# THE IMPACT OF ECONOMIC CRIMES ON EFFECTIVE REVENUE COLLECTION AMONG COUNTY GOVERNMENTS IN KENYA: A CASE OF NAIROBI CITY COUNTY

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**AN APPLIED RESEARCH PROJECT PROPOSAL SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE IN THE BUSINESS SCHOOL OF AFRICA NAZARENE UNIVERSITY**

**JUNE, 2023**

## DECLARATION

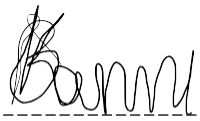
I declare that this applied research project is my original work and that it has not been presented in any other university for academic credit

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SUPERVISOR'S DECLARATION

This applied research project is submitted for examination with my approval as the university supervisor

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## EXAMINERS' SIGNATURES

We have examined this document and the research has met or exceeded the requirement for the degree sought, in addition, the candidate has sufficiently defended the material presented to merit the awarding of the master of business administration degree.

……

Internal examiner – (Typed name)

_____ _____

Internal examiner signature Date (dd/mm/yyyy)

_____

Internal/External examiner – (Typed name)

_____ _____

Internal/External examiner signature Date (dd/mm/yyyy)

Notes: (Pass, Pass with Distinction)

## DEDICATION

To my Dad Isaiah Nyakundi and Mum Eunice Ogutu for being there when I needed you and there when I needed your support not forgetting my brother Amos Nyakundi and my wife to be Elvin Moraa. You are just one of a kind. May the almighty God bless you abundantly.

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## ABSTRACT

Devolution has enabled the formation of forty-seven county governments apart from the national government. This means that the counties are able to conduct their businesses thus money circulation. This said, the probability of fund leakage through economic crimes is inevitable, hence, the need for this study. Generally, this study investigated the impact of economic crimes on effective revenue collection among county governments in Kenya with a specific focus on Nairobi County Government, this county being the capital city of Kenya. The specific objectives of the study included; to establish the impact of procurement fraud on effective revenue collection among county governments in Kenya, to determine the effects of asset misappropriation on effective revenue collection among county governments in Kenya, to establish the effects of bribery and corruption on effective revenue collection among county governments in Kenya, and to evaluate the impact of accounting fraud on effective revenue collection among county governments in Kenya. The study adopted a descriptive survey design with a target population of 12,186 employees of Nairobi County Government. Using a stratified random sampling procedure, the study estimated a sample size of 373 individuals out of which 226 successfully filled the semi-structured questionnaire survey. From the correlation and regression analysis conducted, the findings reported that there is an inverse relationship between procurement fraud and effective revenue collection. The result suggested a significant negative effect of procurement fraud on effective revenue collection within Nairobi City County. Similarly, the study demonstrated an inverse relationship between bribery and corruption and effective revenue collection. The results implied a significant negative effect of bribery and corruption on effective revenue collection among county governments in Kenya. Finally, the study reported that there is no relationship between both asset misappropriation and accounting fraud as economic crimes and effective revenue collection. This study concluded that an increase in procurement fraud and bribery and corruption practices among county officials negatively affect effective revenue collection. The study also concluded that though both asset misappropriation and accounting fraud did not have a significant relationship with effective revenue collection, they remain some of the economic crimes that relevant bodies in charge of revenue collection at county offices must pay attention to. The study recommends for future research to use different methodological approach to conduct a similar study either in Nairobi County Government or other county governments in Kenya.

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May the almighty God bless you abundantly.

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## LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **EACC** | Ethics and Anti-Corruption Commission |
| **NACOSTI** | National Commission for Science Technology and Innovation |
| **NCC** | Nairobi City County |
| **NMS** | Nairobi Metropolitan Services |
| **SPSS** | Statistical Package for Social Sciences |

## OPERATIONAL DEFINITION OF TERMS

**Accounting fraud -** it is the intentional actions of misrepresenting or altering accounting documents or records relating to expenses, sales, and revenues among others, with a view to gaining monetarily from it

**Asset misappropriation -** it is a type of internal fraud that occurs when individuals who are entrusted with managing an organization's assets steal from it.

**Economic Crime -** is an offence involving dishonesty under any written law providing for the maintenance or protection of the public revenue

**Procurement fraud -** the dishonest act of obtaining of an advantage, avoiding an obligation or causing a loss to public property or various means during procurement process by public servants, contractors or any other person involved in the procurement process.

**Total revenue collected -** this refers to the total amount of revenue collected by the county governments plus the shareable equity proportion from the national government every financial year.

# CHAPTER ONE: INTRODUCTION AND BACKGROUND OF THE STUDY

## 1.1 Introduction

This chapter outlines the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and significance of the study. It also outlines the scope of the study, delimitation and limitations of the study, assumptions of the study, theoretical framework, and the conceptual framework of the study.

The people within a jurisdiction of a country have the right to receive better social amenities which are provided for by the government (Harmse et al., 2004). For the amenities to be provided by the government, funds have to be collected by the governments so as to enable them to be in a position to provide the social amenities. Globally, governments collect revenue through the taxes imposed so as to provide the necessary public utilities to the people (Akitoby, 2018). This can be extended to the independent sub governments that are formed within the sovereign state such as municipal councils, county governments and provinces in some states in the world. However, the projected levels of total revenue collection are not being achieved due to the various economic crimes that are performed by individuals who have access to the collected funds and or the people who have an influence on the funds being collected by the different state entities (Didier, 2018).

Ligeyo (2019) by using longitudinal study sought to examine system automation and revenue collection in Siaya County Government, Kenya. Secondary data showing the annual revenue targets and collections was used for analysis. The study established that 21.74% of the revenue streams are fully automated with 30.43% being non- automated. Revenue streams which are fully automated show stability in collection by being non-volatile to external factors unlike the semi-automated and non-automated revenue streams. However, the study did not show the

influence of automation on revenue collection but rather reported the difference between automation, semi-automated and non-automated revenue streams

Ndonye (2018) analyzed factors affecting revenue collection in the ministry of state for immigration and registration of persons in Nigeria. The results also revealed that the absence of knowledge and skills on the use of ICT in the collection of revenue among the revenue collection staff, resistance to change by the employees, inadequate of ICT infrastructure and the incorporation of the non- automated system of revenue collection as some of the challenges facing revenue collection. The study however did not reveal which factors affected revenue collection but rather focused on challenges that affected revenue collection.

Kibaara (2018) sought to determine the influence of ICT adoption on successful revenue collection process by the County Government of Nairobi. The target population of the study was employees County Government of Nairobi from which a stratified sample was chosen for the study. The findings revealed that some of the electronic payment platforms were not accessible to the poor. The study was conducted in Nairobi County; hence its shortcoming was that it was difficult to generalize the findings to other rural counties in Kenya. Further, the study focused on ICT adoption, ignoring other factors that may have influence on successful revenue collection such as staff competence and internal controls.

According to Adenya and Muturi (2017) counties have collected on average just about 50% of the revenues in their budgets. Ideally, counties in Kenya are expected to identify and raise revenue from local sources in form of rates, tolls, property tax, fees and fines among others to boost their financial base for development of the locality as empowered by the constitution. However, the trends in revenue collection show overreliance on National Government Funding. Even though counties have adequate revenue bases to finance the current level of

services, revenue collection levels are often low (Karimi, Maina & Kinyua 2017). In addition, most of the county governments face serious gap between financial resources and County expenditure needs. This fiscal gap is widening as County population expand, increasing the demand for infrastructure development and other services. The fact that the growth of revenue does not match the increase in economic activities is affecting service delivery (ICPAK Devolution Baseline Survey 2014).

An economic crime, as according to the Anti-corruption and Economic Crimes act of 2003, is an offence involving dishonesty under any written law providing for the maintenance or protection of the public revenue. These crimes include the following but not limited to; asset misappropriation which results to the right assets invested in the wrong projects, procurement fraud which is the crimes committed during the procurement process, Accounting fraud which forms part of the crimes committed by misrepresentation of figures in the financial statements and bribery and corruption which forms the crimes that an organization or individual makes an irregular form of payment for a service they are entitled to get or rather pay for a service to get it expedited. The economic crimes mentioned are among the major economic crimes in Kenya (Ethics And Anti-Corruption Commission, 2018).

With these economic crimes in play, the revenue collected by the governments will reach the pockets of individuals and be used for personal gain rather than collective gain of the society at large. When this happens, alternative means of raising funds are adopted in the process such as external borrowing, use of bonds and bills of exchange, leasing among other methods to finance the deficit of the funds that were projected to be collected.

**1.2 Background of the Study**

The Dictionary of Criminal Justice Data Terminology, published by the United States Federal Bureau of Justice Statistics, defined economic crimes as a "Nonviolent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional, or semi-professional and utilizing their special occupational skills and opportunities; also nonviolent crime for financial gain utilizing deception and committed by anyone having special technical and professional knowledge of business and government, irrespective of the person's occupation". The financial gains that are obtained by the individuals are at the cost of the country at large.

According to the global economic survey conducted and released by PwC in 2018, the accumulated losses which were incurred by economic crimes amounts to 38 billion US dollars and subsequently in the global economic survey conducted and released by PwC in 2020 stipulates that the losses incurred amounted to 42 billion US dollars. This shows that there was a positive increase of the losses incurred due to economic crimes. Losses of this magnitude are likely to affect the effective collection to revenue of the countries involved. Regionally, South Africa leads the pack of countries with the highest cases of economic crimes with asset misappropriation being the most committed economic crime (PwC, 2020).

### 1.2.1 County Governments in Kenya

With the promulgation of the 2010 constitution, came 47 counties led by a governor. The counties have their own system of governance that helps to bring services closer to the people as close as they can get. With the introduction of county governments there was the introduction of the smaller government systems that will aid in the delivery of public services to the people on behalf of the national government which in return it does give a share of the national audited revenue to the county governments to aid in the running of the daily activities

and the delivery of the public services which would have otherwise have been provided by the national government.

Revenue collection at county level improves service delivery by the county governments. The counties were given the mandate by the constitution to collect revenue from their area of jurisdiction to help them run and operate the public services they are supposed to provide such as social amenities, primary health care, basic education and agriculture (The Constitution of Kenya, 2010). With the allocation of these functions by the constitution and effective ratification by the national government, the counties had to start to make their own budgets and spend the funds given by the national government to provide the public services that they are supposed to provide.

The revenue collection in Kenya among the counties has not been as efficient as is needed and as such there are huge revenue gaps (Koskei, Cheruiyot & Naibei, 2019). The transfer of taxation and expenditure powers to the devolved units in most of the lower levels of governance has come with it a fair share of issues to deal with in most developing countries (World Bank,1999). Necessitated by the discontentment of the centralized system performances, reformers resorted to decentralization to break away from the sole controls of the central governments and create a wider participation in democratic governance. Most countries use devolved units for the purposes of enabling service delivery to its inhabitants.

National policy to support enhancement of county governments own-source revenue generation (2019), stipulates that the county governments have a possible 62 methods of collection of revenue excluding the equitable share they are given by the national government. This saw the collection of 32.2 billion shillings in revenue by the counties in the 2016 – 2017

financial year (National Treasury, 2019). This raises doubts on the revenue collected if it truly reflects the total revenue sources at the disposal of the county governments.

The economic crimes have largely affected the total budget with a third amounts budgeted for get lost through economic crimes (Fombad & Steytler, 2019). The county governments are not spared either. Different counties were captured by the Auditor General's report on how they had failed in the procurement process and committed procurement fraud. One such county is Bungoma County that was reported to have purchased a wheelbarrow for a tune of Ksh 109,000 for 9 wheelbarrows purchased (Kenya National Assembly Official Record, 2018). Nakuru County was also on the spotlight by the auditor general over an amount of Ksh1.9 billion which could not be accounted for in the year under review. The auditor also queried the unsupported construction of double unit market stalls in Molo, where a contractor was paid Ksh3.8 billion for the stalls and Agricultural Development Corporation (ADC) fence. There was no inspection and acceptance report for the work done (Kenya National Assembly Official Record, 2018). On the other hand, Homabay County Assembly is accused of spending a total sum of Kshs.5, 540,800 on committee meetings outside the assembly and did not provide relevant supporting documents contrary to the law, a sum of Kshs.12,168,800 for temporary imprests given to its members for budget sessions and liaison meetings in Kisumu and Nairobi (Homabay County Assembly hansard, 2007). In its budget the County Assembly had a variance of Kshs.186,602,000 which it could not account for therefore suggesting impropriety and irregularity (Homabay County Assembly hansard, 2007). These are just some of the economic crimes that are witnessed in the counties. If the economic crimes committed in Homabay, Bungoma and other counties could have been reduced or eradicated then they could

be having sufficient funds which could be used to fund the activities of the counties as well as archive their total county revenue collection target if not supers it.

### 1.2.2 Nairobi City County

The Nairobi City County was formerly referred to as Nairobi City Council before the introduction of the counties in Kenya in the year 2010 after the promulgation of the new constitution. According to the constitution of Kenya (2010) article 202, states that revenue raised nationally shall be shared equitably among the national and county governments and the County governments may be given additional allocations from the national government's share of the revenue, either conditionally or unconditionally. The amount that is the equitable share of the revenue raised nationally that is allocated to county governments shall be not less than fifteen per cent of all revenue collected by the national government. This means that among the funds raised by the county governments, they were entitled to a share of the national revenue which should be done equitably.

In the financial 2018/2019 financial year, the national assembly allocated a total of Ksh 15.794 billion out of a total of Ksh 341 billion shillings available for allocation to the counties (The National Assembly, 2019). The county had to total budget of Ksh 32.046 billion shillings within which they were to raise a total of Ksh 15.096 billion on revenue and a total of Ksh 726 million in conditional grants to fund the budget they had proposed for the financial year (Nairobi City County Government, 2019). This vision to raise the revenue projected did not materialize due to the various economic crimes that were witnessed in the county. Among such economic crimes include the fraudulent procurement of books and illegal payment of Sh997, 926 to Primara Ventures for the supply of books that were never delivered (Nairobi City County Goverment, 2019). It is the view of the researcher that with the continuous

presence of the economic crimes in the county the county will be running of debts and will fail to honor its financial obligation notwithstanding the missing of the revenue targets set by the county itself for the purpose of running the county.

With the development of the Nairobi metropolitan service (NMS) after the governor of Nairobi city handed over four crucial functions of the county the national government. The NMS was formed to keep the county still in benefit of the services which are due to the citizens of the county since the governor could not full execute the functions of the office he holds. This has provided a challenge that staff of the county have two different heads they have to report to in the event of any action. In the process, the numerous process involved in the disbursement of the funds for different functions could be a factor to fuel the existence of economic crimes or deter the existence of the same economic crimes.

### 1.3 Statement of the Problem

Total revenue to be collected includes both tax revenue and non-tax revenue (KRA, 2019). The different bands of taxes which are imposed by the government should be able to raise sufficient funds to provide the essential social amenities to the people. Frameworks have been put in place to ensure that there is a smooth channel of collecting revenue in the country (National Treasury, 2019). The different frameworks that are in place include the creation of independent bodies and offices to oversight the revenue collection process and its prudent use. The offices include, the office of controller of budgets, office of the auditor general and the office of the exchequer. All these independent offices are supposed to assist the revenue collecting body in Kenya (Kenya Revenue Authority) to perform its duties effectively. Upon the collection of revenue by the national government, it is a constitutional requirement that the national government to share some of the national revenue to the counties.

According to the constitution chapter twelve article 202, the revenue raised by the national government is be shared equitably among the national and county governments. The County governments can be given additional allocations from the national government's share of the revenue, either conditionally or unconditionally. The amount that is the equitable share of the revenue raised nationally that is allocated to county governments shall be not less than fifteen per cent of all revenue collected by the national government. With this provision of this funds and addition of other funds that the county raises through the taxes and levies they impose on the people are more than enough to make the counties have sufficient funds to fund their projects.

Despite the huge losses that have been noted due to the economic crimes, the total revenue being collected is not sufficient and for this case a large intake of debts has been observed by counties and countries (Kirira, 2011). Nairobi City County for instance has accumulated a total of 66.58 billion in debt in the 2017-2018 financial year. This amount is enormous to be accumulated to that extent in a financial period. It insinuates that there is a breakdown in how the revenue is collected by the county that is why the expenditure is high for the county due to a high forecasted revenue collection or there is a huge appetite for funds so that they may be utilized for the various reasons in the county. With this, it is only safe to say that there is a problem in the flow of revenue in the county and subsequently how effective the county is collecting its revenue. The debts accumulated by Nairobi city county amounting to 66.576 million in 2018 and 70.204 million in 2019 (Nairobi City County Government, 2019), could have comfortably settled the existing debts in the county which include debts to statutory creditors, supplies, legal creditors, retirees, contingent liabilities and utilities. With the trend

of the cases of economic crimes in the county, the reputation of the country will be largely damaged on the face of potential foreign investors who were willing to invest in the country.

In response to the problem the study proposed to investigate the most common economic crimes in Kenya which include; asset misappropriation, accounting fraud, procurement fraud and bribery and corruption to find out the best ways to curb the economic vices in the country effectively diverting resources that are eaten away by the vices to the contribute in the total revenue collection on the country. The study also considered the different methods that could be used to make known the economic vices effectively introducing lean management concept in the utilization of public resources.

## 1.4 Purpose of the Study

The study sought to understand the effect that economic crimes have on the effective revenue collection within Nairobi City County Government. The study further evaluated individual economic crimes and what effects they have on the effective revenue collection within Nairobi City County Government.

## 1.5 Objectives of the Study

### 1.5.1 General Objectives

To investigate the impact of economic crimes on effective revenue collection within Nairobi City County Government.

### 1.5.2 Specific Objectives

i) To establish the impact of procurement fraud on effective revenue collection within Nairobi City County Government

ii) To determine the effects of asset misappropriation on effective revenue collection within Nairobi County Government

iii) To assess the effects of bribery and corruption on effective revenue collection within Nairobi City County Government

iv) To evaluate the impact of accounting fraud on effective revenue collection within Nairobi City County Government

### 1.7 Hypothesis of the Study

A hypothesis is an educated guess about a relationship of variables in the study. It must be tested in any research study, and it forms the means by which a research questions turns into predictions.

The hypothesis in this study were as follows.

**$HA_1$**: There is a relationship between procurement fraud and effective revenue collection within Nairobi City County Government.

**$HA_3$**: There is a relationship between asset misappropriation and effective revenue collection within Nairobi City County Government.

**$HA_4$**: There is a relationship between bribery and corruption and effective revenue collection within Nairobi City County Government.

**$HA_2$**: There is a relationship between accounting fraud and effective revenue collection within Nairobi City County Government.

### 1.8 Significance of the Study

This section reports the significance of this study.

This study is an important eye opener for the national government and county governments on how much they are losing to economic crimes from the total revenue collected by them and from the total allocable share given by the national government. This study is important because the citizens of a county will always demand value for their money which they have contributed though the various forms ranging from taxes to fines and any other method that the governments used so as to raise money for the provision of social amenities. If the study is not conducted, then the county governments will not be in a position to know the extent to which economic crimes has on the effective revenue collection in their counties. By addressing these research gaps, the study aims to contribute to the significant body of knowledge, for both academia and practice, on ways that procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud affects revenue collection.

## 1.9 Scope of the Study

The study was limited to Nairobi County. The research focused on the impact of economic crimes on the effective revenue collection. An assessment of the various economic crimes was done such as asset misappropriation, accounting fraud, procurement fraud and bribery and corruption were evaluated to know the influence they have on the effective revenue collection.

## 1.10 Delimitation of the Study

Delimitations of a study are those characteristics that limit the scope and define the boundaries of the study (Simon, 2011). The researcher delimited to Nairobi City County to find out the impact of economic crimes on the effective revenue collection among county governments in Kenya which are the governments that provide services to the people using public resources.

## 1.11 Limitations of the Study

Limitations of a study are potential weaknesses in a study and are out of the control of the researcher (Simon, 2011). The study many face some challenges that may threaten the successful completion of the study but the researcher is ready to face the challenges as they present themselves. Some of the challenges may include the respondents' failure to answer the questions in the questionnaire but the researcher assured the respondents that the answers given were only for academic purposes and none of the information given were used to vindicate anyone of wrongdoing whatsoever since confidentiality was maintained.

The other challenge that the researcher may face may be physically issuing the questionnaires to the respondents due to the various health restrictions due to the Covid-19 pandemic. The challenge was alive and real but the researcher embraced technology by sending the questionnaires to the respondents via emails and any other social networking platform that the respondents may feel comfortable to use. Having used this approach, the researcher positively received the information he sought while adhering to the set health regulations in place.

Finally, the researcher found it difficult to convince the management of Nairobi City County to provide information on the different variables that the researcher sought to find out since there was a division in the management structure of Nairobi City County with the Nairobi metropolitan services. To mitigate this, the researcher applied for a NACOSTI permit to show the management and the respondents that the information that they provided was for academic purposes only.

### 1.12 Assumptions of the Study

Assumptions of a study are things that are somewhat out of your control, but if they disappear your study would become irrelevant (Simon, 2011). This study was conducted with the assumption that the county governments are legal entities that have the ability to collect

revenue and audit the revenue collection process. The study also held the assumption that the counties are in existence and they will not be disbanded to be part of the larger country but they will be in existence as long as this study is conducted henceforth. Finally, the study was conducted with the assumption that the respondents were truthful in answering the questionnaires provided to then.

### 1.13 Theoretical Framework

The theoretical framework is the structure that support a theory of a research study. The study reviewed four theories in support of the topic. They included the stewardship theory, the agency theory, benefit theory of taxation and Vroom's Expectancy theory.

#### 1.13.1 Stewardship Theory

The theory explains who is responsible for items in possession. The stewardship theory was postulated by Lex Donaldson (1990) and holds that people are intrinsically motivated to work for others or for organizations to accomplish the tasks and responsibilities with which they have been entrusted. It argues that people are collective minded and pro-organizational rather than individualistic and therefore work toward the attainment of organizational, group, or societal goals because doing so gives them a higher level of satisfaction.

The theory operates under the assumption that the people who are either elected or appointed to take charge of the resources of the county governments are motivated intrinsically to work for the better good of the citizens of the county and that they shall take the best care of the resources that they are to be using for the best outcome of the citizens in the country. This theory was relevant to this study as it evaluated the underlying factors that make individuals

to fail to take care of the entrusted resources given to them by the sole individuals whom the resources belong to who are the citizens of the country.

### 1.13.2 Agency Theory

The agency theory as postulated by Adam Smith (1937) explains how to best organize relationships in which one party determines the work while another party does the work. In this kind of relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. The theory is used to better understand the relationships between agents and principals where work is delegated. The agent represents the principal in a particular transaction and is expected to represent the best interests of the principal without regard for self-interest. The different interests of principals and agents may become a source of conflict, as some agents may not perfectly act in the principal's best interests. The resulting miscommunication and disagreement may result in various problems and discord which leads to the principal-agent problem. The principal-agent problem occurs when the interests of a principal and agent conflict. In this case, the citizens are the agents and the elected and appointed officials are the principal who are expected to perform the tasks that the citizens have entrusted to them. Many at times their will be conflict of over what the principal and the agent wants since they are motivated differently.

### 1.13.4 Grounded Theory Approach - GTA

Grounded Theory Approach (GTA) (Strauss & Corbin, 1997) fits well with the nature and the objective of the study. GTA helps a researcher to incisively explore the context, and then deduce meaningful results from raw data. In GTA, a researcher interprets and makes sense of data to identify important insights as they describe a particular phenomenon (Kevin, 2006). The findings can then be refined into a substantive theory to explain the situation under

observation. The grounded 21 theory approach involves steps such as open, focused, axial, and selective coding (ibid). It also utilizes tools such as memo writing and theoretical comparisons (Charmaz, 2006). Such tools assist a researcher to gather, interpret, and relate concepts from raw data. In this research, GTA provided us with a relevant way of exploring and making sense of the adoption issues in County Government of Nairobi. This theory allows the researcher to establish and understand the relationship between County Government of Nairobi's adoption of ICT' initiatives with multiple factors. This theory supports the variables of government by relating how provision of government services by use of technology can improve on revenue collection process.

### 1.13.5 Benefit Theory of Taxation

This theory was put forward by Erik Robert Lindahl in 1960. The theory states that the government should collect taxes from individuals in reference to the benefits the individuals receive in return. The more benefits they receive from the accomplishments of the governments, the more the individual should remit to the government. The theory, just like any other has not lacked its fair share of criticism; one of the critiques is that if the government maintains a balance between the benefits offered and those received, it negates the basic principle of tax. A tax is a revenue whose obligatory contribution is done to the public authorities to facilitate expenditure of the government and the supplies of general benefit to all citizens (Booker, 2004).

Besides, majority of the expenses incurred by the state is for the common benefit of its citizens, nevertheless, it is not easy to estimate the benefit received by an individual each year so as to be obvious how much duty this individual should be charged. According to this model there should be some advantage to those who pay taxes. The free-rider problem is the primary

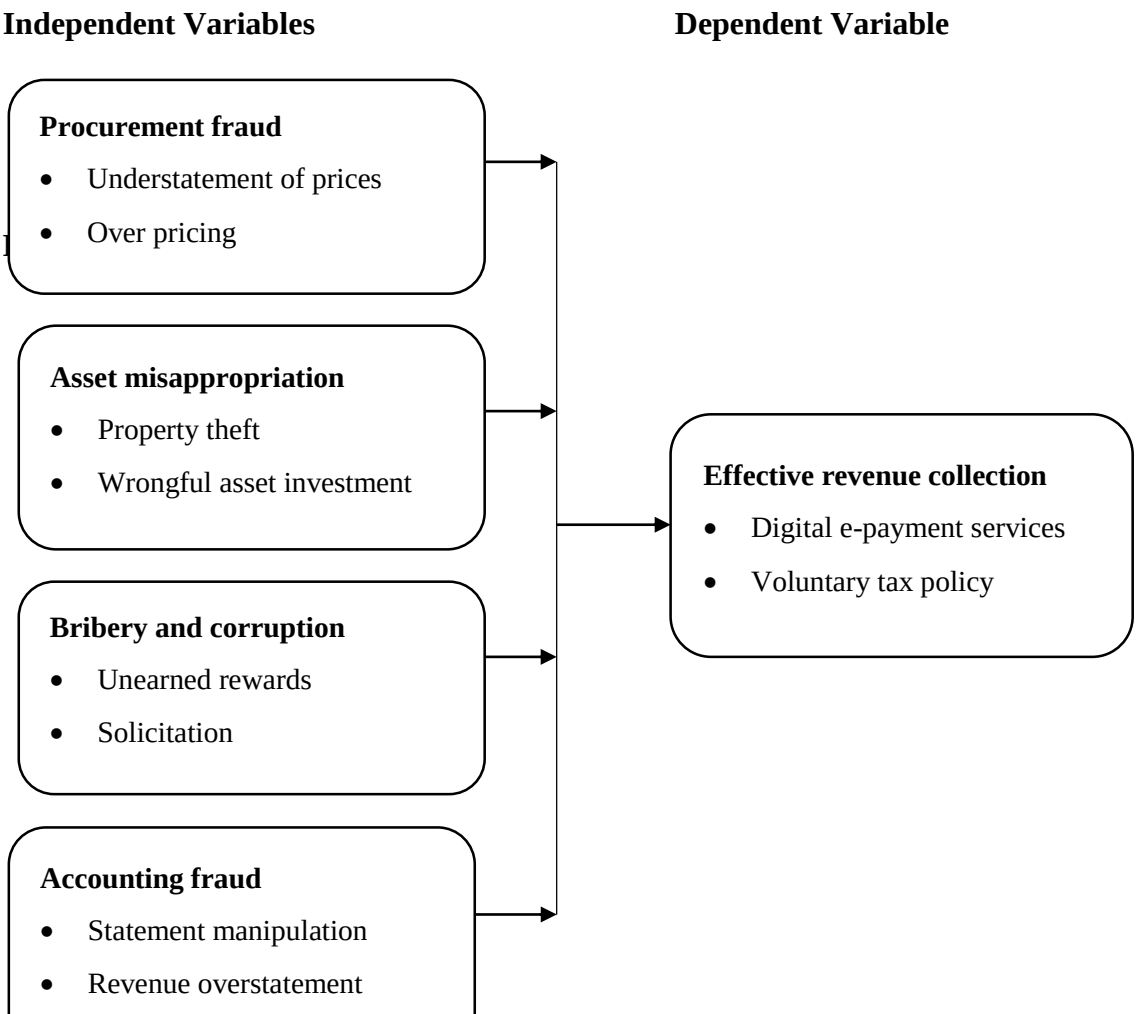
disapproval given for limiting the scope of the subsidy principle. Each individual can lower his tax cost by under reporting his aids derived from the public good or service (Brautigam, 2004).

### 1.13.6 Vroom's Expectancy Approach

The Vrooms Expectancy Theory was proposed by Victor Vroom in 1964. The approach posits that the strength of a tendency to perform in a particular approach depends on the strength of anticipation. The Expectancy theory states that the motivation of an employee is an outcome of how much an individual want as a reward, the valuation that the possibility that the effort will lead to projected performance and the belief that the performance will lead to remuneration. Valence is the significance associated by a specific action about the expected consequence (Mello, 2011). It is an expectation and not the actual gratification that an employee anticipates to receive after reaching the goals. Expectancy is the belief that greater efforts will lead to better performance. Expectancy is predisposed by factors such as ownership of suitable skills for execution of jobs, accessibility of right resources, accessibility of vital information and getting the required backing for carrying out the job (Adams, 2012). Vroom opined that employees deliberately decide whether to perform or not at the job. Vroom recognized that an employee's performance is based on individual issues such as persona, skills, knowledge, practice and abilities. The theory stated that effort, performance and inspiration are connected to a person's enthusiasm. This is exaggerated by such things as having funds available, having the right aids to do the job and having the required support to get the job done. Waema and Bawman (2005) further points out that instrumentality is the belief that if you perform well a valued outcome will be received. This is ostentatious by such things as clear understanding of the correlation between performance and outcomes.

### 1.14 Conceptual Framework

According to Mugenda and Mugenda (2003) a conceptual framework is a hypothesized model which identifies the model under study and the association between the dependent and independent variables. The independent variables therefore as described in figure 1.1 comprised of procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud which forms economic crimes. The dependent variable was effective revenue collection. The framework was based on the researcher's knowledge and understanding following a critical review of the literature.



# CHAPTER TWO: LITERRATURE REVIEW

## 2.1 Introduction

This chapter outlines the literature review, the summary of the reviewed literature and the knowledge gap of the study.

## 2.2 Effective Revenue Collection

From the government's point of view, revenue collection refers to collecting outstanding financial obligations from the public which can come in a variety of sources ranging from taxes, license fees, fines or use of state facilities (Campbell, 2018). The revenue collected forms the total revenue of a country which is defined as the total sum of funds that are collected from taxes, fines, levies, rates and penalties that are imposed on a person or an organization (National Treasury, 2019). The total revenue collective by the government is considered to be effective revenue collected when the targets of the projected revenues are met or even surpassed with a little or no leakages noticed during the collection process (National Treasury, 2019).

According to Baurer (2015), failure by a firm to deal with corrupt tax administration employees, problems are likely to be experienced in the business community. Bird (2003) argues that flaws in revenue collections operations lead to inadequate tax collections. He further records that due to such weaknesses, developing countries have become victims of inefficient tax administration. The aforementioned problem is enhanced to with insufficient

administrative staff with vital skills, and high level of illiteracy among taxpayers and tax collectors

A study conducted by (Gituma, 2017) on the determinants of effective revenue collection by Embu county found that enhancement of revenue collection in counties is core to meeting their financial responsibilities which will lead to recognition of their directive to offer valuable and well-timed services to the residents. She also found out that the demand for valuable and well timed services may possibly surpass the available resources. Counties have sufficient revenue stations to fund the current service levels, but revenue collection levels often do not meet projections (Gituma, 2017). Okech and Mburu (2011) while examining the analysis of responsiveness of tax revenue to changes in national income in Kenya found that the total revenue collected by the Kenyan government has been on the decline effectively operating from a budget deficit. This has been partly attributed to the inability of the tax system to generate sufficient revenue to finance public expenditure. Inadequacy of tax revenue to finance public expenditure has largely been attributed to lack of responsiveness of tax revenue to changes in national income (Okech & Mburu, 2011). The studies both agrees that there is a problem in the amount of revenue being collected in Kenya and there is the need to enhance the level of revenue collected hence archiving effective revenue collection. However, the study focuses on the lack of the responsiveness of tax revenue to public expenditure in terms of tax buoyancy and tax elasticity. Notably, the study fails to acknowledge the input of economic crimes in the lower levels of revenue being collected in the country and the effects they have on effective revenue collection.

Maisiba & Atambo, (2016 ) sought to establish the relationship between mobile car parking management system vocal agitation of e-payment in Nairobi County and the parking industry,

but they were aware of barriers that could be overcome. The study failed to define the particular barrier regulation mechanisms that are being applied in the present study. The Awita survey (2015) found that the use of the tax collection automation system would increase the income collection considerably. However, the study did not show how e-payment would impact revenue collection. In the study, it was recommended that the County Government of Mombasa needs to automate its revenue collection without specifying the system to use.

A study carried out by Orwa, (2019) to investigate the factors influencing revenue collection in county governments. Using primary that were obtained using closed questionnaires and secondary data, a descriptive analysis was conducted and the results showed that proper revenue collection and management at the county level leads to dire financial consequences

Kagure (2019), sought to examine the effect of internal controls on revenue management in Nairobi City County Government. Using a stratified random sampling, the data was analyzed using the quantitative technique to generate mean and frequencies. The study established that the management determines the knowledge and skills required for each position to enhance control environment as a result putting the rightful employee with appropriate capacity results in a better delivery of goals in revenue management.

The study adopted two major theories that guided research; Benefit Theory of Taxation and Vroom's Expectancy Theory.

**2.3 Economic Crimes**

An economic crime, as according to the Anti-corruption and Economic Crimes act of 2003, is an offence involving dishonesty under any written law providing for the maintenance or protection of the public revenue. These crimes deviate from the traditional crimes which

included but not limited to those illegal acts which are characterized by deceit, concealment, or violation of trust and which are not dependent upon the application or threat of physical force or violence. Individuals and organizations commit these acts to obtain money, property, or services; to avoid payment or loss of money or services; or to secure personal or business advantage (Ethics and Anti-Corruption Commission, 2003).

A study conducted by Ovamba (2018) on the effect of economic crime on economic growth in Kenya postulated that economic crimes had a significant negative effect on economic growth in Kenya such that a percentage increase in economic crime decreased economic growth by 0.87% which may be attributed to the fact that economic crimes discourages investment, savings and culture of hard work among Kenyans due to increased fraud, bribery and corruption. The study also noted that there was also unidirectional causality running from economic crime to economic growth (Ovamba, 2018). The study recommended that in order to promote growth in Kenya economic crimes need be reduced which may be achieved by the government adopting policies that criminalizes economic crimes and target prominent personalities including politicians, cabinet secretaries, judges and other civil servants in the government. (Morshedi & Gholami, 2020) while examining economic crimes and its economic damages in Iran on Iran nationals found that economic crimes had caused the destruction of financial markets, the flight of capital illegally from the country, the reduction of demand for money and a certain reduction in the annual rate of gross domestic product, the bankruptcy of the private sector, the reduction of productivity in the real economic sector and unequal income for the Iran nationals (Morshedi & Gholami, 2020).

Jepkoech (2021) sought to establish the operational determinants of revenue collection efficiency in Nandi County. Using stratified random sampling technique in data collection,

the study adopted descriptive and inferential analyses was carried out on the data collected. The study established that the four determinants of revenue efficiency had a positive and significant impact on efficient revenue collection.

Although the studies acknowledged that economic crimes are a great danger to the economic growth of the country and it should be managed to help the country grow to its utmost potential, it failed to note the effect it has on the total revenue collected in the country and the effects that will be present if the country does not have enough revenue to run its activities and provide sufficient social amenities to the people in the country.

## 2.4 Empirical Review

This section reviewed existing journal publications related to the study according to the research objectives.

### 2.4.1 Effect of Procurement Fraud on Effective Revenue Collection

The method used to procure public goods can have a significant impact on the level of participation of newer or smaller businesses (Eagan, 2015). The type and value of the contract are important factors that determine the method of solicitation. Thus, public procurements are generally carried out using different methods.

The dishonest act of obtaining of an advantage, avoiding an obligation or causing a loss to public property or various means during procurement process by public servants, contractors or any other person involved in the procurement is known as procurement fraud (Stamler et al., 2014). Procurement fraud can also be defined as a deliberate deception intended to influence any stage of the procurement lifecycle in order to make a financial gain or cause a

loss (Clementts, 2020). Procurement fraud can be separated into two distinctive sections which are the period of time before any contract is awarded and after a contract has been awarded.

(Wawire, 2020) conducted an analysis on the constraints that enhanced revenue mobilization and spending quality in Kenya and found that The new coronavirus has generated an unprecedented global crisis, bringing serious challenges to central and local public administration to ensure first and foremost the health of their citizens, as well as the continuity of public services. As part of these efforts, the Covid-19 pandemic has exposed unprecedented challenges in procuring the goods and products needed to fight the virus, while authorities around the world are taking extraordinary steps and entering into fierce competition for their procurement. Against the background of the relaxation of public procurement legislation caused by the extreme emergency situation as well as a wrongly controlled internal control system, corruption has risen rapidly due to the increased discretion of procurement staff in awarding contracts. According to a study done by Amemba et al. (2013), on the challenges affecting public procurement performance process in Kenya found that procurement process, ICT adoption, fraud, Ethics and supplier relationship management as some of the key challenges that affects public procurement performance. Legislations to regulate public procurement process in Kenyan have been implemented, through enactment of The Public Procurement and Disposal Act (2005) and Public Procurement and Disposal Regulations (2006). The study concluded that public procurement performance in Kenya can only be improved through review of existing legislations to encourage extensive use of technology in the management of the procurement process, fostering of long term buyer-supplier relations and stakeholder involvement through trainings and sensitization on practicing ethical behavior when conducting procurements.

Taylor (2022), sought to establish the strategies business managers use to detect, control and prevent procurement fraud successfully. Using data that was collected through semistructured interviews and a review of company documents, he posited that; to prevent, control and detect procurement fraud, effective communication is imperative. He went further to assert that internal control plays a vital role in procurement fraud detection. Furthermore, he went on to establish that realistic job descriptions with fair remuneration is important when to deter procurement fraud in an organization.

From the studies, it is evident that the procurement process in Kenya is under siege due to the different causes of improper procurement processes in the country among them procurement fraud and the loopholes that have been created by the Covid 19 pandemic worldwide. The studies however failed to explain its effects to the total national revenue collected by the county governments in Kenya.

### 2.4.2 Effect of Asset Misappropriation on Effective Revenue Collection

Asset misappropriation can be defined as a type of internal fraud committed by an employee of a firm or organization and occurs when a company's assets are stolen or diverted for personal use (Singleton & Singleton, 2011). Asset misappropriation can also be considered as a scheme of frauds in which a perpetrator employs trickery or deceit to steal or misuse an organization's resources and these assets are taken to directly benefit the individuals committing the fraud (Albrecht et al., 2008).

A study conducted by Wanjohi (2014), on fraud in the banking industry in Kenya noted that employee fraud was the most common fraud in the banking industry while third party fraud

was second. On the other hand, management fraud in commercial banks was very low. Some of the forms of fraud identified include: cash theft, use of forged documents, cards fraud, letters of credit fraud and impersonation. Further, this study found that there were very effective strategies to prevent and control fraud. However, the most effective strategies for prevention and control of fraud are: use of ICT tools such as passwords and firewalls, strengthening of internal controls and systems, encouragement, communication, rewards and recognition of employees, performance management, improvement and hiring systems and policies, use of expected and unexpected audits and use of analytical tools. From the findings of the study, it is clear that asset misappropriation in the banking industry is very much present and negatively affects the income prospects of the banks in Kenya.

A study conducted by (Nia & Said, 2015), on an assessment of fraud risk factors of assets misappropriation as evident in Iranian banks found that asset misappropriation in the Iranian Banking Industry has been at alarming rate since the last decade. It has caused many banks to collapse, and many investors and depositors' funds were trapped. In fact, it has prevented many banks from achieving their goals and many businesses went into liquidation (Nia & Said, 2015).

The studies had put more emphasis towards commercial banks in the banking industry but did not consider the whole nation as a whole. Using the banking industry as a microcosm to represent the whole nation as a whole, then it is true to say that there is the existence of asset misappropriation which has a negative effect on the revenue generated.

### 2.4.3 Effect of Bribery and Corruption on Effective Revenue Collection

The bribery act of 2016 defines bribery as the need of an advantage that could include money or any gift, loan, fee, reward, commission, valuable security or other property or interest in

property of any description, whether movable or immovable or any other service, favor or advantage of any description whatsoever, including protection from any penalty or disability incurred or apprehended or from any action or proceedings of a disciplinary or penal nature, whether or not already instituted, and including the exercise or the forbearance from the exercise of any right or any official power or duty. Corruption also has the same definition in the economic crimes act of 2013 making then be one and the same thing when discussed.

A study conducted by Kichwen, (2017) on the effectiveness of anti-corruption strategies in Kenya found that there were several causal factors to corruption in Kenya ranging from institutional weaknesses, poor pay packages for the civil servants and lack of transparency to accountability in public institutions. These were some of the major causes of corruption in Kenya. It also determined that there were various forms of corruption which included petty corruption, grand corruption, bureaucratic corruption, political corruption as well as private sector corruption. Various anti-corruption strategies were found to be existent and implemented by the government. These strategies range from legal, institutional through to financial. It also found out further that the government has put in place institutional frameworks to reduce the level of bureaucratic corruption in the country. It found that there were mixed results with regard to the effectiveness of the anticorruption strategies employed in Kenya and hence a mix of the strategies could be employed to perfectly curb the corruption menace in Kenya.

Peterson and Murphy (2013) also conducted a study on tackling the corruption epidemic in Kenya towards a policy of more effective control found out that despite the existence of an Anti-Corruption Commission and several other measures that have been put in place to try to tackle the corruption problem, Kenya is still classified as one of the most corrupt States in the

world. Most of these anti-corruption measures were put in place less than a decade ago, and may be categorized as either legal frameworks or as institutional initiatives and other strategies. From the findings of the study, it is clear that the corruption is a major pandemic in the country Kenya and has some serious effects on the country as it is. The study however did not access the effects that the corruption pandemic has on the total revenue collection among county governments in Kenya and thus the findings of the study cannot be used in this study.

### 2.4.4 Effect of Accounting Fraud on Effective Revenue Collection

Accounting fraud can be defined as the intentional actions of misrepresenting or altering accounting documents or records relating to expenses, sales and revenues among others, with a view to gaining monetarily from it (Stamler et al., 2014). It can also be defined as the deliberate manipulation of accounting records in order to make a company's financial performance or condition seem better than it actually is. The different types of frauds in accounting involve such actions such as inflation of stock values of a company, avoiding laid out debt obligations and obtaining lots of favorable financing.

Fernandhytia and Muslichah, (2020), conducted a study on the effect of internal control, individual morality and ethical value on accounting fraud tendency found that internal control has a significant negative effect on accounting fraud tendency. This is supposed to mean, an increase in Internal Control will decrease the tendency of accounting fraud in a company. Individual morality also has a significant negative effect on accounting fraud tendency. An increase in individual morality, which could be done by implementing the right morals in daily activity will prevent the action of fraudulent behavior. Furthermore, ethical value also has a significant negative effect on accounting fraud tendency. A proper profession ethic codes will

increase moral value in an individual's professionalism, which will minimize the action of fraudulent behavior (Fernandhytia & Muslichah, 2020).

Sharma & Panigrahi (2012) reviewed financial accounting fraud detection based on data mining techniques, it was found out that failure of internal auditing system of an organization in identifying the accounting frauds has led to use of specialized procedures to detect financial accounting fraud, collective known as forensic accounting. Data mining techniques are providing great aid in financial accounting fraud detection, since dealing with the large data volumes and complexities of financial data are big challenges for forensic accounting. The study acknowledges the existence of accounting fraud and attributes the accounting fraud to the improper internal auditing systems put in place to curb accounting fraud in organizations and the country at large.

The findings of the studies cannot be used in this study because the study was done in India which is more developed compared to Kenya and the focus of the study was not in relation to the total revenue collection in the country as it focused on the revenue of a company. The study too does not explain the effects accounting fraud has on the total revenue collecting in the country.

### 2.5 Summary on the Reviewed Literature

For a nation to fully run its activities effectively, resources are required and the resources are generated from the different methods that are imposed by the government to collect the funds as revenue to the government. In the recent past the total revenue collected by the Kenyan government has been on the decline effectively operating from a budget deficit (Okech & Mburu, 2011). The economic crimes have a significant negative effect on economic growth in Kenya such that a percentage increase in economic crime decreased economic growth which

may be attributed to the fact that economic crimes discourages investment, savings and culture of hard work among Kenyans due to increased fraud, bribery and corruption (Ovamba, 2018) effectively contributing to a decreased amount of total revenue collected in the country. In the specific cases of economic crimes such as asset misappropriation, procurement fraud, bribery and corruption and accounting fraud being committed in the country, the studies reviewed all indicate that there is a negative impact caused by the crimes to the nation at large as they are not of benefit to the country.

## 2.6 Knowledge Gap

Research has been done by Okech & Mburu (2011) on the analysis of responsiveness of tax revenue to changes in national income in Kenya in which they tried to explain the reasons in which the country is failing to collect revenue once a tax has been introduced in the country which is meant to assist in the collection of revenue. Ovamba (2018) on the effect of economic crime on economic growth in Kenya which he tried to explain the effects that economic crimes have on the economic growth of the country. Some research too has been done by Kiganda (2018) on effect of economic crime on economic growth in Kenya holds that in order to promote growth in Kenya economic crimes need be reduced which may be achieved by the government adopting policies that criminalizes economic crimes and target prominent personalities including politicians, cabinet secretaries, judges, civil servants among others. This will deter any Kenyan from engaging in economic crimes. From the above observations, it is clear that no research has been done on the impact of economic crimes on the total revenue collection among county governments in Kenya.

# CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

## 3.1 Introduction

This chapter serves the purpose of explaining the different methods used in the data collection of the research. It outlines the research design, research site and rationale, the target population, sampling procedures, and sample size. It also covers data collection procedures, research instruments, reliability of research instruments, data analysis and presentation and finally the legal and ethical considerations of the study.

## 3.2 Research Design

The research design refers to the overall strategy that a researcher will choose to integrate the different components of the study in a coherent and logical way, ensuring that it effectively address the research problem (Creswell, 2014). The design gives the researcher a direction and a strategy of enquiry to help tackle the research problem effectively. In this study, the researcher used a descriptive research design to illustrate the impact of economic crimes on the total revenue collection among county governments in Kenya. The design was best suitable to the researcher because the design has the capabilities of having a flexible data collection method which does not involve the face to face meeting of the respondents. The design too has the capabilities to accurately and systematically describe a population, situation or phenomenon.

## 3.3 Research Site

The ideal location for any study is the one where the researcher has interest in, is easily accessible and allows the researcher to interact closely with the respondents (Horvat, 2015). With this in mind, the research site which the researcher uses Nairobi City County Hall which

houses the administration of the Nairobi County. The site was chosen because the location houses all the departments of interest to the researcher and holds a vital position in the assessment of financial records of the county.

### 3.4 Target Population

A target population is the entire group of people to which the researcher wishes to generalize the study findings (Bickman et al., 1998). The target population in the study was a total of 12,186 participants among which are 12,032 employees in Nairobi County, 54 suppliers and 100 agents of the county government as according to the public records presented by the county secretary to the parliamentary public accounts committee in January 2019. This target population, the researcher used to generalize the findings.

**Table 3.1 Target Population Distribution**

| Employee categories | Actual population |
|---|---|
| Senior management | 60 |
| Middle management | 3,120 |
| Junior staff | 8,854 |
| Suppliers | 54 |
| County agents | 100 |
| Total | 12,186 |

Source: Nairobi City County (2019)

### 3.5 Study Sample

#### 3.5.1 Study Sample Size

A sample size is a part of the population chosen for a survey or an experiment (Lavrakas, 2008). The study targeted a population of 12,186 participants among which are 12,032

employees in Nairobi County, 54 suppliers and 100 agents of the county government as according to the public records presented by the county secretary to the parliamentary public accounts committee in January 2019. Since the target population is known to the researcher then the sample size was obtained using the Stratified sampling technique. The technique involved categorizing the members of the population into mutually exclusive and collectively exhaustive groups. An independent simple random sample was then drawn from each group. The technique was preferred because it can provide more precise estimates if the population being surveyed is more heterogeneous than the categorized groups and it's able to give the most representative sample of a population. The total population was in subgroups as follows with the following number of employees and the sample size to collect from each group using the Solvin's formula to find the sample size. The Solvin's formula is given by

$$\mathbf{n = N / (1 + Ne^2)}$$

Where **N** is the Population, **1** is the constant, **e** is the degree of error expected (which for this study is 0.05%), and **n** is the sample size

**Table 3.2 Population Sample Distribution**

| Employee categories | Actual population | Sample size |
|---|---|---|
| Senior management | 60 | 2 |
| Middle management | 3,120 | 95 |
| Junior staff | 8,854 | 271 |
| Suppliers | 54 | 2 |
| County agents | 100 | 3 |
| Total | 12,186 | 373 |

Source; Nairobi City County (2019).

From Table 3.2, the researcher sought to have a total number of 373 respondents which were used for data collection for the purposes of this research and academic writing.

### 3.5.2 Sampling Procedure

Sampling refers to the selection of a subset of individuals from within a statistical population to estimate characteristics of the whole population (Sharma, 2005). Among the various methods available, the researcher utilized a probability sampling method. Sampling with probability proportional to size was used by the researcher since the subgroup sampling units do not have the same number or approximately the same number of elements.

In the case of this study the researcher listed the number of elements in each subgroup irrespective of the method of ordering the subgroup then sampled systematically the appropriate number of elements from the cumulative totals (Kothari, 2004). This way the actual numbers selected do not refer to individual elements, but indicated which subgroup and how many from the subgroup were selected by simple random sampling. The method was selected because it guarantees that every individual has an equal opportunity for selection through the use of randomization

## 3.6 Data Collection

### 3.6.1 Data Collection Instruments

The various data collection instruments were developed to collect data from respondents and to also systemize the data collection from the respondents. The data collection instrument which was used in the study was structured questionnaires which were administered to the employees of Nairobi City County. The questionnaires were given to the different stakeholders of Nairobi city.

### 3.6.2 Pilot Testing of Research Instruments

The researcher conducted a pilot administering of the questionnaires to evaluate how relevant the questions in the questionnaires were to the study at Kiambu County City Hall focusing on the finance department. A desired pilot sample of between 10% and 30% of the sample size was recommended for purposes of piloting of the study (Mugenda, 1999). The researcher used 10% of the sample size. In this regard, a total of 37 questionnaires were administered to employees of Kiambu County, finance department. From the selected respondents of the questionnaires, the study found that the questionnaire was good for proceeding to the actual study.

### 3.6.3 Instrument Reliability

Reliability of an instrument refers to the degree to which research method produces stable and consistent results or data after an accepted number of repeat trials (Kothari, 2004). The study utilized Cronbach's test to measure the internal consistency of the research instrument, with a set mark that Cronbach's alpha of > .7 means the instrument is reliable and vice versa. From the findings presented in Table 3.3, all the four study variables reported a Cronbach's alpha > .7, suggesting that the instrument was reliable for making study inferences.

**Table 3.3 Reliability Test Results**

| | Cronbach's alpha | No. of items | Reliability |
|---|---|---|---|
| **Procurement fraud** | .712 | 4 | Reliable |
| **Asset misappropriation** | .739 | 4 | Reliable |
| **Bribery and corruption** | .701 | 4 | Reliable |

| | | | |
|---|---|---|---|
| **Accounting fraud** | .718 | 4 | Reliable |
| **Revenue collection** | .733 | 4 | Reliable |

### 3.6.4 Instrument Validity

Instrument validity is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform(Dudavosky & Pellissier, 2008). The process of validation involved collecting and analyzing data to assess the accuracy of the instrument used. For the researcher to archive content validity, guidance was sort from a research expert who for this case was the researcher's supervisor. Face validity of the research was archived by the researcher through administering a sample questionnaire of the pilot respondents to ascertain the clarity of the instruments and hence amend the questions of the questionnaire.

### 3.6.5 Data Collection Procedure

The researcher sought a written permission and approvals from the university's management before conducting a research for the purposes of recognition by the respondents and served as an introduction to the National Commission for Science Technology and Innovation (NACOSTI). An application for a permit to conduct the research (NACOSTI) was also applied before the commencement of the research. Primary data was collected by the researcher for the purposes of making conclusions and recommendations using questionnaires.

## 3.7 Data Analysis

A descriptive statistics like frequencies, percentage of frequencies, means, and standard deviations were used to describe or analyze participants' level of agreement questions related to each research objective. A ranking scale for means was also provided to illustrate which

statements participants highly agreed or disagreed with. The study then conducted inferential analysis to test the stated hypothesis of the study as shown in the model below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Revenue collection

$B_0$ = Constant (y-intercept)

$B_1 – B_4$ = Coefficients for each independent variable

$X_1$ = Procurement fraud

$X_2$ = Asset misappropriation

$X_3$ = Bribery and corruption

$X_4$ = Accounting fraud

A correlation analysis was conducted to demonstrate the strength of linear relationship between the study variables. Also, a regression analysis was conducted to provide necessary statistics to reject or accept the hypotheses of the study at 95% confidence level and 5% level of significance using Statistical Package for Social Software (SPSS) version 25.0.

**3.8 Legal and Ethical Considerations.**

The researcher exercised utmost caution when conducting the research and during the administering of the questionnaires. The respondents were asked to willingly answer the questions in the questionnaires without duress. The researcher sought permission from the university's management and thereafter applied for NACOSTI. With these approvals, the

researcher proceeded to the field. Confidentiality of the information that the respondents gave was maintained.

# CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

## 4.1 Introduction

This chapter presents analysis of the data collected from various respondents in the field of research. The data was interpreted according to research objectives using descriptive analysis. Similarly, inferential analysis was also conducted to test the stated four hypothesis of the study. The organization of the chapter starts with response rate, descriptive findings on general information and respondents' level of agreement with various constructs under each research objective, and hypothesis testing using correlation and regression analysis.

## 4.2 Response Rate

Of the 373 questionnaires sent to the field of the study, a total of 226 questionnaires were filled and picked for data analysis. This translated to a 61% response rate for the study as shown in Table 4.1, which according to Mugenda (1999), is good for making study conclusions. As such, the reported response rate for the study was considered good for testing the hypothesis of the study.

**Table 4.1 Response Rate**

| Response Category | Frequency | Percentage |
|---|---|---|
| Responded | 226 | 61% |
| Did not respond | 147 | 39% |
| Total | 373 | 100% |

## 4.3 Demographic Information of the Respondents

Before providing key analysis of the study in relation to the four specific research objectives, the analysis of the study started by analyzing the demographic information of the respondents.

This aimed to establish whether the established data was a representation of the whole population of the study as discussed hereunder.

### 4.3.1 Gender of the Respondents

To establish whether there was equal representation of participants in terms of gender, the study reported that about 66% of the respondents were male as opposed to 34% who were female. Therefore, it is evident that county government roles in Kenya are dominated by male employees compared to female employees (see Table 4.2 and Figure 4.1). The results suggest that to complete address the challenges of economic crimes like procurement fraud, asset misappropriation, bribery and corruption, and accounting, there is need for county governments to involve both genders so as to achieve effective revenue collection.

**Table 4.2 Gender of the Respondents**

| Gender category | Frequency | Percentage |
|---|---|---|
| Male | 149 | 66% |
| Female | 77 | 34% |
| Total | 226 | 100% |

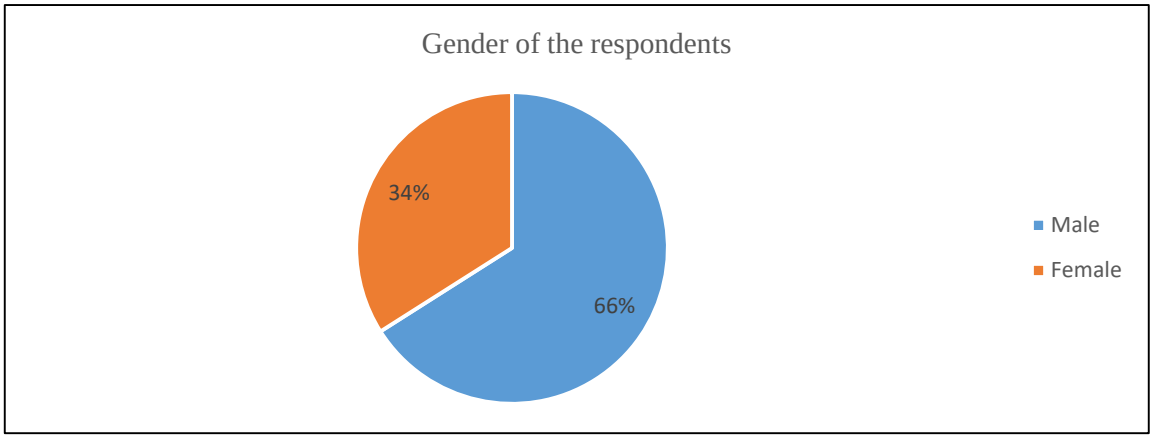



**Figure 4.1 Gender of the Respondents**

### 4.3.2 Age of the Respondents

Also, the study reported the age of the respondents to establish whether participants included in the study varies in terms of age; young versus old generation in the county offices. The results provided in Table 4.3 and Figure 4.2 indicated that majority of the respondents (53%) were aged above 49 years compared to 28% and 19% of the respondents who were aged 30 – 48 years and 18 – 29 years respectively. The results confirm that county governments have high number of old employees compared to youth population. The result, thus, imply that economic crime issue must be communicated to all the employees regardless of age so as to attain effective revenue collection.

**Table 4.3 Age of the Respondents**

| Age category | Frequency | Percentage |
|---|---|---|
| 18 – 29 years | 43 | 19% |
| 30 – 48 years | 63 | 28% |
| 49 years and above | 120 | 53% |
| Total | 226 | 100% |

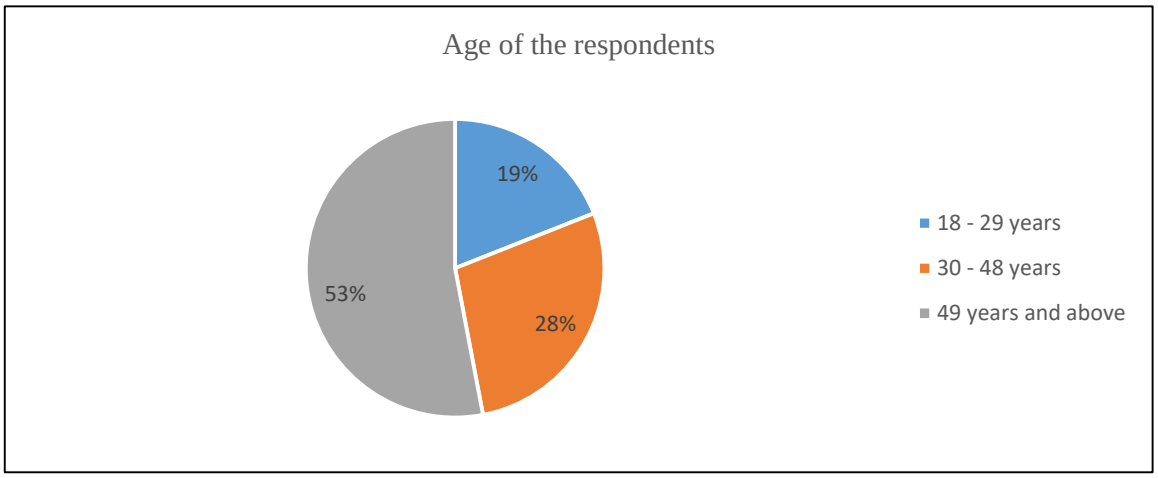



**Figure 4.2 Age of the Respondents**

### 4.4 Effect of Procurement Fraud on Effective Revenue Collection

The descriptive results provided in Table 4.4 of the study described participants' agreements with various constructs of procurement fraud as an economic crime. The results showed means and standard deviations ranging between 3.09 and 3.29 as well as .667 and .736 respectively. The established average mean of 3.19 indicated that participants agreed that procurement fraud affect effective revenue collection. Independently, fifty-four percent of the respondents as opposed to 36% and 10% of the respondents who were neutral and disagreed respectively, agreed that there is understatement of price of commodities and services being procured *(M = 3.09, SD = .667)*. Sixty-six percent of the respondents compared to 27% of the respondents who were neutral and 7% who disagreed, agreed that there is overstatement of prices of commodities and services being produced *(M = 3.11, SD = .716)*. Besides, about 71% of the respondents agreed that procurement of items and

**Table 4.4 Effect of Procurement Fraud on Effective Revenue Collection Descriptive Findings**

| Procurement fraud | Agree F, % | Neutral F, % | Disagree F, % | Mean | Rank | Std. Dev |
|---|---|---|---|---|---|---|
| There is understatement of prices of commodities and services being procured. | 122, 54% | 81, 36% | 23, 10% | 3.09 | 4 | .667 |
| | | | 16, 7% | 3.11 | 3 | .716 |
| There is overstatement of prices of commodities and services being procured. | 149, 66% | 61, 27% | 16, 7% | 3.29 | 1 | .736 |
| Procurement of items and services that are not delivered happens. | 160, 71% | 50, 22% | 27, 12% | 3.25 | 2 | .726 |
| | | | | 3.19 | | |

| | | |
|---|---|---|
| The effective revenue collection of NCC is affected by procurement fraud. | 167, 74% | 32, 14% |
| Average Mean | | |

F – Frequency, % - Percentage

services that are not delivered happens compared to 22% and 7% of the respondents who were neutral and disagreed respectively *(M = 3.29, SD = .736)* (see Table 4.4). Lastly, the results revealed that approximately 74% of the respondents as opposed to 14% and 12% of the respondents who were neutral and disagreed respectively, agreed that the effective revenue collection of NCC is affected by procurement fraud *(M = 3.25, SD = .726)*. The findings showed that respondents agree that procurement fraud is an economic crime that needs to be addressed to achieve effective revenue allocation among county governments.

### 4.5 Effect of Asset Misappropriation on Effective Revenue Collection

The second objective of the study determined the effect of asset misappropriation as an economic crime on effective revenue collection among county governments in Kenya. The descriptive results indicated means and standard deviations ranging between 3.02 and 3.22 as well as .724 and .871 respectively together with an average mean of 3.10 as shown in Table 4.5. Generally, the findings demonstrated that 72% of the respondents contrasted to 9% and 19% of the respondents who were neutral and disagree respectively, agreed that property theft affects NCC's effective revenue collection *(M = 3.05, SD = .820)*. About 64% of the respondents as opposed to 22% and 14% of the respondents who were neutral and disagreed respectively, agreed that wrongful asset investment affects NCC's effective revenue collection *(M = 3.09, SD = .805)*.

Eighty-nine percent of the respondents agreed that personal use of the county's assets affects NCC's effective revenue collection in contrast to 6% and 5% of the respondents who were neutral and disagreed respectively *(M = 3.22, SD = .871)*. Also, approximately 81% of the respondents contrasted to 14% and 5% of the respondents who were neutral and disagreed respectively, agreed that the effective revenue collection is affected by asset misappropriation *(M = 3.02, SD = .724)* (see Table 4.5). The descriptive outcome indicated that most participants agree that asset misappropriation is a menace that should be addressed to attain effective revenue collection among county governments.

**Table 4.5 Effect of Asset Misappropriation on Effective Revenue Collection Descriptive Findings**

| Asset misappropriation | Agree F, % | Neutral F, % | Disagree F, % | Mean | Rank | Std. Dev |
|---|---|---|---|---|---|---|
| Property theft affects NCC's effective revenue collection. | 163, 72% | 20, 9% | 43, 19% | 3.05 | 2 | .820 |
| Wrongful asset investment affects NCC's effective revenue collection. | 145, 64% | 50, 22% | 31, 14% | 3.09 | 3 | .805 |
| Personal use of the county's assets affects NCCs effective revenue collection. | 201, 89% | 14, 6% | 11, 5% | 3.22 | 1 | .871 |
| The effective revenue collection of NCC is affected by asset misappropriation. | 183, 81% | 31, 14% | 12, 5% | 3.02 | 4 | .724 |
| Average Mean | | | | 3.10 | | |

F – Frequency, % - Percentage

### 4.6 Effect of Bribery and Corruption on Effective Revenue Collection

Similarly, the study assessed the effect of bribery and corruption as economic crime on effective revenue collection and descriptive results presented in Table 4.6. According to the results, means and standard deviations for the constructs used to measure bribery and corruption ranges from 2.89 to 3.32 and between .735 and .892 respectively. Regarding inter-item analysis of constructs provided, sixty-nine percent of the respondents disagreed that extortion by individuals affects NCC's effective revenue collection compared to 26% and 5% of the respondents who agreed and remained neutral respectively *(M = 2.89, SD = .735)*. Besides, around 71% of the respondents as opposed to 8% and 21% of the respondents who were neutral and disagreed respectively, agreed that solicitation for rewards affects NCC's effective revenue collection *(M = 3.06, SD = .892)*.

Table 4.6 also revealed that 67% percent of the respondents agreed that demand of earned rewards affects NCC's effective revenue collection as opposed to 11% of the respondents who were neutral and 22% of the respondents who disagreed *(M = 3.16, SD = .778)*. Finally, the results indicated that nearly 75% of the respondents as opposed to 7% and 18% of the respondents who were neutral and disagreed respectively, agreed that the effective revenue collection of NCC is affected by bribery and corruption *(M = 3.32, SD = .871)*. The results indicate that majority of the respondents agree that bribery and corruption is an economic crime that affect the process and effectiveness of revenue collection among county governments.

**Table 4.6 Effect of Bribery and Corruption on Effective Revenue Collection Descriptive Findings**

| Bribery and corruption | Agree F, % | Neutral F, % | Disagree F, % | Mean | Rank | Std. Dev |
|---|---|---|---|---|---|---|
| Extortion by individuals affects NCCs effective revenue collection. | 59, 26% | 11, 5% | 156, 69% | 2.89 | 4 | .735 |
| Solicitation for rewards affects NCCs effective revenue collection. | 160, 71% | 18, 8% | 48, 21% | 3.06 | 3 | .892 |
| Demand of unearned rewards affects NCCs effective revenue collection. | 151, 67% | 25, 11% | 50, 22% | 3.16 | 2 | .778 |
| The effective revenue collection of NCC is affected by bribery and corruption. | 170, 75% | 16, 7% | 40, 18% | 3.32 | 1 | .871 |
| Average Mean | | | | 3.11 | | |

F – Frequency, % - Percentage

### 4.7 Effect of Accounting Fraud on Effective Revenue Collection

The study also sought to determine participants' level of agreement with various constructs of accounting fraud and its effect on effective revenue collection. The descriptive results showed in Table 4.7 revealed means and standard deviations ranging between 2.93 and 3.42 as well as .788 and 898 respectively. The reported average mean of 3.12 indicated that participants agreed that accounting fraud affects effective revenue collection. The independent analysis of items provided that about 72% of the respondents agreed that manipulation of financial statements affects NCC's effective revenue collection as opposed to 9% and 19% of the respondents who were neutral and disagreed respectively *(M = 3.02, SD = .788)*. Sixty-five

percent of the respondents compared to 27% and 8% of the respondents who were neutral and disagreed respectively, agreed that understatement of expenses affects NCC's effective revenue collection *(M = 3.09, SD = .797)*.

**Table 4.7 Effect of Accounting Fraud on Effective Revenue Collection Descriptive Results**

| Accounting fraud | Agree F, % | Neutral F, % | Disagree F, % | Mean | Rank | Std. Dev |
|---|---|---|---|---|---|---|
| Manipulation of financial statements affects NCCs effective revenue collection. | 163, 72% | 20, 9% | 43, 19% | 3.02 | 3 | .788 |
| Understatement of revenue affects NCCs effective revenue collection. | 147, 65% | 61, 27% | 18, 8% | 3.09 | 2 | .797 |
| Overstatement of expenses affects NCCs effective revenue collection. | 76, 35% | 46, 20% | 104, 46% | 2.93 | 4 | .811 |
| The effective revenue collection of NCC is affected by accounting fraud. | 115, 51% | 70, 31% | 41, 18% | 3.42 | 1 | .898 |
| Average Mean | | | | 3.12 | | |

F – Frequency, % - Percentage

Also, forty-six percent of the respondents disagreed that overstatement of expenses affects NCC's effective revenue collection as opposed to 35% of the respondents who agreed and 20% of the respondents who remained neutral *(M = 2.93, SD = .811)*. Lastly, over half of the respondents (51%) agreed that the effective revenue collection of NCC is affected by accounting fraud as opposed to 31% and 18% of the respondents who were neutral and disagreed respectively *(M = 3.42, SD = .898)* (see Table 4.7). The findings imply that

participants agree that accounting fraud is a problem to the successful or effective revenue collection, thus, should be addressed effectively by the management.

### 4.8 Effective Revenue Collection

The dependent variable of the study was effective revenue collection and the descriptive results in Table 4.8 revealed participants' level of agreement with various constructs related to the dependent variable. The results showed that 61% of the respondents agreed that there is better use of electronic payment system to improve revenue collection as opposed to 26% and 13% of the respondents who were neutral and disagreed respectively *(M = 3.16, SD = .752)*. Sixty-four percent of the respondents as opposed to 16% and 20% of the respondents who were neutral and disagreed respectively, agreed that there is strong management information systems linking different revenue systems *(M = 3.02, SD = .835)*. Approximately 51% of individuals compared to 21% and 28% of the respondents who were neutral and disagreed, agreed that there is better voluntary tax compliance policy to promote revenue collection *(M = 3.09, SD = .919)*. Lastly, the results reported that 56% of the respondents agreed that there is strong investment in digital services to improve county licensing service as opposed to 27% of the respondents who remained neutral and 17% of the respondents who disagreed *(M = 3.04, SD = .977)* (see Table 4.8). The descriptive result confirmed that effective revenue collection is important for economic growth and is highly supported by effective digital services, management information system, and better voluntary tax compliance.

**Table 4.8 Effective Revenue Collection Descriptive Results**

| Effective revenue collection | Agree F, % | Neutral F, % | Disagree F, % | Mean | Rank | Std. Dev |
|---|---|---|---|---|---|---|
| There is better use of electronic payment system to improve county revenue collection. | 138, 61% | 59, 26% | 29, 13% | 3.16 | 1 | .752 |
| There is strong management information systems linking different revenue departments | 145, 64% | 36, 16% | 45, 20% | 3.02 | 4 | .835 |
| There is better voluntary tax compliance policy to promote revenue collection. | 115, 51% | 47, 21% | 64, 28% | 3.09 | 3 | .919 |
| There is strong investment in digital services to improve county licensing services. | 127, 56% | 37, 17% | | 3.04 | 2 | .977 |
| Average Mean | | 61, 27% | | 3.08 | | |

F – Frequency, % - Percentage

### 4.9 Hypothesis Testing

Importantly, the study conducted correlation and regression analyses to test the stated four hypothesis of the study. Specifically, correlation was conducted to determine the linear relationship between the independent variables (procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud) and the dependent variable (effective revenue collection). The results in Table 4.9 established that in relation to the first objective of the study, findings reported a strong significant correlation between procurement fraud and effective revenue collection, $r(225) = -.406, p < .05$.

**Table 4.9 Correlation Analysis of Impact of Economic Crimes on Effective Revenue Collection**

**Correlation**

| Variables | | Procurement fraud | Asset misappropriation | Bribery & corruption | Accounting fraud | Revenue collection |
|---|---|---|---|---|---|---|
| Procurement fraud | Corr. | 1 | | | | |
| | Sig. | | | | | |
| | N | 226 | | | | |
| Asset misappropriation | Corr. | .327** | 1 | | | |
| | Sig. | .000 | | | | |
| | N | 226 | 226 | | | |
| Bribery & corruption | Corr. | .410** | .351** | 1 | | |
| | Sig. | .000 | .000 | | | |
| | N | 226 | 226 | 226 | | |
| Accounting fraud | Corr. | .279** | .497** | .381** | 1 | |
| | Sig. | .000 | .000 | .000 | | |
| | N | 226 | 226 | 226 | 226 | |
| Revenue collection | Corr. | -.409** | .213** | -.396** | .181** | 1 |
| | Sig. | .000 | .000 | .000 | .006 | |
| | N | 226 | 226 | 226 | 226 | 226 |

**. Correlation is significant at the .01 level (2-tailed)

Concerning the second objective of the study, Table 4.9 results revealed a moderate significant positive correlation between asset misappropriation and effective revenue collection, $r(225) = .213, p < .05$. Similarly, on the third objective of the study, the findings demonstrated a strong significant negative correlation between bribery and corruption and effective revenue collection, $r(225) = -.396, p < .05$. On the last objective of the study, the findings showed a weak significant positive correlation between accounting fraud and effective revenue collection, $r(225) = .181, p < .05$. Generally, the results demonstrated that all the four independent variables (procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud) are positively correlated to effective revenue collection among county governments.

The study also presented a regression model summary to show the combined likelihood of changes in effective revenue collection as a result of changes in the four independent variables of the study; procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud as demonstrated in Table 4.10. The findings revealed both R and R Square. **R** of .480 denoted a coefficient of determination which suggested a strong significant correlation between the four independent variables and the dependent variable of the study. The **R – Square** of .231 showed that procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud can cause 23.1% variances in effective revenue collection ($R^2 = 23.1, F(4, 221) = 16.560, p < .05$). The results imply that there could be other economic crime aspects which affect effective revenue allocation and not included in the model.

**Table 4.10 Regression Model Summary of Impact of Economic Crimes on Effective Revenue Collection**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .480[a] | .231 | .217 | .56229 |

a. Predictors: (Constant), Procurement fraud, Asset misappropriation, Bribery and corruption, Accounting fraud

The ANOVA regression results in Table 4.11 explained goodness of fit of the model. The results indicated that the model significantly tested the impact of economic crimes (procurement fraud, asset misappropriation, bribery and corruption, and accounting fraud) on effective revenue collection, $F(4, 221) = 16.560, p < .05$.

**Table 4.11 Regression ANOVA Output of Impact of Economic Crimes and Effective Revenue Collection**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 20.943 | 4 | 5.236 | 16.560 | .000[b] |
| | Residual | 69.874 | 221 | .316 | | |
| | Total | 90.817 | 225 | | | |

a. Dependent Variable: Effective revenue collection

b. Predictors: (Constant), Procurement fraud, Asset misappropriation, Bribery and corruption, Accounting fraud

Finally, the study conducted a regression coefficients analysis to test the hypotheses of the study and the findings were presented in Table 4.12 and independently discussed according to the research hypothesis.

*$H_{01}$: There is a relationship between procurement fraud and effective revenue collection among county governments in Kenya*

The results as shown in Table 4.12 demonstrated an inverse relationship between the two variables: procurement fraud and effective revenue collection ($\beta = -.453, p < .05$). The findings, thus, confirmed that the study rejected the stated alternative hypothesis and concluded there is no relationship between procurement fraud and effective revenue collection among county governments in Kenya. The findings concurred with Amemba et al. (2017) that procurement fraud presents dishonesty that adversely destabilizes business processes, thus decrease revenue collection.

**Table 4.12 Regression Coefficients of Impact of Economic Crimes on Effective Revenue Collection**

**Coefficients[a]**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| Model | B | Std. Error | Beta | t | Sig. |
| 1 (Constant) | .792 | .434 | | 1.826 | .049 |
| Procurement fraud | -.453 | .103 | .292 | 4.409 | .000 |
| Asset misappropriation | .039 | .078 | .035 | .504 | .061 |
| Bribery & corruption | -.342 | .086 | .272 | 3.970 | .000 |
| Accounting fraud | .028 | .088 | .022 | .315 | .053 |

a. Dependent Variable: Effective revenue collection

*$H_{02}$: There is a relationship between asset misappropriation and effective revenue collection among county governments in Kenya*

Additionally, the study tested the second hypothesis of the study and findings in Table 4.12 revealed insignificant positive relationship between asset misappropriation and effective revenue collection ($\beta = .039, p > .05$). This indicated that the study rejected the alternative hypothesis and accepted the null hypothesis that there is no significant relationship between asset misappropriation and effective revenue collection. The results supported Nia and Said's (2015) findings that though the effect of misappropriation may be low, it has adverse effects on revenue collection.

*$H_{03}$: There is a relationship between bribery and corruption and effective revenue collection among county governments in Kenya*

Regarding the third hypothesis of the study, the findings of the study also displayed an inverse relationship between the variables ($\beta = -.342, p < .05$). The results meant that the study rejected the alternative hypothesis and conclude that there is no significant positive relationship between bribery and corruption and effective revenue collection among county governments in Kenya (see Table 4.12). The results Kichwen (2017) that bribery affects various institutions mandated to collect revenue, thus poor performance in terms of collections.

*$H_{04}$: There is a relationship between accounting fraud and effective revenue collection among county governments in Kenya*

Concerning the fourth and final hypothesis of the study, the outcome of the study as described in Table 4.12 showed an insignificant positive relationship between accounting fraud and effective revenue collection ($\beta = .028, p > .05$). The results demonstrated that the study rejected the alternative hypothesis and concluded that there is no significant relationship

between accounting fraud and effective revenue collection. The results suggest agreed with Panigradhi (2012) that accounting fraud destabilizes business.

# CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

## 5.1 Introduction

This chapter provides a summary of the findings together with a detailed discussion of the research findings and how the findings compares to the existing studies in the empirical literature. The chapter then provides conclusions based on the study findings and the discussion. The final section of the chapter provides various recommendations.

## 5.2 Summary of Findings

The purpose of this study was to investigate the impact of economic crimes on effective revenue collection among county governments in Kenya. Specifically, the study sought to establish four specific objectives: to establish the impact of procurement fraud on effective revenue collection, to determine the effects of asset misappropriation on effective revenue collection, to assess the effects of bribery and corruption on effective revenue collection, and to evaluate the impact of accounting fraud on effective revenue collection among county governments in Kenya. The study adopted a descriptive survey design and data was collected using questionnaire survey from a total of 226 participants who responded to the study survey. Generally, the study established there were more male than female employees at the county governments. Moreover, majority of the employees or participants of this study were old employees compared to young employees. With respect to the hypothesis of the study, the results indicated that only procurement fraud and bribery and corruption had inverse relationship (negative effect) with effective revenue collection. This suggested that the study accepted the null hypothesis and rejected the alternative hypothesis. Additionally, the study

rejected the alternative hypothesis and concluded that there is no relationship between both asset misappropriation and accounting fraud as economic crimes and effective revenue collection.

## 5.3 Discussions

In this section, the study provides a detailed discussion of the research findings as provided in the data analysis section. The study then compares the findings to previous studies outlined in the empirical literature of the study.

### 5.3.1 Effect of Procurement Fraud on Effective Revenue Collection among County Governments

In determining the effect of procurement fraud on effective revenue collection among county governments in Kenya, both descriptive and inferential analysis presented useful results. First, descriptive findings indicated that respondents agreed that procurement fraud is a challenge and essentially affects effective revenue collection. The findings were supported by regression coefficients results which highly demonstrated that the study rejected the alternative hypothesis and concluded there is inverse relationship between procurement fraud and effective revenue collection among county governments. The findings suggest that increase in procurement fraud activities causes significant negative effect on effective revenue collection, and to a greater extent, is a menace to the management of county governments. The findings corroborated with previous findings highlighted in the empirical literature of the study.

For instance, the results agree with Amemba et al. (2013) who studied challenges affecting public procurement performance process in Kenya and found that procurement process is a

major problem due to increasing fraud. The authors argued that procurement process is where fraud happens and has over the years significantly affected the performance of public procurement negatively in Kenya. Together, the findings confirm that procurement fraud requires better process so as to improve different public goals including effective revenue collection. Similarly, the findings concurred with Stamler et al. (2014) that procurement fraud represents dishonesty act during the procurement process. It involves obtaining some form of advantage which affect the procurement process, thus, causing significant loss to public objectives including effective revenue collection or transparent public procurement activities in Kenya.

In a recent analysis on the constraints that enhanced revenue mobilization and spending quality in Kenya during the COVID-19 pandemic, Wawire (2020) pointed out that one of the most administration challenges during that time is the procurement fraud which highly affected procurement process. The results by Wawire relates to the findings of this current research that procurement fraud is a challenge that lowers efforts towards effective revenue collection. The study confirmed that slight increase in procurement fraud in public or county government offices deems the chances of effective revenue collection. The results also support Ovamba's (2018) outcome that procurement fraud as an economic crime reduces economic growth. Specifically, Ovamba found that economic crimes like procurement fraud have a significant negative effect on economic growth in Kenya such that a percentage increase in procurement fraud decreases economic growth.

### 5.3.2 Effect of Asset Misappropriation on Effective Revenue Collection among County Governments

The second objective of the study evaluated the effect of asset misappropriation on effective revenue collection among county governments in Kenya with a specific focus on the county government of Nairobi. The regression conducted indicated that there is insignificant positive relationship between asset misappropriation and effective revenue collection among county governments in Kenya. This finding implied that the study rejected the alternative hypothesis and concluded that there is no relationship between the two variables. That is, existing in asset misappropriation does not significantly increase effective revenue collection revenue. Rather, asset misappropriation as an economic crime could affect the growth and not the revenue collection process or activities.

Though previous studies like Nia and Said (2015) found existing effect of asset misappropriation as an economic crime which is not in agreement with the current findings of this study, the authors conducted their studies in the banking which is not like the context of county government operations. The results of the study and this current study inform the readers that though the effect of asset misappropriation could be small compared to other economic crimes committed in the same organizations, it causes organizations to collapse, forcing many organizations not achieve their goals. Additionally, Nia and Said demonstrated that in the banking industry, asset misappropriation negatively affects the income prospects of an organization, especially banking industry. Similarly, the study agreed with Wanjohi (2014) that the effect of asset misappropriation is usually very low on managerial activities, especially where there are effective internal controls and systems.

Previously, Okech and Mburu (2011) analyzed the responsiveness of tax revenue to changes in national income in Kenya and reported that revenue collected has been facing some challenges which has declined operating budget deficit. This study attributed the causes to tax system that is not sufficient to generate revenue and existing of frauds. The study, however, did not clearly attributed the decline in tax revenues to asset misappropriation. Thus, this could have suggested that there is no significant positive relationship between asset misappropriation and tax revenue. These findings relate to the findings of the current study where despite results indicating positive regression coefficients with higher p-values, the study concluded that effect of asset misappropriation on effective tax revenue is minimal. This implied no relationship between the variables of the study.

### 5.3.3 Effect of Bribery and Corruption on Effective Revenue Collection among County Governments

Concerning the third objective of the study which determined the effect of bribery and corruption on effective revenue collection, the study found an inverse relationship between the two variables. The results demonstrated that bribery and corruption have a significant negative effect on effective revenue collection where increase in bribery and corruption as an economic crime negatively affects effective revenue collection and a decrease in bribery and corruption positively affects effective revenue collection. The regression findings were supported by descriptive results where nearly all the respondents showed a positive perception that bribery and corruption negatively affects effective revenue collection and should be addressed to achieve effective revenue collection. The results suggest that bribery and corruption remains a major challenge in all sectors of national and county governments. The findings of this study hold similar assertions to previous studies in the literature.

The findings agree with the findings of Kichwen (2017) whose study reported that there are different types of corruption challenges that affects various institutions in Kenya including county governments. The study provided corruption in Kenya is a major hindrance to national develop and growth, it affects transparency and accountability of public institutions. The study went ahead to propose strategies that can be used to address bribery and corruption as economic crimes including developing institutional frameworks that aim to reduce corruption. Likewise, the study agreed with Peterson and Murphy (2013) who perceived corruption as a pandemic in Kenya and has significantly portrayed Kenya negatively across the world. The study also indicated the bribery and corruption negatively affects economic growth. As such, the studies call for implementation of various strategies to address bribery and corruption as it negatively affects effective revenue collection.

Also, the results support the findings of Morshedi and Gholami (2020) who examined economic crimes and its economic damages in Iran and found that economic crimes including bribery and corruption causes destruction of financial markets and economic growth. It causes unequal income among individuals and significantly interferes with revenue collection process. Emphasis on the need to address economic crimes is because it negatively affects economic growth in Kenya such that a percentage increase in economic crimes like bribery and corruption decreases economic growth. In particular, the studies agree that bribery and corruption discourage investment, savings, and culture of hardworking among youths. Generally, corruption reduces collection of revenue and significantly hinders the development needs and goals as it scares away development partners from investing in sustainable development projects in Kenya.

### 5.3.4 Effect of Accounting Fraud on Effective Revenue Collection among County Governments

The final objective of the study evaluated the impact of accounting fraud on effective revenue collection among county governments in Kenya. According to the findings reported under regression coefficients output, the study established a positive coefficients for accounting fraud. However, with a p-value above the recommended significance level, the study concluded that there is no significant relationship between accounting fraud and effective revenue collection. This finding indicated that in the collection of revenue process, accounting fraud either plays minimal or no role in affecting the process of collecting revenue. And so, as an economic crime, accounting fraud may be associated with other challenges in relation to the functions of most county governments with little effect on effective of revenue collection. The findings were supported with descriptive outcomes where the majority of the respondents slightly agreed that accounting fraud affects effective revenue collection.

These findings of this study provide different results compared to studies highlighted in the literature review. For instance, studies like Fernandhytia and Muslichah (2020) conducted a similar study but with a different goal. In their study, the authors focused on the effect of internal control, individual morality, and ethical value on accounting fraud tendency. The authors reported an inverse relationship between the independent variables like internal control, individual morality, and ethical values with accounting fraud tendency as a dependent variable. The significance of the authors' finding to this current study is that the previous results provide strategies necessary to address accounting fraud. Government institutions need strong internal control systems to oversee every operation and effective individual morality

and organizational ethical values that guides one's instinct of doing the right thing for the benefit of the majority in either organization or society.

Similarly, while Sharma and Panigradhi (2012) reviewed financial accounting fraud detection based on data mining and found that failure of internal auditing systems results in accounting fraud, the results did not directly address how accounting fraud itself affect effective revenue collection. Based on this point and even though the findings are not related, both acknowledged that accounting fraud is an occurrence which destabilize businesses but does not have significant effect on effective revenue collection. And so, accounting fraud mostly happens due to improper auditing systems put in place to curb such economic crimes relating to existing money in the organization and not money collected from clients. The finding of these two studies, however, are on different contexts since both investigated different objectives.

## 5.4 Conclusions

Concerns on procurement fraud is increasing daily, especially in government institutions. Despite public procurement reforms and systems put in place to ensure that public procurement remains effective and efficient, procurement fraud as a challenge remains rampant. This study found similar results and conclude that there is an inverse relationship between procurement fraud and effective revenue collection. The findings implied that procurement fraud have a significant negative effect on effective revenue collection. The results of this study provides a foundation basis on the effect procurement fraud on effective revenue collection among county governments as a starting for developing effective mechanisms to address the challenge so as to achieve effective revenue collection.

The motivation of this study was further to understand the impact of asset misappropriation on effective revenue collection among county governments in Kenya. Although previous studies reported that asset misappropriation is a challenge to most businesses, the findings of these studies are mostly linked to banking industry. Existing furthers studies also do not link asset misappropriation challenges to revenue collection. Because of these issues, this study focused on providing additional information on the relationship between asset misappropriation and effective revenue collection. The study concludes that there is no relationship between these two variables. That though asset misappropriation is indeed an economic crime, it does not, however, relate to challenges associated with process of collection of revenue in county governments. However, it could be a problem for the managerial or leadership challenge of county government of Nairobi.

Today, challenges affecting many developing counties is the issue of corruption. It has been considered in many previous articles as a pandemic that need to be immediately addressed if developing countries are to realize sustainable project development. This study sought to contribute to this debate by establishing the effect of bribery and accounting on effective revenue. The findings and a comprehensive discussion held confirmed that there an inverse relationship between these two variables. The study concludes that bribery and corruption have a significant negative effect on effective revenue collection. What this finding mean is that increase in bribery and corruption negatively lowers revenue collection and negative affects revenue collection processes while on the hand, decrease in bribery and corruption can significantly increase effective revenue collection. Thus, county governments must implement relevant policies to reduce bribery and corruption and grow revenue collection.

Accounting fraud to a greater extent is a challenge to most organizations can destabilize the operations of the business through doctoring financial reports. However, in the context of this study, the study found out that while the impact may be there, the impact is not significant to affect effective revenue collection. The study, therefore, conclude that there is no relationship between accounting fraud and effective revenue collection. Revenue collection demonstrate the process of collecting taxes from individual businesses and organizations within the locality of county governments. This process as the study reported, is not negatively affected by accounting fraud. However, accounting fraud can only occur with respect to reporting of accounting books once revenue collection process is completed.

## 5.5 Recommendations

The study makes some recommendations as follows;

### 5.5.1 National and County Governments

This study contributes to the ongoing debate on economic crime challenges that are slowing effective revenue collection in the two national governments; the national and county governments. Based on the established findings, the study recommends the county governments to develop strategies and frameworks that can significantly reduce procurement fraud and bribery and corruption so as to attain effective revenue collection. A well-established framework will assist the county government of Nairobi together with other county governments in Kenya to establish ways that can significantly improve effective revenue collection to grow their economic plans.

### 5.5.2 Economic Crime Agencies and Other Institutions

There are several institutions in Kenya mandated to oversee the reduction of economic crime activities in Kenya and to ensure that bribery and corruption as one of the economic crime is seriously fought. The study recommends these institutions to conduct capacity building and civic education for the citizens to inform them the negative effect of economic crimes and why revenue collection is important for every county government's economic growth. Together with other agencies, the institutions can also work with the county government department responsible for revenue collection and ensure that during revenue collection, there exist a well-established framework that guides the operations of county governments.

## 5.6 Recommendations for Further Research

Like for other studies, this research encountered some limitations that suggests the need for further research. This study relied on quantitative data with structured Likert scale questions which may not have provided adequate room for participants to give their own perspectives with regards to impact of economic crimes on effective revenue collection among county governments in Kenya. Because the limitation among others, the study makes the following recommendations for future researchers:

- Future researchers should carry out a similar study using different methodological approaches (i.e. qualitative approach) to understand participants' opinion regarding the effect of economic crimes on effective revenue collection among county governments.
- This study investigated the effect of economic crimes on effective revenue collection among county governments in Kenya. Though the results provide useful findings on the relationship between the study variables, it failed to outline effective strategies

necessary to address the aforementioned economic challenges. There is, therefore, the need for future studies to establish effective strategies necessary to reduce economic crime challenges that affect effective revenue collection.

- Finally, the results of this study are based on participants working with Nairobi County Government and, therefore, do not reflect the opinion from other county governments in Kenya. This study recommends future studies to investigate a similar study from viewpoint of employees working in other counties in Kenya and compare the results.

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APPENDIX 1: INTRODUCTION LETTER TO RESPONDENTS

Dear respondent,

My name is Paul Nyabuti, a master's student at Africa Nazarene University in the school of business. I am conducting a research on

**THE IMPACT OF ECONOMIC CRIMES ON EFFECTIVE REVENUE COLLECTION AMONG COUNTY GOVERMENTS IN KENYA. A CASE OF NAIROBI CITY COUNTY**

This questionnaire will help me gather data on the stated topic which is an applied research project proposal submitted in partial fulfilment of the requirements for the award of master of business administration degree in the business School of Africa Nazarene University.

I would like you to know that it is only through your responses that knowledge is advanced in this field. The feedback you shall be giving shall at all times be treated as confidential and the results shall be aggregated by the researcher.

Thank you for your time and assistance that you have accorded me in the study.

Yours sincerely,

Paul Nyabuti

(Researcher)

## APPENDIX II : QUESTIONAIRES FOR THE RESPONDENTS

This questionnaire is meant to analyze the impact of economic crimes on effective revenue collection among county governments in Kenya. Kindly answer the following questions by writing a brief answer or ticking in the boxes provided

## PART I: BACKGROUND INFORMATION

**Instructions:** This is the demographic section of the questionnaire; please tick the correct and honest response that suits you in the boxes provides.

1. Gender : Male ☐

   Female ☐

2. Age : 18 – 29 years ☐ 49 – 58 years ☐

   30 – 48 years ☐ above 59 years ☐

4. How long have you worked in the county government?

   Less than 3 years ☐ 4– 9 years ☐

   10– 15 years ☐ 16 years and above ☐

5. Which is your mode of employment?

   Permanent ☐ contract ☐

   Casual ☐ others (specify)…….

## PART II: ASSET MISAPPROPRIATION AS AN ECONOMIC CRIME

5. Is Nairobi City County faced with asset misappropriation as an economic crime?

   Yes ☐ No ☐

6. To what extent would you AGREE or DISAGREE with the following effects of asset misappropriation on Nairobi City County's effective revenue collection? Please tick as appropriate. (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral ; 4 = Agree; 5 = Strongly Agree)

| Asset misappropriation indicators | SD | D | N | A | SA |
|---|---|---|---|---|---|
| Property theft affects NCCs effective revenue collection | | | | | |
| Wrongful asset investment affects NCCs effective revenue collection. | | | | | |
| Personal use of the county's assets affects NCCs effective revenue collection. | | | | | |
| The effective revenue collection of NCC is affected by asset misappropriation. | | | | | |

**PART III: ECONOMIC CRIMES ON PROCUREMENT FRAUD**

5. Is Nairobi City County faced with procurement fraud as an economic crime?

Yes ☐ No ☐

6. To what extent would you AGREE or DISAGREE with the following sentences on the impact of procurement fraud on Nairobi City County's effective revenue collection. (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree)

| Procurement fraud indicators | SD | D | N | A | SA |
|---|---|---|---|---|---|
| There is understatement of prices of commodities and services being procured | | | | | |
| There is overstatement of prices of commodities and services being procured | | | | | |
| Procurement of items and services that are not delivered happens | | | | | |
| The effective revenue collection of NCC is affected by procurement fraud | | | | | |

## PART IV: ACCOUNTING FRAUD AS AN ECONOMIC CRIME

7. Is Nairobi City County faced with accounting fraud as an economic crime?

Yes ☐ No ☐

8. To what extent would you AGREE or DISAGREE with the following effects of accounting fraud on Nairobi City County's effective revenue collection? Please tick as appropriate. (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree)

| Accounting fraud indicators | SD | D | N | A | SA | |
|---|---|---|---|---|---|---|
| Manipulation of financial statements affects NCCs effective revenue collection | | | | | | |
| Understatement of revenue affects NCCs effective revenue collection. | | | | | | |
| Overstatement of expenses affects NCCs effective revenue collection. | | | | | | |
| The effective revenue collection of NCC is affected by accounting fraud. | | | | | | |

## PART V: BRIBERY AND CORRUPTION AS AN ECONOMIC CRIME

9. Is Nairobi City County faced with bribery and corruption as an economic crime?

Yes ☐ No ☐

10. To what extent would you AGREE or DISAGREE with the following effects of bribery and corruption on the effective revenue of NCC? Please tick as appropriate. (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree)

| **Bribery And Corruption Indicators** | SD | D | N | A | SA | |
|---|---|---|---|---|---|---|
| Extortion by individuals affects NCCs effective revenue collection | | | | | | |
| Solicitation for rewards affects NCCs effective revenue collection. | | | | | | |
| Demand of unearned rewards affects NCCs effective revenue collection. | | | | | | |
| The effective revenue collection of NCC is affected by bribery and corruption. | | | | | | |

*******Thank You for Your Cooperation *******

## APPENDIX III : RESEARCH AUTHORIZATION LETTER

*21st, June, 2021*

*Our Ref:* 18S03EMBA001

The Director.

National Commission for Science,

Technology and Innovation (NACOSTI),

P. O. Box 30623, 00100

Nairobi. Kenya

Dear Sir/Madam:

**RE: RESEARCH AUTHORIZATION FOR: NYANGENA PAUL NYABUTI**

Mr. Paul is a postgraduate student of Africa Nazarene University in the Master of Business Administration (MBA) program.

In order to complete his program, Mr. Paul is conducting a research entitled:

**"The Impact of Economic Crimes on Effective Revenue Collection among County Governments in Kenya: A Case of Nairobi City County"**

Any assistance offered to him will be highly appreciated.

Yours Faithfully,

**DR. Kimani Gichuhi,**

**MBA, Coordinator,**

**School of Business,**

**Africa Nazarene University.**

## APPENDIX IV : RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 462424

Date of Issue: 02/July/2021

**RESEARCH LICENSE**



This is to Certify that Mr.. PAUL NYANGENA NYABUTI of Africa Nazarene University, has been licensed to conduct research in Nairobi on the topic: IMPACT OF ECONOMIC CRIMES ON THE TOTAL REVENUE COLLECTION AMONG COUNTY GOVERNMENTS IN KENYA: A CASE OF NAIROBI CITY COUNTY for the period ending : 02/July/2022.

License No: NACOSTI/P/21/11616

462424

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

## APPENDIX V : RESEARCH BUDGET

The following is the budget which will be incurred by the researcher during the generation of the research proposal. The figures are denominated in Kenyan shillings.

| **Activity** | **Estimated Cost In Kenyan Shillings** | **Actual Cost In Kenyan Shillings** |
|---|---|---|
| **Printing** | 3000 | 8500 |
| **Traveling** | 4500 | 5000 |
| **Permit** | 1000 | 1000 |
| **Binding** | 1200 | 2000 |
| **Overheads** | 4000 | 5400 |
| **TOTALS** | **13,700** | **21900** |