds 0.05. Therefore, we may infer that we are accepting the null hypothesis and can deduce that the variances of the dependent variable are the same across various levels of the explanatory factors. This satisfies the assumption of equal variance. It offers additional evidence for the application of analysis of variance (ANOVA).

4.6.3 Multicollinearity Test

The study aimed to examine the degree of correlation between the variables and determine if there was a perfect multi-collinearity relationship among the predictors. The need for this was due to the fact that when the level of multi-collinearity escalated, the estimations of the coefficients in the regression model became unreliable. Consequently, the standard errors for the coefficients may become significantly exaggerated. The tolerance and Variance Inflation Factor (VIF) values for each predictor were utilized as a means of verification. The assumptions were evaluated on the data, and the findings were provided in Table 4.16.

Table 4.16: Tests for Multicollinearity

Model	Collinearity Statistics	
	Tolerance	**VIF**
Audit recommendations review	.844	1.184
Monitoring of internal control systems	.552	1.813
Risk assessment and management	.572	1.749
Financial reports evaluation	.780	1.282

a. Dependent variable: Operational performance

Source: Field Data (2023)

The regression model investigating the correlation between the internal audit function and operational performance among KRA staff in the chosen regions produced satisfactory tolerance and VIF values for different factors, such as audit recommendations review, monitoring of internal control systems, risk assessment and management, and evaluation of financial reports. More precisely, the tolerance value exceeded 0.2, but the VIF value fell below 10. Therefore, it can be concluded that the assumption of multicollinearity was satisfied.

4.6.4 Correlation Analysis

The Pearson product-moment correlation coefficient (r) was employed to compute the bivariate correlation, which measures the association between two variables. The results of the correlation study are presented in Table 4.17.

Table 4.17: Pearson Correlation Matrix of the Study Variables

		MICS	RAM	ARR	FR
MICS: Monitoring of internal control systems	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	132			
RAM: Risk assessment and management	Pearson Correlation	.394**	1		
	Sig. (2-tailed)	.000			
	N	132	132		
ARR: audit recommendations review	Pearson Correlation	.232**	.609**	1	
	Sig. (2-tailed)	.007	.000		
	N	132	132	132	
FRE: financial reports evaluation	Pearson Correlation	.147	.376**	.451**	1
	Sig. (2-tailed)	.093	.000	.000	
	N	132	132	132	132
Operational Performance	Pearson Correlation	.504**	.736**	.656**	.525**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	132	132	132	132

**. Correlation is significant at the 0.05 level (2-tailed).
Source: (Researcher, 2023)

The results show that operational performance was significantly affected by the monitoring of internal control systems at the 0.05 level of significance. The correlation coefficient (r) between these two variables was 0.504, and the p-value was determined to be less than 0.05 (p-value = 0.000).Increasing the monitoring of internal control systems leads to an improvement in operational performance. Nevertheless, there existed a robust and statistically significant correlation between the evaluation of risk and the effectiveness of both operational performance and management. The Pearson correlation coefficient was found to be r = 0.736, with a p-value of 0.000, which is below the significance level of 0.05. Therefore, increased evaluation and control of prospective hazards lead to a proportional enhancement in the overall efficiency and effectiveness of operations. The results showed that, with a significance threshold of 0.05, the analysis of audit recommendations strongly predicted operational performance (correlation coefficient r = 0.656, p-value = 0.000 < 0.05). Increasing the scrutiny of audit recommendations leads to improved operational efficiency. The results showed that the appraisal of financial reports had a strong impact on predicting operational performance, with a correlation coefficient of 0.6525 and a p-value of 0.000< 0.05, when using a significance level of 0.05.

4.7 Inferential Analysis

"The study sought to establish the Effect of Internal Audit unit functions on operational performance of KRA among selected Region. The researcher formulated the following hypothesis: -**H_{01}:** There is no significant relationship between monitoring of internal control systems and operational performance of KRA. **H_{02}:** There is no significant relationship between risk assessment and management, and operational performance of KRA. **H_{03}:** There is no significant relationship between audit recommendation review and operational performance of KRA. **H_{04}**: There is no significant relationship between financial reports evaluation and operational performance of KRA. Simple linear regression and multiple regression analysis were used to estimate the predictive effects of Internal Audit unit functions on operational performance of KRA among selected Region.

4.7.1 Simple Linear Regression on Monitoring of Internal Control Systems

The study sought to assess the influence of monitoring internal control systems on operational performance. To establish this, a simple linear regression test was utilized. A significance level of 0.05 was used to evaluate the null hypothesis that was subsequently employed in the study. This was set based on the desired confidence level, the most common confidence level is 95% which corresponds to a significant level of 0.05.

$H_{01:}$ There is no significant relationship between monitoring of internal control systems and operational performance of KRA. The findings of the hypothesis test were presented in Table 4.18 below: -

Table 4.18: Regression Analysis for Monitoring of Internal Control Systems And Operational Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.504[a]	.254	.248	.95770

a. Predictors: (Constant), monitoring of internal control systems

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40.538	1	40.538	44.198	.000[b]
	Residual	119.234	130	.917		
	Total	159.772	131			

a. Dependent Variable: operational performance

b. Predictors: (Constant), monitoring of internal control systems

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.949	.245		7.971	.000
	Monitoring of internal control systems	.505	.076	.504	6.648	.000

a. Dependent Variable: operational performance

Source: Field Data (2023)

The data in Table 4.18 shows that the R-square value was 0.254, indicating that 25.4% of the variation in operational performance within the KRA personnel may be attributable to the monitoring of internal control systems. The hypothesis is set and determine level of significant. The ANOVA test, performed with a significance level of 0.05, indicated that monitoring internal control systems was a statistically significant predictor of operational success among KRA staff. This was demonstrated by a p-value of 0.000, which is below the selected level of significance. The statistical analysis yielded a test statistic of $F(1,130)=44.198$ and a p-value of $p=0.000<0.05$, providing more evidence to support this result. The surveillance of internal control systems has a significant influence on the operational efficiency of the KRA personnel in particular regions. The effect is substantiated by a beta coefficient of 0.505, a t-statistic of 7.971, and a p-value of 0.000, which is below the significance level of 0.05. The null hypothesis was refuted, and the alternative hypothesis that the monitoring of internal control systems has a substantial impact on operational performance was upheld. The regression model was represented by the following equation:

$Y=1.949+0.505X_1$

The regression equation indicates that a one-unit improvement in Monitoring of internal control systems is associated with a 0.505 unit increase in operational performance among the KRA staffs ($\beta=0.505$, $P=0.000$).Enhancing the surveillance of internal control systems can result in enhanced operational performance inside KRA, as indicated by the analysis. By improving the supervision and evaluation of internal controls, KRA can boost its operational efficiency and effectiveness. Investing in effective monitoring tools can help achieve organizational objectives and optimize performance outcomes. This study supports the findings of Opiyo (2018) that there is a notable correlation between the monitoring of internal control systems and operational performance at the Port of Mombasa. Sigilai (2017) discovered no significant correlation between the monitoring of internal control systems and revenue collection at Nakuru Level Five Hospital.

Nevertheless, the variations may stem from the distinct dynamics within the hospital and Key Result Area (KRA) frameworks.

4.7.2 Simple Linear Regression on Risk Assessment and Management

The study sought to establish the impact of risk assessment and management on operational performance. The researchers used simple linear regression analysis. A significance threshold of 0.05 was used to evaluate the following null hypothesis in the study. There is no discernible correlation between the operational effectiveness of the KRA and the evaluation of prospective risks and their subsequent management. The hypothesis test results were presented in Table 4.19 below.

Table 4. 19: Simple Linear Regression on Risk Assessment and Management

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736[a]	.541	.538	.75094

a. Predictors: (Constant), Risk assessment and management

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.464	1	86.464	153.330	.000[b]
	Residual	73.308	130	.564		
	Total	159.772	131			

a. Dependent Variable: operational performance

b. Predictors: (Constant), Risk assessment and management

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.578	.243		2.377	.019
	Risk assessment and management	.784	.063	.736	12.383	.000

a. Dependent Variable: operational performance

Source: Field Data (2023)

The data in Table 4.19 reveals that the R-square value was 0.541, indicating that 54.1% of the variability in operational performance across the KRA staff in selected sites can be attributed to risk assessment and management. The p-value of 0.000, which is below the significance level of 0.05, suggests that risk assessment and management were very influential in predicting the operational performance of the KRA officials in selected regions. The statistical analysis revealed a substantial correlation between risk assessment and management and operational performance ($F(1,130)=153.330$, $p=0.013< 0.05$). The study findings indicated that risk assessment and management had a significant influence on the operational performance of the KRA staff in the chosen regions ($\beta=.784$, t-statistic=12.383, p-value=0.000< 0.05). The null hypothesis was rejected, and the alternative hypothesis, which asserts that risk assessment and management significantly affect operational performance, was supported. The equation for the regression model is as follows:

$Y=0.578+0.784X_2$

Therefore, there was a direct relationship between an increase in risk assessment and management and an increase in operational performance among the KRA personnel in the selected regions. Specifically, for every unit increase in risk assessment and management, there was a corresponding rise in operational performance by 0.784 units ($\beta=0.784$, $P=0.000$).The study demonstrates a significant correlation between the implementation of effective risk assessment and management procedures and the enhancement of operational performance among KRA staff in the chosen regions. The importance of efficient risk assessment and management in enhancing organizational performance is emphasized by this. Organizations can greatly improve their operational outcomes by giving priority to and executing strong risk assessment and management techniques. The study supports the findings of Thyaka and Kavale (2021) that there is a strong and statistically significant correlation between risk assessment and management and the ability of the Kenya money Authority (KRA) to collect money. This study contradicts the findings of Katumba and Useni (2022), who concluded that there were no significant connections between risk assessment and management and revenue performance in the public sector. The disparity can be due to the target respondents in the broader public sector as compared to KRA.

4.7.3 Simple Linear Regression on Audit Recommendations Review

The study sought to ascertain the influence of examining audit recommendations on operational performance. A simple linear regression analysis was conducted. The study utilized the following null hypothesis, which was tested at a significance level of 0.05.

H_{03}: There is no significant relationship between audit recommendation review and operational performance of KRA. The findings of the hypothesis test were presented in Table 4.20 below: -

Table 4. 20: Simple Linear Regression on Audit Recommendations Review

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.656[a]	.430	.426	.83702
a. Predictors: (Constant), Audit recommendations review				

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	68.692	1	68.692	98.047	.000[b]
	Residual	91.079	130	.701		
	Total	159.772	131			

a. Dependent Variable: operational performance

b. Predictors: (Constant), Audit recommendations review

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.142	.247		4.625	.000
	Audit recommendations review	.642	.065	.656	9.902	.000

a. Dependent Variable: operational performance

Source: Field Data (2023)

The results in Table 4.20 indicate that the R-square value was 0.430, meaning that 43.0% of the variation in operational performance among the KRA staff in the selected regions can be explained by the assessment of audit recommendations. The assessment of audit recommendations was crucial for forecasting the operational performance of the KRA staff in the selected regions. This was determined by doing a statistical analysis, which yielded a significant result ($F(1,130)=98.047$, $p=0.000 < 0.05$).The assessment of audit recommendations had a substantial impact on the operational performance of the KRA staff in the selected regions ($\beta=0.642$, t-statistic=4.625, p-value=0.000< 0.05). The null hypothesis was rejected, indicating that the alternative hypothesis, which stated that the audit suggestions review had a significant impact on operational performance, was accepted. Hence, we can deduce that the assessment of audit recommendations does indeed have an impact on operational performance. The regression model equation is: $Y=1.142+0.642X_3$

The operational performance of the KRA staff in the chosen regions increased by 0.642 units for every unit rise in the audit recommendations evaluation. The results indicate a significant correlation between enhancing the review of audit recommendations and enhancing the operational performance of KRA staff in the chosen regions. This highlights the significance of thoroughly evaluating and executing audit recommendations to enhance organizational efficiency. Improving the review process for audit recommendations has the potential to greatly enhance operational outcomes.

This study supports the findings of Ibrahim (2020), which demonstrated a strong and beneficial relationship between the review of audit recommendations by the internal audit function and the operational performance at the KRA. Contrary to the findings of Agbenyo *et al*.,(2018), it is observed that there is no significant association between the review of audit recommendations and the degree of revenue mobilization in the Ghana Revenue Authority. The disparity can be ascribed to the variation in geographical scope between Ghana and Kenya. Based on the aforementioned data, it can be concluded that doing a review of audit recommendations is a reliable indicator of operational performance. When KRA employees participate in the examination of audit recommendations, they feel like an integral part of the organization, which contributes to improved operational performance. This facilitates the implementation of the internal audit role for the ma

nagement.

4.7.4 Simple Linear Regression on Financial Reports Evaluation

The study aimed to determine the impact of evaluating financial reports on operational performance. A simple linear regression test was employed. The study employed the subsequent null hypothesis, which was examined at a significance level of 0.05.

H_{04}: There is no significant relationship between financial reports evaluation and operational performance of KRA. The findings of the hypothesis test were presented in Table 4.21 below: -

Table 4. 21: Model Summary of Financial Reports Evaluation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525[a]	.276	.270	.94345

a. Predictors: (Constant), Financial reports evaluation

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.059	1	44.059	49.500	.000[b]
	Residual	115.713	130	.890		
	Total	159.772	131			

a. Dependent Variable: operational performance
b. Predictors: (Constant), Financial reports evaluation

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.217	.332		3.669	.000
	Financial reports evaluation	.566	.080	.525	7.036	.000

a. Dependent Variable: Operational Performance

Source: Field Data (2023)

The findings in Table 4.21 indicate that the R-square value was 0.276, suggesting that 27.0% of the variation in operational performance among the KRA staff in the selected locations may be attributed to the review of financial reports. The review of financial reports was crucial in forecasting the operational performance of the KRA personnel in the selected locations. This was supported by statistical analysis, where the F-value

(1,130) was 49.500 and the p-value was 0.002, indicating a significant relationship. The assessment of audit recommendations had a substantial impact on the operational performance of the KRA staff in the selected regions ($\beta=0.566$, t-statistic=11.772, p-value=0.000< 0.05). The null hypothesis was refuted, and the alternative hypothesis, which states that the examination of financial reports has a major impact on operational performance, was accepted. Thus, we can deduce that the assessment of financial reports has an impact on operational performance. The regression model equation is: $Y=1.217+0.566X_4$

Each additional unit increase in financial reports evaluation resulted in a similar 0.566 unit improvement in operational performance among the KRA staff in the selected regions. The research findings indicate a direct relationship between the improvement of financial report evaluation and the enhancement of operational performance among KRA staff in certain regions. This highlights the need of comprehensive and precise assessment procedures in enhancing organizational efficiency. The study supports the findings of Dzgbede (2020), which concluded that evaluating financial reports had a beneficial impact on revenue mobilization. Contrary to the findings of Alfartoosi and Mohsin (2021), who concluded that evaluating financial reports did not significantly affect the operational performance of SMEs. The disparity is ascribed to the specific group of respondents, namely SMEs, and the KRA.

4.7.5 Multiple Regression Internal Audit Unit Functions and Operational Performance

The study aimed to examine the impact of the internal audit unit functions on operational performance in the KRA Southern and Nairobi regions. This was achieved through the execution of standard multiple regression analyses. The objective of the study was to examine the influence of each individual construct of the Internal Audit unit functions on operational performance when all of these constructs were taken into account collectively in the model. This enabled the evaluation of the null research hypotheses by determining the coefficients of the study model and the R square value. Table 4.22 illustrates the outcomes.

Table 4.22: Multiple Linear Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839[a]	.704	.695	.60999
a. Predictors: (Constant), financial reports evaluation, monitoring of internal control systems, audit recommendations review, risk assessment and management				

Source: Field Data (2023)

The results shown in Table 4.22 demonstrate a positive and linear correlation between operational performance and the four predictor variables: financial reports evaluation, monitoring of internal control systems, audit recommendations review, and risk assessment and management. The correlation coefficient was 0.839 (r=0.839). Considering that the coefficient of determination (r2) was 0.704 with difference of 0.1, it can be deduced that the four predictor variables in the study are responsible for 70.4% of the variability in operational performance. Other factors not accounted for in the model explain the remaining 29.6% of the variation in operational performance.

Table 4. 23: ANOVA for Internal Audit Unit Functions

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	112.517	4	28.129	75.599	.000[b]
1	Residual	47.255	127	.372		
	Total	159.772	131			

a. Dependent Variable: Operational Performance
b. Predictors: (Constant), financial reports evaluation, monitoring of internal control systems, audit recommendations review, risk assessment and management

Source: Field Data (2023)

Table 4.23's ANOVA results suggest that the F test resulted in a value of F (4, 127) = 28.129, p <.05. This value is substantial and corroborates the model's capacity to elucidate the variation in the dependent variables. Furthermore, the operational performance of the KRA is a valuable indicator of the responsibilities of the Internal Audit section. The operational performance of the KRA is significantly influenced by the activities of the Internal Audit division, as evidenced by the data analysis. These results suggest that the Internal Audit department's actions are essential for enhancing the organization's operations' overall efficiency and efficacy."

Table 4. 24: Coefficients of the Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.728	.260		-2.801	.006
	Monitoring Of Internal Control Systems	.256	.053	.256	4.867	.000
	Risk Assessment and Management	.422	.069	.396	6.091	.000
	Audit Recommendations Review	.249	.062	.254	3.987	.000
	Financial Reports Evaluation	.241	.059	.224	4.094	.000

a. Dependent Variable: Operational Performance

Source: Field Data (2023)

Table 4.24 shows the results of the multiple linear regression model that was developed by regressing the four predictor variables against operational performance.

Performance = -0.728 + 0.256 $\mathbf{X_1}$ + 0.422 $\mathbf{X_2}$ + 0.249 $\mathbf{X_3}$ + 0.241 $\mathbf{X_4}$

X_1=Monitoring of Internal Control Systems

X_2=Risk Assessment and Management

X_3=Audit Recommendations Review

X_4=Financial Reports Evaluation

According to the findings in Table 4.24, the monitoring of internal control systems, risk assessment and management, audit suggestions review, and financial reports evaluation showed a strong and statistically significant ability to forecast outcomes ($P<0.05$). If the internal audit unit is non-existent or inactive, the operational performance will be significantly reduced to -0.728, with a p-value of less than 0.05. This suggests that the performance will be both negative and without significance.

When accounting for other variables in the model, the monitoring of internal control systems with a beta coefficient of 0.256 is found to be statistically significant and serves as a reliable predictor of operational performance. This suggests that enhancing the monitoring of internal control systems by one unit will lead to a substantial performance improvement of 0.256 units. The study found that closely monitoring internal control systems has a substantial impact on enhancing operational performance. Therefore, firms that place a high priority on monitoring their internal control systems are more likely to achieve superior performance results. Organizations can achieve overall performance improvements by regularly monitoring and evaluating internal controls to swiftly detect and address any concerns.

This study is consistent with the results of Opiyo's (2018) research, which discovered a significant association between the supervision of internal control systems and the operational performance at the Port of Mombasa. In contrast, Sigilai (2017) found no significant correlation between the monitoring of internal control systems and revenue collection at Nakuru Level Five Hospital, therefore contradicting the conclusions. Nevertheless, it is crucial to take into account the distinct dynamics that exist in the hospital context as opposed to the KRA setting, which may explain this discrepancy. The observed disparities may be attributed to factors such as the intricate nature of healthcare operations, the types of revenue sources, and the regulatory frameworks that control hospital finances

When all other factors in the model are taken into account, the risk assessment and management with a beta coefficient of 0.422 is found to be statistically significant. This suggests that a one-unit improvement in risk assessment and management will lead to a substantial improvement in operational performance by 0.422 units. The study revealed that firms experience a significant enhancement in operational performance when they prioritize the proper assessment and management of risks. This implies that businesses can improve their capacity to meet operational goals and provide more favorable results by detecting and reducing risks. Enhancing risk assessment and management procedures can result in substantial improvements in overall operational performance. This study aligns with the results of Thyaka and Kavale (2021), who discovered a strong and statistically significant relationship between risk assessment and management techniques and the ability of the Kenya money Authority (KRA) to collect money. In contrast, it deviates from the findings of Katumba and Useni (2022), who found no significant correlations between risk assessment and management and revenue performance in the wider public sector. The reason for this disparity lies in the different groups of people being studied. Thyaka and Kavale primarily looked at the KRA, whereas Katumba and Useni researched the broader public sector. The distinct operational contexts, regulatory systems, and revenue collecting procedures specific to the KRA scenario may account for the observed disparities in findings between the two research.

When controlling for other variables in the model, the audit recommendations review has a beta coefficient of 0.249, which is statistically significant. This suggests that a one-unit increase in audit recommendations review will lead to a substantial improvement of 0.249 units in operational performance. The study indicates that firms that prioritize the examination and implementation of audit recommendations generally observe enhanced operational performance. This signifies that the knowledge acquired via audit procedures plays a crucial role in improving the efficiency of the company. Organizations can enhance their performance and operational efficiency by thoughtfully examining and implementing audit suggestions, resulting in improved overall outcomes.

This study corroborates the findings of Ibrahim (2020), which emphasized a significant and favorable link between the evaluation of audit recommendations within the internal audit function and the operational performance within the KRA. Nevertheless, it deviates from the conclusions drawn by Agbenyo et al. (2018), who found no significant correlation between the review of audit recommendations and the extent of revenue mobilization inside the Ghana Revenue Authority. The difference in results can be explained by the geographical scope, as Ibrahim's study focused exclusively on Kenya, while Agbenyo et, al. did their research in Ghana

Furthermore, after accounting for other factors in the model, it has been shown that the evaluation of financial reports, with a beta value of 0.241, is statistically significant. This means that an increase in financial reports evaluation by one unit will lead to a substantial rise in operational performance by 0.241 units. These findings indicate that improving financial reporting standards has the potential to significantly boost operational performance inside the firm. Enhancing the precision, promptness, and pertinence of financial reports can have a favorable impact on decision-making procedures and overall effectiveness in attaining corporate goals.

The study aligns with the research findings of Dzgbede (2020), which established a direct correlation between the examination of financial reports and the generating of revenue. Nevertheless, it contradicts the findings of Alfartoosi and Mohsin (2021), who argued that assessing financial reports had no substantial effect on the operational performance of small and medium-sized firms (SMEs). The difference seen might be ascribed to the specific emphasis of the study on small and medium-sized enterprises (SMEs) as the participants of interest, as well as the participation of the KRA in the research setting.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented a summary of the study findings, conclusions, recommendations and suggestions for further research study.

5.2 Summary of the Findings

The objective of the study was to examine the impact of the internal audit unit functions on operational performance in the KRA Southern and Nairobi regions. The study established four (4) objectives to achieve this: to assess the impact of risk assessment and management, audit recommendations review, financial report evaluation, and internal control system monitoring on the operational performance of the KRA.

According to the study's results, operational performance necessitates an enhancement of the internal audit function, as well as the monitoring of internal control systems, risk assessment and management, and audit recommendations review and financial report evaluation efficiency. This was demonstrated by the results, which indicated that operational performance was significantly predicted by the monitoring of internal control systems at a 5% level of significance ($r = 0.5404$, p-value $=0.000 < 0.05$). This implies that an increase in the monitoring of the internal control system results in an improvement in operational performance. A Pearson correlation coefficient ($r = 0.736$, p-value $= 0.000 < 0.05$) was observed between operational performance and risk assessment and management, with a significance level of 0.05. This suggests that operational performance is enhanced as a consequence of enhanced risk assessment and management. Operational performance was significantly predicted by the review of audit recommendations ($r = 0.656$, p-value = $0.000 < 0.05$). This suggests that an increase in the evaluation of audit recommendations results in an improvement in operational performance. The final results indicated that the evaluation of financial reports was a significant predictor of operational performance at the 0.05 level of significance ($r = 0.6525$, p-value = $0.000 < 0.05$).

5.2.1 Monitoring of Internal Control Systems

The significance of investing in monitoring internal control systems is underscored by the research, with 70% of respondents concurring with its importance. Furthermore, the results indicate that the operational performance of KRA personnel in specific regions is statistically significantly impacted by the monitoring of internal control systems, as evidenced by a t-statistic of 4.867 and a p-value of 0.000, both of which are less than the threshold of 0.05. This implies that the organization's operational performance is positively impacted by the effective monitoring of internal control systems. As a result, it emphasizes the importance of effective monitoring mechanisms in improving operational efficiency, risk management, and overall organizational effectiveness.

5.2.2 Risk Assessment and Management

The significance of aligning risk assessment and management practices with organizational goals and objectives is emphasized in the study, as evidenced by a significant 58% accord among respondents. Additionally, the results indicate that the operational performance of the KRA staff in specific regions is statistically significantly influenced by risk assessment and management. This is supported by a p-value of 0.000 and a t-statistic of 6.091, both of which are less than the predetermined significance level of 0.05. As a result, it underscores the importance of effective risk assessment and management processes in improving operational performance and attaining organizational goals.

5.2.3 Audit Recommendations Review

The KRA's dedication to conducting a comprehensive examination and evaluation of audit findings is emphasized by the high concurrence rate of 75% among respondents regarding the analysis and evaluation of audit recommendations prior to implementation. Furthermore, the study's results indicate that the operational performance of KRA personnel in specific regions is statistically significantly impacted by the review of audit recommendations. The study emphasizes the critical importance of robust audit recommendation review processes in improving operational performance and organizational effectiveness, as evidenced by a p-value of 0.000 and a t-statistic of 3.987 (both being below the 0.05 significance level). KRA can more effectively achieve its objectives by systematically assessing and acting upon audit recommendations, which will enable it to identify areas for improvement, resolve deficiencies, and optimize operational processes.

5.2.4 Financial Reports Evaluation

Recognition of the significance of comprehensive financial analysis within the KRA is evidenced by the substantial agreement rate of 75% regarding the positive influence of financial report evaluation on revenue mobilization. Furthermore, the study's results indicate that the operational performance of KRA personnel in specific regions is statistically significantly influenced by the evaluation of financial reports. The study emphasizes the critical role of effective financial reporting practices in enhancing operational performance and revenue mobilization efforts, as evidenced by a p-value of 0.000 and a t-statistic of 4.094 (below the 0.05 significance level).

5.3 Conclusion

The study's first objective highlighted the significance of monitoring internal control systems as a predictor of operational performance within the KRA (KRA). By effectively monitoring these systems, KRA was able to provide guidance and follow-ups on performance-related activities, ensuring adherence to established protocols and standards. Moreover, the monitoring process facilitated the generation of new insights, fostering a heightened desire for performance improvement among KRA staff. This suggests that an efficient monitoring framework not only ensures compliance with internal control measures but also fuels a culture of continuous improvement and accountability within the organization.

The study's second objective underscored the substantial positive impact of risk assessment and management on operational performance within the KRA, particularly in the selected regions. By effectively implementing risk assessment and management strategies, KRA staff were equipped to perform their duties more effectively, armed with a comprehensive understanding of the various risk measures provided. This implies that a robust risk management framework not only enhances operational efficiency but also equips staff with the necessary tools and insights to navigate potential risks and challenges more adeptly.

The study's third objective highlighted the considerable impact of audit recommendations review on operational performance within the KRA, particularly in the selected regions. The review of audit recommendations served as a valuable mechanism for identifying areas of inadequacy within operational processes and procedures. By addressing these inadequacies based on the recommendations provided, KRA staff could enhance their operational efficiency and effectiveness. This implies that a systematic review of audit recommendations plays a crucial role in driving continuous improvement initiatives, fostering a culture of accountability, and ensuring that operational processes align with organizational goals and objectives.

The fourth objective underscored the significant impact of financial reports evaluation on the operational performance of KRA staff in the selected regions. Financial reports evaluation facilitated objectivity and accuracy in the execution of duties. By thoroughly evaluating financial reports, KRA staff could make informed decisions, identify areas for improvement, and ensure compliance with regulatory standards. This process contributed to enhancing operational efficiency, optimizing resource allocation, and ultimately improving service delivery.

5.4 Recommendations

Arising from the results and conclusions above, the study recommends that: -

The study recommended that prioritizing internal control system monitoring enhances operational performance. By strengthening control mechanisms, it fosters efficiency and promptly mitigates risks, instilling stakeholder confidence and contributing to organizational success. Allocating resources to monitoring ensures optimization of performance and achievement of strategic objectives. This proactive approach allows for the identification and resolution of issues before they escalate, facilitating a culture of continuous improvement within the organization.

KRA management should assess risks comprehensively and implement mitigation measures to enhance operational performance. By proactively identifying and addressing potential threats, the organization can minimize disruptions, optimize resource allocation, and achieve strategic objectives effectively. This approach fosters resilience and adaptability in dynamic operational environments, ensuring sustained performance and organizational success.

KRA should make well-informed risk decisions and increase the frequency of audit exercises, including interim and final audits. Utilizing audit recommendations effectively can enhance operational performance by addressing areas of improvement and ensuring compliance with established standards and procedures. This proactive approach fosters accountability, transparency, and continuous improvement within the organization.

The study recommends that KRA adheres to legal requirements in preparing financial reports and conducts thorough reviews to identify areas for improvement in operational performance. Ensuring compliance with regulatory standards and optimizing financial reporting practices can enhance transparency, accuracy, and effectiveness in resource management and decision-making processes within the organization.

5.5 Suggestion for Further Research

This study was carried out in selected two regions of KRA categorization which are Nairobi region as well as Southern region. Similar research can be done in other KRA regions and departments not included like human resources as well as other public sector organizations. In addition, internal audit is diverse, this study was limited to only four (4) functions. The study can also cover all staff from high level management to support staff. Similar study should be explored basing on other audit functions such as audit planning that can enhance operational performance. More research is therefore needed to further understand the contribution of internal audit unit functions on operational performance of KRA Southern and Nairobi regions.

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APPENDICES

Appendix 1: Respondents Request Letter

Owuyo Nakhungu Samson
P.O. Box 245 – 50100,
25 -07-2023,
KAKAMEGA.

To The Respondent
Dear Sir / Madam,

REF: REQUEST TO FILL QUESTIONNAIRE.

Greetings! It is my plea that you take a few minutes off your schedule to fill for me the attached questionnaire aimed at providing relevant information about an academic work am pursuing on Effect of Internal Audit Functions on operational performance of Kenya Revenue Authority Southern and Nairobi Regions.

The information provided will be treated with confidentiality and strictly for the purpose of the study. I will also have the opportunity to share with you the study findings in case you are interested. Which may be valuable in providing insights on the Internal Audit Unit functions of your organization.

Yours sincerely,

Samson Nakhungu Owuyo

Appendix 2: Questionnaire

PART A: GENERAL INFORMATION			
1	Kindly Indicate your gender	Male	
		Female	
2	Indicate the department you serve in	Finance	
		Investigation and Enforcement officer	
		Internal Auditor	
3	What is your designation?	……………………………………	
4	For how long have you served the organization?	Less than 1 year	
		1 – 5 Years	
		6 – 10 Years	
		More than 10 Years	

PART B: MONETARING OF THE INTERNAL CONTROL SYSTEM

Kindly indicate the degree by which you 'agree' with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree Where 1 represents the lowest and 5 the highest opinion aspect.

i) Financial controls;

	STATEMENT	**SD**	**D**	**N**	**A**	**SA**
1	That my organization has established effective and efficient control mechanisms.					
2	The internal audit unit established effective internal financial control system.					
3	That an effective integrated revenue collection system is in place.					
4	The internal audit officers are independent in discharging their functions.					
5	Financial reports prepared reflects the operations of my organization.					
6	That books of original entries are properly maintained.					
7	Revenue mobilization audits reports are frequently prepared.					

ii) Non-Financial Controls

Kindly indicate the degree by which you ‘agree’ with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	**D**	**N**	**A**	**SA**
1	That the internal audit staff are regularly rotated.					
2	That the internal audit staff take carve as prescribed in the Human Resource policies of the organization.					
3	That the audit staff are well qualified in executing their responsibilities.					
4	That the organization has put in place physical checks at the critical areas to safe guard the assets.					
5	That the audit staff observes secrecy in password handling.					
6	Separation of duties is observed to check on collusion.					
7	That internal audit staff are appropriately supervised.					
8	The work lord to audit staff is proportionate.					

PART C: RISK ASSESSMENT AND MANAGEMENT

Kindly indicate the degree by which you ‘agree’ with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	**D**	**N**	**A**	**SA**
1	That the audit risk plans identifies the risk prone areas and the type of risks.					
2	Risk mapping is done to assess the risk factors on revenue mobilization.					
3	That revenue leakages is a common risk element in my organization.					
4	The cost of revenue collection significantly eats into the revenue being collected.					
5	Fraud cases do feature on revenue mobilization.					
6	That appropriate technology oriented audit tasks are in place to help in the risk identification.					

ii): Risk mitigation;

Kindly indicate the degree by which you ‘agree’ with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	A	N	A	SA
1	That the audit risk plans upon implementation provide mitigation response to the risks.					
2	That the management develop appropriate policies to check on the risks identified.					
3	Staff inductions conducted and retraining done to up their skills on risk mitigation.					
4	That appropriate deterrent actions taken on staff implicated on imparity.					
5	That the top level managers in my organization adheres to the established system in place.					

PART D: AUDIT RECOMMENDATION REVIEW

Kindly indicate the degree by which you ‘agree’ with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	D	N	A	SA
1	That the internal audit report recommendation are implemented accordingly.					
2	That follow ups are done on internal audit report recommendations by the management of the organization.					
3	Consultations with the affected departments on internal audit report recommendations are done for effective implementation.					
4	That my organization has an implementation plan for executing the internal audit report recommendation.					
5	Resource necessary to implement audit reports recommendations are usually availed by my organization.					

PART E: FINANCIAL REPOR T EVALUATION

Kindly indicate the degree by which you 'agree' with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	**D**	**N**	**A**	**SA**
1	That the quarterly and annually revenue collection reports provide the management with relevant information on revenue mobilization to effect planning.					
2	That based on the quarterly and annually revenue collection reports, necessary checks and balances are put in place for enhanced performance.					
3	Automation of financial report system of my organization helps in the preparation of reliable financial reports.					
4	That the financial reports help in establishing the trend of my organization operational of performance.					
5	That the internal annual and quarterly revenue analysis report signals the nature of growth in revenue.					
6	That the management takes seriously the recommendations of the internal audit quarterly and annually revenue reports analyzed.					

PART F: OPERATIONAL PERFORMANCE;

Kindly indicate the degree by which you 'agree' with the following statements in this part of the survey. 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 – Strongly Agree

		SD	**D**	**N**	**A**	**SA**
1	That the internal audit unit in my organization has helped in checking on costs of revenue collection.					
2	Internal control systems put in place helps on checking on the cost of revenue collection.					
3	The audit risk plans help my department to be proactive in minimizing revenue collection cost.					
4	That revenue target variance are analyzed and necessary corrective measures taken to enhance revenue growth.					
5	That the internal audit unit analyses the revenue trend and advice the management accordingly.					
6	That the internal audit recommendations to the investigation department has helped on increasing revenue growth.					
7	That the financial reports as analyzed by the internal audit helps my organization in determining the revenue target.					
8	That the risk assessment and management strategies initiated by my internal audit unit have helped in enhancing revenue growth.					
9	That the financial and non-financial control mechanisms recommended by the internal audit are implemented by the management.					
10	That the revenue trend reports analyzed by the internal audit unit usually signals the differences in terms of revenue growth.					

Appendix 3: School of Business and Economics Proposal Approval Letter

Tel: 0702597361
Tel: 0733120020
email: deansobe@mmust.ac.ke
website:mmust.ac.ke

P.O Box 190
Kakamega 50100
Kenya

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)
SCHOOL OF BUSINESS AND ECONOMICS (SOBE)

REF: MBA/G/01-70087/2020 **DATE:** 21st June, 2023

TO: SAMSON NAKHUNGU OWUYO

SUBJECT: SUCCESSFUL DEFENCE OF RESEARCH PROPOSAL, SAMSON NAKHUNGU OWUYO REG. NO. MBA/G/01-70087/2020

The above subject refers.

Following your successful defense of your research proposal titled "**Internal Audit Functions and Operational Performance among Selected KRA Regions Southern and Mombasa Regions**" before the School of Business and Economics Graduate Studies Committee, your research proposal is hereby submitted to Director School of Graduate Studies for documentation and processing. Your supervisors are **Dr. Ben Oseno and Dr. Rosemary Nanyama.**

On behalf of the School of Business and Economics Graduate Studies Committee, you are hereby permitted to proceed and collect the data needed to complete your thesis.

By copy of this letter, relevant institutions/bodies are humbly requested to assist you in achieving your endeavor.

Dean
School of Business & Economics
Masinde Muliro University of Science & Technology

PROF. ROBERT K.W. EGESSA
Associate Professor and Dean
School of Business and Economics
Mobile: 0722-672-264
Email: regessa@mmust.ac.ke

Appendix 4: Research License NACOSTI

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **175302**

Date of Issue: **17/July/2023**

RESEARCH LICENSE

This is to Certify that Mr.. samson Nkhungu owuyo of Masinde Muliro University of Science and Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Mombasa, Nairobi on the topic: Internal Audit Unit Functions and Operational Performance of Kenya Revenue Authority among Selected Regions for the period ending : 17/July/2024.

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Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

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1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and
Innovation(NACOSTI),
Off Waiyaki Way, Upper Kabete,
P. O. Box 30623 - 00100 Nairobi, KENYA
Telephone: 020 4007000, 0713788787, 0735404245
E-mail: dg@nacosti.go.ke
Website: www.nacosti.go.ke

Appendix 5: Directorate of Post Graduate Studies Proposal Approval Letter

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

Tel: 056-30870
Fax: 056-30153
E-mail: directordps@mmust.ac.ke
Website: www.mmust.ac.ke

P.O Box 190
Kakamega – 50100
Kenya

Directorate of Postgraduate Studies

Ref: MMU/COR: 509099

6th September 2023

Owuyu Nakhungu Samson
MBA/G/01-70087/2020,
P.O. Box 190-50100,
KAKAMEGA.

Dear Mr. Owuyu

RE: APPROVAL OF PROPOSAL

I am pleased to inform you that the Directorate of Postgraduate Studies has considered and approved your Masters proposal entitled '***Internal Audit and Revenue Mobilization at the Kenya Revenue Authority Southern Region***' and appointed the following as supervisors:

1. Dr. Nanyama Rosemary - SOBE, MMUST
2. Dr. Ben Oseno - SOBE, MMUST

You are required to submit through your supervisor(s) progress reports every three months to the Director Postgraduate Studies. Such reports should be copied to the following: Chairman, School of Business and Economics Graduate Studies Committee and Chairman, Business Administration and Management Science Department. Kindly adhere to research ethics consideration in conducting research.

It is the policy and regulations of the University that you observe a deadline of two years from the date of registration to complete your Master's thesis. Do not hesitate to consult this office in case of any problem encountered in the course of your work.

We wish you the best in your research and hope the study will make original contribution to knowledge.

Yours Sincerely,

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY DIRECTOR POSTGRADUATE STUDIES P.O. Box 190 – 50100, KAKAMEGA (K)

Prof. S. Odebero, PhD, FIEP
DIRECTOR, DIRECTORATE OF POSTGRADUATE STUDIES

Appendix 6: KRA Southern Region Data Collection Letter

KENYA REVENUE AUTHORITY
ISO 9001:2015 CERTIFIED

REF: KRA/SR/ FINANCE-M/201

8TH AUGUST 2023

TO: MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

DATA PROVISION TO SAMSON OWUYO MBA/G/01-70087/2020

The above subject refers.

On behalf of Kenya Revenue Authority Southern (Mombasa) Region. I hereby confirm that Mr. Samson Nakhungu Owuyo collected data in our organization between, 1ST /08/23 to 08 /08/23. On the topic Internal Audit Unit Functions and Operational Performance of Kenya Revenue Authority Nairobi and Southern (Mombasa) among selected regions.

We therefore wish the student well as he embark on analysis, we will be glad if you share findings to our organization for improvements and efficiency enhancement.

Yours sincerely,

RECEIVED
08 AUG 2023
MANAGER FINANCE
KRA
S/REGION

Hesbon Onyango
Manager Finance - SR
0724319517
hesbon.onyango@kra.go.ke

Tulipe Ushuru Tujitegemee!

Alex.mukundi@kra.go.ke

Appendix 7: KRA Nairobi Region Data Collection Letter

Tulipe Ushuru Tujitegemee!

APPENDIX 8: FACTOR ANALYSIS OUTPUT

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	20.758	44.165	44.165	20.758	44.165	44.165	11.389	24.231	24.231
2	7.491	15.939	60.104	7.491	15.939	60.104	9.644	20.518	44.749
3	4.787	10.186	70.290	4.787	10.186	70.290	7.984	16.988	61.737
4	2.767	5.886	76.176	2.767	5.886	76.176	6.022	12.813	74.550
5	1.868	3.975	80.151	1.868	3.975	80.151	2.236	4.758	79.308
6	1.258	2.676	82.827	1.258	2.676	82.827	1.654	3.519	82.827

Extraction Method: Principal Component Analysis.

Rotated Component Matrix[a]

	Component					
	1	2	3	4	5	6
OBJ11	.038	-.035	.099	.845	.262	.087
OBJ12	.092	-.028	.333	.769	.254	-.025
OBJ13	.119	-.036	.292	.817	.172	.002
OBJ14	.182	-.111	.227	.874	-.010	.083
OBJ15	.120	-.051	.206	.902	.026	.079
OBJ16	.054	-.031	.188	.918	-.020	-.010
OBJ17	.134	.041	.212	.888	.076	-.033
OBJ18	.084	.128	.051	.261	.779	-.136
OBJ19	.057	.048	.246	.117	.761	-.006
OBJ110	-.133	.046	.052	.144	.803	.179
OBJ111	.182	.938	.113	-.008	.012	.046
OBJ112	.172	.904	.225	.040	.065	.022
OBJ113	.203	.935	.130	-.018	-.044	.028
OBJ114	.193	.926	.170	-.007	.008	.001

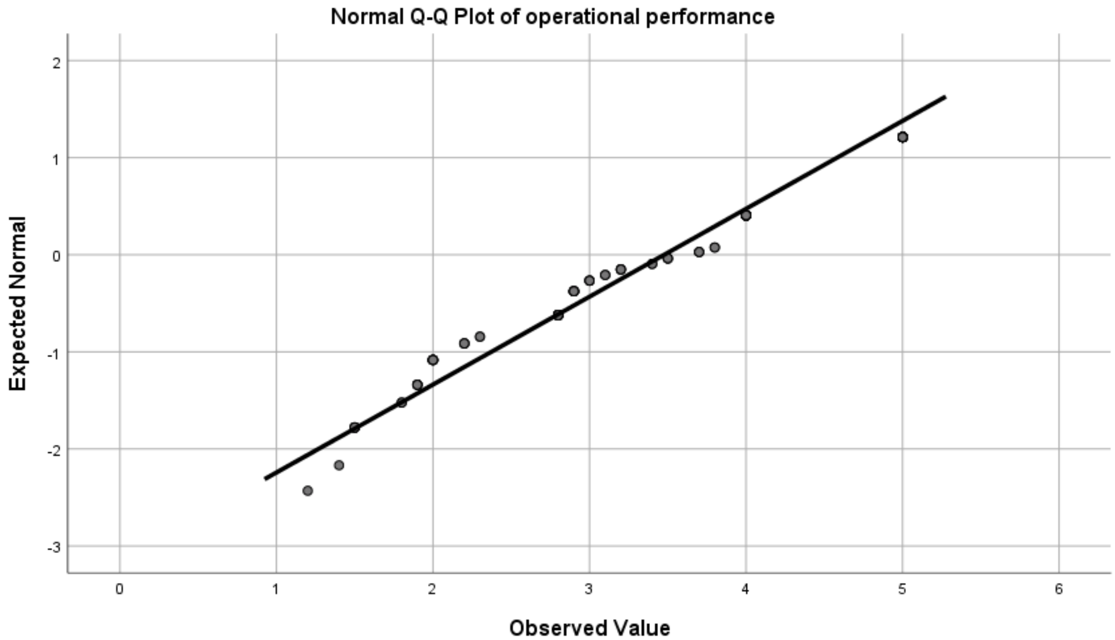
OBJ115	.206	.923	.180	-.063	.054	-.003
OBJ21	.223	.942	.139	-.017	.057	.068
OBJ22	.210	.939	.147	-.025	.032	.072
OBJ23	.264	.907	.180	-.030	.051	.066
OBJ24	.258	.927	.129	-.037	.069	.049
OBJ25	.274	.901	.189	-.044	.078	.000
OBJ26	.634	.225	.182	.085	-.019	.624
OBJ27	.662	.208	.339	.141	.133	.323
OBJ28	.678	.197	.408	.075	.211	.302
OBJ29	.727	.174	.080	.116	.044	.543
OBJ210	.705	.211	.086	.190	.078	.531
OBJ211	.862	.189	.165	.028	-.047	-.033
OBJ31	.830	.218	.293	.106	-.035	-.147
OBJ32	.834	.239	.281	.140	-.077	-.051
OBJ33	.798	.236	.234	.106	-.008	.049
OBJ34	.796	.198	.058	.101	-.047	.194
OBJ35	.644	.119	.146	.183	.100	.246
OBJ41	.774	.186	.107	-.028	.065	.161
OBJ42	.833	.175	.267	.076	-.006	-.174
OBJ43	.752	.184	.174	.107	.026	-.008
OBJ44	.871	.219	.262	.091	-.021	-.032
OBJ45	.767	.151	.407	.008	-.031	-.020
OBJ46	.788	.168	.249	.044	.010	-.104
Operational performance1	.200	.089	.803	.210	.182	.247
Operational performance2	.229	.133	.813	.272	.139	.138
Operational performance3	.349	.247	.766	.183	.182	-.015
Operational performance4	.402	.184	.684	.157	.096	-.193
Operational performance5	.259	.143	.751	.148	.019	-.042
Operational performance6	.229	.222	.822	.158	.061	.203
Operational performance7	.265	.232	.821	.303	-.009	.012
Operational performance8	.309	.201	.847	.261	-.047	-.042
Operational performance9	.297	.264	.765	.296	.027	-.177
Operational performance10	.258	.220	.828	.238	.090	.103

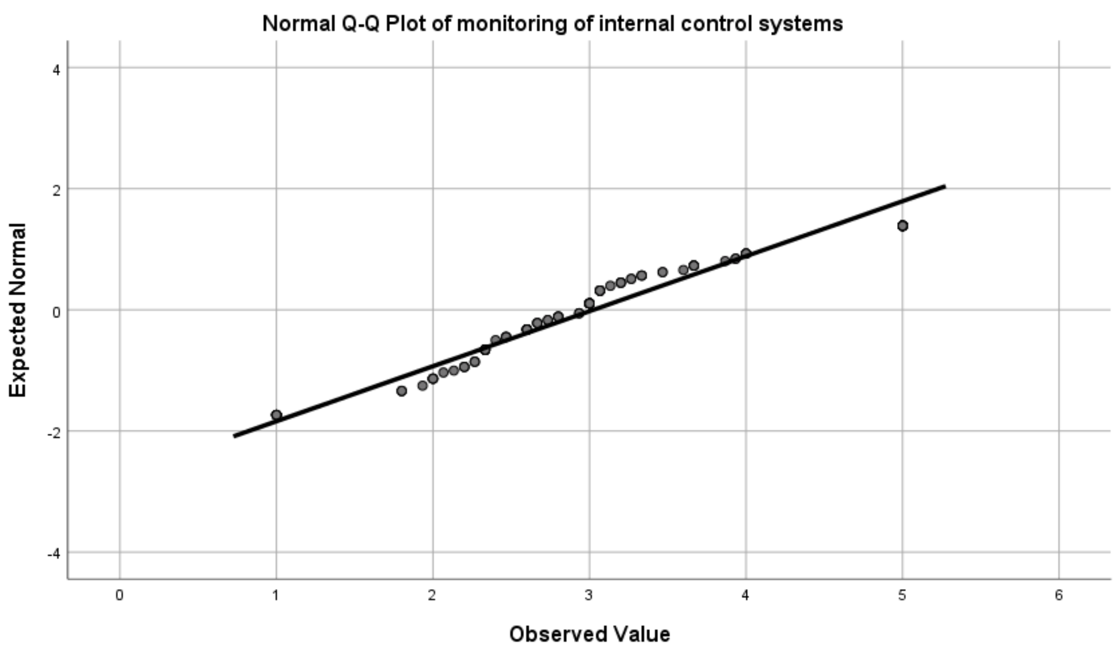
Extraction Method: Principal Component Analysis.

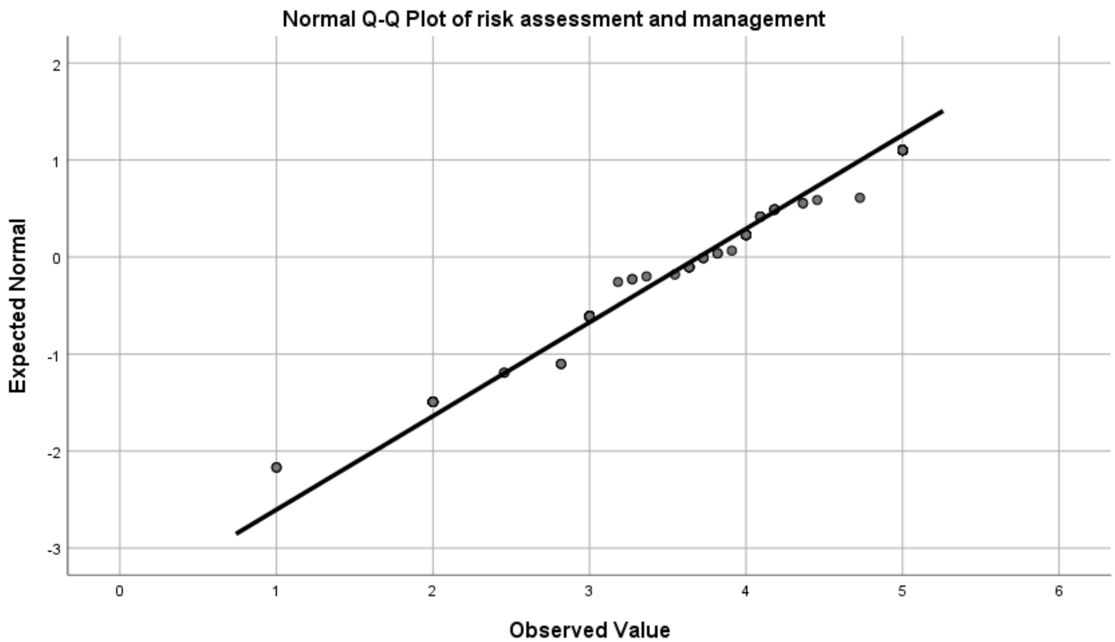
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

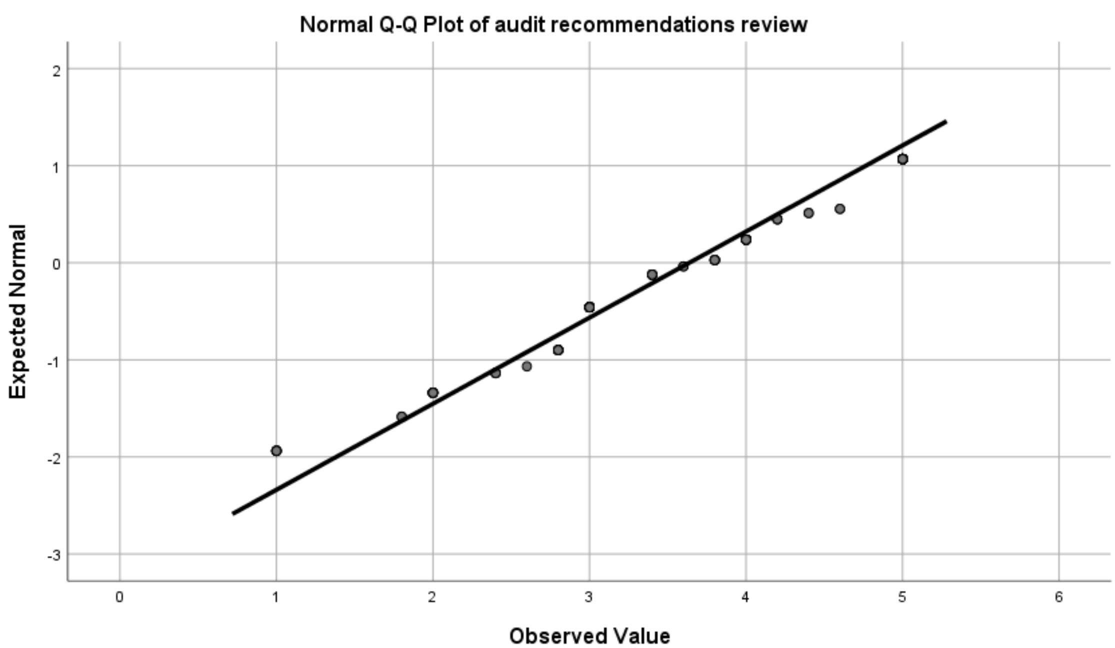
APPENDIX 9: NORMAL Q-Q PLOTS



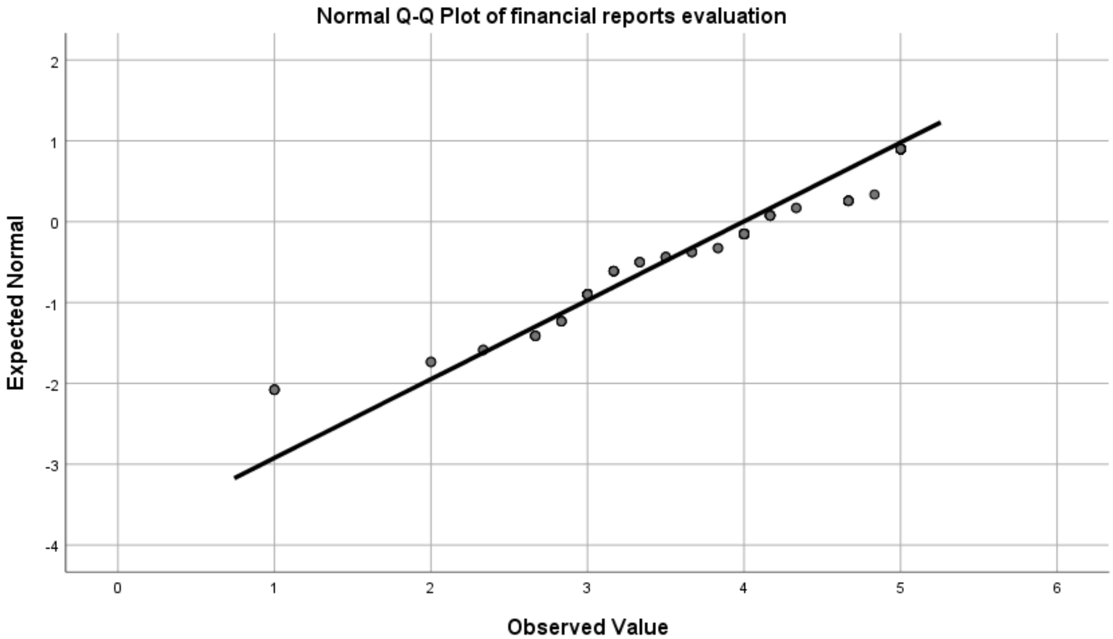




Normal Q-Q Plot of risk assessment and management
Expected Normal
Observed Value
2
1
0
-1
-2
-3
0
1
2
3
4
5
6



Normal Q-Q Plot of audit recommendations review
Expected Normal
Observed Value
2
1
0
-1
-2
-3
0
1
2
3
4
5
6


Normal Q-Q Plot of financial reports evaluation
Expected Normal
Observed Value
2
1
0
-1
-2
-3
-4
0
1
2
3
4
5
6