

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

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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.

Index terms— internal control systems, physical controls, internal audit controls, financial performance.

1 Introduction

ontrol 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

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43 adjusting constantly to the progressions confronting present day open area organizations ??Auditor General,
44 2014).

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

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

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

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

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

83 Different researchers have characterized inward control as a procedure, affected by an element's governing body,
84 the executives and other faculty, intended to give sensible affirmation in regards to the accomplishment of an
85 association's goals in the adequacy and effectiveness of tasks, dependability of budgetary and the executives
86 announcing, consistence with pertinent laws and guidelines and ensure the association's notoriety (Kinyua,
87 2016; Nyakundi and Nyamita, 2014; Muio, 2012;Ngugi, 2011 ?? Simiyu, 2011). Compelling inward control
88 framework works when some particular strategies are embraced by the administration. Worldwide Accounting
89 Standards categorizes inside control types as an arrangement of association, isolation of obligations, control
90 of reports, shielding of benefits, skill of staff, number juggling and bookkeeping controls, recording and record
91 keeping, supervision, approval and endorsements, job and revolution of obligations, cost achievability, normal and
92 programmed checks (COSO, 2013). The above investigations incredibly bolster that powerful internal controls
93 altogether add to budgetary execution of associations.

94 While there have been studies inspecting inner control frameworks in the private division and corporate world,
95 there has been a less examinations analyzing a similar issue in the open area regardless of the way that the
96 theft of assets from open establishments or associations, especially in basic administrations or monopolistic open
97 organizations, is winding up progressively normal (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012;Ngugi,
98 2011 ?? Simiyu, 2011). Such scandals have raised worries about their inward control frameworks. Regardless of
99 the absence of any revealed money related embarrassments, there is a developing worry with respect to whether
100 they experience indistinguishable inadequacies from other open administrative establishments do. Late reports on
101 the blunder of assets by the media combined with introduction of the unpredictable snare of spoil and poor control
102 frameworks have been featured by crafted by different insightful writers (Olumbe, 2012). As per World Economic
103 Forum (??013), most open establishments do not have proficient interior control frameworks on money gathering
104 which has frequently represented poor budgetary administration. In like manner, it is nothing unexpected that,
105 some open specialist organizations as a rule see interior controls as superfluous and unessential.

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

113 In Kenya, the conveyance of wellbeing administration is attempted through a National Health System whose
114 activities have a main role of conveying and continuing great wellbeing. The social insurance conveyance
115 framework is reverted to the region governments with the national government assuming the job of largely
116 arrangement detailing and observing (MOH, 2013). Inferable from the need to accomplish all inclusive access
117 to human services bundles just as impartial and maintainable financing instruments, administration of Kenya with
118 county governments have drafted differential approaches where government and different partners have conceded
119 to subsidizing and the executives of the social insurance conveyance system (MOH, 2013). Be that as it may,
120 while the structures for coordination are set up at the national level, they are powerless at the region level (Muio,
121 2012).

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

131 2 a) Statement of the Problem

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

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

158 3 b) Objectives of the Study i. General Objective

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

161 4 ii. Specific Objectives

162 The specific objectives of the study were to: i. To determine the effect of physical controls on the financial
163 performance of county referral hospitals in Kenya. ii. To establish the effect of internal audit controls on the
164 financial performance of county referral hospitals in Kenya. iii. To assess the effect of corporate governance

165 controls on the financial performance of county referral hospitals in Kenya. iv. To determine the effect of
166 regulatory controls on the financial performance of county referral hospitals in Kenya.

167 5 II. Theoretical Literature Review

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

177 6 a) Agency Theory

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

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

200 7 i. Institutional Theory

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

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

219 8 ii. Stewardship Theory

220 Stewardship hypothesis has its underlying foundations from brain research and humanism and is characterized
221 by Davis, Schoorman and Donaldson (1997) as "a steward ensures and boosts investors' riches through firm
222 execution, in light of the fact that by so doing, the steward's utility capacities are augmented". In contrast to

223 office hypothesis, stewardship hypothesis stresses not on the viewpoint of independence (Donaldson and Davis,
224 1991), yet rather on the job of top administration being as stewards, incorporating their objectives as a component
225 of the association.

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

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

245 9 b) Conceptual Framework

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

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

256 10 Figure 2.1: Conceptual Framework i. Physical Controls and 257 Financial Performance

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

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

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

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? Income surplus ratio 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.

12 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).

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

14 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 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 stressed on the need to have a solid interior control system to check extortion.

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

410 Ngungi (2011) completed research meant to discover the training with respect to structure and execution of
411 inward control frameworks in the private and the open part and whether there was any distinction in adequacy
412 and effectiveness as the outcome. The exploration concentrated on the key segments of inward control frameworks
413 specifically control condition, hazard evaluation, control systems, data and correspondence lastly checking.
414 The investigation investigated the plans of the separate segments to discover their similitudes and contrasts.
415 Information of this investigation was gathered by surveys and centered gathering discourse. The information
416 gathered was dissected by utilization of illustrative and inferential insights. The outcomes demonstrated that
417 the private area has a solid interior control framework than the open division in all the segment of inner control.
418 Anyway, both general society and private segment do not have a huge contrast in observing and control exercises
419 and the open part even has more grounded components of preventive controls. Barra (2010) explored on the
420 impact of punishments and other inside controls on worker's penchant to be deceitful. The outcomes demonstrated
421 that the nearness of the control exercises and partition of obligations, builds the expense of submitting extortion.
422 In this way, the advantage from submitting extortion needs to exceed the expense in a domain of isolated
423 obligations for a worker to submit misrepresentation. Further, it was built up that isolation of obligations is a
424 "least-cost" extortion obstacle for nonadministrative workers, yet for administrative representatives, extreme
425 punishments are the "leastcost" misrepresentation disincentives. The outcomes recommend the viability of
426 preventive controls control exercises, for example, isolation of obligations is subject to criminologist controls.
427 ??akucha (2010) assessed the degree of adequacy of inside controls working in Nairobi. The investigation
428 depended on various factors including age of an endeavor and viability of its arrangement of inward control;
429 the measure of assets held by a venture and its adequacy of its arrangement of interior control; the nature of
430 the connection between inside control and budgetary execution. The examination was quantitative and utilized
431 an example of 30 private ventures as recorded in the National Social Security Fund (NSSF) Register of Kenya,
432 2008. The investigation found that there are inadequacies in the frameworks of inner controls, with the level
433 of lacks fluctuating from big business to another. The segments of interior control that were absent in many
434 organizations reviewed were; right off the bat, hazard examination, and absence of legitimate progressions of
435 data. Furthermore, the investigation built up that the example populace needed attention to what comprised a
436 compelling arrangement of inside control. The investigation additionally found that there is huge factual proof to
437 help the negative connection between the age of an endeavor and the viability of its arrangement of inward control.
438 In addition, the examination built up that there is a negative connection between the assets held by a venture
439 and its interior control shortcomings. At last, the examination found that there is a frail negative connection
440 between the interior control shortcomings and money related execution. In any case, this examination did not
441 consider the impacts of the particular parts of interior control, for example, the observing and assessment and
442 hazard evaluating and the board inside private companies.

443 Amudo and Inanga (2010) completed an assessment of Internal Control Systems in the Regional Member
444 Countries (RMCs) of the African Development Bank Group (AfDB) concentrating on Uganda in East Africa. The
445 factors included; observing, control exercises, chance appraisal, data and correspondence and control condition.
446 The examination built up that some control parts of powerful inner control frameworks need these activities which
447 render the present control structures incapable. The examination suggested an improvement of the current inward
448 control frameworks in the ventures.

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

459 Olatunji (2010) Sought to discover the effect of interior control framework in banking area. The investigation
460 arranged controls into three significant groupings: Preventive controls, criminologist controls and restorative
461 controls. Information, from which the data comprises the discoveries, were gathered from fifty parts of Wema

462 Bank Plc. This included making a trip to all the previously mentioned states and asking the officials in control,
463 some readied inquiries wherein answers were given as needs be. Information were acquired from both the essential
464 and auxiliary sources, which incorporates; meet, organized poll, diary distributions, course books, papers, web
465 offices. Optional information is utilized to supplement the essential information as the essential information is
466 the first work. Information caught for this investigation was broke down through illustrative and inferential
467 factual strategies. The enlightening investigation includes the utilization of rates, organization and graphical
468 introduction. While, the inferential factual technique included the utilization of the chi-square. As per his
469 discoveries, the absence of a successful interior control framework is the significant reason for bank cheats in
470 Nigeria. It is then presumed that the administration of each bank ought to make and build up a standard
471 interior control framework, sufficiently able to remain against the wiles of misrepresentation so as to advance
472 coherence of tasks and to guarantee the liquidity, dissolvability and going concern idea of the bank.

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

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

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

498 15 III.

499 16 Research Methodology

500 The chapter defines the research design, target population of the study, the sampling size used, sampling procedure
501 followed as well as the type of instrument that was used. The data collection procedures and data analysis
502 techniques used in analyzing the results of the study were also discussed. This study employed a correlational
503 survey research design. This is because the main purpose of the study was to establish the effect of internal
504 controls on financial performance of county referral hospitals in Kenya.

505 Kombo and Tromp (2011) define a population as a collection of people, articles or things from which tests are
506 taken for estimation. Cooper and Schindler (2013) see that populace as the all-out accumulation of components
507 about which one needs to make deductions. Kothari (2013) characterizes populace as the scientist's "universe".
508 Target populace alludes to the whole gathering of objects of enthusiasm from whom the specialist looks to
509 acquire the applicable data for the investigation (Cooper and Schindler, 2013; Kothari, 2013; Oso and Onen
510 2011; Kombo and Tromp, 2011). They state that the population of study ought to have trademark that meet a
511 scientist's investigation advantages. The study targeted referral hospitals in Kenya. There are 47 county referral
512 hospitals according to the rundown got from the Ministry of Health Kenya; November 2019 and all the 47 referral
513 hospitals which have been dynamic throughout the previous a long time since reverted arrangement of government
514 wound up operational in Kenya was taken as the population of the study. The examination utilized the Census
515 method when choosing the province referral medical clinics for the investigation. The available populace of
516 this investigation was the 47 county referral hospitals that are at present working in Kenya (MOH, 2019). The
517 examination utilized the whole populace. Bryman ??2013) and ??reswell (2013) express that in spite of the
518 fact that cost contemplations make registration system unimaginable for enormous populaces, an enumeration is
519 appealing for little populaces of 200 or underneath.

520 The examination at that point utilized purposive inspecting with regards to the determination of the
521 respondents. Bryman and Bell (2015) and Cooper and Schindler (2013) express that purposive examining
522 includes picking individuals from an example to speak to an area or type in connection to a key foundation

22 C) EFFECT OF INTERNAL CONTROLS ON FINANCIAL PERFORMANCE I. CORRELATION ANALYSIS

523 to guarantee importance to the topic secured. The respondents were the 47 hospital medical superintendent
524 in the area referral hospitals or their identical as the unit of investigation. The study used both primary and
525 secondary data to accomplish the research objectives.

526 IV.

527 17 Results and Interpretation a) Introduction

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

530 18 b) Descriptive Frequencies of Controls i. Physical Controls

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

533 The first objective was to determine the effect of physical controls on financial performance of the referral
534 hospitals. Table 4. 31 shows frequencies of the level of agreement for various physical control aspects. Results
535 in Table 4.1 show that that majority of the referral hospitals 40.41% (N = 99) had effective physical control
536 systems, followed by strongly agree at 30.20% (N = 74), and only 1.63% (N = 4) strongly disagreed. This implies
537 that the physical controls were available in the referral hospitals.

538 19 ii. Internal Audit Controls

539 The second independent variable in the study was internal audit control. Table 4.2 shows the descriptive statistics
540 for the variable. Table 4.2 shows that most hospitals have internal audit controls that were working effectively.
541 This was represented by 47.47% (N = 216) followed by 34.29% (N = 156) who strongly agreed and only 1.75%
542 (N = 8) strongly disagreed. This implies that majority of the referral hospitals had internal audit controls that
543 were working.

544 20 iii. Corporate Governance Controls

545 The third independent variable of the study was corporate governance controls. The descriptive statistics for
546 the variable are presented in Table 4 The descriptive statistics presented in Table 4.3 above indicate that most
547 hospitals strongly agreed that corporate governance controls were effective, represented by 35.20% (N = 69)
548 followed by those who agreed at 32.14% (N = 63) and only 2.04% (N = 4) strongly disagreed. This implies that
549 corporate governance controls are present in the hospitals.

550 21 iv. Regulatory Controls

551 The fourth independent variable of the study was regulatory controls. The descriptive statistics based on a
552 five-point Likert scale for the variable are shown in Table 4.4. The findings in the table below show that most
553 of the hospital's medical superintendent strongly agreed 44.89% (110) that regulatory controls were effectively
554 working, followed by 40.41%(99) who agreed, and only 1.22% (N = 3) strongly disagreed. This implies that the
555 regulatory controls are present in the referral hospitals.

556 22 c) Effect of Internal Controls on Financial Performance i. 557 Correlation Analysis

558 Correlation analysis shows the direction, strength and significance of the relationships among the variables of
559 study ??Sekaran, 2000). To establish whether there was a relationship between the variables, a correlation
560 analysis was conducted. The correlation analysis shows the direction, strength, and significance of the
561 relationships among the variables of the study. A positive correlation indicates that as one variable increases,
562 the other variables will also increase. On the other hand, a negative correlation indicates that as one variable
563 increases the other variable decreases ??Sekaran, 2003). The model that was to be fitted is as follows: From the
564 results in Table 4.5, several conclusions can be drawn. First, it has been indicated that physical controls (X 1)
565 are significantly and positively correlated with financial performance in the referral hospitals in Kenya. This is
566 indicated by the correlation coefficient of 0.646 that is significant (p < 0.01). This implies that there is a strong
567 and significant positive association between physical controls and financial performance in the referral hospitals
568 in Kenya. $Y = ? 0 + ? 1 X 1 + ? 2 X 2 + ? 3 X 3 + ? 4 X$

569 Furthermore, Internal Audit Controls (X2) is positively and significantly related to financial performance as
570 shown by the correlation coefficient of 0.594 (p < 0.01). This implies that there is a moderate but significant
571 positive association between Internal Audit Controls and financial performance in referral hospitals in Kenya.
572 Moreover, Table 4.7 shows that Corporate Governance Controls (X 3) is also positively and significantly correlated
573 with financial performance with a significant correlation coefficient of 0.712 (p < 0.01). This implies that there
574 is a strong positive association between Corporate Governance Controls and financial performance in referral
575 hospitals in Kenya. The correlation between accounts Regulatory Controls (X 4) and financial performance was

576 found to be a significant 0.412 ($p < 0.01$). The implication here is that there is a weak but positive association
577 between Regulatory Controls and financial performance in referral hospitals in Kenya.

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

590 **23 ii. Regression Analysis**

591 The general objective of this study was to determine the effect of internal controls on the financial performance
592 of county referral hospitals in Kenya. The specific objectives of the study were to determine the effect of physical
593 controls on the financial performance of county referral hospitals in Kenya, to establish the effect of internal
594 audit controls on the financial performance of county referral hospitals in Kenya, to assess the effect of corporate
595 governance controls on the financial performance of county referral hospitals in Kenya and to determine the
596 effect of regulatory controls on the financial performance of county referral hospitals in Kenya. The regression
597 results from the filed data are presented in the sub-sections below. Regression tests the magnitude between the
598 variables. The results for the regression analysis are presented in Tables 4.6, 4.7 and 4.8 below. The model
599 summary in Table 4.6 above indicates that the general correlation between internal controls and the financial
600 performance of county referral hospitals in Kenya. is positive and high. This is shown by the model correlation
601 coefficient of 0.856. The suitability of the model in predicting financial performance is revealed by the coefficient
602 of determination (R square) value of 0.728. This implies that the 72.8% of financial performance can be predicted
603 by managing the internal controls, with other factors not in the model predicting the remaining 27.2%. Further,
604 the significance of 0.000 shows that the model is significant. The model suitability relationship in the Table 4.6
605 shows that the general relationship between the variables is strong. The analysis of variance (ANOVA) Table
606 4.7 above shows that the model that predicts Financial Performance at Referral hospitals in Kenya using the
607 Internal controls is significant. This is based on the relatively large F-value of 78.906 that is significant. It
608 therefore implies that the model is a significant predictor of Financial Performance at the referral hospitals in
609 Kenya. From Table 4.8 above, several inferences can be derived. The constant term in the regression equation
610 of 0.376 indicates the level of Financial Performance that is in existence in the referral hospitals. Regulatory
611 controls have a positive significant effect ($\beta = 0.372$, $p = 0.000$) on Financial performance. This implies that
612 if all other factors are held constant, a unit increase in Regulatory controls results into a significant increase in
613 Financial Performance of 37.2%. Generally, the fitted model based on the study findings is as follows: $Y = 0.376$
614 $+ 0.391X_1 + 0.401X_2 + 0.296X_3 + 0.372X_4$

615 Where the variables are defined as: Y -Financial Performance, X_1 -Physical Controls Based on the findings
616 from the first objective which was that physical controls have a positive significant effect on Financial Performance
617 of the hospitals, it is concluded that physical controls are significant drivers of financial performance in the referral
618 hospitals.

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

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

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

630 **24 b) Recommendations**

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

25 C) SUGGESTIONS FOR FURTHER RESEARCH

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

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

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

25 c) Suggestions for Further Research

649 The present study sought to determine the effect of internal controls on the financial performance of county
 650 referral hospitals in Kenya using the variables of physical controls, internal audit controls, corporate governance
 651 controls and regulatory controls. This implies that only four variables of internal controls were used. Based on
 652 this, the study recommends that future studies focus on other variables of internal controls not included in the
 653 present study. It is also recommended that future studies are conducted in private hospitals.
 654

Year 2021 ()

41

Physical Controls	Strongly Dis- agree	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)

[Note: C52]

Figure 1: Table 4 . 1 :

4

Internal Audit Controls	2: Internal Audit Controls			Agree	Strongly Agree
	Strongly				
Hospital has functional internal audit unit	0(0.00)	1(2.86)	1(2.86)	6(17.14)	27(77.14)
Timing of the audit here is appropriate.	1(2.86)	3(8.57)	6(17.14)	15(42.86)	10(28.57)
There is an internal audit manual	0(0.00)	1(2.86)	5(14.28)	16(45.72)	13(37.14)
Audit process completed on time	1(2.86)	8(22.85)	9(25.71)	11(31.42)	6(17.14)
Internal audit findings are reported directly to top management	0(0.00)	1(2.86)	1(2.86)	18(51.43)	15(42.86)
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)
Internal audit unit helps in fraud detection and prevention.	1(2.86)	2(5.71)	6(17.14)	20(57.14)	6(17.14)
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)
Internal auditor(s) demonstrate professionalism	1(2.86)	1(2.86)	4(11.42)	24(68.57)	5(14.29)
Audit department provides management with assurance	1(2.86)	1(2.86)	4(11.42)	23(65.71)	6(17.14)
Internal audit department reports functionally to the audit committee	0(0.00)	2(5.71)	2(5.71)	16(45.72)	15(42.86)
Internal audit department has independence	0(0.00)	1(2.86)	1(2.86)	17(48.57)	16(45.72)
Head of the Internal audit unit is a member of the senior management	2(5.71)	1(2.86)	2(5.71)	14(40.00)	16(45.72)
Total	8(1.75)	24(5.27)	51(11.21)	216(47.47)	156(34.29)

Figure 2: Table 4 .

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)
The hospital has well established corporate procedures, and practices that guide the affairs of the hospital.	governance	0(0.00)	2(5.71)	5(14.29)	10(28.57)
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.	practices	Disagree	Disagree	Neutral	
Total		0(0.00)	4(11.43)	11(31.43)	8(22.86)
		4(2.04)	11(5.61)	19(0.25)	63(32.14)

Table 4.3: Corporate Governance Controls

Corporate governance Controls	Strongly Disagree	Disagree	Neutral	Agree
The hospital has a well-established and effective Board.	0(0.00)	0(0.00)	5(14.29)	8(22.86)
Recruitment and appointment of Board members is approved by the hospital stakeholders.	2(5.71)	1(2.86)	5(14.29)	14(0.40)
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)

Figure 3:

4

Regulatory Controls	4: Regulatory Controls					
	Strongly		Neutral	Agree	Strongly	Agree
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)	
There exists a legal unit within the hospital	0(0.00)	1(2.86)	2(5.71)	16(45.71)	16(45.71)	
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)	
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)	
Government regulations implemented in the hospital	0(0.00)	1(2.86)	5(14.29)	12(34.39)	17(48.57)	
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)	
The hospital frequently reviews its policies.	0(0.00)	0(0.00)	5(14.29)	17(48.57)	13(37.14)	
Total	3(1.22)	8(3.27)	25(10.20)	99(40.41)	110(44.89)	245(100.00)

Figure 4: Table 4 .

4

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,

[Note: ** p < 0.05, *** p < 0.01]

Figure 5: Table 4 .

4

6: Model Summary

Figure 6: Table 4 .

4

Table 4.7: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	160.425	4	40.106	78.906000	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

Figure 7: Table 4 .

48

	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

Figure 8: Table 4 . 8 :

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