

**ROLE OF INTERNAL CONTROL SYSTEMS IN MANAGEMENT OF  
REVENUE BY NYERI COUNTY GOVERNMENT**

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Partial Fulfillment of the Requirements for the Award of Masters Degree in  
Business Administration of Dedan Kimathi University of Technology**

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## DECLARATION

This research project is my original work and has not been presented in any other institution of University.

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This research project has been submitted with our approval as the University's appointed supervisors.

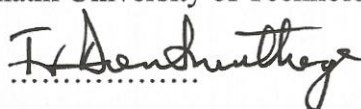
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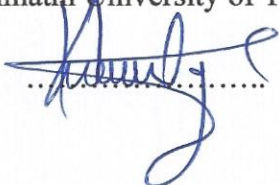
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## **DEDICATION**

I dedicate this thesis to my lovely daughter Michelle Muthoni, my parents Mr. & Mrs. Kimani and my two lovely sisters Anne and Serah.

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## ABSTRACT

Revenue management is one of the most important functions of governments, but is one of the least written about subjects in the field of public financial management. Good internal controls will help align the performance of the organization with the overall objectives through continuous monitoring of the performance and activities carried out by the organizations. According to a report from the office of the auditor general, Nyeri County experienced several challenges in revenue management in the 2012-2013 fiscal year. The purpose of this was to evaluate the role of internal control systems in revenue management of Nyeri County, Kenya. Specifically, the objective of the study was to investigate the role internal control environment on revenue management; examine the role of risk management on revenue management; investigate the role of information and communication on revenue management and assess the role of monitoring on revenue management in Nyeri County. The study adopted a survey design and targeted accounting personnel, audit and revenue collection departments in the Nyeri county government. The researcher used census method to include all personnel in the study. In the study questionnaires were used to collect data. Data analysis involved descriptive statistics, that is, frequencies, percentages, means and standard deviation and inferential statistics, linear regression analysis. Statistical Package for Social Sciences (SPSS) was used to analyze data. Research findings were presented in form of figures and tables. The study found that control environment and monitoring were statistically significant in revenue management. The researcher concluded that revenue management was promoted by a well-structured control environment and efficient monitoring of control activities and hampered by poor risk management and poor information and communication. The researcher recommended that the general public including the staff at the County government should be made aware of revenue management information. Appropriate and sufficient reports should be produced for the proper management and control of the County government. Financial reports should be made easily accessible to all staff.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

An internal control is a process implemented by an organization structure work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives with means of directing, monitoring and measuring of organization resources (COSO, 1992).

Aldridge & Colbert (1994) define internal control as the process designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operation and compliance with applicable laws and regulations. Internal control is also defined as a process designed to provide reasonable assurance regarding the achievement of which objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Nesoba, 2012)

Internal control is a process affected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations (Candrea, 2006). Revenue management is one of the most important functions of governments, but is one of the least written about subjects in the field of public financial management. Revenue management is the process of being accountable for the revenues that each entity is responsible for collecting (Arikan, 2004).

Internal controls fundamentally have five basic components: control environment, communication, assessing and managing risk, control activities and monitoring. Control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization (Nesoba, 2012).

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. Risk management is the process of identifying, evaluating and determining how to manage these events (Miller, 2009). Control activities are tools both manual and automated that help prevent or reduce the risks that can impede accomplishment of the organization's objectives and mission. Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. The effective implementation and monitoring of a sound internal control system helps ensure that organizations meet their objectives, such as providing services to the community professionally, while utilizing resources efficiently and minimizing the risk of fraud, mismanagement or error.

Good internal controls will help align the performance of the organisation with the overall objectives through continuous monitoring of the performance and activities carried out by the organizations, encourage good management by allowing management to receive timely and relevant information on performance against targets, as well as key figures that can indicate variances from targets (Webber, 2004). Ensure proper financial reporting maintaining accurate and complete reports required by legislation and management, minimizing time lost correcting errors and ensuring resources are correctly and efficiently allocated. Good controls also safeguard assets by ensuring the organization's physical, intellectual property and monetary assets are protected from fraud, theft and errors, deter and detect fraud and error by ensuring the systems quickly identify errors and fraud if and when they occur. Good control systems also reduce exposure to risks by minimizing the chance of unexpected events.

The type of revenue affects the processes and controls needed to manage it. For example, license fees require inventory controls over the actual license documents in order to ensure that fees are collected for all licenses issued. According to Theofanias et al., (2011) taxes do not require any inventory controls. The amount of revenue is also important in determining the process to manage collections. The primary objective of any revenue management process is to collect what is owed. As with any process, accomplishing this in an effective and efficient manner is important so that resources are

not wasted. Also there will be an efficient revenue management process, improved cash management, more accurate cash forecasting ability, greater budgetary control and ability to complete projects timely as noted earlier, the type of revenue will have an impact on the nature of the internal controls.

Mismanagement of public funds is a common phenomenon in developing countries (El-Nafabi, 2011). According to Jokipii (2010) embezzlement and mismanagement of public funds is the biggest obstacle to achieving the millennium development goals in developing countries. Heald and McLeod (2002) define public money as all money received by a public body from whatever source. Webber (2004) indicates that, managing public funds should focus on public expectations since the public is concerned about the purpose for what money is allocated, the way it is spent and the benefits realized. According to Miller (2003) the single most important reason leading to asset misappropriations, corruption, organizational fraud and fraudulent financial statements is poor internal control systems.

The concept of internal control is based on the fact that order creates value to an organization (De Mello, 2011). Order is a prerequisite for creating value, which again requires that an internal control system adequately operate at all levels of the organization. Internal controls can be viewed as a management tool with direct relevance to the goals of the organization. Whatever the mission of an organization, its fulfillment involves a number of risks. Internal controls can help mitigate such risks, while providing reasonable assurance that the mission will be fulfilled and that the general goals set will be achieved, (Gupta, 2011) .

The County governments' sources of revenues include a share of tax collected by the national government at a predetermined formula. In addition the County governments may levy property rates on properties within its area of jurisdiction, levy fees for any license or permit in respect of premise or trade, impose charges for any service or facility provided and entertainment tax (Kenya Law Report, 2012). Business permits, land rates, parking fees, refuse collection and market entrance fees are the mainstay of local revenues contributing about seventy five percent of total revenues raised by Nyeri

County. Business permit is the single biggest contributor accounting for over a third of all total revenues. This illustrates the potential to grow revenue collections by growing other classes of revenue like tender document sale, building plans inspection and sign board fees.

According to the office of the controller of budget (2013) the former local authorities in the county had projected to collect a total of Ksh 192,739,274 for the 4 months under review (April, May, June and July. The revenue collecting units were Nyeri municipal council, Nyeri county council, Karatina municipal council and Othaya town council. Actual revenues for the four months to June 2013 amounted to Ksh 175,265,226. This represented a shortfall of Ksh 17,474,048. Going ahead, the report recommended that is critical for the county government to find new and innovative ways to increase revenue from local sources. The review also identified a need to realign the local tax system to the county structure, seal any leakages, improve tax compliance, enact requisite tax laws and widen the tax base. Table 1.1 Shows the revenue collected for the 2013/2014 budget and its sources:

**Table 1.1 Nyeri County revenue**

Category	Sub Category	Amount (2013/14)
		KSh"000"
Conditional Grants	Contribution in Lieu of Rates	54,754
National Revenue	Equitable Share	4,071,365
Own Revenue Sources	Others	0
Own Revenue Sources	Revenue from Local Sources/ Sub-counties	424,297,
	<b>Total</b>	<b>4,550,416</b>

**Source: Nyeri County Treasury, 2013**

## **1.2 Statement of the Problem**

Nyeri County in Kenya has had a problem in managing its revenue. According to a report from the office of the auditor general, Nyeri County experienced several challenges in

revenue management in the 2012-2013 fiscal year. The report indicated that there was low revenue collection and temptation to spend local revenue without paying it into the county revenue fund as required by law. To remedy the situation, the office of the auditor general recommended adoption of some internal controls such as hastening of Integrated Finance Management Information System (IFMIS) and development of requisite legal framework to support revenue growth.

Consequently, Internal controls have been put in place and some are in the process of being implemented to ensure safe custody of all county assets, to avoid misuse or misappropriation of the assets and to detect and safeguard against probable frauds. One of the controls that the Nyeri County is in the process of adopting is the automation of revenue collection and management. Nyeri County government has signed a Memorandum of Understanding (MoU) with Equity Bank in a bid to implement the automated revenue collection system. The purpose of this study therefore was to investigate the role of internal control systems in revenue management of Nyeri County, Kenya.

### **1.3 Objectives of the study**

The study was guided by the following research objectives:

#### **1.3.1 General Objective**

To find out the role of internal control systems on revenue management on Nyeri County, Kenya.

#### **1.3.2 Specific Objectives of the study**

- i. To investigate the role of internal control environment on the revenue management in Nyeri County.
- ii. To examine the influence of risk management on the revenue management in Nyeri county.
- iii. To investigate the effect of information and communication on the revenue management in Nyeri County.

- iv. To assess the role of monitoring system on the revenue management in Nyeri County.

#### **1.4 Research Questions**

The following were the research questions;

- i. What is the role of internal control environment on the revenue management in Nyeri County?
- ii. What is the role of risk management on the revenue management in Nyeri County?
- iii. What is the role of information and communication on the revenue management in Nyeri County?
- iv. What is the role of monitoring system on the revenue management in Nyeri County?

#### **1.5 Significance of the Study**

Prudent management of revenues within the County government is a prerequisite to efficient service delivery to the community. By identifying factors that may result to effective internal controls in management of revenue the study generated valuable information to assist the management of County governments implement effective internal controls.

In addition the local community within the jurisdiction of County governments relies on the authorities to efficiently deliver services. The findings the study will assist the authorities in implementing effective internal control systems and thus achieves its objectives, of good service delivery.

Other counties may also benefit by duplicating the recommendations from this research because by and large they are affected by almost the same problems.

## **1.6 Limitations of the study**

The County government is undergoing transition where its functions are being transferred to the devolved arrangement within the County government. The reorganization of the County government involves replacement, redeployment of personnel and reorganization of functions thus wiping out the institutional history that this study would have relied on to evaluate the internal control systems. Majority of the questions in the study were in likert scale format, whereas this made descriptive analysis easier, the limitation was that people have a tendency to automatically avoid extremes such as “Strongly Agree” and “Very high” and therefore answering the way they think they are expected to, rather than providing real honesty

## **1.7 Scope of the study**

This study intended to cover the role of internal control in respect to revenue management by County governments. Geographically the study was confined to the County government in Nyeri County. The respondents in the study were the county government of Nyeri employees working in the treasury department.

## **1.8 Operational definitions of the Terms**

**Control environment:** The overall attitude, awareness and actions of directors and management regarding the internal control system and its importance to the entity

**Internal control:** A process designed to ensure reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations by County governments.

**Risk:** Identification and analysis of relevant risks associated with the achievement of the management objectives

**Revenue:** The income of a County government from the national government, taxation, licenses, fines service charge and other sources.

**Revenue management:** All the procedures necessary to ensure that the income of government departments are properly planned and fully accounted for.

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## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature review section provides theories and past studies done on role of internal control systems and their effectiveness in revenue management. The review intended to show the existing research gap and thus the need for the proposed study. It also gave the relationship that exists between internal controls and revenue management.

##### **2.1.1 Concept of internal controls**

Aldridge & Colbert (1994) defined internal control as a process affected by an entity's board of directors, management and other personnel designed to provide a reasonable assurance regarding the achievement of objectives in the following categories; effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.

Fundamentally, internal control deals with the safeguarding of assets, both physical and monetary. Miller (2009) in his presentation defined internal control as a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met.

An internal control involves control systems and procedures adopted by management to ensure organizational goals. Rezaee et al., (2001) stated that internal control is a critical component of the overall audit process, mandated by auditing standards worldwide. These standards divide internal control structures into a number of elements, summarised as control environment, information systems and control procedures (Amudo, 2009).

##### **2.1.2 Revenue management**

Revenue is that monetary event of asset values increasing in the organization because of the physical event of production or sales of products or services of the organization (Pandey, 1996). Rittenberg and Schwieger (2005) define revenue as the inflows or enhancements of assets of a firm or settlements of its liabilities during a period from

delivery or producing goods, rendering service or other activities that constitutes the entity's ongoing major or central operations. In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights and resource rights, as well as any sales that are made.

Local governments' own revenues represented less than 6% of the total national tax revenues in Africa (Fjeldstad, 2003). Self-generated revenues in district councils are mainly used to finance operational costs, in particular salaries for the lower cadre of local government employees and sitting allowances for councillors. With respect to investment, many councils are almost completely dependent on transfers from the central level, including donor funding.

Across the world, taxes constitute the major source of local government revenue. The essence of a tax is that the governing body demands a financial contribution towards the cost of its activities from a person or organization. According to Gideon and Alouis (2013) there is no choice for the rate payer and there is sometimes no relationship between the amount paid and the form of benefit received. The benefit-pay (user pay) principle argues that taxes should be apportioned in relation to the benefits received from publicly provided goods and services. Economic efficiency principle argues that sound tax revenue collection should not be an impediment to local investment and development. Administrative convenience calls for special consideration to both the enforcement aspect of the taxes and convenience to the taxpayers. A good tax system should be as simple as possible to administer for both taxpayers and the tax collector.

Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Barra, 2010). According to Fadzil et al. (2005), an effective internal control system unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; a regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency

and effectiveness with which management achieves its organizational objectives (Ittner et al., 2003).

## **2.2 Theoretical Review**

Internal controls are one of the many mechanisms used in business to address the agency problem. In this case the principal are the residents while the agents are the managers of County governments. Others internal controls include financial reporting, budgeting, audit committees, and external audits (Jensen, 1976). Unegbu (2011) argue that internal control systems provide additional information to the principal (citizen) about the behavior of the agent (management) and it reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital.

### **2.2.1 The Agency Theory**

Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents, Adams (1994). Accordingly Gerit (2010) point out that in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Jokipii (2010) who maintains that the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work. He however, proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent.

Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Jokipii (2010) explains that moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done. This therefore, affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual.

Other related reviews include; The Sarbanes-Oxley Act of 2002 (SOX) of the United states requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process Morris (2011) asserts that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure.

They emphasize these features in their marketing literature, asserting that these systems will help firms improve the effectiveness of their internal controls as required by SOX. Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits (Jensen, 1976).

### **2.2.2 Attribution theory**

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. Reffett (2007) asserts that when evaluators believe comparable persons would have acted differently in a given circumstance, they (evaluators) tend to attribute responsibility for an outcome to the person .On the other hand, when evaluators believe comparable persons would have acted similarly, the evaluators tend to attribute responsibility for the outcome to the situation.

Bonner et al. (1998) found that auditors are more likely to be sued when they fail to detect common misappropriations that would result to decreased revenues, and the evaluators believe that the fraud could have been detected by other auditors. The auditor’s accountability for detecting fraud is extended by Reffett’s (2007) study which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they had identified the fraud occurrence as a fraud risk.

Attribution theory thus advocates for auditors to report on the effectiveness of firms’ internal control. Auditors are therefore expected to gain a better understanding of the internal controls in place, assess the design and implementation of the internal controls,

and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors' reliance and possibly scaling back of other substantive audit procedures for the required revenue generation. The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors, being the "public watch dogs" are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2007). This theory is therefore important in assessing the influence of internal controls on organizational performance since it reviews the critical role of auditing which is a variable in the study.

### **2.2.3 Contingency theory**

Contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations. According to Woods (2009), organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system.

Contingency theories were developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by Woods (2009), Chenhall, (2003), and Reid and Smith (2000). Contingency theory is used to describe the relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency (Cadez and Guilding, 2008).

### **2.3. Empirical review**

This section presents findings of related studies. The findings are presented in the order of the study objectives.

#### **2.3.1 Control environment and Revenue Management**

According to Aldrige and colbert (1994) effectiveness of internal controls strengthens transparency in the management of public funds. Apart from transparency, effectiveness of internal controls further strengthens accountability, investments in viable projects and helps to meet the wealth maximization objective.

From a theoretical perspective, devolution may help in management of revenue through enhanced accountability and competition among County governments (Arikan 2004). Bota and Palfi (2009) explain that for prudent revenue management there are three types of accountability expected from devolved government namely: horizontal accountability by the County government officials to the elected representatives, downward accountability of elected representatives to local citizens and upward accountability of County governments to the central government.

Internal control systems is one of the means through which citizens and central government have accurate and accessible information about County government, about available resources, performance, budgets, accounts and other financial statements (De Mello, 2011). Bota and Palfi (2009) argue that only when citizens and other stakeholders are armed with such information can there be informed public debate on the allocation of limited resources and public acceptance of tradeoffs. Michino (2011) aimed at investigating the impact of internal control on the operational efficiency of NGOs based in Nairobi. The analysis indicated that internal controls in the NGOs based in Nairobi were determined largely by the organization structure. It is the top management that decided on how the resources received from donors and other financiers were to be allocated and distributed to the beneficiaries. Cash management was ranked second internal control factor affecting NGOs operational efficiency. NGOs with good cash management were in a position to attract many sources of funds for their operations and as such, this called for proper use of resources at their disposal.

The effectiveness of internal control of County governments can be hindered by weak capacity of County government staff, particularly in accounting and record keeping. Further there is a wide skills gap between appointed officials and elected officials which render the latter ineffective in monitoring and enforcing accountability. There are also negative reasons, such as incomplete devolution, weak monitoring, control, and audit systems, thereby creating opportunities for corruption (Prud'homme, 2008).

Jensen (1976) also mentions, control activities as another component of internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews of comparing actual performance with budgets, forecasts and prior period performance, information processing necessary to check accuracy, completeness and authorization of transactions, physical controls (necessary to provide security over both records and other assets, and segregation of duties where no one person should handle all aspects of a transaction.

### **2.3.2 Risk management and role of internal controls**

According to Prawitt (2008), risk is any uncertainty that affects a system in an unknown fashion whereby the ramifications are also unknown but bears with it great fluctuation in value and outcome.

Risk can be defined as the combination of the probability of an event and its consequences (Amudo, 2009). According to Chung et al. (1997) risk is defined as real or potential events which can reduce the likelihood of achieving business objectives. Risk has also been defined as the uncertain future events which could influence the achievement of the organization's strategic, operational and financial objectives (Gay, 1992). Risk is all about events and their consequences which can happen in the future (Schaefer, 2010).

Risk management involves identification and analysis of relevant risks associated with the achievement of the management objectives (Baltaci and Baltaci, 2009). Similarly Rezaee (2001) view risk assessment as the process of identifying and analyzing relevant risks. In this respect, the management must determine the level of risk carefully and maintain such risk within determined levels. Therefore, County governments are required to frequently assess the level of risk they are experiencing in order to take necessary actions. Magara (2013) set to find out the effect of internal controls on the financial performance of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. The regression analysis conducted established that each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contributed positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance.

Risk management is viewed as a corner stone of good corporate governance and therefore results in better service delivery, more efficient and effective use of scarce resources and better project management (Unegbu et al., 2011). It has to do with identification, analysis and control of such risks that threaten resources, assets, personnel and the earning capacity of a company (Webber, 2004). According to Amud (2009) risk management is the logical development and implementation of a plan to deal with potential losses. It is important for an organization to put in place risk management programmes so as to manage its exposure to risks as well as protect its assets. The essence is to prepare ahead of time on how to control and finance losses before they occur.

Risk management is a process of understanding and managing the risks that the entity is inevitably subject to in attempting to achieve its corporate objectives (Theofanis, 2011). For management purposes, risks are usually divided into categories such as operational, financial, legal compliance, information and personnel. One example of an integrated solution to risk management is enterprise risk management (Beneish, 2005). The Institute of Risk Management also provided a more detailed definition of risk management as, the processes by which organizations methodologically address the risks to their activities

with the goal of achieving sustained benefit within each activity and across the portfolio of all activities (Beneish, 2005).

Relatively few studies have been conducted on the issue of risk management in revenue collection especially in the public sector. Magara (2013) and Theofanis (2011) carried out studies on the risk management but the point of departure is that the studies were carried out in the private sector. The current study therefore sought to examine the influence of risk management on the revenue management in Nyeri County.

### **2.3.3 Information and communication**

Information and communication involves the process of identifying, capturing, and communicating of relevant information in an appropriate manner and within a given timeframe in order to accomplish the financial reporting objectives (Aldridre & Colbert., 1994). For effective communication information should flow within and without the various sections of the organization (Theofanis et al., 2011). Information and communication is one of the most important internal control system components, since it influences the working relationship within the organization at all levels (Amudo & Inanga, 2009). Hence, such information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement.

Mugisha, (2001) attests that, the use of ICT enhances timely access to accurate and relevant information, which is a prerequisite for good planning, programming, implementation as well as monitoring and evaluation which forms the key component in development. Otieno et al. (2013) found that there was a relationship between Information Systems and both efficiency and effectiveness in revenue collection; in addition, there was a strong positive relationship between Internal Control Systems and revenue collection. Chatama (2011) showed that revenue collection was enhanced in Tanzania.

#### **2.3.4 Monitoring system and role of internal control**

Internal control systems need to be adequately monitored in order to assess the quality and the effectiveness of the system's performance over time. Monitoring provides assurance that the findings of audits and other reviews are promptly acted upon (Theofanis et al, 2011). Monitoring of operations also ensures effective functioning of internal controls system (Amudo & Inanga, 2009). Hence, monitoring determines whether or not policies and procedures designed are being carried out effectively by employees.

Sudsomboon (2009) defined Monitoring as the systematic collection and analysis of information as a project. It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work. Internal control systems need to be monitored as a process that assesses the quality of the system's performance over time, pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing, financial and compliance related information that make it possible to run and control the business. (Wills, 1999).

In technical terms of the accounting field, auditing is a key part of the internal control system modern organizations use to manage and control their resources. In other words, auditing is one of the methods used to verify compliance with organizational policies and procedures, and to validate whether organizational processes and procedures achieve intended results (Bota and Palfi, 2009). Ndungu (2013) evaluated the effect of internal controls on revenue generation in University of Nairobi Enterprises and Services UNES. The study revealed that UNES reviews its ICS when need arises. Numerous audits are conducted in line with technological changes to ensure the systems' sustainability. Long queues have been replaced by auto-receipting system that reduces time wasted on serving students. There were formalized policies and procedures for all major operations of the entity and policies.

Mugo (2013) sought to establish the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. Internal controls were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the Technical Training Institutions in Kenya, all the activities of the Institution are initiated by the top level management, that the internal audit department is not efficient, is understaffed, doesn't conduct regular audit activities and doesn't produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system.

Kimutai (2012) sought to find out whether an expectation gap exists in the audits of quoted companies in Kenya as well as to find out whether public expectation of the auditors is reasonable and achievable. The expectation gap was found particularly wide on the issues of auditor's responsibility for the maintenance of the accounting records, the auditor's responsibilities for the soundness of the internal controls structure of the entity, to a lesser extent, an expectation gap was found concerning the, a narrow gap was also observed on the issue of the objectivity with the majority agreeing that the auditor is unbiased and objective. Marete (2013) sought to establish the role audit committees have played in the PFM in Kenya, focusing on the government ministries. The study found that audit committees enhance transparency in ministries, they ensure observation of government policy, they lead to reduction in corruption, they ensure proper use of resources and they enable ministries achieve performance targets.

International Standards on Auditing (ISA) are professional standards for the performance of financial audit of financial information. These standards are issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). They are professional standards that deal with the independent auditor's responsibilities when conducting an audit of financial statements. ISAs contain objectives and requirements together with application and other explanatory material. According to Theofanis et al., (2011) the auditor is required to have an understanding of

the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

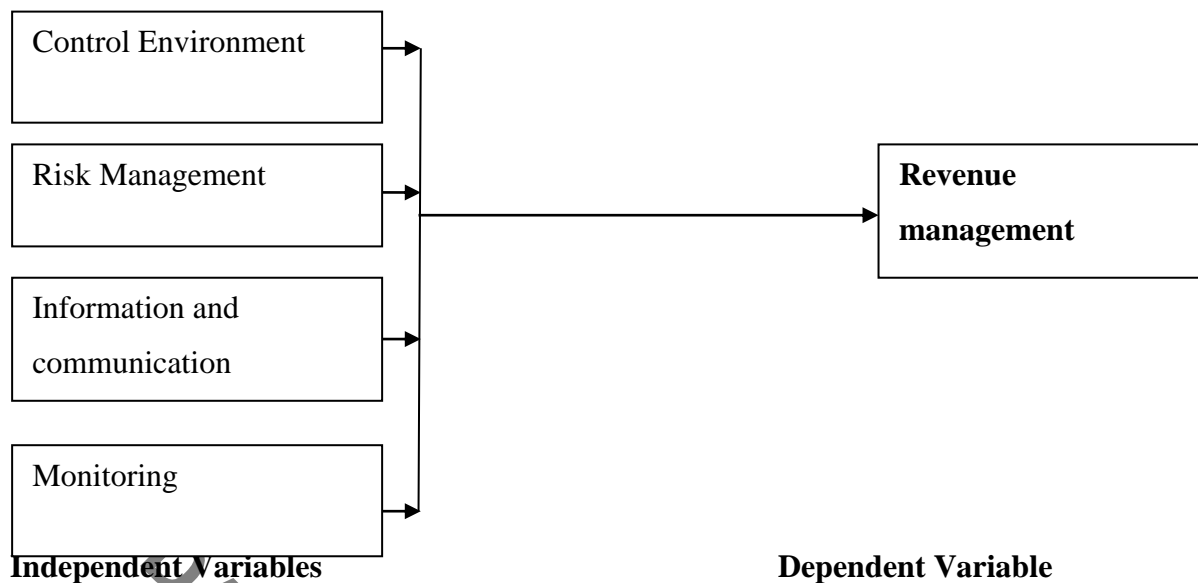
Reviewed studies show that good monitoring systems are positively correlated to better revenue collection. However few studies have been conducted in local authorities or county governments. The current study sought to assess the role of monitoring system on the revenue management in Nyeri County.

## **2.5 Conceptual and Operational Frameworks**

### **2.5.1 Conceptual Framework**

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation by Reichel & Ramey (1987). When clearly articulated, a conceptual framework has potential usefulness as a tool to scaffold research and, therefore, to assist a researcher to make meaning of subsequent findings. Such a framework should be intended as a starting point for reflection about the research and its context.

The conceptual framework is a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. As with all investigation in the social world, the framework itself forms part of the agenda for negotiation to be scrutinized and tested, reviewed and reformed as a result of investigation (Guba & Lincoln, 1989)



**Figure 1 Conceptual Framework (COSO, 1992)**

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people improving the effectiveness of the internal control system.

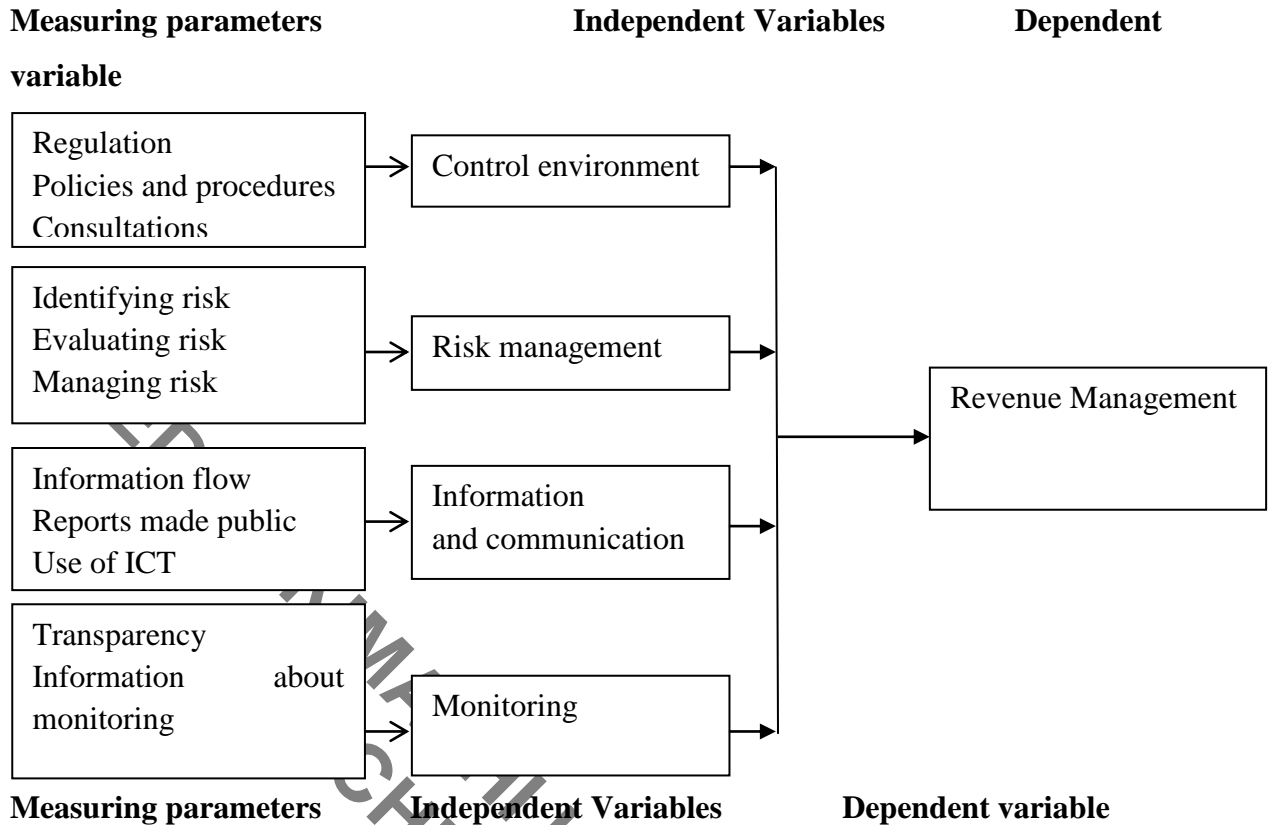
The risk management is critical since every entity faces a variety of risks from external and internal sources that must be assessed and forms a basis for determining how the risks should be managed (Theofanis *et al.*, 2011)

The information and communication will be measured by establishing the management awareness of their control responsibilities, personnel awareness of problems to be reported and whether personnel are encouraged to report suspected improprieties.

The monitoring measurable includes whether the management reviews supporting documentation, approve accounting system and perform follow up actions. Further, the study will seek to establish the budget preparation and communication system and budget variances reporting

The conceptual framework provides the relationship between the independent and dependent variables. The independent variables consist of control environment, risk management, information and communications and monitoring. These elements are critical for effectiveness of internal control.

## 2.5.2 Operational framework



**Figure 2 Operational Framework**

The figure above explains how the various parameters were looked at, how the control environment was assessed and at how verification, authorization and communication was looked at. The risk assessment will look at how risk is identified and addressed. For information and communication, how the roles, timely information and how policies are communicated. The monitoring objective will look at how accountability, decision making and policies are monitored, their cost and institutional capacity to carry out effective monitoring

## 2.6 Research gap

From the reviewed empirical literature, it is evident that majority of the researchers Michino (2011), Ndungu (2013) and Magara (2013) carried out studies on profit driven institutions with no focus on government institutions which provide public goods and

services. This created a knowledge gap which this study sought to fill by assessing the role of internal control systems in management of revenue by Nyeri County Government.

## **2.7 Chapter summary**

Reviewed literature has highlighted some key issues on revenue management. The principles of internal controls have been discussed and addressed. The relationship between internal controls and revenue management have been identified and discussed. Specifically, the study has reviewed extensive literature on control environment, risk management, information and communication and monitoring system and how they affected revenue.

It emerged from the literature review that internal control systems are vital for achievement of an organization's objectives. However, the mere existence of the internal control system does not imply achievement of the objectives. Instead an effective internal control system should be in place. Various studies reviewed such as Theofanis, *et al* (2011), Aldridge *et al* (1994) and Aikins, (2011) agree that control environment, information and communication, risk management and monitoring are essential components of an effective internal control system.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research design and further describes the methods and procedures that were used to carry out the study. The chapter also specifies the methods and procedures for the measurement and data analysis.

#### **3.2 Research design**

According to Orodho (2009) research design is the plan and structure of investigation so conceived so as to obtain answers to research questions or test the research hypotheses. The plan represents the overall strategy used in collecting and analyzing data in order to answer the research questions. Willis et al., (2008) summarizes the essentials of research design as an activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research

The study adopted a survey design to investigate the role of internal control in revenue management in Nyeri County government. Orodho (2009) observes that a survey design involves obtaining information by interview or administering questionnaire. Both qualitative and quantitative research approach were used where the researcher conducted a survey using a questionnaire that is composed of closed-ended questions and semi-structured interview. According to Willis et al., (2008) qualitative research is concerned with understanding the social phenomenon from the participants' perspective. On the other hand quantitative research is an inquiry into an identified problem, based on testing a theory, measured with numbers, and analyzed using statistical techniques (Willis, 2008)

### **3.3 Location of the Study**

Nyeri County occupies a total of 2361 square kilometers with a population of 574,285 as at 2010 according to the 2009 Kenya Population and Housing Census. The County had 30 wards each presented by a County representative in the County government assembly.

### **3.4 Target population**

The target population is the total group of individuals from which the sample might be drawn (Berkley, 2005). The target population of the study consisted of 97 personnel from the accounting, audit and revenue collection departments in the county offices. These persons were targeted because they were the people who dealt with revenue management and therefore were the most resourceful on the subject.

### **3.5 Census**

A census is a complete enumeration of all the subjects in the study (Claire, Craig & Ashraf, 2006). The researcher used census method and included all 97 personnel in the study. Census research technique involves a complete enumeration of all the items in a population. Unlike a sample survey, in which only a subset of the elements is selected for inclusion and enumeration, a census generally does not suffer from sampling error (Dawson, 2009). Mugenda and Mugenda (2012) recommends census survey when the total number of subjects is small and manageable.

### **3.6 Research Instrument**

Instrumentation refers to the tools or means by which investigators attempt to measure variables or items of interest in the data-collection process (Blaxter, Hughes & Tight, 2006). In this study questionnaires were used. A questionnaire is appropriate when one intends to collect a huge amount of data in a relatively short time Orodho (2009). Further a questionnaire reduces bias inherent in interviews. In this study a questionnaire was used to collect data from the personnel in the accounting, auditing and revenue collection departments. The questionnaire was subdivided into five sections. Section one was on the demographic information, section two on the control environment, section three on the risk management, section four on information and communication and section five on

monitoring. Majority of the questions in the study were in form of likert scale. Likert scale is a method of ascribing quantitative value to qualitative data, to make it amenable to statistical analysis. A numerical value was assigned to each potential choice and a mean figure for all the responses is computed at the end of the evaluation or survey (Collins & Hussey, 2003).

### **3.8 Reliability**

Orodho (2005) states that reliability of a measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. To test the reliability of the instruments the study used test-retest technique. Test-retest reliability was measured by administering a test twice at two different points in time. A Spearman correlation coefficient computed. This test indicates the degree to which the two halves provide similar tests thus determining the internal consistency. According to in this study a coefficient of 0.68 was found; this is a high measure of reliability according to Willis et al. (2008) who indicated that a minimum correlation coefficient of 0.65 is recommended as indicating that an instrument is reliable.

### **3.9 Validity**

Validity is concerned with the degree to which a test measures what it is supposed to measure (Gay, 1992). It is the correctness and reasonability of the data as it refers to getting result that accurately reflects the concept being measured, (Claire et al., 2006). In social sciences, researchers are most of the times uncertain that they are measuring the variables for which they designed their measurement procedure. Therefore, validity is the accuracy and meaningfulness of inferences based on the research results. Results obtained from analysis of the data actually represent the phenomenon under study to the degree. Based on this study, the questionnaires were designed to measure specific objectives under study; this was achieved by review of the questionnaire by the student's supervisor who is a lecturer at Dedan Kimathi University of Technology. The instrument was also reviewed by a statistician who was a professional in data analysis for research as recommended by Blaxter et al. (2006).

### 3.10 Data Collection and Analysis

Data analysis is the process of bringing order, structure and interpretation to the mass of collected data (Marshall and Rossman, 1999). The collected data, with the aid of questionnaire was systematically organized specifically to facilitate analysis.

Data analysis involved preparation of the collected data, coding, editing and cleaning of data in readiness for processing using statistical package for social sciences (SPSS).

To establish the relationship between, control management, risk management, information and communication and monitoring with role of internal control regression analysis was conducted. Regression is a statistical measure that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables).

The regression model was in the form below.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4$$

Where:

Y= Role of internal control in management of revenue

$\alpha$ = Autonomous factors

X<sub>1</sub>= Control Environment

X<sub>2</sub>= Risk Management

X<sub>3</sub>= Information and communication

X<sub>4</sub>= Monitoring

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the response rate, socio demographic data of respondents and research findings for each of the study objectives. The chapter finally presents the statistical inferences for the study, one for each of the study objectives.

#### 4.2 Response rate

From the 97 questionnaires that were distributed, a total of 92 questionnaires were returned and fully filled. This means that a response rate of 95% was achieved from this study. This response rate was deemed to be very good and sufficient for data analysis (Hertman, 1979). Response rate is presented in Table 4.1.

**Table 4.1 Response rate**

Number of questionnaires distributed	97
Number of questionnaires returned	92
Response rate	95%

#### 4.3 Socio-demographic data

The researcher collected background data on the participants which comprised of age, gender, education level, marital status, employment and job experience. The findings are presented in this section.

Majority (67%) of the respondents in the study were male. The findings show a great gender disparity among the personnel in the accounts, audit and revenue collection departments in the county offices

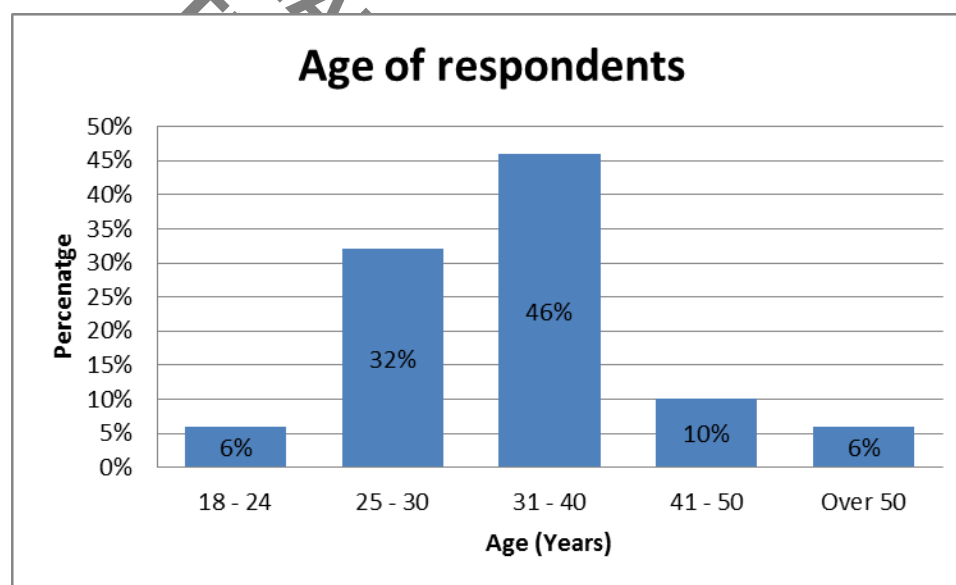
#### a. Gender of the Respondents

**Table 4.2 Gender of respondents**

Gender	Frequency	%
Male	61	67
Female	31	33
<b>Total</b>	<b>92</b>	<b>100</b>

#### b. Age of respondents

The age distribution of the respondents is presented in Figure 3. The results in Figure 3 show that participants aged between 31 and 40 years accounted for 46% while those aged between 25 and 30 years accounted for 32%. The findings show that majority of the workforce at the Nyeri County government offices were aged between 25 and 40 years.



**Figure 3 Distribution of the Age of Respondents**

#### c. Marital Status of the Respondents

The marital status of the respondents' was one of the socio demographic information that this study collected. The results are presented in Table 4.3. This table shows that

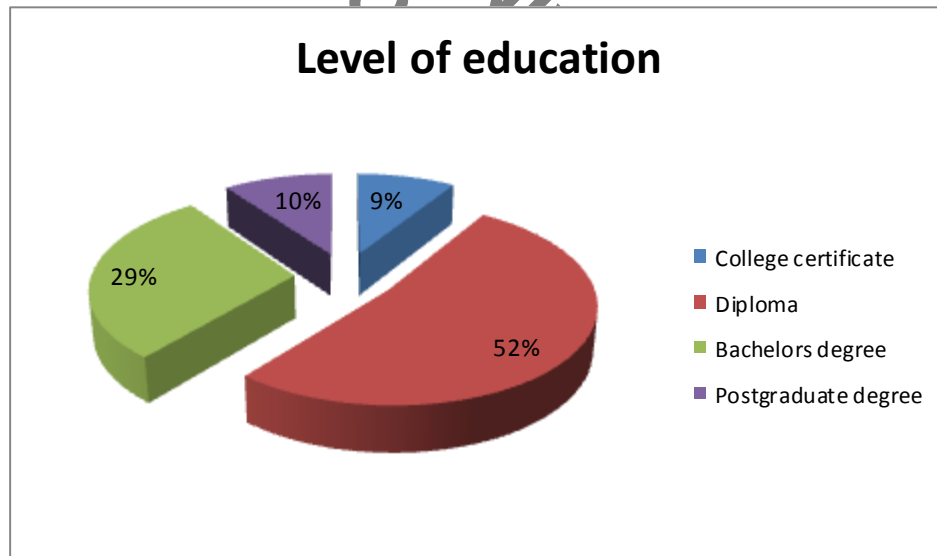
majority (53%) of the participants were married whereas 45% were single as indicated in Table 4.3.

**Table 4.3 Marital status of respondents**

Marital status	Frequency	%
Single	38	42
Married	49	53
Divorce/Separated	5	2
<b>Total</b>	<b>92</b>	<b>100</b>

#### **d. Respondents Level of Education**

Regarding the respondents level of education, participants who had a college diploma as their highest level of education were the majority in the study accounting for 52% of the respondents. Another 29% had a bachelor's degree. This shows that most of the respondents in the study had acquired adequate education to enable them respond to questions on role of internal control systems in revenue management of Nyeri County.



**Figure 4 Distribution of respondents by level of education**

#### d. Respondents Working Experience

Respondents who had worked in Nyeri County government (formerly Nyeri municipal council) offices for between 4 and 6 years accounted for 40% while those who had worked for between 6 – 10 years accounted for 30% as indicated in Table 4.4.

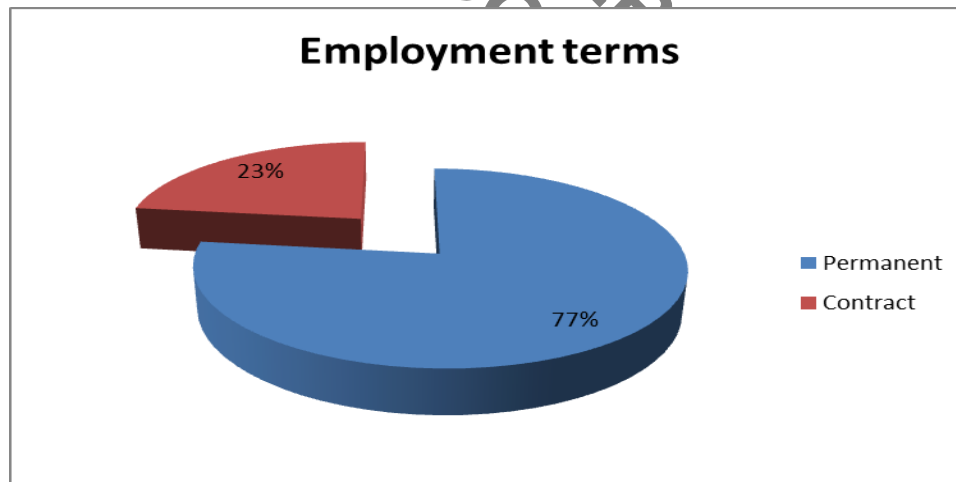
This shows that majority of respondents in the study had worked in revenue management for an adequate time to enable them answer questions on role of internal control systems in revenue management of Nyeri County.

**Table 4.4 Respondents' job experience**

Job experience (Years)	Frequency	%
< 1	2	2
1 – 3	20	22
4 – 6	37	30
6 – 10	27	40
>10	6	6
<b>Total</b>	<b>92</b>	<b>100</b>

#### e. Respondents Employment Terms

Majority (77%) of the respondents in the study were employed permanently by the Nyeri County government while 23% were on contract.



**Figure 5 Distribution of respondents' Employment Terms**

#### 4.4 Role of Control environment on revenue management

The first objective of the study sought to investigate the role internal control environment on the revenue management in Nyeri County. To achieve this objective, the researcher administered a number of statements to the participants to which they were to respond in likert scale format (1-1.499 = strongly disagreed; 1.500 - 2.499 = disagreed; 2.500 - 3.499 = not sure; 3.500 - 4.499 = agreed and 4.500 - 5.000 = strongly agreed). The findings are presented in this section. The replies were analyzed using SPSS descriptive statistics and the mean and standard deviation noted as shown in Table 4.6.

Findings indicate that there is a well and elaborate organization structure in the county of Nyeri (Mean = 4.2). The findings indicate that the county government management is committed to the operation of the internal controls (Mean=3.8). The findings also indicate that policies on staff ethics or codes of conduct exist (Mean = 4.0) and that policies and procedures are periodically reviewed (Mean = 3.2) also, specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures (0.564). However the findings indicate that management does not provide feedback to the junior officers about the operation of the system (Mean=0.931) however, a standard deviation (SD) of 0.931 indicates a significant variation in responses.

**Table 4.5 Control environment and revenue management**

Control environment	Min	Max	Mean	SD
There is a well elaborate Organization Structure in NCG	1	5	4.2	0.432
County government Management is committed to the operation of the internal controls	2	5	3.8	0.543
Policies on staff ethics or codes of conduct exist	1	5	4.0	0.690
Policies and procedures are periodically reviewed	2	5	3.2	0.723
Specific lines of authority and responsibility have been established	2	5	3.8	0.564

to ensure compliance with the policies and procedures

Management provides feedback to the junior officers about the operation of the internal control systems	1	5	2.9	0.931
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#### 4.5 Risk management on revenue management

The second objective of the study sought to examine the role of risk management on the revenue management in Nyeri County. This was achieved by asking the respondents a number of questions relating to risk management which were replied in form of a likert scale. The findings are presented in Table 4.7.

Findings in Table 4.6 indicate that the county government carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives (Mean = 3.9), the county government appropriately evaluate risks when the organization is planning and approving new products or activities (Mean = 4.1) and that county revenue management can be improved by effective risk management (Mean =4.3). However, the findings indicate that staff are not involved in discussions about appropriate controls when the organization is developing new products and activities (Mean = 1.8) and that the county government risk management policy is not made known to all staff (Mean = 2.3)

**Table 4.6 Risk management on revenue management**

Risk management	Min	Max	Mean	SD
The county government carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives.	1	5	3.9	0.673
The county government appropriately evaluate risks when the organization is planning and approving new products or activities	1	5	4.1	1.09
Staff are involved in discussions about appropriate controls when	1	5	1.8	0.660

the organization is developing new products and activities

County revenue management can be improved by effective risk management. 1 5 4.3 0.472

County government risk management policy is made known to all staff 1 5 2.3 0.381

#### 4.6 Information and communication on revenue management

The third objective of the study sought to investigate the role of information and communication on the revenue management in Nyeri County. This was achieved by asking the respondents a number of questions relating to information and communication which were replied in form of a likert scale. The findings are presented in Table 4.8.

Findings in Table 4.7 indicate that duties and roles of staff are clearly outlined (mean = 3.6), the county government's accounting systems properly manage and report transactions in accordance with the proper accounting standards (mean 3.6). However the results suggest that staff are not made aware of revenue management information (Mean = 2.2), appropriate and sufficient reports are not produced for the proper management and control of the county government (Mean=1.9) and financial reports are not easily accessible to all staff (mean =1.5).

**Table 4.7 Information and communication on revenue management**

Information and communication	Min	Max	Mean	SD
Duties and roles of staff are clearly outlined	1	5	3.6	0.635
Staff are made aware of revenue management information	1	5	2.2	0.754
County government's accounting systems properly manage and report transactions in accordance with the proper accounting standards	2	5	3.6	1.12

Appropriate and sufficient reports are produced for the proper management and control of the county government	1	5	1.9	0.937
Financial reports are easily accessible to all staff	1	5	1.5	0.540

#### 4.7 Monitoring system on revenue management

The fourth objective of the study sought to assess the role of monitoring on the revenue management in Nyeri County. This was achieved by asking the respondents a number of questions relating to information and communication which were replied in form of a likert scale. The findings are presented in Table 4.9.

Findings in Table 4.8 indicate that there is a monitoring system in the county government to determine compliance with internal controls (Mean = 3.9), the county government takes appropriate follow-up action in instances of noncompliance that are reported to it (Mean = 3.6), internal auditors periodically assess the adequacy of the organization's internal control systems (Mean = 4.2), the county government reviews the qualifications and the independence of external auditors (Mean = 3.6) and that the auditing procedures comply with ISA standards (Mean = 3.4). The findings also indicate that there is insufficient detail in audit reports, or other control assessment reports, for the county government to understand the situation as regards internal controls (Mean = 2.1) and that audit reports, or other control assessment reports are not timely enough so that the county government is able to take appropriate action (Mean = 1.9).

**Table 4.8 Monitoring of revenue management**

Monitoring	Min	Max	Mean	SD
There is a monitoring system in the county government to determine compliance with internal controls	1	5	3.9	0.654
The county government takes appropriate follow-up action in instances of noncompliance that are reported to it	1	5	3.6	0.663

Internal auditors periodically assess the adequacy of the organization's internal control systems	2	5	4.2	0.437
The county government reviews the qualifications and the independence of external auditors	1	5	3.6	0.745
The auditing procedures comply with ISA standards	1	5	3.4	0.932
There is sufficient detail in audit reports, or other control assessment reports, for the county government to understand the situation as regards internal controls	2	5	2.1	0.346
Audit reports, or other control assessment reports are timely enough so that the county government is able to take appropriate action	2	5	1.9	0.357

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#### **4.8 Relationship between internal controls and revenue management**

To establish the relationship between control management, risk management, information and communication and monitoring with role of internal control regression analysis was conducted using SPSS at 95% confidence level. The findings are presented in this section.

Findings in Table 4.10 indicates that the R square = 0.663. This means that control environment, risk management, information and communication and monitoring explain 66.3% the role of internal controls in revenue management. The p-value in Table 4.10 (p=0.014) is less than the critical value (p=0.05) this means that the model adopted by this study is significant in explaining the role of internal control systems in revenue management of Nyeri County.

Results in Table 4.12 show the regression coefficients for the model of the model. The findings indicate that control environment (p=0.03) and Monitoring (p=0.011), meaning that both are statistically significant.

The results of this study model show that monitoring affects revenue management the most followed by internal control environment, risk assessment and information and communication. According to the model, a unit increase in control environment would result in a 0.298 increase in revenue management whereas a unit change in monitoring would result in 0.308 increase in revenue management.

**Table 4.9: Model Fitness of the effect of Control systems on Revenue Management**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.912 <sup>a</sup>	.663	.443	0.040

**Table 4.10: ANOVA of Internal Control Systems and Management of Revenue**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.793	4	1.698	.819	.014 <sup>b</sup>
	Residual	535.161	258	2.074		
	Total	541.954	262			

**Table 4.11 Regression coefficients output**

Model	Coefficients <sup>a</sup>			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	3.092	.735		4.207	.000
Control Environment	.298	.187	.234	.525	.030
1 Risk Management	.091	.164	.036	.554	.580
Information and communication	.071	.058	.076	1.221	.223
Monitoring System	.308	.090	.275	1.201	.011

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the research summary, conclusions and recommendations. Further the chapter presents key areas for further research.

#### **5.2 Summary of Findings**

The study adopted a survey design to investigate the role of internal control in revenue management in Nyeri County government. The target population of the study consisted of 97 personnel from the accounting, audit and revenue collection departments in the county offices. The researcher used census method and included all 97 personnel in the study. In this study questionnaires were used. To establish the relationship between, control management, risk management, information and communication and monitoring with role of internal control regression analysis was conducted. The following are the major findings of the study.

##### **5.2.1 Control Environment and Revenue Management**

The study also found that the county government management is committed to the operation of the internal and there exists policies on staff ethics or codes of conduct. In addition, the study found that policies and procedures were periodically reviewed. The study found that there were specific lines of authority and responsibility had been established to ensure compliance with the policies and procedures. However the findings indicated that management does not provide feedback to the junior officers about the operation of the system. Control environment p-value, ( $p=0.03$ ) was found to be statistically significant.

##### **5.2.2 Risk Management on Revenue Management**

Findings indicated that the county government of Nyeri carried out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives. The findings also indicated that the county government appropriately evaluated risks

when the organization is planning and approving new products or activities. In addition the study found that the county revenue management can be improved by effective risk management. However, the findings indicated that staff were not involved in discussions about appropriate controls when the organization is developing new products and activities and that the county government risk management policy was not made known to all staff. Risk management ( $p=0.580$ ) was found not to be statistically significant.

### **5.2.3 Information and Communication on Revenue Management**

Findings indicated that duties and roles of staff were clearly outlined and that the county government's accounting systems properly managed and reported transactions in accordance with the proper accounting standards. However the results suggested that staff were not made aware of revenue management information. In addition, the study found that appropriate and sufficient reports were not produced for the proper management and control of the county government and financial reports were not easily accessible to all staff. Information and communication ( $P=0.223$ ) was found not to be statistically significant.

### **5.2.4 Monitoring System on Revenue Management**

Findings showed that there was a monitoring system in the county government to determine compliance with internal controls. In addition the study findings indicated that the county government took appropriate follow-up action in instances of noncompliance that were reported to it, internal auditors periodically assessed the adequacy of the organization's internal control systems, the county government reviewed the qualifications and the independence of external auditors and the auditing procedures complied with ISA standards. The findings also indicated that there was insufficient detail in audit reports, or other control assessment reports, for the county government to understand the situation as regards internal controls. Monitoring system  $p$ -values was found to be statistically significant.

### **5.3 Discussion of findings**

#### **5.3.1 Control environment on revenue management**

The study found that the County government of Nyeri had the necessary environment for internal controls for revenue management. This was in terms of organization structure, and commitment by the management to the operation of the internal controls. The findings also indicated that the county government had in place policies on staff ethics or codes of conduct and policies and procedures were periodically reviewed. Specific lines of authority and responsibility had been established to ensure compliance with the policies and procedures. These prerequisites point to the commitment of the Nyeri county government to affect internal controls to enhance revenue management. These findings could explain why control environment was highly affecting revenue management. However, communication and information was not well done. However, information was not well shared with junior officers.

The findings of the current study are in agreement with Byanguye (2007) who in a similar study found that there is a statistically significant positive relationship between the Control Environment and Revenue collection, ( $r = 0.482$ ,  $p < 0.01$ ) was found. The findings are also in agreement with Ndungu (2013) who found that revenue generation was greatly affected by control environment where a unit increase in control environment would result to a 0.26 billion shillings increase in revenue generated

#### **5.3.2 Risk management on revenue management**

Risk management was found to have no relationship with revenue management. Whereas the county government carried out comprehensive and systematic identification of its risks and evaluated risks when the organization is planning and approving new products or activities the staff were not involved in discussions about appropriate controls when the organization is developing new products and activities and government risk management policy was not made known to all staff. This shows that risk management was not well done. Information in risk management is important so that every employee knows about the identified risks, how to evaluate them and their roles in preventing negative effects of the said risk. The findings are in agreement with Ndungu (2013) who found that risk management was not significant, explaining only 5% of revenue

generated, however the findings are in disagreement with Byanguye (2007) who found that there was a statistically significant positive relationship between the Risk Assessment and Value for Money in Local Governments ( $r = 0.447$ ,  $P < 0.05$ ).

### **5.3.3 Information and communication on revenue management**

The study found that information and communication regarding internal controls at Nyeri County government was poorly implemented. Although duties and roles of staff were clearly outlined and the county government's accounting systems properly managed and reported the staff were not made aware of revenue management information.

In addition, appropriate and sufficient reports were not produced for the proper management and control of the county government, also, financial reports were not easily accessible to all staff. The poor information communication is a barrier to effective internal controls from revenue management. Employees and the public at large need to be informed on the undertakings of the county government. If the employees are not well informed they may not understand what is expected of them and this may lead to employee employer conflicts and poor job performance on their part. Information and communication is vital for revenue management especially in an institution like the county government which is a public institution and which by law is expected to reveal all its operations to the public. The findings are in agreement with Ndungu (2013) who found that information and communication ( $p = 0.07$ ) was not statistically significant in revenue management at UNES. However, the study findings are in disagreement with Mwachiro (2011) who found that there was a direct correlation between Information and Communication and Revenue Collection in KRA ( $r = 0.317$ ,  $p < 0.01$ ). However the findings are in disagreement with Byanguye (2007) who found that Findings further reveals that there is statistically significant relationship between Information and Communication and Value for Money in local Governments

### **5.3.4 Monitoring system on revenue management**

The study found that monitoring was carried out in the county government of Nyeri and this had a significant relationship with revenue management. Findings indicated that there was a monitoring system in the county government to determine compliance with internal controls, the county government took appropriate follow-up action in instances of

noncompliance that are reported to it, internal auditors periodically assessed the adequacy of the organization's internal control systems, the county government reviewed the qualifications and the independence of external auditors and the auditing procedures complied with ISA standards. Monitoring is essential as it ensures that goals and objectives of revenue management are being met and if not, monitoring can identify the missing link. In the context of the county government of Nyeri, monitoring is essential and is carried out by use of internal and external auditors. The auditing was done and complied with ISA standards.

The findings are in tandem with Byanguye (2007), Mwachiro (2011) who found that there is statistically significant relationship between Monitoring and revenue management.

#### **5.4 Conclusion**

The researcher concludes that there is a significant relationship between internal controls and revenue management. In the context of the County government of Nyeri the researcher concludes that revenue management has been promoted by a well-structured control environment and efficient monitoring of control activities. However revenue management is hampered by poor risk management and poor information and communication.

#### **5.5 Recommendations**

- a) County government management should provide feedback to the junior officers about the operation of the system so that they know what is expected of them in enhancing revenue management.
- b) Staff should be involved in discussions about appropriate controls when the organization is developing new products and activities and to the county government risk management policy is should be made known to all staff.
- c) The general public including the staff at the county government should be made aware of revenue management information. Appropriate and sufficient reports should be produced for the proper management and control of the county government and financial reports should be made easily accessible to all staff

- d) The county government auditors should ensure sufficient detail in audit reports, or other control assessment reports, for the county government to understand the situation as regards internal controls. The audit reports or other control assessment reports should be timely enough so that the county government is able to take appropriate action.

### **5.6 Suggestions for further study**

The researcher recommends that because many researchers have concentrated on the private sector that more research is needed for public sectors and nonprofit organizations.

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