Risk Identification Practices and Revenue Collection in County Governments in Kenya: A Case of the County Government of Bungoma

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ABSTRACT

This research thesis establishes the risk identification practices adopted by the county government of Bungoma in improving Revenue collection. The main objective of the study was to ascertain risk identification practices on revenue collection. This study was anchored on Risk management theory. Information and data collection adopted descriptive research design, county government of Bungoma employees from revenue department and county government division heads under the ministry of finance and economic planning, was the targeted population Therefore Census Methodology was ideal for because of the population interest, Simply random sampling was utilized to gather the needed samples, self-administered questionnaires was used to collect the much-needed data, a survey physically dropped at random to the respondent's work place and was picked later by the researcher for data analysis and processing. The study findings were presented using tables showing frequencies, percentages and means and standard deviation. The research hypothesis posited that risk identification had no significant effect on revenue collection. However, the model was significant and therefore the null hypothesis was rejected on the ground that risk identification had a significant and moderate strong positive linear correlation with revenue collection. The significance value of $p = 0.000 < 0.05$, signified that the model is statistically significant in predicting how risk mitigation affect revenue collection. The study recommends that; The county government should support a risk identification management program among county governments to enhance business continuity. they should also develop a crisis management strategy to enhance service delivery.

Keywords: risk identification, revenue collection, Risk management theory

INTRODUCTION

Background of the study

Revenue collection performance is vital in promoting efficiency in service delivery and economic development of county governments. However, most county governments face serious challenges in their revenue collection performance as noted by (Balunywa et al., 2014), where governments are not able to collect sufficient funds to cover their budget expectations. Furthermore, for many years, revenue collectors have not been channeling all the amount of money they collect to the County Treasury (Ngotho & Kerongo, 2014).

Local revenue collection helps to achieve service delivery in county governments by co-funding development projects; hence an increasing need by the county government to collect much revenue to face the increasing financial expenditures budgeted for. Automated systems have been proven to be capable of introducing massive efficiencies to business processes that can result in increased revenue collections (Gideon & Alouis, 2013).

(Sang & Muturi, 2017) noted that revenue collection in developing economies like Kenya has not always been as effective as it should be. There are various challenges in revenue collection performance, where counties are not able to collect sufficient funds to cover their budget expectations and thereby causing huge local revenue collection gaps. Ismail (2016) indicates that the main challenges in revenue collection rotate around revenue collection system. The performance of revenue collection in County governments is deteriorated by corrupt practices issues which result into tax evasion through corruption by corrupt revenue collection officers (Balunywa et al., 2014)

Interest in enhancing revenue mobilization in developing countries is increasing day by day. Most developing countries are emerging from the crisis with their fiscal prospects broadly intact, but with many still facing a fundamental need to raise more revenue from their own revenue bases. Therefore, enhancing of revenue collection efficiency ensured that counties collect all the projected revenue and thereby increasing the revenue collection performance. As (Mahola & Erasmus, 2015) noted, revenue collection should comply with best practices of equity, ability to pay, economic efficiency, convenience and certainty. Furthermore, for a government to match its performance with the needs and expectations of its citizens, it should increase its fiscal depth without incurring costly recurring overheads (Tetteh, 2012). For good governance and effective delivery of service, county governments require sufficient and reliable sources of revenue and the Constitution of Kenya 2010 provides a framework for county funding through own revenue.

Revenue collection is the amount of money that a firm receives during a specific period (Awitta, 2010). It is inflows of asset received for products or services provided to customers (Horngren et al., 2002) it is the income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Companies receive revenue from interest, dividends or royalties paid to them by other entities. Organizations' that practice risk assessment is in a position to greatly influence revenue collection (IPPF- 2120, 2017).

Risk identification is the process of identifying all types of possible risks in an organization (IPPF-2120, 20170 for organizations to mitigate its risks, they need to identify them (Kenwick & Simmons, 2020). (Owino & Mumia, 2019)noted that, risk identification process should try as much as possible to remove ambiguity, discord, disagreements and other vagueness as much as possible to allow organizations reach the target of its revenue collection. An effort must be made across the entity to identify all known or anticipated risks (Lubano, 2011). Risk register should be developed, where risk have been ranked according to how organization can manage them. An effort must be made across the entity to collect all known or anticipated risks (Lubano, 2011). All employees are responsible for identifying and sharing potential organizational risks.

In Ghana, a study conducted by (Hamal, 2020), on factors affecting the financial performance of Ghana Insurance Companies listed at Amman stock market had objective of identifying the effect of age, leverage, liquidity and size on the financial performance of insurance companies. The study took all twenty-five insurance companies listed in Amman stock market between the years 2012 and 2017 as their sample. The study whose focus was on Return on Assets found out that, age of the company has no significant statistical impact on financial performance of insurance companies but leverage, liquidity, management competence and size have a significant statistical impact on financial performance of insurance companies.

In Tanzania, a study was carried out by (Msuya, 2020), about the influence of leadership, corporate governance and regulations on credit risk management with a survey of rural financial institutions in Tanzania using a sample of 37 rural financial institutions from Dodoma, Morogoro and Kilimanjaro regions starting the months of February to the month of May in the year 2013. The research findings were that corporate governance, good leadership and government regulations while avoiding influence from politics led to acceptable credit risk management in the rural financial institutions.

In Kenya, (Mwangi & Iraya, 2014), who carried out a study on determinants of financial performance of general insurance underwriters in Kenya, had a conflicting result on size of the companies since they found out that size has no significant impact on financial performance. On the other hand, (Mugetha, 2019), in her study about factors affecting financial performance of listed companies at Nairobi Securities Exchange in Kenya found out that liquidity has a significant positive impact while leverage has a significant negative impact on financial performance of insurance underwriters.

(Ongore & Kusa, 2013) conducted a study on the determinants of financial performance of commercial banks in Kenya. The authors used linear multiple regression model and generalized. They found out that the financial performance of commercial banks in Kenya was driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution. They found out a weak relationship between financial performance risk management. The empirical review is not clear on the relationship of risk management and financial performance. This study sought to determine the relationship existing between risk management and financial performance among business companies in Kenya.

Collection of revenue on behalf of the county government and using the same revenue to give services to its citizen is key to any government. Since devolution, apart from equitable share/transfer from the exchequer, conditional grant from developing partner and appropriation in aid, each county is mandated to generate its own revenue. This own revenue is from market fees, bus/car park fee, chess, stall rent, land rent/rates, business permit fees, advertisement fees, plan approval fees among others. This leads to most county disregarding revenue instrument used for revenue mobilization and often without regarding to huge economic distortion and distribution effect (Fjeldstad & Semboja, 2000) and (Banerjee et al., 2002) in addition these local and county government revenue systems are regularly complicated, non-transparent and costly to administer.

Statement of the problem

According to the published office of the controller of budget annual county government budgetary implementation review report 2020/2021, County governments have not been meeting their annual revenue collection targets since devolution kicked off in Kenya, the year 2013. The County Government of Bungoma has been no exception to this underperformance in revenue collection targets. In the financial year 2020/2021, the county had annual targeted own generated revenue of Kshs.500,000,000 but only collected Kshs.395,118,238 which was 79% of the targeted revenue. COB county government budgetary implementation review report (2020/2021) Therefore, this indicates a persistent non-optimal revenue collection by county governments including Bungoma County which necessitated the need to identify factors affecting revenue collection efficiency by county governments and how to make them efficient. Several studies have been undertaken locally and internationally on the area of organizational risk identification practices, for instance, (Mogunde, 2016) observed that the heightened interest in risk identification practices as an element of internal controls is a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems such as risk identification practices. Such systems would have prevented or enabled earlier detection of risks that led to losses in the banking industry, thereby limiting damage to the organization. This same idea is reflected in (Man, 2017), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States in the 1990s, as demonstrated by the collapse of Enron and WorldCom. (Kemboi, 2019) studied on risk management practices among state corporations in Kenya. He observed that when faced with risk, strategists often feel challenged or uncomfortable with the demand to make a decision and as result, emotions come into play and these can affect decision making in a number of subtle ways. At the same time, he observed that parastatals had sparingly adopted strategic risk management practices in their organization. However, there was no such research in county government. (Salesio, 2006)

on his part studied on the Risk identification strategies adopted by Insurers in Kenya. He noted that perception of risk influences the way in which different options are evaluated and implemented in an organizational setting. As can be evidenced in the above studies, there has been no study done on risk assessment practices adopted by Revenue department in county government of Bungoma. And that the researcher is aware of the above dilemma therefore leads to the following research question, what risk identification practices are adopted by county government of Bungoma Revenue department. The above research on risk assessment practices has a gap as they did not take into consideration on the component of risk assessment.it is the backdrop of this that the study to seek fill the gap by establishing the risk identification practices on revenue collection in Bungoma county, Despite the internal controls that exist in Bungoma county Revenue department collection remains below target and resources are poorly managed. This may be, because that risk identification practices that are in the department are weak or are undermined by the employees.

Objective of the study

The main objective of this study was to establish the relationship between risk identification practices on revenue collection in County government of Bungoma.

Research hypotheses

There is no significant effect of risk identification on revenue collection in county government of Bungoma.

Introduction

This chapter discusses and reviews the most recent literature relating to the study variables. The theoretical and empirical literature related to the variables upon which the study hypotheses are founded is also presented. Finally, a summary of the literature review which supports the gaps being addressed by the study and the proposed conceptual framework is provided.

THEORETICAL LITERATURE REVIEW

There are several theoretical approaches which can be used to outline the risk identification practices and revenue collection of Bungoma county, to select the predictors to the models, and to justify the functional form between these predictors. The study was anchored on risk management theory.

Risk Management Theory

This theory was first proposed in 1738 by Daniel Bernoulli. (Lagat & Tenai, 2017), stated that the Risk Management model is made up of risk identification, risk assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitors, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities, this was also noticeable by (Manga, 2012), states that the Risk Management model is made up of risk identification, risk assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitors, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an opponent. Several risk management standards have been developed including the Project Management Institute, the National Institute of Science and Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety (Fraser & Simkins, 2010). The approaches to manage risk include transferring the risk to another

party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

Effective risk management can bring far reaching benefits to all organizations, whether large or small, public or private sector (Na Ranong & Phuenngam, 2009). These benefits include, superior financial performance, better basis for strategy setting, improved service delivery, greater competitive advantage, less time spent firefighting and fewer unwelcome surprises, increased likelihood of change initiative being achieved, closer internal focus on doing the right things properly, more efficient use of resources, reduced waste and fraud, and better value for money, improved innovation and better management of contingent and maintenance activities (Lagat & Tenai, 2017). Effective risk management structure supports better decision making through a good understanding of the risks and their likely impact. In practicing Risk Management, if risks are left unmanaged, they can cause a negative impact on stake holder's value. It therefore means that good risk management enhances shareholders value. By creating a good discipline in risk management, it helps improve governance process and therefore improves effectiveness (Moore, 1983).

According to (Owolabi et al., 2017), ensuring that an organization makes cost effective use of risk management first involves creating an approach built up of well-defined risk management and then embedding them. These risk management include financial risks management, operational risk management, governance risk management, and strategic risk management

The theory of Risk Management therefore is applicable to the study of risk assessment practices on revenue collection in county government of Bungoma, where risks are identified, analyzed and thereafter mitigated in order to have efficient and effective revenue collection.

Risk identification on revenue collection

For efficient and Effective revenue collection, the county government of Bungoma, in the department or unit or the management, must come up with possible risk that may hinder or if not well addressed/treated, may cause the county government of Bungoma not to realize its revenue collection.

(Ayton et al., 2022)**,** after investigating the current practices of credit risk management in the largest US-based financial institutions, report that identifying counterparty default risk is the single most important purpose served by the credit risk models utilized. However, it should be noted that these results are based on a very low response rate, i.e., 21 responses to questionnaires sent to 100 banks.

(Nwokocha et al., 2020) did a survey on strategic risk management practices by large commercial banks in Nigeria. The research was a census survey on 13 large commercial banks in Nigeria. The objectives of the study were to determine the strategic risk management practices adopted by large commercial banks and the challenges faced by these banks in their strategic risk management practices. The researcher established that there is a substantial level of strategic risk Management practice among the large commercial banks as exhibited by the findings. The study found out that banks have adopted strategic risk management practices and though there was a slight variance in approach between the banks, the most commonly adopted practice centered on strategic risk assessment, evaluation, monitoring, and control and reporting. These strategic risk management practices are discussed in the ensuing sections in detail. The researcher recommends that banks invest more in automated strategic risk management tools which would enhance analysis and profiling of their strategic risk. It would also be appropriate to appoint senior managers as the strategic risk champions.

An examination about financial management practices, wealth maximization methods and firm value was carried out by (Eriki et al., 2012), on a sample of ten listed public banks in Tanzania from year 2004 to 2008 using ordinary least squares multiple regression and correlation to establish the relation between financial management practices and the value of stockholders wealth. (Eriki et al., 2012), found out that using

correlation financial management practices relation to either stockholder's wealth or firm value was negative while by using ordinary least squares multiple regression, stockholders wealth or firm value were found to be affected by investment and dividend decisions.

(Thuku, 2011) did a study on the relationship between risk management practices and organizational performance of Universities in Kenya, the study adopted a descriptive research design. The data was collected using a semi-structured questionnaire from the staff members of various universities working in the departments of finance, administration and security. The data was coded and entered into a computer for analysis. The data was analyzed using descriptive and inferential statistics.

The data was analyzed using both descriptive statistics such as mean and standard deviation and inferential statistics particularly multiple regression. The findings were presented using pie charts, tables and figures. The study found that use of highly qualified staff, competent personnel, training and holding of seminars on risks management and advancement of management systems greatly contributed to increased.

In conclusion there is great benefit when an organization carry out risk identification, thus Bungoma county revenue department for it to be efficient and effective in revenue collection, it should know the kind of risks they are likely to face while trying to achieve their mandate.

Conceptual Framework

A conceptual framework is a diagrammatic representation of the relationships among the variables under study (Kothari & Gaurav, 2014). The relationship is as indicated below.

Figure 2.1 Conceptual framework
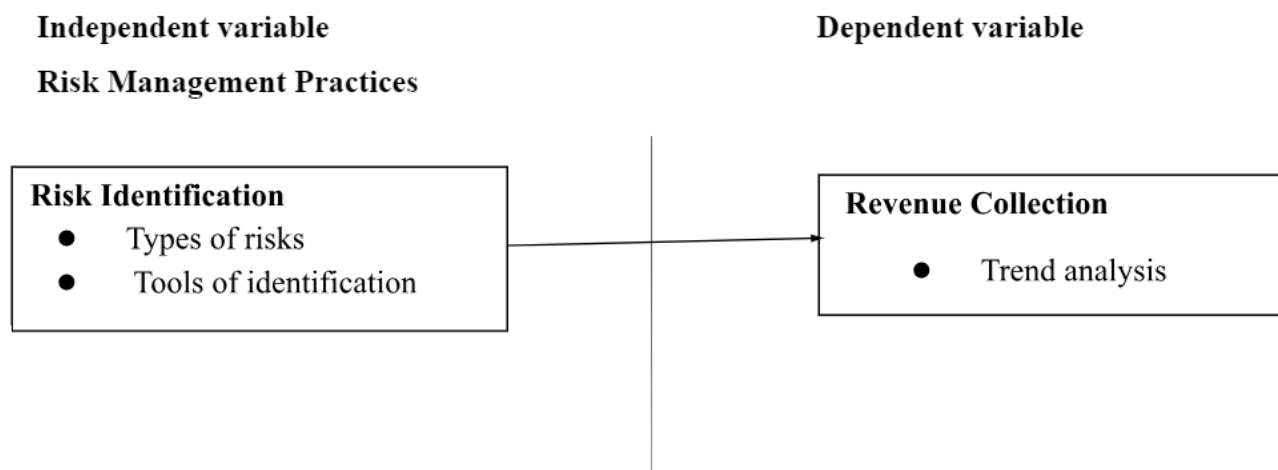
2.1 shows the displays study of variables and how they connect with each other. The framework has variables that are both dependent (DVs) and independent (IVs). In this case the independent variable is risk identification.

Summary

Having a risk management plan and implementing is not adequate for ensuring that the plan is followed or that the company is controlling its risks. A feedback loop ensuring that the report results get back to the RM department, upper-level management, and the Board is vital to organizational and strategic success. The reporting structure should do or include the following in a monthly monitoring system. On a regular basis, the RM department should do an analysis of internal and external events that could force revision of the overall strategic plan. Each unit should evaluate how these changes would affect their targets and risks (Lubano, 2011).

METHODOLOGY

This study adopted both descriptive research design and correlational research design being suitable for preliminary allowing data collection, summarizing, presentation and interpretation for the reason of interpretation. Primary data was collected using structured questionnaires. Secondary data was obtained from existing research done on the same topic. The data was collected by use of a specifically designed sheet to fit the information required. The research study also adopted a descriptive method of presentation including the use of tables and figures. The target population for the study was 100 employees of Bungoma county from the revenue unit and Ministry of finance and economic planning personnel. The sample size was obtained through the census method. A pilot study was carried out where factor analysis of the questionnaire was determined which was above the threshold of 0.3 (Costello & Osborne, 2005). Cronbach alpha was used to test for reliability stood was above 0.7. All citations were duly acknowledged

FINDINGS

The completed returned questionnaires from the field were evaluated for consistency, cleaned, and then coded, entered and analyzed using the Statistical Package for Social Science (SPSS) where the data analysis from the SPSS output was presented in tables. Descriptive statistics was computed whereby means, frequencies and standard deviations were obtained.

Descriptive Analysis of risk identification on revenue collection of the county government of Bungoma.

Descriptive analysis included to determine the effect of risk identification on revenue collection of the county government of Bungoma. The statements were anchored on a five-point Likert-type scale. Respondents were required to state their level of agreement with the statements, where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree. The results for factor analysis and descriptive statistics are as shown in Table 4.5.

Table 4.1: The Influence of risk identification on revenue collection of the county government of Bungoma.

SN.	Description	SD	D	U	A	SA	Total
1	Risk inspection is done by managers	3.4% (3)	20.7% (18)	28.7% (25)	25.3% (22)	21.8% (19)	100.0% (87)
2	Roles and responsibilities for risk identification are clearly defined	0.0% (0)	0.0% (0)	9.2% (8)	39.1% (34)	51.7% (45)	100.0% (87)
3	Financial statement analysis enhances risk identification	0.0% (0)	0.0% (0)	3.5% (3)	27.6% (24)	68.9% (60)	100.0% (87)
4	Establishing standards enhances risk identification	0.0% (0)	0.0% (0)	0.0% (0)	27.6% (24)	72.4% (63)	100.0% (87)
5	Risk rating and collateral enhances risk identification	0.0% (0)	0.0% (0)	0.0% (0)	31.0% (27)	69.0% (60)	100.0% (87)

Source: Researcher (2023)

Respondents were asked to state their observation on whether risk inspection is done by managers. As tabulated in 4.5, the respondents observed as follows: 3.4% (3) strongly disagreed, 20.7% (18) disagreed, 28.7% (25) were undecided, 25.3% (22) agreed and 21.8% (19) strongly agreed.

The bar graph below shows revenue collection trend for financial year starting 2013 to 2021
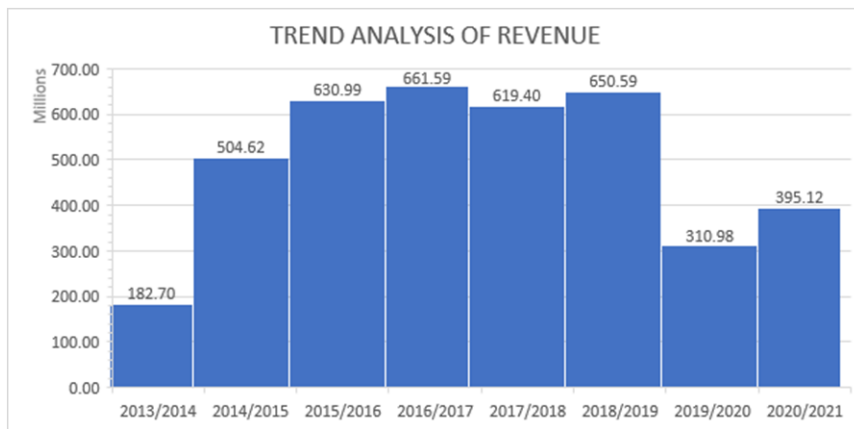
Source; Bungoma county treasury

The revenue collection was low in financial year 2013/2014, it raised steadily up to the financial year 2018/2019 by 650.59 million and that was at its peak. It decreased in the financial year 2019/2020 and 2020/2021 trend analysis shows that Bungoma county projected to collect revenue of Ksh 500,000,000 in the financial year 2019/2020 but collected 310,000,00 that 62% below the target of 100%. In the financial 2020/2021 targeted revenue was Ksh 500,000,000 but the revenue department collected only Ksh 395,118,238 that 79%.

Inferential Analysis, Findings and Discussions

Tests for Multicollinearity Relationship

The test of multicollinearity was also conducted and the results are as show in table 4.2.

Correlation Statistics

	E-funds transfer practice	e-payments practice	E-reporting practice	Government regulations
Risk Identification	1	.524**	-.001	.768**
Risk Analysis	.524*	1	-.098	.813**
Risk mitigation	-.001	-.098	1	.362**

** Correlation is significant at the 0.01 level (2-tailed)

Risk identification on revenue collection

Table 4.3: Regression Results of risk identification on revenue collection

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.510^a	.260	.258	0.76894
a. Predictors: (Constant), Risk identification				
b. Dependent Variable: Revenue collection				
ANOVA^a				

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	70.206	1	70.206	118.737	0.000b
	Residual	199.838	86	0.591		
	Total	270.056	87			
c.	Predictors: (Constant), Risk identification					
d.	Dependent Variable: Revenue collection					

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		b	Std. Error	Beta		
1	(Constant)	1.914	0.167		11.445	0.000
	Risk identification	0.541	0.038	0.510	10.89	0.000

Dependent Variable: Revenue collection

Predictors: (Constant), Risk identification

From Table 4.3 shows that the means of risk identification on revenue collection were regressed. The purpose of this analysis was to find the causal relationship between risk identification on career advancement.

This aided in testing the hypothesis of the study that posits, risk identification has no significant effect on revenue collection. This was tested using significance of R square and Regression coefficient at 95.0% confidence level.

There is evidence that the relationship between risk identification on revenue collection which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that risk identification has a significant and moderate strong relationship with the revenue collection. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in revenue collection is explained by risk identification. The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting the effect of risk identification on revenue collection.

The unstandardized regression coefficient (B) value of risk identification was 0.541, correlation coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between risk identification on revenue collection. At 5% level of significance and 95% level of confidence, risk identification significant in predicating the degree of revenue collection. The regression equation to estimate the relationship between risk identification on revenue collection is stated as:

Revenue collection = 1.914 + 0.541 risk identification

An F-significance value of p = 0.000 indicated that there was a probability of 0.00% from the regression model to accept the null hypothesis. The research hypothesis posited risk identification has no significant effect on revenue collection. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that risk identification had a significant and moderate strong positive linear correlation with revenue collection.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of the findings

There is evidence that the relationship between risk identification on revenue collection which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that risk identification has a significant and moderate strong relationship with the revenue collection. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in revenue collection is explained by risk identification. The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting the effect of risk identification on revenue collection. The first research hypothesis posited H_01: risk identification has no significant effect on revenue collection. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that risk identification had a significant and moderate strong positive linear correlation with revenue collection.

Recommendations

The study recommends that;

1. The government should support a risk identification, risk analysis and risk mitigation program among county governments to enhance business continuity.
2. County governments should develop crisis management strategies for enhances service delivery.
3. Staff in charge of disaster management should conduct frequent risk assessment and propose mitigation measures for enhanced business continuity in case of occurrence of a disaster.

Suggestions for Further Study

The researcher suggests that other studies be done on the same topic but in a different geographical environment. Studies can also be done on the individual study objectives. Other studies can also consider other objectives and variables not considered in the current study. This study provided insights into risk management practices on performance. The researcher recommends that a study be done by expanding the scope to other counties.

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