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Keywords: internal control systems, physical controls, internal audit controls, financial performance.

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Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya

Soi Patricia Chepkirui [α] & Dr. Josephat Oluoch [σ]

Abstract- Internal Control Systems play an important role in every organization as it assists in realization of their financial performance goals. Most public institutions in Kenya have registered declining performance in recent years due to weakened internal control systems. Researches done relating to internal control systems and financial performance do not show directly the effect of corporate governance and regulatory systems on financial performance. The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya and to determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The study used a descriptive correlational research design approach. The target population was 47 county referral hospitals in Kenya. Census was used to select all the 47 county referral hospitals in Kenya and purposive sampling was used to select the hospital accountant in each of the hospitals to make a sample size of 47 respondents. Only 35 hospitals responded to the questionnaire translating to 74.5% response rate. Survey data was collected by use of a structured questionnaire. The data obtained was analyzed using both qualitative and quantitative analysis. The study found that physical controls have a positive significant effect ($\beta = 0.391$, $p = 0.038$) on Financial Performance of the hospitals implying that holding all factors constant, a unit increase in physical controls leads to a 39.1% significant increase in Financial Performance; Internal audit controls affect Financial Performance positively and significantly ($\beta = 0.401$, $p = 0.038$) implying that a unit increase in Internal audit controls results in a 40.1% increase in Financial Performance when all factors are held constant; Corporate governance controls have a positive significant effect on Financial Performance ($\beta = 0.296$, $p = 0.010$) indicating that when all factors are held constant, a unit increase in Corporate governance controls lead to a 29.6% significant increase in Financial Performance in the hospitals and that Regulatory controls have a positive significant effect ($\beta = 0.372$, $p = 0.000$) on Financial performance indicating that if all other factors are held constant, a unit increase in Regulatory controls results into a significant increase in Financial Performance of 37.2%. The study concludes that physical controls are significant drivers of financial performance in the referral hospitals; internal audit control is a significant positive predictor of financial performance in the referral hospitals; corporate governance controls are a positive significant predictor of financial performance in the referral hospitals and that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals. The results from this study may assist regulators to form regulations that will help the referral hospitals improve their financial performance. Future researchers may also find results from the present study important in theory formulation.

Keywords: internal control systems, physical controls, internal audit controls, financial performance.

I. Introduction

Control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's response to reduce risks. They include the policies, procedures, performance reviews, information processing, physical controls, documents verification and segregation of Duties. Internal controls help in risk assessment, which is a systematic process that seeks to identify potential hazards and identify their implications before they occur. A substance should set up its own arrangement of controls so as to accomplish its destinations (Tunji, 2013). An arrangement of viable inner controls is a basic part of an association's administration and an establishment for the free from any potential harm activity of associations. Nevertheless, insufficient inside controls bring about incapable projects and in the long run prompting misfortunes (Olumbe, 2012). Late frequencies of corporate disappointments and bookkeeping fakes are for the most part gone before by disappointment in an organization's inside control structures (Anyanzwa, 2013).

Inside controls have happened to central significance today in the open division overall including Kenya. The explanation being that the control frameworks in any association are a mainstay of an effective bookkeeping framework (Wanemba, 2010). This is especially significant for open foundations as frail inside control framework remains as one of the significant reasons for troubling execution in open organizations chiefly because of undetected fakes (Etuk, 2011). From an administration perspective there is have to guarantee that inward control frameworks are taken care of set up to lessen the event of extortion. Inside control is a powerful vital procedure that is adjusting constantly to the progressions confronting present day open area organizations (Auditor General, 2014).

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Inside controls are planned fundamentally to upgrade the dependability of budgetary execution, either legitimately or by implication by expanding responsibility among data suppliers in an association (Tunji, 2013). Inner controls give a free evaluation of the nature of administrative presentation in doing allotted obligations regarding execution (Olumbe, 2012). Wanemba (2010) sets that a compelling interior control framework unequivocally associates with hierarchical accomplishment in gathering its presentation target level. Inside control keeps an association on course toward its targets and the accomplishment of its strategic. They advance viability and effectiveness of activities, lessens the danger of advantage misfortune, and guarantees consistence with laws and guidelines.

Inward control additionally guarantees the unwavering quality of monetary revealing (all exchanges are recorded and that every recorded exchange is genuine, appropriately esteemed, recorded on an opportune premise, appropriately characterized, and effectively condensed and posted). An Organization with compelling arrangement of inner control is relied upon to accomplish its target proficiently and viably (COSO, 2013). Anyway, the general motivation behind the idea is to enable an association to accomplish its strategic, methodical, conservative, proficient and viable activities and produce quality items and administrations predictable with the association's crucial, assets against misfortune because of waste, misuse, botch, mistakes and extortion. It likewise elevates adherence to laws, guidelines, agreements and the executives' orders just as create and keep up dependable money related and the board information, and precisely present that information in auspicious reports (Magara, 2013).

The COSO (2013) Framework characterizes Internal Control framework as "a procedure, affected by an element's top managerial staff, the board, and other faculty, intended to give sensible affirmation with respect to the accomplishment of targets identifying with tasks, revealing, and consistence". The control condition establishes the pace of an association, influencing the control cognizance of its representatives. The Committee of Sponsoring Organizations (COSO, 2013), a deliberate association offering direction on checking interior controls, report demonstrates that this part is the establishment for every single other segment of inward control, giving both order and structure to the association.

The COSO (2013) structure distinguishes five fundamental components of a control framework against which the survey should occur. These incorporate Control condition, Risk appraisal, control exercises, data, correspondence, and observing. Inside control, frameworks work at various degrees of viability. Deciding if a specific inside control framework is successful is a judgment coming about because of an evaluation of whether the five segments - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are available and working. Successful controls give sensible affirmation in regards to the achievement of set up destinations.

As indicated by Tunji (2013), the nature of an association inner control framework has noteworthy effect on the precision of the board direction. Similarly, firms that unveil inadequate inside controls framework have bigger inclination of encountering the board mistakes in their activity than those organizations that report viable interior controls framework. Olumbe (2012) in their examination expressed that powerful inward controls frameworks are key drivers toward income quality. In a similar vein, powerful inward control framework has a fundamental task to carry out in an association's prosperity (Jokipii, 2010).

Different researchers have characterized inward control as a procedure, affected by an element's governing body, the executives and other faculty, intended to give sensible affirmation in regards to the accomplishment of an association's goals in the adequacy and effectiveness of tasks, dependability of budgetary and the executives announcing, consistence with pertinent laws and guidelines and ensure the association's notoriety (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). Compelling inward control framework works when some particular strategies are embraced by the administration. Worldwide Accounting Standards categorizes inside control types as an arrangement of association, isolation of obligations, control of reports, shielding of benefits, skill of staff, number juggling and bookkeeping controls, recording and record keeping, supervision, approval and endorsements, job and revolution of obligations, cost achievability, normal and programmed checks (COSO, 2013). The above investigations incredibly bolster that powerful internal controls altogether add to budgetary execution of associations.

While there have been studies inspecting inner control frameworks in the private division and corporate world, there has been a less examinations analyzing a similar issue in the open area regardless of the way that the theft of assets from open establishments or associations, especially in basic administrations or monopolistic open organizations, is winding up progressively normal (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). Such scandals have raised worries about their inward control frameworks. Regardless of the absence of any revealed money related embarrassments, there is a developing worry with respect to whether they experience indistinguishable inadequacies from other open administrative establishments do. Late reports on the blunder of assets by the media combined with introduction of the unpredictable snare of spoil and poor control frameworks have been featured by crafted by

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different insightful writers (Olumbe, 2012). As per World Economic Forum (2013), most open establishments do not have proficient interior control frameworks on money gathering which has frequently represented poor budgetary administration. In like manner, it is nothing unexpected that, some open specialist organizations as a rule see interior controls as superfluous and unessential.

Around the globe, governments face weights to give wellbeing administrations adequately, effectively and impartially. In any case, the wellbeing part has been constrained by various powers of progress including; developing interest for human services, increasing costs obliged assets focused weights and observing by open and private gatherings with a notably better educated customer. In this way, additional weight is being applied on human services chiefs to reassess their techniques (Muio, 2012). Solid inward control frameworks are the most noteworthy and suffering methodology in guaranteeing endurance of associations and a key course to business greatness and expanding piece of the pie of social insurance associations (COSO, 2013; Magara, 2013).

In Kenya, the conveyance of wellbeing administration is attempted through a National Health System whose activities have a main role of conveying and continuing great wellbeing. The social insurance conveyance framework is reverted to the region governments with the national government assuming the job of largely arrangement detailing and observing (MOH, 2013). Inferable from the need to accomplish all inclusive access to human services bundles just as impartial and maintainable financing instruments, administration of Kenya with county governments have drafted different approaches where government and different partners have conceded to subsidizing and the executives of the social insurance conveyance system (MOH, 2013). Be that as it may, while the structures for coordination are set up at the national level, they are powerless at the region level (Muio, 2012).

As per the Auditor General's Annual Report (2014/2015), there were uncontrolled acts of neglect in the responsibility from open establishments in Kenya including region governments and wellbeing organizations with the vast majority of their activities portrayed by rebelliousness with strategies and techniques, abuse of assets and assets controls, among different cases. The service of wellbeing for example is suspected to have lost more than 5 billion shillings in the 2015/2016 money related year through preoccupation of assets, twofold installment for products, and control of the Integrated Financial Management System (IFMIS) (Auditor General, 2016). While advancement help keeps on assuming a significant job in financing the wellbeing administrations, a greater extent of this is off-spending plan and MOH has data on general spending plan/venture backing to the wellbeing area and not off spending support (MOH, 2013).

a) Statement of the Problem

Globally, budgetary outrages have been seen activating response for more tightly guideline and upgraded benchmarks for bookkeeping and corporate administration (COSO, 2013). Poor interior control frameworks including powerless corporate administration brought about these major money related embarrassments. In Kenya, Statistics accessible from Capital Markets Authority (CMA) (2013) have demonstrated most firms particularly cited organizations have kept on enlisting declining money related execution. Information accessible from World Bank (2014) demonstrated that there was decrease in administration in all segments of the economy including the wellbeing area. In most Kenyan open establishments including wellbeing organizations there has been proceeded with poor money related execution, where spending plans are not kept, principles and guidelines on the utilization of accounts are not clung to and there is huge unaccounted for assets (Auditor General, 2016). This has put open establishments in danger of money related insufficiency, representative disappointment and poor budgetary execution ((Mikes and Kaplan, 2014). This has left the inquiries of the holes that exist inside the open division attributable to such numerous ruptures with no move being made (Olumbe, 2012).

Several investigations have been completed on controls universally, regionally and locally on the impact on interior control framework on benefit of differing firms. For instance; Abu-Musa (2014); Chunlan (2010); Wittayapoom (2011); and locally Kakucha (2010); Odei (2011) and Nyakundi and Nyamita (2014) have set up there exist a connection between powerful interior control and budgetary execution of the firm. Nonetheless, larger part of these investigations have focused on various enterprises, while others have focused on a blend of recorded firms in their territories. Moreover, the investigations utilized various approaches subsequently such examinations may not be summed up to the investigation setting. Locally, an investigation by Muio (2012) considered the effect of inside control frameworks on the monetary exhibition of private medical clinics in Nairobi obviously show private emergency clinics face calm various difficulties during inner controls in execution like battles with liquidity issues, money related reports are not made auspicious, responsibility for the budgetary assets is as yet needing, fakes and abuse of institutional assets. As it can be seen, form the reviewed studies there are restricted investigations that emphasis on inward controls in the wellbeing segment in Kenya. A study gap therefore existed. It is against this foundation that this study sought to investigate effect of internal controls on the financial performance of county referral hospitals in Kenya.

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b) Objectives of the Study

i. *General Objective*

The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya.

ii. *Specific Objectives*

The specific objectives of the study were to:

i. To determine the effect of physical controls on the financial performance of county referral hospitals in Kenya.
ii. To establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya.
iii. To assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya.
iv. To determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya.

II. Theoretical Literature Review

A hypothesis is a "lot of interrelated ideas, definitions, and recommendations that present a methodical perspective on occasions or circumstances by determining relations among factors, so as to clarify and foresee the occasions or circumstances" (Durham and Stokes, 2015). Hypothetical writing is concerned fundamentally with speculations or theories instead of commonsense application. Hypothetical writing starts with a proper model that looks to clarify support designs as far as basic hypothesis (Shapira, 2011). There are a few hypothetical methodologies, which can be utilized to layout the money related execution of associations, to choose the indicators to the models, and to legitimize the practical structure between these indicators. In this survey, these methodologies are ordered into the accompanying classifications; office hypothesis, institutional hypothesis, exchange hypothesis and stewardship hypothesis.

a) Agency Theory

Agency hypothesis has been broadly utilized in writing to examine the data asymmetry between principals (investors) and specialist (the executives). Sarens and Abdolmohammadi (2011) express that as indicated by the office hypothesis, an association comprises of a lot of connected agreements between the proprietors of financial assets (the principals) and administrators (the specialists) who are accused of utilizing and controlling these assets. A critical assemblage of work has been embraced here inside the setting of the head specialist structure. Crafted by Jensen and Mecklin (1976) specifically just as that of Fama (1980) is significant. Organization hypothesis recognizes the office relationship where one gathering, the head, delegates work to another gathering, the operator.

The office relationship can have various drawbacks identifying with the advantage or personal responsibility of the specialist: For instance, the operator may not act to the greatest advantage of the head, or the operator may act just mostly to the greatest advantage of the head. There can be various measurements to this including for instance, the specialist abusing their capacity for financial or other favorable position, or the operator not going for broke in compatibility of the chief's advantages in light of the fact that the specialist sees those dangers as not being proper while then again the chief may have various frames of mind to dangers. There is additionally the issue of data asymmetry whereby the head and the specialist approach various degrees of data; and by this implies the chief is off guard on the grounds that the operator has more data (Sarens and Abdolmohammadi, 2011). The hypothesis is accordingly significant in this examination as general society through province governments who are the proprietors of the district referral emergency clinics have assigned the obligations of day by day running of the medical clinics to the administration who goes about as their operators and subsequently extraordinary requirement for solid inward control frameworks to guarantee the general population and other partner's inclinations are enough shielded. The hypothesis subsequently underpins presence of physical controls, inner review and corporate administration controls.

i. *Institutional Theory*

Foundations are social structures that have achieved a high level of versatility. They are made out of social intellectual, regularizing, and regulative components that, together with related exercises and assets, give dependability and importance to public activity (Christopher, Sarens and Leung, 2009). Organizations are transmitted by different kinds of transporters, including representative frameworks, social frameworks, schedules and antiquities. Establishments work at various degrees of ward, from the world framework to confined relational connections. Establishments by definition imply steadiness however are liable to change forms, both gradual and irregular. Institutional and neo-institutional hypothesis recommends that reception of authoritative practices and ecological arrangement is an institutional procedure subject with the impact of three weights or powers – coercive, mimetic and standardizing. This hypothesis further proposes that these powers can urge associations to receive comparative key activities in this way prompting hierarchical homogeneity (Adebanjo, Ojadi, Laosirihongthong and Tickle, 2013).

The interests of partners in most open foundations have been fortified after some time,

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particularly through endeavors by the legislature and expert bodies. All the more explicitly, there has been expanded weight on the board to guarantee that an association is represented productively, successfully and financially to serve investors. A lot of this weight has been a consequence of social desires in light of later corporate embarrassments (Christopher, Sarens and Leung, 2009). This examination will draw on institutional hypothesis, which focuses that hierarchical administration and control structures will in general comply with social desires. The hypothesis consequently propels contention for upgraded corporate administration in the board of associations' assets.

ii. *Stewardship Theory*

Stewardship hypothesis has its underlying foundations from brain research and humanism and is characterized by Davis, Schoorman and Donaldson (1997) as "a steward ensures and boosts investors' riches through firm execution, in light of the fact that by so doing, the steward's utility capacities are augmented". In contrast to office hypothesis, stewardship hypothesis stresses not on the viewpoint of independence (Donaldson and Davis, 1991), yet rather on the job of top administration being as stewards, incorporating their objectives as a component of the association.

The stewardship point of view proposes that stewards are fulfilled and persuaded when hierarchical achievement is accomplished. Argyris (1973) contends that while organization hypothesis takes a gander at a worker or individuals as a monetary being, which stifles a person's own goals, then again Donaldson and Davis (1991) contend that stewardship hypothesis perceives the significance of structures that engage the steward and offers most extreme self-sufficiency based on trust. It weights on the situation of representatives or administrators to act all the more self-governing with the goal that the investors "returns" are expanded. Without a doubt, Fama (1980) battle that officials and executives are likewise dealing with their vocations so as to be viewed as powerful stewards of their association, while, Shleifer, Andlei and Vishny (1997) claims that directors return fund to financial specialists to set up a decent notoriety so that they can reappear the market for future account.

Meckling and Jensen (1994) further express the expense brought about to check organization problems(reducing data asymmetries and going with good dangers) is less when proprietors legitimately partake in the administration of the firm as there is a characteristic arrangement of proprietor administrators' enthusiasm with development openings and hazard. It pursues from the over that stewardship hypothesis dissimilar to office hypothesis is a finished differentiation and doesn't stress on the need to bring about observing or office cost which incorporates building up an inner review work. By and by, Donaldson and Davis (1991) further note that profits are improved by having both of these hypotheses consolidated instead of isolated which suggests that administration must find some kind of harmony. In this investigation, the steward hypothesis is bolstered by the way that administrators of area referral emergency clinics go about as stewards of partners, providers, loan bosses, customers and representatives of the medical clinics.

b) Conceptual Framework

An idea is a theoretical or general thought induced or got from explicit occurrences (Kombo and Tromp, 2009). In contrast to a hypothesis, an idea should not be talked about to be comprehended (Durham and Stokes, 2015). A theoretical system is a gadget that sorts out exact perceptions in an important Structure (Shapira, 2011). Childs (2010) contended an applied system to be a lot of expansive thoughts and standards taken from important fields of enquiry and used to structure a resulting introduction (Durham and Stokes, 2015). Applied systems are significant to look into as they explain and coordinate philosophical, methodological and commonsense parts of a proposition while helping the calling to be viewed as an exploration based control, all right with the language of meta-hypothetical discussion (Sykes and Piper, 2015).

Figure 2.1 conceptualizes that inside controls (physical, interior review, corporate administration and administrative controls) effect on the money related execution of county referral hospitals in Kenya.

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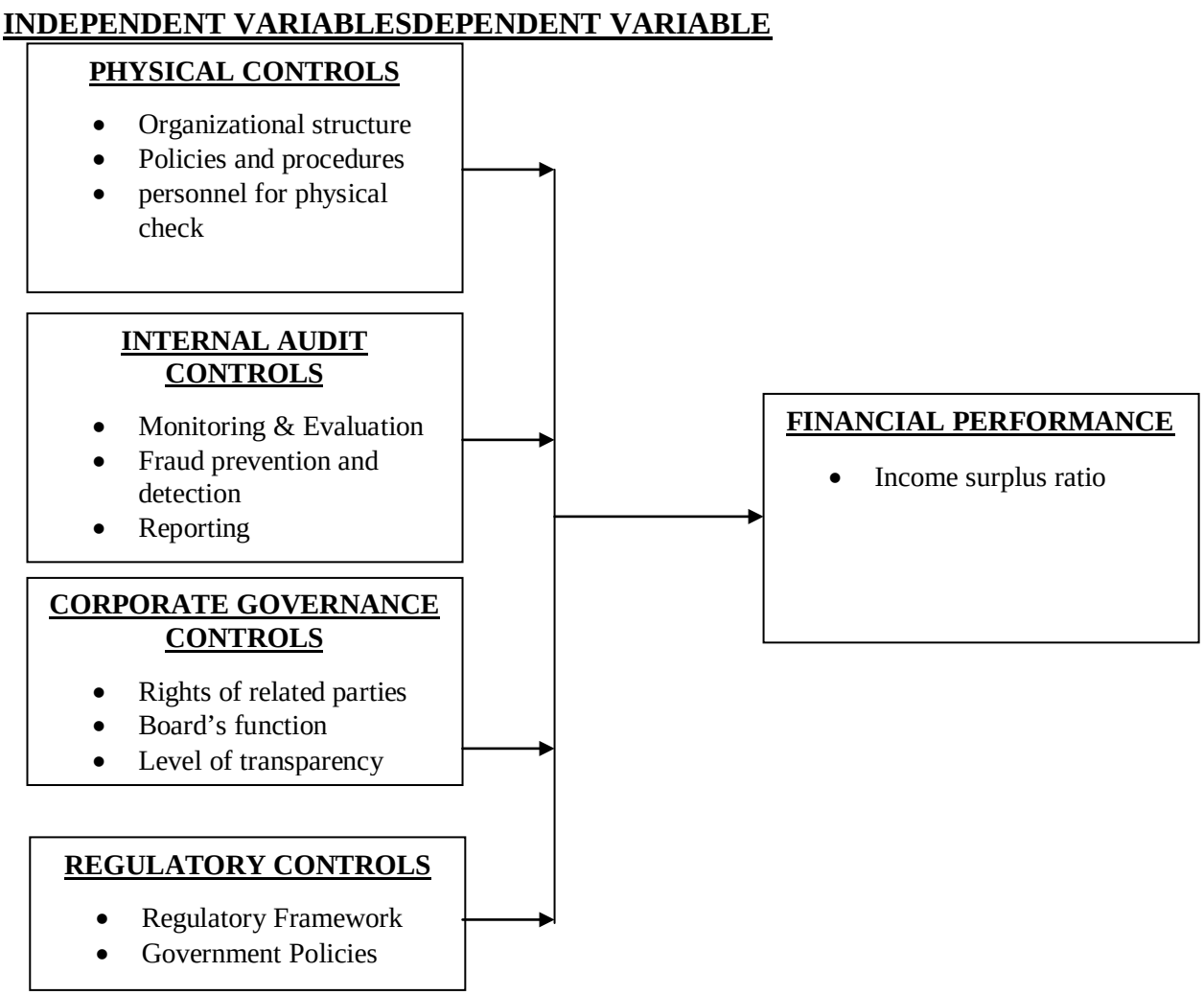

Figure 2.1: Conceptual Framework

i. *Physical Controls and Financial Performance*

Muio (2012) and Mawanda (2010) states that physical controls are another part of inward controls. These researchers note that physical controls are strategies and methodology that help guarantee that administration mandates are done. Physical controls in an association essentially contain; execution audits (contrasting genuine execution and spending plans, estimates and earlier period execution), data preparing (important to check exactness, fulfillment and approval of exchanges), security over the two records and different resources and isolation of obligations (where nobody individual should deal with all parts of an exchange from the earliest starting point as far as possible). An examination by Khamis (2013) discovered that there is a critical positive connection between physical controls and money related execution of budgetary foundation. In his exploration Mawanda (2010) built up that there is a positive connection between physical controls and monetary execution of foundations of higher learning in Uganda as depicted by his contextual investigation of Uganda Martyrs University.

ii. *Internal Audit Controls and Financial Performance*

Inward reviewing is a free, target affirmation and counseling movement intended to include esteem and improve an association's tasks. It enables an association to achieve its destinations by bringing a methodical, trained way to deal with assess and improve the viability of hazard the executives, control, and administration forms (foundation of inward Auditor). COSO (2013) declares that "Inside review is a free examination capacity built up inside an Organization to analyze and assess its exercises as a support of the association".

The goal of inward review is to help individuals from the association in the viable release of their duties. It is additionally a free examination capacity set up inside an association to look at and assess the viability, productivity and economy of administrations control framework (Olantuji, 2010). Its goal is to furnish the executives with consolation that their interior control

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frameworks are sufficient for the need of the association and are working agreeably (Olumbe, 2012). It is a part of the inside control framework set-up by the executives of a venture to inspect, assess and report tasks of bookkeeping and different controls. The quality and viability of interior review techniques by and by are essential since inward inspectors spread a wide assortment of assignments, not all of which will identify with bookkeeping territories in which the outside evaluator is intrigued.

Kinyua (2016) takes note of that "The viability of inside review work halfway relies upon; lawful and administrative system, situation of the capacity and its autonomy, presence of review boards of trustees, assets distributed to the capacity and polished methodology of inward review staff". It is anyway a harsh reality that inner review offices are once in a while sufficiently encouraged. With respect to measure and help of the inside review capacity, Gerrit and Mohammad (2010) discovered proof on the side of the observing job of the interior review work. They explicitly discovered proof that administration proprietorship is emphatically identified with the overall size of the Internal Audit Function, which is conflicting with conventional office hypothesis contentions that foresee a negative relationship, yet more in accordance with late investigations on income the board.

This discovering recommends that expanded administration possession may influence the top managerial staff to help bigger inside review capacities to enable them to intently screen directors' presentation. Adequacy of interior review systems is a proportion of the capacity of the program to deliver an ideal impact or an outcome that can be subjectively estimated (Muio, 2012. Nyakundi and Nyamita (2012) contend that there should be successful interior review systems to guarantee dependability of budget summaries, operational reports, defending corporate resources and viable hierarchical controls.

iii. *Corporate Governance Controls and Financial Performance*

Corporate administration has as of late gotten a lot of consideration due prominent outrages, filling in as the stimulus to such ongoing U.S. guidelines as the Sarbanes-Oxley Act of 2002, viewed as the most clearing corporate administration guideline in the previous 70 years (Ngungi, 2011). Abu Musa (2014) demonstrate that organizations with more grounded investor rights have higher Tobin Q"s, their intermediary for firm worth, recommending that better-administered firms are increasingly significant. With such huge numbers of ongoing guidelines concentrating on corporate administration, for example, those dependent on the Sarbanes-Oxley Act and the ongoing stock posting norms forced by major U.S. trades, there is a broadly held view that better corporate administration is related with better firm execution, however the proof is dubious (Kinyua, 2016; Nyakundi and Nyamita, 2014; Kakucha, 2010; Odei, 2011).

iv. *Regulatory Controls and Financial Performance*

Administrative controls can be utilized to portray any game plan by the administration, which means to change a specific circumstance (COSO, 2013). Government utilizes approaches to handle a wide scope of issues, which incorporate activity of law and guidelines, charges, loan fees and market control. These instruments of the legislature can legitimately or in a roundabout way impact the budgetary presentation of associations (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). 2.3.5 Financial Performance

As indicated by Gerrit and Abdolmohammadi, (2010), Organizational execution incorporates gathered final products of all the association's work procedures and exercises. Money related Performance measures in county referral hospitals can be monetary or non-budgetary. The best method to improve budgetary execution is by lessening the degree of abnormality and extortion through upgrades in the association's frameworks of interior money related control. Partners should be guaranteed that their assets are being utilized productively and adequately in giving the correct assistance in any event cost.

Donald and Delno (2010) noticed that proper presentation measures are those which empower associations to coordinate their activities towards accomplishing their key targets Brennan and Soloman (2011) fights that, execution is estimated by either emotional or target criteria; contentions for abstract measures incorporate troubles with gathering subjective execution information from little firms and with unwavering quality of such information emerging from contrasts in bookkeeping strategies utilized by firms.

Incentive for Money is not paying more for a decent or administration than its quality or accessibility legitimizes too open going through suggests a worry with economy (cost minimization), productivity (yield augmentation) and viability (full accomplishment of the proposed outcomes. Supported productivity can be viewed as a consistent monetary advantage that is acknowledged when the measure of income picked up from a business action surpasses the costs, expenses and duties expected to continue the movement. The best method to improve net gain is by decreasing the degree of abnormality and extortion through upgrades in the association's frameworks of inside monetary control (Wainaina, 2014). The board ought to all the time survey all parts of their organization and guarantee interior controls that will reinforce the association and increment benefit are set up, (Kamau, 2014). Each business choice contains hazard; dodging or alleviating this hazard is accomplished through solid inward controls. In

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this examination, Income Surplus Ratio was utilized to gauge execution.

c) Empirical Review

Mwachiro (2013) examined the inner controls in activity at Kenya Revenue Authority with the end goal of building up whether such inward controls have delivered any important outcomes in expanded gathered income. The investigation utilized control condition, hazard evaluation, control exercises, Information, correspondence, and observing segments of inward controls as the factors. The investigation was directed utilizing graphic contextual investigation utilizing causal/logical research plan. The information was investigated utilizing both measurable and story strategies while connection was utilized as a method for surveying the impact of inner controls and income gathering. The discoveries uncovered that the five segments of the control condition, chance evaluation, control exercises, data and correspondence and observing must be accessible for inner controls to work. The examination built up that powerless interior controls and particularly poor moral qualities in the association have urged plot to extortion, loss of income and misappropriation of gathered income. The investigation, thusly, inferred that interior controls do work in spite of the fact that with hiccups and that there is a huge impact between inward controls and income gathering in KRA.

Magara (2013) looked to discover the impact of interior controls on the money related execution of store assuming Savings and Acknowledgment Cooperative Societies (SACCOs) in Kenya. The free factors for the examination included; control condition, hazard appraisal, control exercises and checking systems while the reliant variable was monetary execution. The discoveries of this examination led on 122 store taking SACCOs in Kenya depended on both essential and optional information which was gotten from the yearly reports of the SACCOs. A various relapse model was received to check the type of connection between the ward and the autonomous factors. The relapse investigation directed built up that the free factors have a positive solid relationship with the needy variable. Every one of the free factors to be specific, the control condition, hazard evaluation, control exercises and checking systems contribute decidedly to the money related execution of SACCOs in Kenya. It is additionally obvious from the investigation that without the nearness of solid inner controls inside these establishments, the SACCOs would perform inadequately with the danger of possible breakdown because of poor money related execution.

Ondieki (2013) directed an examination on impacts of inward review on money related execution of business banks. The autonomous factors for the investigation included; control condition, chance appraisal, control exercises and observing instruments while the reliant variable was monetary execution. The discoveries of the investigation were that interior controls could have highlights incorporated with them to guarantee that fake truncations are hailed or made troublesome, if certainly feasible, to execute. Interior control reviews give affirmation that controls are working, yet they do not really identify misrepresentation or debasement. The destinations of inward controls review identify with the board's arrangements, techniques, and methods used to meet the association's crucial, and goals.

Muio (2012) researched on the effect of inside control frameworks on the budgetary presentation of private clinics in Kenya. The investigation was tied down on checking, control exercises, chance evaluation, data and correspondence, control condition as the factors speaking to inner control frameworks. A clear research configuration was received while the objective populace comprised of all the private clinics licensed by National Hospital Insurance Fund (NHIF) working inside the County of Nairobi. Straight relapse examination was utilized to discover the connection between checking, control exercises, hazard appraisal, data and correspondence, control condition and money related execution of private clinics in Kenya. The discoveries of the examination demonstrate that all the five parts that are Monitoring, Control Activities, Risk Assessment, Information and Communication and Control Environment must be available for an inner control framework to be viewed as viable. The discoveries likewise demonstrated that Monitoring had the most elevated impact on the money related execution of private medical clinics in Kenya pursued by control condition, data and correspondence, hazard evaluation and control exercises individually.

Olumbe (2012) did an examination to build up the connection between inside control and corporate administration in business banks in Kenya. The factors included; value structure, endeavor inward and outer supervision opportunity, the top managerial staff and leading body of bosses. The examination embraced an expressive research structure and all the 43 business banks in Kenya were considered. The essential information was gathered by utilization of an organized poll and an unstructured meeting guide. Information was broke down through a direct relapse investigation based on spellbinding insights and execution correlation done crosswise over time between the years 2009-2011. The examination found that the greater part of the banks had consolidated the different parameters which are utilized for measuring inside controls and the corporate administration as was demonstrated by the methods which were acquired enquiring on the equivalent and this demonstrated the respondents concurred that their banks had established great corporate administration with a solid arrangement of interior controls, and there is

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a connection between inner control and corporate administration.

Ewa and Udoayang (2012) did an examination to build up the effect of interior control configuration on bank's capacity to explore staff extortion and staff way of life and misrepresentation recognition in Nigeria. The examination found that interior control configuration impacts staff frame of mind towards extortion. Solid inside control component is prevention to staff misrepresentation since all the essential checks are set up and henceforth restricting staff from prevailing in any arranged false movement. Powerless interior control component opens the framework to misrepresentation and makes open door for staff to submit extortion because of the current holes. The examination along these lines stressed on the need to have a solid interior control system to check extortion.

Wainaina (2011) examined on interior control capacity of the Kenya Polytechnic University College. The factors for the investigation included; Control condition, Risk evaluation, Control exercises, Information and Communication, Monitoring and Information innovation. The finding of the examination demonstrated that as a substitute for its essence on the area of tasks, the board must depend on interior control methods to execute its choices and to direct the exercises for which she would at last be answerable. It is in this light utilization of compelling Internal Control Systems (ICS's) is regarded essential in the administration of business assets. Subsequently, the administration of any association structures inner control methods to dispense, control and guarantee effective usage of assets, so as to accomplish the general corporate objectives. It was discovered that Internal Control Systems (ICS's) assume a significant job in anticipating and identifying extortion and securing the association's assets, both physical and elusive. This is accomplished through legitimate approval controls and documentation.

Ngungi (2011) completed research meant to discover the training with respect to structure and execution of inward control frameworks in the private and the open part and whether there was any distinction in adequacy and effectiveness as the outcome. The exploration concentrated on the key segments of inward control frameworks specifically control condition, hazard evaluation, control systems, data and correspondence lastly checking. The investigation investigated the plans of the separate segments to discover their similitudes and contrasts. Information of this investigation was gathered by surveys and centered gathering discourse. The information gathered was dissected by utilization of illustrative and inferential insights. The outcomes demonstrated that the private area has a solid interior control framework than the open division in all the segment of inner control. Anyway, both general society and private segment do not have a huge contrast in observing and control exercises and the open part even has more grounded components of preventive controls.

Barra (2010) explored on the impact of punishments and other inside controls on worker's penchant to be deceitful. The outcomes demonstrated that the nearness of the control exercises and partition of obligations, builds the expense of submitting extortion. In this way, the advantage from submitting extortion needs to exceed the expense in a domain of isolated obligations for a worker to submit misrepresentation. Further, it was built up that isolation of obligations is a "least-cost" extortion obstacle for non-administrative workers, yet for administrative representatives, extreme punishments are the "least-cost" misrepresentation disincentives. The outcomes recommend the viability of preventive controls control exercises, for example, isolation of obligations is subject to criminologist controls.

Kakucha (2010) assessed the degree of adequacy of inside controls working in Nairobi. The investigation depended on various factors including age of an endeavor and viability of its arrangement of inward control; the measure of assets held by a venture and its adequacy of its arrangement of interior control; the nature of the connection between inside control and budgetary execution. The examination was quantitative and utilized an example of 30 private ventures as recorded in the National Social Security Fund (NSSF) Register of Kenya, 2008. The investigation found that there are inadequacies in the frameworks of inner controls, with the level of lacks fluctuating from big business to another. The segments of interior control that were absent in many organizations reviewed were; right off the bat, hazard examination, and absence of legitimate progressions of data. Furthermore, the investigation built up that the example populace needed attention to what comprised a compelling arrangement of inside control. The investigation additionally found that there is huge factual proof to help the negative connection between the age of an endeavor and the viability of its arrangement of inward control. In addition, the examination built up that there is a negative connection between the assets held by a venture and its interior control shortcomings. At last, the examination found that there is a frail negative connection between the interior control shortcomings and money related execution. In any case, this examination did not consider the impacts of the particular parts of interior control, for example, the observing and assessment and hazard evaluating and the board inside private companies.

Amudo and Inanga (2010) completed an assessment of Internal Control Systems in the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) concentrating on Uganda in East Africa. The factors included; observing, control exercises, chance appraisal, data and correspondence and control condition. The examination built up that

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some control parts of powerful inner control frameworks need these activities which render the present control structures incapable. The examination suggested an improvement of the current inward control frameworks in the ventures.

Small Goh (2010) considered on review councils, sheets of chiefs, and remediation of material shortcomings in inward control. He quantified the adequacy of the review advisory group by its freedom, money related aptitude, size, and meeting recurrence, and the viability of the board by its autonomy, size, and meeting recurrence, and by the duality of the (CEO) and seat positions (CEO duality). He additionally analyzed different elements that can influence firms' practicality in the remediation of material shortcomings, for example, the seriousness of material shortcomings, firms' gainfulness, the unpredictability of firms' tasks, etc. He discovered that the extent of review advisory group individuals with monetary ability is decidedly connected with firms' practicality in the remediation of material shortcomings. Second, firms with bigger review boards of trustees are bound to remediate material shortcomings in an opportune way. Third that an increasingly free board is less vulnerable to the undue impact of the board and bound to apply weight on the executives to remediate material shortcomings.

Olatunji (2010) Sought to discover the effect of interior control framework in banking area. The investigation arranged controls into three significant groupings: Preventive controls, criminologist controls and restorative controls. Information, from which the data comprises the discoveries, were gathered from fifty parts of Wema Bank Plc. This included making a trip to all the previously mentioned states and asking the officials in control, some readied inquiries wherein answers were given as needs be. Information were acquired from both the essential and auxiliary sources, which incorporates; meet, organized poll, diary distributions, course books, papers, web offices. Optional information is utilized to supplement the essential information as the essential information is the first work. Information caught for this investigation was broke down through illustrative and inferential factual strategies. The enlightening investigation includes the utilization of rates, organization and graphical introduction. While, the inferential factual technique included the utilization of the chi-square. As per his discoveries, the absence of a successful interior control framework is the significant reason for bank cheats in Nigeria. It is then presumed that the administration of each bank ought to make and build up a standard interior control framework, sufficiently able to remain against the wiles of misrepresentation so as to advance coherence of tasks and to guarantee the liquidity, dissolvability and going concern idea of the bank.

Jones (2011) researched on inside controls, responsibility and corporate administration in medieval and present-day Britain. The factors included control condition, chance appraisal, data and correspondence, checking and control exercises. He utilized a cutting-edge referential system as a focal point to examine medieval interior controls utilized in the twelfth century imperial exchequer and other medieval foundations. He exhibited that the vast majority of the inside controls discovered today were available in medieval England. Stewardship and individual responsibility were seen as the center components of medieval inner control. The ongoing acknowledgment of the requirement for the upgraded individual responsibility of people is suggestive of medieval reasoning.

Mawanda (2010) led an exploration on impacts of inside control frameworks on money related execution in organization of higher learning Uganda. In his examination, he explored and looked to set up the connection between interior control frameworks and money related execution in an Institution of higher learning in Uganda. Inside controls were taken a gander at from the point of view of Control Environment, Internal Audit and Control Activities though Financial execution concentrated on Liquidity, Accountability and Reporting as the proportions of Financial execution. The Researcher set out to build up the reasons for steady poor money related execution from the point of view of inner controls. The examination built up a huge connection between interior control framework and money related execution. The examination suggests skill profiling in the Internal Audit division that ought to be founded on what the University, anticipates that the inward review should do and what fitting number staff would be required to carry out this responsibility. The examination in this way recognized job of inside review division to build up inner controls that affect the budgetary exhibition of associations.

Crutchley *et al*. (2011) contemplated the probability of a firm being associated with a bookkeeping embarrassment. The examination found that specific attributes improved the probability of a firm being associated with a bookkeeping outrage. The attributes included elevated levels of development of a firm, captivating in profit the board procedures, review advisory groups made out of couple of executives and overextended outside chiefs. Nevertheless, firms with low degree of development and having review advisory groups made out of more executives had a lesser probability of being engaged with bookkeeping outrage. Solid inner controls and a moral hierarchical culture were discovered key in keeping a firm from being engaged.

III. Research Methodology

The chapter defines the research design, target population of the study, the sampling size used, sampling procedure followed as well as the type of

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instrument that was used. The data collection procedures and data analysis techniques used in analyzing the results of the study were also discussed. This study employed a correlational survey research design. This is because the main purpose of the study was to establish the effect of internal controls on financial performance of county referral hospitals in Kenya.

Kombo and Tromp (2011) define a population as a collection of people, articles or things from which tests are taken for estimation. Cooper and Schindler (2013) see that populace as the all-out accumulation of components about which one needs to make deductions. Kothari (2013) characterizes populace as the scientist's "universe". Target populace alludes to the whole gathering of objects of enthusiasm from whom the specialist looks to acquire the applicable data for the investigation (Cooper and Schindler, 2013; Kothari, 2013; Oso and Onen 2011; Kombo and Tromp, 2011). They state that the population of study ought to have trademark that meet a scientist's investigation advantages. The study targeted referral hospitals in Kenya. There are 47 county referral hospitals according to the rundown got from the Ministry of Health Kenya; November 2019 and all the 47 referral hospitals which have been dynamic throughout the previous a long time since reverted arrangement of government wound up operational in Kenya was taken as the population of the study. The examination utilized the Census method when choosing the province referral medical clinics for the investigation. The available populace of this investigation was the 47 county referral hospitals that are at present working in Kenya (MOH, 2019). The examination utilized the whole populace. Bryman (2013) and Creswell (2013) express that in spite of the fact that cost contemplations make registration system unimaginable for enormous populaces, an enumeration is appealing for little populaces of 200 or underneath.

The examination at that point utilized purposive inspecting with regards to the determination of the respondents. Bryman and Bell (2015) and Cooper and Schindler (2013) express that purposive examining includes picking individuals from an example to speak to an area or type in connection to a key foundation to guarantee importance to the topic secured. The respondents were the 47 hospital medical superintendent in the area referral hospitals or their identical as the unit of investigation. The study used both primary and secondary data to accomplish the research objectives.

IV. Results and Interpretation

a) Introduction

This chapter presents the results and interpretation of findings that were obtained from the study. The chapter outlines these findings with regard to meeting each objective as outlined in the previous chapters.

b) Descriptive Frequencies of Controls

i. *Physical Controls*

The study targeted 47 referral hospitals. Data was obtained from 35 referral hospitals which represented 74.5% of the target population.

The first objective was to determine the effect of physical controls on financial performance of the referral hospitals. Table 4.31 shows frequencies of the level of agreement for various physical control aspects.

Table 4.1: Physical Controls

Physical Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Hospitals have installed enough CCTV cameras for surveillance	0(0.00)	2(5.71)	7(20)	10(28.57)	16(45.71)	35(100.00)
CCTV cameras have enhanced transparency and accountability	0(0.00)	1(2.86)	10(28.57)	13(37.14)	11(31.43)	35(100.00)
Scanners are used to inspects items in the hospital.	2(5.71)	3(8.57)	12(34.29)	10(28.57)	8(22.86)	35(100.00)
Scanners have enhanced transparency and accountability in hospitals	1(2.86)	1(2.86)	11(31.43)	15(42.89)	7(0.20)	35(100.00)
Scanners have reduced loss of items in hospitals	1(2.86)	3(8.57)	10(28.57)	15(42.89)	6(17.14)	35(100.00)
Special peoples are positioned on strategic points for scrutiny in hospitals	0(0.00)	2(5.71)	4(11.43)	16(45.71)	13(37.14)	35(100.00)
Strategic Positioning of personnel has improved surveillance, transparency in hospitals	0(0.00)	0(0.00)	2(5.71)	20(57.14)	13(37.14)	35(100.00)
Total	4(1.63)	12(34.28)	56(22.86)	99(40.41)	74(30.20)	245(100)

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Results in Table 4.1 show that that majority of the referral hospitals 40.41% (N = 99) had effective physical control systems, followed by strongly agree at 30.20% (N = 74), and only 1.63% (N = 4) strongly disagreed. This implies that the physical controls were available in the referral hospitals.

ii. *Internal Audit Controls*

The second independent variable in the study was internal audit control. Table 4.2 shows the descriptive statistics for the variable.

Table 4.2: Internal Audit Controls

Internal Audit Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Hospital has functional internal audit unit	0(0.00)	1(2.86)	1(2.86)	6(17.14)	27(77.14)	35(100.00)
Timing of the audit here is appropriate.	1(2.86)	3(8.57)	6(17.14)	15(42.86)	10(28.57)	35(100.00)
There is an internal audit manual	0(0.00)	1(2.86)	5(14.28)	16(45.72)	13(37.14)	35(100.00)
Audit process completed on time	1(2.86)	8(22.85)	9(25.71)	11(31.42)	6(17.14)	35(100.00)
Internal audit findings are reported directly to top management	0(0.00)	1(2.86)	1(2.86)	18(51.43)	15(42.86)	35(100.00)
Majority of the audit members here are registered members of ICPAK	0(0.00)	1(2.86)	4(11.42)	18(51.43)	12(34.29)	35(100.00)
Internal audit unit helps in fraud detection and prevention.	1(2.86)	2(5.71)	6(17.14)	20(57.14)	6(17.14)	35(100.00)
Recommendations of the internal audit unit are taken very seriously here	1(2.86)	1(2.86)	6(17.14)	18(51.43)	9(25.71)	35(100.00)
Internal auditor(s) demonstrate professionalism	1(2.86)	1(2.86)	4(11.42)	24(68.57)	5(14.28)	35(100.00)
Audit department provides management with assurance	1(2.86)	1(2.86)	4(11.42)	23(65.71)	6(17.14)	35(100.00)
Internal audit department reports functionally to the audit committee	0(0.00)	2(5.71)	2(5.71)	16(45.72)	15(42.86)	35(100.00)
Internal audit department has independence	0(0.00)	1(2.86)	1(2.86)	17(48.57)	16(45.72)	35(100.00)
Head of the Internal audit unit is a member of the senior management	2(5.71)	1(2.86)	2(5.71)	14(0.40)	16(45.72)	35(100.00)
Total	8(1.75)	24(5.27)	51(11.21)	216(47.47)	156(34.29)	455(100.00)

Table 4.2 shows that most hospitals have internal audit controls that were working effectively. This was represented by 47.47% (N = 216) followed by 34.29% (N = 156) who strongly agreed and only 1.75% (N = 8) strongly disagreed. This implies that majority of the referral hospitals had internal audit controls that were working.

iii. *Corporate Governance Controls*

The third independent variable of the study was corporate governance controls. The descriptive statistics for the variable are presented in Table 4.3.

Table 4.3: Corporate Governance Controls

Corporate governance Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
The hospital has a well-established and effective Board.	0(0.00)	0(0.00)	5(14.29)	8(22.86)	22(62.86)	35(100.00)
Recruitment and appointment of Board members is approved by the hospital stakeholders.	2(5.71)	1(2.86)	5(14.29)	14(0.40)	13(37.14)	35(100.00)
The different members of the board in the hospital bring unique experiences and expertise to the management of the hospital.	1(2.86)	3(8.57)	12(34.29)	10(28.57)	9(22.71)	35(100.00)

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All members of the board of management belong to various specialized sub-committees of the board.	1(2.86)	1(2.86)	11(31.43)	13(37.14)	9(22.71)	35(100.00)
The hospital has well established corporate governance policies, procedures, and practices that guide the affairs of the hospital.	0(0.00)	2(5.71)	5(14.29)	10(28.57)	4(11.43)	21(100.00)
The hospital's conflict of interest policy and procedures on how to handle any conflict-of-interest cases that may arise from time to time are well developed.	0(0.00)	4(11.43)	11(31.43)	8(22.86)	12(34.29)	35(100.00)
Total	4(2.04)	11(5.61)	49(0.25)	63(32.14)	69(35.20)	196(100.00)

The descriptive statistics presented in Table 4.3 above indicate that most hospitals strongly agreed that corporate governance controls were effective, represented by 35.20% (N = 69) followed by those who agreed at 32.14% (N = 63) and only 2.04% (N = 4) strongly disagreed. This implies that corporate governance controls are present in the hospitals.

iv. *Regulatory Controls*

The fourth independent variable of the study was regulatory controls. The descriptive statistics based on a five-point Likert scale for the variable are shown in Table 4.4.

Table 4.4: Regulatory Controls

Regulatory Controls	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
The hospital operations comply with the all set government policies.	0(0.00)	1(2.86)	1(2.86)	9(25.71)	24(68.57)	35(100.00)
There exists a legal unit within the hospital	0(0.00)	1(2.86)	2(5.71)	16(45.71)	16(45.71)	35(100.00)
Recommendations of the legal unit in the hospital are reported to the audit and risk sub-committee of the board.	0(0.00)	2(5.71)	8(22.86)	13(37.14)	12(34.39)	35(100.00)
The hospital is greatly affected by government action on market prices	2(5.71)	1(2.86)	3(8.57)	15(42.86)	14(0.40)	35(100.00)
Government regulations are implemented in the hospital	0(0.00)	1(2.86)	5(14.29)	12(34.39)	17(48.57)	35(100.00)
Financial performance of the hospital is affected by changes in government rules and regulation.	1(2.86)	2(5.71)	1(2.86)	17(48.57)	14(0.40)	35(100.00)
The hospital frequently reviews its policies.	0(0.00)	0(0.00)	5(14.29)	17(48.57)	13(37.14	35(100.00)
Total	3(1.22)	8(3.27)	25(10.20)	99(40.41)	110(44.89)	245(100.00)

The findings in the table below show that most of the hospital's medical superintendent strongly agreed 44.89% (110) that regulatory controls were effectively working, followed by 40.41%(99) who agreed, and only 1.22% (N = 3) strongly disagreed. This implies that the regulatory controls are present in the referral hospitals.

c) Effect of Internal Controls on Financial Performance

i. *Correlation Analysis*

Correlation analysis shows the direction, strength and significance of the relationships among the variables of study (Sekaran, 2000). To establish whether there was a relationship between the variables, a correlation analysis was conducted. The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study. A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2003).

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The model that was to be fitted is as follows:

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

Where;

Y = Financial Performance in County Referral Hospitals (Dependent Variable)

β0 = Constant Term

β1, β2, β3, β4 = Beta coefficients

X1 = Physical Controls, X2 = Internal Audit Controls, X3 = Corporate Governance Controls, X4 = Regulatory Controls

ε = Error Term which was assumed to be normally distributed with zero mean and constant variance.

Table 4.5 shows results of the correlation analysis.

Table 4.5: Correlation between Study Variables

	Y	X_1	X_2	X_3	X_4
Y	1				
X_1	.646***	1			
X_2	.594***	.136	1		
X_3	.712***	.124	.056	1	
X_4	.412***	.032	.001	.065	1

*Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$*

From the results in Table 4.5, several conclusions can be drawn. First, it has been indicated that physical controls (X_1) are significantly and positively correlated with financial performance in the referral hospitals in Kenya. This is indicated by the correlation coefficient of 0.646 that is significant ($p < 0.01$). This implies that there is a strong and significant positive association between physical controls and financial performance in the referral hospitals in Kenya.

Furthermore, Internal Audit Controls ($X2$) is positively and significantly related to financial performance as shown by the correlation coefficient of 0.594 ($p < 0.01$). This implies that there is a moderate but significant positive association between Internal Audit Controls and financial performance in referral hospitals in Kenya. Moreover, Table 4.7 shows that Corporate Governance Controls (X_3) is also positively and significantly correlated with financial performance with a significant correlation coefficient of 0.712 ($p < 0.01$). This implies that there is a strong positive association between Corporate Governance Controls and financial performance in referral hospitals in Kenya. The correlation between accounts Regulatory Controls (X_4) and financial performance was found to be a significant 0.412 ($p < 0.01$). The implication here is that there is a weak but positive association between Regulatory Controls and financial performance in referral hospitals in Kenya.

These findings are in tandem with findings by Muhammad (2015) who while examining the impact of inward review capacity and interior control framework on monetary execution of a foundation of advanced education in Pakistan found that internal controls have a positive correlation with financial performance. The discoveries were that there was a positive connection between inward review, interior control condition and budgetary execution of advanced education organization. The exploration concentrated on three components of inner control that is inward review, interior control condition and neglected to demonstrate the commitment of corporate administration in the money related execution of an association. The exploration additionally centered around a particular foundation which restrains the utilization of research to different organizations which show distinctive operational attributes. The result however contradicts that of Mugo (2013) who conducted a study on impact of inside control on budgetary execution of specialized preparing foundations and found no positive relationship deliver between interior control and budgetary execution, the examination neglected to demonstrate the impact of corporate administration and government approach on money related execution of associations.

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ii. *Regression Analysis*

The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya and to determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The regression results from the filed data are presented in the sub-sections below. Regression tests the magnitude between the variables. The results for the regression analysis are presented in Tables 4.6, 4.7 and 4.8 below.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Sig
1	.856[a]	.732	.728	.000

The model summary in Table 4.6 above indicates that the general correlation between internal controls and the financial performance of county referral hospitals in Kenya. is positive and high. This is shown by the model correlation coefficient of 0.856. The suitability of the model in predicting financial performance is revealed by the coefficient of determination (R square) value of 0.728. This implies that the 72.8% of financial performance can be predicted by managing the internal controls, with other factors not in the model predicting the remaining 27.2%. Further, the significance of 0.000 shows that the model is significant. The model suitability relationship in the Table 4.6 shows that the general relationship between the variables is strong.

Table 4.7 on analysis of variance shows the general relationship among the variables.

Table 4.7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	160.425	4	40.106	78.906	.000[a]
	Residual	16.773	33	0.808		
	Total	67.198	37			

a. *Predictors: (Constant),* X_1, X_2, X_3, X_4
b. *Dependent Variable:* Y

The analysis of variance (ANOVA) Table 4.7 above shows that the model that predicts Financial Performance at Referral hospitals in Kenya using the Internal controls is significant. This is based on the relatively large F-value of 78.906 that is significant. It therefore implies that the model is a significant predictor of Financial Performance at the referral hospitals in Kenya.

Table 4.8: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
	Model	Beta	Std. Error	Beta	t-stat	Sig.
1	(Constant)	0.376	0.286		1.315	.002
	X_1	0.391	0.165	0.308	2.370	.038
	X_2	0.401	0.154	0.421	2.600	.021
	X_3	0.296	0.106	0.207	2.792	.010
	X_4	0.372	0.162	0.291	2.300	.000

Dependent Variable: Y

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From Table 4.8 above, several inferences can be derived. The constant term in the regression equation of 0.376 indicates the level of Financial Performance that is in existence in the referral hospitals. Regulatory controls have a positive significant effect (β = 0.372, p = 0.000) on Financial performance. This implies that if all other factors are held constant, a unit increase in Regulatory controls results into a significant increase in Financial Performance of 37.2%. Generally, the fitted model based on the study findings is as follows:

$$Y = 0.376 + 0.391X_1 + 0.401X_2 + 0.296X_3 + 0.372X_4$$

Where the variables are defined as: Y – Financial Performance, X_1 – Physical Controls

X_2 – Internal Audit Controls

X_3 –Corporate governance controls

X_4 –Regulatory controls

V. Conclusions and Recommendations

a) Conclusions

Based on the findings from the first objective which was that physical controls have a positive significant effect on Financial Performance of the hospitals, it is concluded that physical controls are significant drivers of financial performance in the referral hospitals.

Based on the findings from the second objective which showed that internal audit controls affect Financial Performance positively and significantly, it is concluded that internal audit control is a significant positive predictor of financial performance in the referral hospitals.

Regression results based on the third objective which was to establish the effect of corporate governance controls on Financial Performance of Referral hospitals in Kenya showed that corporate governance controls have a positive significant effect on Financial Performance. It is concluded that corporate governance controls are a positive significant predictor of financial performance in the referral hospitals.

Results for the fourth objective of the study which was find out the effect of Regulatory controls on Financial Performance at Referral hospitals in Kenya showed that Regulatory controls have a positive significant effect on Financial performance. It is therefore concluded that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals.

b) Recommendations

Based on the findings from the first objective which was that physical controls have a positive significant effect on Financial Performance of the hospitals and the conclusion that physical controls are significant drivers of financial performance in the referral hospitals, it is recommended that physical controls in the referral hospitals be enhanced by strengthening the existing ones and adding new ones.

Based on the findings from the second objective which showed that Internal audit controls affect Financial Performance positively and significantly and the conclusion that internal audit control is a significant positive predictor of financial performance in the referral hospitals, it is recommended that the internal audit units in the hospitals be improved by employing more staff and re-training the ones already serving.

Based on the regression results of the third objective and the conclusion that corporate governance controls are a positive significant predictor of financial performance in the referral hospitals, it is recommended that corporate governance practices in the referral hospitals be enhanced by reviewing the existing ones and embracing those not instituted.

Results for the fourth objective of the study which was find out the effect of Regulatory controls on Financial Performance at Referral hospitals in Kenya showed that Regulatory controls have a positive significant effect on Financial performance. It was therefore concluded that regulatory controls have a positive significant influence on financial performance of the hospitals and can therefore predict the financial performance in the hospitals. The present study recommends that regulatory controls are enhanced by strictly following the policies laid down by the regulatory bodies.

c) Suggestions for Further Research

The present study sought to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya using the variables of physical controls, internal audit controls, corporate governance controls and regulatory controls. This implies that only four variables of internal controls were used. Based on this, the study recommends that future studies focus on other variables of internal controls not included in the present study. It is also recommended that future studies are conducted in private hospitals.

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