EFFECT OF INTERNAL CONTROL SYSTEM ON THE OPERATIONAL PERFORMANCE OF ORGANIZATION: A CASE STUDY OF KENYA REVENUE AUTHORITY (KRA) HEADQUARTER, KENYA

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ABSTRACT

The issue of financial crisis has persisted despite the fact that internal control systems have been in place for many years in the majority of organizations. However, the current research aims to determine the effect of the internal control system on operational performance of Kenya Revenue Authority. The survey objectives were; to explore the effect of control environment, risk assessment, control activities and automation on the performance of Kenya Revenue Authority. The survey was anchored by New Public Management theory and Contingency Theory. A descriptive research design was utilized. The research targets 640 employees working at finance, administration and internal audit departments. The study sampled 128 respondents. Questionnaires were utilized to gather primary data. Both quantitative and qualitative data were collected. Secondary data were gathered from annual financial reports. Quantitative data were analyzed descriptively and inferentially. Qualitative data were analyzed through themes and presented in verbatim forms. Only frequency, percentage, means, and standard deviations were utilized in descriptive statistics. Regression modeling and product moment correlation were used for inferential statistics. Graphs and tables were used to display the findings. The findings show that coefficient of correlation was 0.865, an indication that the study variables significantly influenced operational performance of KRA. Coefficient of adjusted determination was 0.724 which translates to 72.4%. This indicates that variations in dependents variable was explained by the independent variables (risk assessment, control environments, control activities and automation). Also, the findings from regression coefficients revealed that risk assessment, control environments, control activities and automation significantly affect the operational performance of KRA since the P-value is less than 0.05. The study concludes that internal control systems have statistically significant relationship with operational performance of Kenya Revenue Authority. The study concludes that KRA should establish strong internal control policies that will help the firm achieve its goal of optimizing revenue collection. The study recommends that management needs to be dedicated to the system's operations, set policies and processes for authorizations at a high enough level, and make sure that clear lines of authority and responsibility have been established to guarantee policy and procedure compliance. Additionally, managers need to make sure that roles in the department responsible for collecting revenue are clearly defined, train personnel on how to use the accounting and financial management system, and finally make sure that management promptly explains any differences between actual and budgeted income.

Key Words: Internal Control System, Risk Assessment, Control Environment and Operational Performance.

INTRODUCTION

A company's performance is determined by how effectively and efficiently it uses both non-financial and financial resources. Management and the board of directors use a variety of controls, including internal control, to guarantee that the assets given to all employees are utilized as effectively as possible. In order to provide a fair level of assurance regarding an organization's objectives, internal controls include organizational policies, techniques, structures, and practices (Mohamed, 2018). In order to meet these goals, adverse risk events will be avoided, found out about, and dealt with based on compliance or management-initiated concerns.

Around the world, numerous countries have implemented tax system reforms, typically with the goal of transforming various tax systems into something more practical and liberal. The reforms were designed to increase efficiency and lower the cost of compliance, but corruption continues to be a significant barrier to effective revenue collection in many nations (Olumbe, 2014). According to a study conducted in the USA by Ajabe, Afara and Uthman (2017), political goodwill is closely related to how well tax revenue may be used to advance a nation. It is crucial to compliance levels because if people believe their money will not be used effectively, they may be reluctant to pay taxes.

Tartaglione (2019) emphasized the significance of a robust and functional banking system for macro-stability in China. Poor risk management techniques are one of the primary causes of bank failures, which contribute to financial difficulty and even indebtedness for monetary institutions all over the world. A lack of an internal control mechanism to oversee bets, or significant faults in an existing internal control framework, endangers the financial system. Running a corporation requires strong internal control systems and regular audits to prevent fraud.

According to Inusah and Abdulai (2015), the Lands Commission in Ghana has insufficient internal control measures and even little oversight of those that are already in place. The Commission does not have any official, well-designed control systems to direct its activities. According to a focus by Ayom (2013) on the internal controls and execution of non-legislative associations in Sudan. Internal auditing brought about conformity with rules and guidelines on tasks, execution, and obtainment control, but it did not bring about legitimate monetary responsibility, monetary command over spending, or proficient utilization of benefactor subsidizing.

The specified tax goals cannot be achieved for a variety of reasons. One of the main causes of inefficient tax administration and collection, which ultimately leads to tax evasion or avoidance, is a taxpayer's lack of transparency (Mahadeen, Al-Dmour, Obeidat, & Tahini, 2016). Tax evasion is the practice of failing to pay the tax that a public authority has imposed on a person, business, or other entity. Tax avoidance is the use of legal strategies to change how the tax system is exploited to lower current and future liabilities. In order to receive tax benefits, it entails enforcing fictitious transactions (Agwor & Akani, 2017).

According to Onyango (2015), there has been little change in Kenya's tax burden relative to government revenue or GDP. Spicer and Becker (2018) proceeded to say that focal government charge frameworks in numerous African nations are described by an unnecessary number of various expenses with muddled rate structures, in spite of late enhancements. This illustrates that despite the fact that the adjustments have significantly improved the effectiveness of tax collection, KRA still faces a number of challenges in its effort to raise the urgently required tax revenue. The government has trouble collecting money because of resistance from current and potential taxpayers, and high levels of illiteracy (Njuru, Ombuki, Wawire & Susan, 2019).

Diverse scholars, including Mosomi (2015), Kiri (2016) and Karanja (2018) among others, continue to record performance issues with tax collecting in different parts of the world. The misappropriation of cash from public institutions or organizations is on the rise, especially in sectors where monopolies or important services are provided. The issues concerning their internal control systems have been raised in light of such scandals. A basis for the secure and reliable running of businesses, an efficient internal control system is a vital part of business management. However, inefficient internal controls lead to inefficient programs, which ultimately result in losses (Olumbe, 2012).

According to Tjiueza (2018), the organization must perform control actions to ensure that policies and procedures are implemented. Control procedures like approvals, reconciliations, verifications, authorizations, and assessments of operational performance, responsibility distribution, and asset security are used, according to Mwazo, Weda, Omondi, and Njenga (2017). The control actions help to operationalize the elements of the control environment and the risk assessment by ensuring that the control environment and staff risk assessment are carried out (Kamau, 2016).

According to Hamdani and Albar (2016), a successful staff control environment fosters a work environment where employees are aware of their duties, the scope of their authority over job functions, and dedicated to carrying out their tasks properly. The environment of staff control is essential to the operation of revenue collection in order to guarantee that there are no fraudulent or corrupt actions that could result in income leakage.

To stay away from shocks and push the association along toward its central goal and benefit objectives, inward controls are set up. They empower the board to acclimate to quickly moving financial and serious circumstances, moving client needs and requests, and rebuilding for likely future development. According to Ibrahim, Diibuzie, and Abubakari (2017), internal controls aid in ensuring the accuracy of financial statements and compliance with legal and regulatory requirements, boosting productivity, and reducing the risk of asset loss. From the preceding, it is reasonable to conclude that an organization's operational, financial, and technological evaluations rely heavily on internal control systems. This structure aims to direct and regulate an organization's operations by fostering organizational effectiveness. According to Cheng, Goh, and Kim (2015), a public sector organization's goals and objectives necessitate fostering operational efficiency and supporting the established system.

To reduce instances of tax dodging, the Kenya Revenue Authority changed tax administration to a digital system. Through the i-Tax system, the government agency hopes to increase tax collection (Lubeka, 2017). KRA will be better able to verify and grant exemptions thanks to the computerized system. Based on the requirements of the Income Tax Act, the organization responsible for collecting taxes will approve or reject the exemptions. KRA wants to make tax collection more transparent and efficient (Wagacha, 2019).

To accomplish its targets, KRA's administration should do whatever it takes to guarantee that the current assets are carefully figured out how to procure an incentive for cash from the assets designated to them. In order for management to evaluate the business's effectiveness and efficiency, operational data should also be produced. Assuring interested parties that the information they receive is reliable, accurate, and that their business is being managed appropriately is an essential component of management stewardship responsibility. This confirmation is conveyed by making a hearty inward control framework (Mwachiro, 2019).

Kenya Revenue Authority is a semi-autonomous government body with the authority to collect taxes, this was established in 1995. With the general goal of giving functional independence in income gathering and empowering its change into a cutting edge, adaptable, and coordinated income assortment organization, the KRA was laid out for the evaluation, assortment, and requirement of regulations connecting with income. The Act established KRA as the primary agency for tax assessment and collection, and for the enforcement of tax laws and the provision of related purposes. As an agent for the gathering and reception of revenue, the Authority is generally supervised by the Minister of Finance. Currently, KRA collects over 95% of all government money (Thyaka & Kavale, 2021).

In an effort to raise the country's revenue collection percentage, the Kenya Revenue Authority maintains a well-established online platform that makes it simple to access tax-related information. On the i-Tax portal, taxpayers can among other services, view penalties, file and check taxes due, and download Tax Compliance certificates. Through the E-Citizen Kenyan platform, which is easily accessible to citizens, the Kenyan government is taking this action to automate service delivery and ensure effective tax administration.

Statement of the Problem

A weak internal control system in Kenya's public sector administration has been criticized as preventing the organization from having a clear direction in the management of resources at their disposal. As shown by the work of various organizations, the lack of sophisticated and interconnected systems designed to check one operation against another has led to their inefficiency (Mahadeen *et al.*, 2016). The implication of this is that public trust in the honesty of government institutions has diminished, as seen by instances of fraud and corruption. Kenya, like the majority of developing nations, reports having trouble raising the funds required for economic expansion (Wagacha (2019). According to the OECD (2016), there is evidence that the high rates of tax evasion and avoidance that are observed in developing nations are caused by factors such as the absence of an effective tax policy, low compliance, and inadequate tax administration.

The Kenya Revenue Authority has been unable to execute at their highest level due to lax internal control measures such poor duty segregation (permission and approval are handled by the same person). Additionally, the Kenya Revenue Authority's ability to communicate effectively and efficiently is compromised, which hinders the attainment of its aims and objectives. Furthermore, due to a lack of staff resources and the majority of them lacking experience in defining organizational performance, low level officials have not been appropriately monitored. Muhunyo and Jagongo (2018) claim that a high level of monitoring results in an extremely efficient internal control system, which in turn influences the organization's performance. The problem of financial crisis has persisted despite the majority of businesses having internal control mechanisms in place for many years. As a result, the goal of this survey is to explore how the Kenya Revenue Authority's internal control system impacts the organization's operational performance.

Objectives of the Study

1. To explore the effect of control environment on operational performance of Kenya Revenue Authority
2. To determine the effect of risk assessment on operational performance of Kenya Revenue Authority

REVIEW OF RELATED LITERATURE

This section delved into empirical and theoretical literature to help identify gaps that the study sought to fill.

Performance of Kenya Revenue Authority (KRA)

The ability to collect taxes depends on both the enforcement effort and the intrinsic relationships between the individual and the state (Omondi & Muturi, 2015). Tax evasion or wilful noncompliance with tax payment is seen as a serious offence in South Africa, but in Botswana, as indicated by the general tax amnesty conducted in 1999, the attitude of the tax office appears to be conciliatory. Namada (2019) noted that the level of enforcement also determines the level of tax compliance. When it comes to the problem of paying taxes, Kenya has also been understanding, offering amnesty on a number of occasions.

Njuru, Ombuki, Wawire and Susan (2019) assert that significant tax revenues are dependent on the resolution of disputes through the courts, the Tax Dispute Resolution (TDR) and the Tax Appeals Tribunal (TAT). This strategy focuses on using targeted administrative measures to release these funds. A dedicated TDR program was ultimately established by KRA in 2017 in an effort to enhance effectiveness, professionalism, and offer a comprehensive view of tax disputes. From the 237 TDR cases that have been resolved, KRA has so far recovered Ksh 8,102 million (KRA, 2017).

Lubeka (2017) investigated the influence of computerized technologies on the operation of Kenya Revenue Authority's customs and border control division. This study's research methodology was a descriptive survey. The report claims that the customs department's efficiency has increased as a result of its use of computers. Performance was influenced positively and significantly by the independent variables cargo security and tax clearance time. There may be many other elements outside computerized technologies that affect revenue collection, since tax administration and revenue collecting had a very small impact.

Risk Assessment and Organizational Performance

Kabuye, Kato, Akugizibwe, and Bugambiro (2019) carried out research in Uganda on the financial performance of supermarkets, working capital management, and internal control systems. The review incorporates firm-level information that were assembled by a poll study from an example of 110 stores in Uganda. It is cross-sectional and correlational in nature. The results showed that the supermarket's internal control systems fall short due to, subpar information systems, unstandardized control environment and insufficient risk assessment systems. Working capital management is moreover frequently mentioned as a crucial indicator of financial performance. Internal control frameworks don't straightforwardly influence monetary results, notwithstanding many individuals' thought process. Organizations with viable working capital administration are bound to have powerful inside control frameworks, which works on monetary productivity. However, in contrast to the previous study, which focused on supermarkets, the current investigation will be carried out at the Kenya Revenue Authority headquarters in Nairobi City County.

The performance of listed banks in Ghana was the subject of a research by Ayimpoya, Akolgo, Mbilla, and Gbegble (2020) on the implications of risk assessment, control actions and control environment. Risk assessment, control operations and environment monitoring were the three internal control system facets that were the subject of this study. Twelve named banks' representatives participated in this quantitative investigation. The descriptive research approach was used. Analyses such as regression and descriptive were performed on the field data. The outcomes of the review show that risk the executives immensely affects authoritative execution, in spite of the fact that checking conditions and control exercises have undeniably less of an effect. The previous study was done in Ghana, whereas the present study will be done in Kenya with an emphasis on KRA performance.

A study by Nyongesa (2017) on how the performance of medium-sized firms in Kisumu, Kenya is impacted by enterprise risk management practices. The research design utilized in this survey was descriptive. The questionnaire was utilized to gather the information. From the results, it was determined that risk assessment procedures help medium-sized enterprises' financial performance improve. The latest survey, however, will be carried out at KRA, whereas the previous study was undertaken at medium-sized firms.

Control Environment and Organizational Performance

A study on the effects of interior control elements on the operational viability of Moroccan public associations was conducted by Maaroufi and Hajar (2022). The survey was tailored using a descriptive research design. The outcomes demonstrated that the control climate has a significant impact on representatives' decisions regarding the hiring and compensation of leaders. Also, the outcomes uncovered that control climate has a broad impact on corporate administration effectiveness, which has an impact on the board and performance. It was stated that a strong regulatory environment improves the accuracy of financial data and the association's transparency. Mbuva, Rambo, and Oketch (2018) studied on the effect of the control environment on the success of SME initiatives in Machakos County. A descriptive survey study design and applied pragmatism philosophy were employed. The findings revealed that the organization's commitment to respectability and morals, job skill, hierarchical construction, power and obligation designation, and human asset approaches and tactics had little impact on the monetary execution component. Additionally, the organization's management philosophy, working style, and ideals of integrity and ethics all had a direct, considerable influence on non-financial performance.

Muhunyo and Jagongo (2018) did a review on the influence of internal control frameworks on the monetary execution of public advanced education establishments in Nairobi City Region, Kenya. The study's main pillars were agency theory, positive accounting theory, stewardship theory, and attribution theory. The survey utilized a descriptive design. The survey’s outcomes proved that the control environment significantly affects how well-off higher education institutions perform financially. Financial performance is negatively impacted by a weak and ineffective control environment, and vice versa. The results also showed that people's control consciousness is influenced by how an organization's approach to control is developed. The control environment affects every internal control in some way. It includes elements like the moral character and integrity of those in charge of establishing, implementing, and overseeing controls, as well as competence and obligation. The existing research will be conducted at the Kenya Revenue Authority contrary to the previous survey which was conducted on public institutes of higher learning.

Theoretical Framework

New Public Management Theory

Christopher Hood developed the theory in 1991. Incentives like pay-for-performance are used by NPM to incentivize public managers. Frequently, performance evaluations are used to assess the effectiveness of well-defined performance targets. Furthermore, managers that follow the NPM paradigm might be given more latitude and discretion in how they go about attaining the goals they have been given.

According to Simonet (2011), supporters of NPM seek a framework to replace the traditional model of bureaucratic service delivery in the public sector. The NPM theory's central tenet is that public and government organizations can become more effective and efficient by adopting private sector performance incentives and regulations. The public management theory incorporates financial market models into politics and public affairs management in this manner. The New Public Management paradigm is built on five guiding principles (Jidwin & Mail, 2015). The theory emphasizes the significance of improving the efficiency of public sector agencies in order to raise the ratio of inputs to outputs in order to address the enormous expenditures made by the public sector and eliminate inefficiencies in processes. The subsequent component put out by the NPM hypothesis is decentralization of assets and activities. Decentralization fundamentally contains the development of dynamic cycles from the focal association to the restricted levels of the public authority or government offices to diminish the costs caused by the concentrated framework. Making public area associations more effective, flexible, and sensitive to their customers' needs is the essence of decentralizing direction.

Making public sector service providers more accountable for their choices and actions is ideal since it will increase pressure on employees to perform properly. Obligation likewise makes nearby laborers more mindful of the necessities of their clients, which is a method for halting horrible patterns of waste and rot. NPM's most common features include customer satisfaction, accountability, performance auditing and management, decentralization, strategic planning and management, privatization, flexibility, personnel management, separation of politics and administration, altered management styles, contracting out, improved financial management, and increased information technology use.

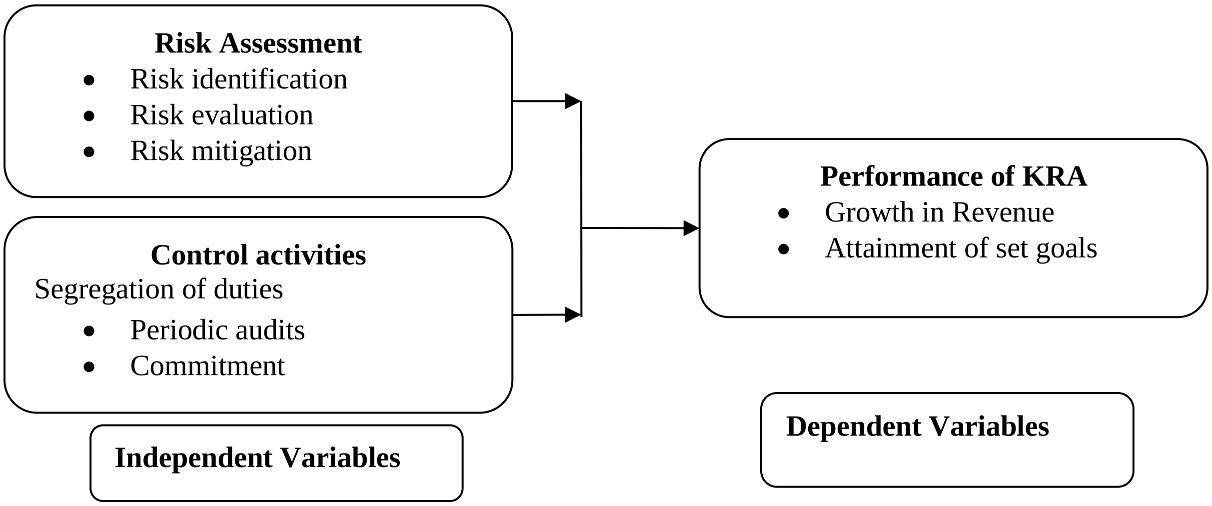
The theory is applicable to this research as help in explaining how KRA employ different strategies to enhance performance with aim of attaining set goals. The Kenya Revenue Authority also adopted new strategies to minimize resources utilization and time spent in operational functions.

Contingency Theory

Fred Fiedler concocted the hypothesis in 1964. The core goal of possibility hypothesis is to find a method for investigating hierarchical behavior that makes sense of how external influences like innovation, culture, and environment affect the formation and operation of linkages. The premise of the contingency theory is that not all associations necessitate the same kind of hierarchical arrangement. In contrast, the degree to which an organization's size, organizational structure, information system, and technology type cooperate is what determines its level of effectiveness (Otley, 2016).

There is no one best way to run a company, manage its internal control system, or make decisions, according to Lista, Advisor, and Rojas (2014). This goes against the idea. Everything, according to this viewpoint, is influenced by the personality of the manager and the workplace.
According to the contingency theory, a number of internal and external factors influence the selection and application of a management control system. It is clear that administration control frameworks are influenced by components including the outer climate, innovation, construction and scale, technique, and public culture. As indicated by the idea, the requests put on an association by specialized undertakings advance the making of plans to arrange and oversee inward exercises. However, the concept is relevant to our investigation because it suggests that businesses improve internal control systems by employing strategies based on their particular experiences.
The theory is relevant to this study since Kenya Revenue Authority is an open system that make strategic plans, balance, satisfy internal needs and simultaneously adapt the changing environment. The theory aids in understanding how internal control systems are utilized at KRA to enhance operational performance.

Conceptual Framework



RESEARCH METHODOLOGY

In this survey, a descriptive survey research design was employed. Descriptive research is all those investigations that focus on specific hypotheses, narratives, and characteristics relating to certain groups or situations, according to Nardi (2018). The research was done at Kenya Revenue Authority Headquarter in Nairobi County which is the largest city in Kenya. Nairobi City County host headquarters of various organizations, institutions, companies and banking sectors. Nairobi City County is one of the 47 counties of Kenya. It is the third-smallest county in Kenya but the most populous, with 4,397,073 people according to the 2019 census. It also serves as the nation's capital. Kiambu County is bordered to the north and west, Machakos to the east and Kajiado to the south by Nairobi County. Both dependent and independent variables were used in this survey's variables. The Kenya Revenue Authority performance is the dependent variable, and risk assessment and control environment were the independent variables. The study targeted 640 employees who are either directly or indirectly involved in control and decision-making. In order to select respondents for the review, stratified random sampling was utilized due to the diversity of the general population. Mugenda and Mugenda (2003) recognize that 10% to 30% of the target population is suitable for a sample size. The sample size for this survey were 20% of the intended population which translated to 128.

The primary and secondary data were utilized in the research. Interview schedules and semi-structured questionnaires were utilized to gather primary data. The interview schedule provides thorough and in-depth grasp of the problem. The questionnaire comprises open and closed-ended surveys. Google Forms were utilized by the study to collect data because each respondent answered the questions at their own convenience. The annual financial reports were used to collect secondary data. The secondary data were utilized to help the ends drawn from the essential information and to give extra subtleties that the respondents probably were not included. To improve data triangulation, managers were scheduled for interviews.

The gathered data were cleaned, coded, and entered into the SPSS version 26 statistical software program. Descriptive and inferential analyses of quantitative data were performed. Only frequency, percentage, means, and standard deviations were permitted in descriptive statistics. Regression modeling and product moment correlation were the only inferential statistics used. Graphs and tables were used to display the research findings. For the exploration of the link between the variables, a multiple regression model is thought to be appropriate. A 95% confidence level was used for the multiple regression analysis. Below is a multiple regression equation.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$ where:

Y	=	Performance of KRA
X_1	=	Risk assessment
X_2	=	Control environment

RESULTS AND FINDINGS

Out of 128 targeted respondents that were served with the questionnaires, 120 filled in and returned the questionnaires. This translates to a response rate of 93.75% which is deemed sufficient for the study. This correlates with Mugenda and Mugenda (2003) recommendation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This high response rate increased demographic representation and also the accuracy of the results of this study.

Further analysis of general information revealed that 70 (58.3%) of the respondents were male while 50 (41.7%) were female. This implies that respondents were drawn from all gender group to expurgate any gender biasness that might have been associated with the research findings. On age distribution among the respondents, majority of the respondents were between the ages of 41 and 50 years as presented by 37.5%. On the other extreme, only 15% of the respondents were below 30 years of age. These findings show that the various age brackets of employees working at Kenya Revenue Authority participated in the study. On the level of education, 48 (40%) of the respondents had acquired a Bachelor's degrees, 36 (30%) of the respondents indicated that they had master's degree, 21 (17.5%) had diploma and only 15 (12.5%) had attained Phd as highest level of education. These results imply that all the respondents had requisite level of literacy to understand the information sought by this study.

And finally, on experience, 26 (21.7%) of the respondents had worked for less than 5 years, 60 (50%) had worked between 6 and 10 years and 34 (28.3%) had worked for over 10 years. The findings clearly indicate that a majority of employees have worked for 6-10 years. This could be attributable to the fact that staff in this area should have obtained expertise before being entrusted with revenue collection in the organization.

Descriptive Statistics

This study utilized mean and standard deviation to present the summary measures of the sample that was observed. Analysis of descriptive statistics was conducted on the basis of the data collected on the variables that were at the core of this study. The basic feature of the observed sample formed the basis for quantitative data analysis for this study.

Risk Assessment

Several statements on the effect of risk assessment on the operational performance of Kenya Revenue Authority were identified by the researcher. Respondents were asked to indicate the extent of their agreement with each statement in regard to risk assessment and how it has influenced the operational performance. A scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4 = Agree and 5 = Strongly agree was used. The findings are as shown in Table 1

Table 1 Descriptive Statistics for Risk Assessment

Statements	Mean	Std. Dev
Revenue loss and risks have been identified by management	3.39	0.764
KRA has formulated the Internal Affairs Department	3.54	0.712
It is easier and faster to track an order electronically	3.51	0.679
KRA staff are adequately involved in internal controls	3.45	0.724
KRA has installed software and ICT up to date to help in revenue collection	4.12	0.743
Collection procedures are well documented	3.37	0.753
The employees have knowledge of revenue leakage areas	3.23	0.718
Average scores	**4.28**	**0.62**

Source: Field Data (2023)

The findings displayed in Table 1 established that majority of the respondents agreed that the revenue loss and risks have been identified by management as supported by a mean of 3.39 with standard deviation of 0.764. Respondents agreed that KRA has formulated the Internal Affairs Department as supported by a mean of 3.54 with standard deviation of 0.712. Respondents agreed that it is easier and faster to track an order electronically as supported by a mean of 3.51 with standard deviation of 0.679. Respondents agreed that KRA staff are adequately involved in internal controls as supported by a mean of 3.45 with standard deviation of 0.724. The primary purpose of internal control is to continuously evaluate whether a firm is meeting its objectives and ensure that the board managers and employees are well working to ensure the success of these strategies while keeping the level of risk at an acceptable level. This is supported by Sigilai, (2016) who established the firms should use its risk management systems to help assess potential opportunities and threats to its objectives. There are also many different risk management tools with the same purpose as internal control, such as loss prevention, loss reduction and risk financing tools that may be used to ensure that the firm continues to meet its objectives.

The study further established majority of respondents agreed that KRA has installed software and ICT up to date to help in revenue collection as shown by a mean of 4.12 with standard deviation of 0.743. Respondents agreed that collection procedures are well documented as supported by a mean of 3.37 with standard deviation of 0.753. Respondents agreed that employees have knowledge of revenue leakage areas as supported by a mean of 3.23 with standard deviation of 0.718. Internal control is one of the main methods for managing risk since it allows for risk transfer to other parties, risk sharing, contingency planning, and withdrawal from excessively risky operations. The findings agreed with those of Thyaka and Kavale (2021) who established that risk assessment is concerned with how an institution evaluates the risk of unrecorded transactions or identifies and analyzes significant estimates reflected in financial statements. Risk related to trustworthy financial reporting might also be associated with specific events or transactions. External and internal events and circumstances that may occur and negatively affect an entity's capacity to start, record, process, and present financial data consistent with management statements in the financial statement are examples of risk pertinent to financial reporting.

From the interview schedule, it was noted that;

> *"KRA employs cutting-edge risk assessment tools to assess and mitigate the risk of continuing to operate under atypical operating conditions".*

Control Environment

Several statements on the effect of control environment on the operational performance of Kenya Revenue Authority were identified by the researcher. Respondents were asked to indicate the extent to which they agreed with each statement regarding to control environment and how it has affected the performance. A scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4 = Agree and 5 = Strongly agree was used. The findings are as shown in Table 2.

Table 2 Descriptive Statistics for Control Environment

Statements	**Mean**	**Std. Dev**
Systems have been put in place to correct and avoid errors	3.64	0.685
There is a well elaborate organization structure in KRA	3.59	0.692
The Management and the board of directors are people of high Integrity	3.38	0.723
KRA has good Accounting and Financial Management System in place	3.51	0.718
There are formal guidelines for every key process of the organization	3.71	0.661
KRA Board of Directors are committed to the Internal Control System implementation	3.63	0.647
The organization culture, code of conduct and human resource polices support its objectives and internal control system	3.35	0.667
Policies, procedures and documented as well defined	3.46	0.734
Average	**4.10**	**0.60**

Source: Field Data (2023)

The results displayed in Table 2 revealed that majority of the respondents agreed that systems have been put in place to correct and avoid errors as supported by a mean of 3.64 with standard deviation of 0.685. Respondents agreed that there is a well elaborate organization structure in KRA as presented by a mean of 3.59 with standard deviation of 0.692. Respondents agreed that management and the board of directors are people of high integrity as supported by a mean of 3.38 with standard deviation of 0.723. Respondents agreed that KRA has good Accounting and Financial Management System in place as shown by a mean of 3.51 with standard deviation of 0.718. The advancement of interior control within the association is established by the control environment, which is a collection of norms, cycles, and constructs. This agrees with the findings of Benson (2020) who established that management must establish and oversee internal control procedures in order to accomplish its goals, which include delegating authority and responsibilities, communicating organizational culture, assisting in the formation of the board of directors and audit committee, and monitoring human resource policies and practices.

Also, the findings established that majority of the respondents agreed that there are formal guidelines for every key process of the organization as supported by a mean of 3.71 and standard deviation of 0.661. Respondents agreed KRA Board of Directors are committed to the Internal Control System implementation as indicated by a mean of 3.63 with standard deviation of 0.647. The participants agreed that organization culture, code of conduct and human resource polices support its objectives and internal control system as shown by a mean of 3.35 and standard deviation 0.667. Majority of the respondents agreed that policies, procedures and documented as well defined as presented by a mean of 3.46 with standard deviation of 0.734. The operational performance of organization is influenced by the supervisor's management style and the board's perspective, notably the chief executive officer's charisma and decision-making skills. This agrees with Wong and Wylo (2015) who established that corporate governance outlines divisional roles, develops operational regulations, and establishes guidelines for the board of directors, the president, and other top executives through the control environment.

The findings from interview schedules revealed that control environment sets the tone for the Kenya Revenue Authority and determines how employees carry out their activities and control responsibilities. The control environment, which provides structure and discipline, serves as the foundation for all other components of internal control. The KRA Integrity Action Plan, which placed emphasis on leadership, transparency, business reform, and modernization with the aim of reducing and ultimately eliminating corruption in revenue collection, was developed as a result of the Authority's recognition of corruption as a significant threat to revenue collection.

Inferential Statistics

The researcher conducted multiple regression analysis to examine relationship between internal control system and operational performance of KRA. In this case, risk assessment, control environments, control activities and automation were regressed on operational performance. The findings of Model Summary, ANOVA and Regression Coefficients are as shown in subsequent sections.

Model Summary

The findings of coefficient of correlation and coefficient of determinations was identified by the researcher. The findings are indicated in Table3.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.865	0.748	0.724	0.118

a. Predictors: (Constant), Risk Assessment, Control Environments,
b. Dependent Variable: Operational Performance

Source: Field Data (2023)

Table 3 shows that coefficient of correlation was 0.865, an indication that the study variables significantly influenced operational performance of KRA. Cooper and Schinder (2013) noted that this is still a strong model and that it is appropriate for use in social research provided the adjusted R square value is more than 0.10. Coefficient of adjusted determination was 0.724 which translates to 72.4%. This indicates that variations in dependents variable was explained by the independent variables (risk assessment and control environments). The residual of 27.6% could be explained by other factors beyond the scope of the current study.

ANOVA

The ANOVA result shows the sum of squares resulting from the residuals and the regression. Additionally, it shows the significance and value of the F ratio. The significance or fitness of the regression model is represented by the F. It shows how well the predictors are able to predict the dependent variable. An ANOVA was carried out at 5% level of significant level. A comparison between $F_{Calculated}$ and $F_{Critica}$l was carried out. The findings are indicated in Table 4.

Table 4 ANOVA

Model	SS	df	MS	F	Significance
Regression	18.31	2	.213	2.85	0.001[a]
Residual	82.43	118	1.751		
Total	100.74	120			

a. Predictors: (Constant), Risk Assessment, Control Environments,
b. Dependent Variable: Operational Performance

Source: Field Data (2023)

Table 4 shows that that $F_{Calculated}$ was 4.13and $F_{Critical}$ was 1.25. Since 2.85>1.25 indication that the overall regression model significantly influenced the study. The P-value was 0.002<0.05 an indication that the study variables significantly influenced operational performance of Kenya Revenue Authority.

Regression Coefficients

To investigate the effect of internal control system on operational performance of KRA, the following coefficient were generated and presented in Table 5

Table 5 Regression Coefficients

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.385	0.124		3.353	.001
Risk Assessment	0.341	0.0232	1.231	2.412	.002
Control Environment	0.235	0.0312	1.281	2.427	.003

Source: Field Data (2023)

As per the SPSS generated table, the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$) becomes:

$\mathbf{Y = 0.385 + 0.341X_1 + 0.235X_2}$

Where Y = Operational Performance of KRA

X_1 = Risk Assessment

X_2 = Control Environment

The results of regression analysis in Table 5 demonstrated that risk assessment is significant at β=0.341; t = 2.4121; p = .002. This implies that at 95% confidence level, risk assessment has a positive effect on operational performance of KRA. A unit increase in risk assessment while holding all other factors constant, performance would be at 0.341.

The results of regression analysis in Table 4.9 shows that control environment are significant at β=0.235; t = 2.427; p = .003. This indicates that at 95% level of confidence, control environment has a positive effect on operational performance of KRA. A unit increase in control environment when holding all the variables constant, performance would be at 0.235.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

From the findings the study concludes that risk assessment has a significant influence on revenue collection as indicated by the fact that majority of the respondents supported ideas that: KRA has formulated the Internal Affairs Department and members to manage resources are knowledgeable, enough and competent, and collection procedures are well documented. The study concludes that control activities influence the operational performance of KRA. This implies that control activities are actions generally described in policies, procedures, and standards that help management to mitigate risks in order to ensure that the objectives of revenue collection by KRA are achieved.

Furthermore, the study concludes that control environment influence operational performance of KRA. This implies control environment are important because they prevent frauds and misappropriation, give productive improvements and give revenue enhancements during revenue collection process by KRA.

Recommendations for policy and practice

From the findings, the study recommends the following;
The KRA should establish strong internal control policies that will help the firm achieve its goal of optimizing revenue collection.

KRA should ensure that components of control operations are improved. The management in KRA should support the organization's implementation, create policies and procedures with a reasonable level of permission, and establish clear lines of authority and responsibility to guarantee that the organization's policies and procedures are followed. Staff should be informed about how to conduct the accounting and financial statements process, and management should make sure to promptly analyze differences between actual and expected revenue in order to maintain the revenue collecting organization's regular division.

KRA should work closely with its partner agencies in order to identify the numerous risks that could adversely influence revenue collection. KRA should also make sure that the various risks are effectively and efficiently managed at every level of operations. Additionally, the organization should hire subject-matter specialists for each position in order to reduce errors brought on by ignorance and incompetence, which run the danger of costing the KRA money or putting it in conflict with other organizations.

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