

**EFFECT OF INTERNAL CONTROLS ON REVENUE
COLLECTION OF LEVEL FIVE HOSPITALS IN KIAMBU
COUNTY**

BY

ANNE WANGECI NJAGI

**A RESEARCH PROJECT PRESENTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2018

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signature.....

Date.....

Anne Wangeci Njagi

D61/84267/2015

This research project has been submitted for examinations with my approval as the university supervisor.

Signed.....

Date.....

Dr. Mirie Mwangi

Lecturer,

School of Business,

University of Nairobi.

DEDICATION

I dedicate this project to God Almighty my creator, my strong pillar, my source of inspiration, wisdom, knowledge and understanding. He has been the source of my strength throughout this program and on His wings only have I soared. I also dedicate this work to my husband; Charles Ngubu who has encouraged me all the way and whose encouragement has made sure that I give it all it takes to finish. To my child Ryan Kanyara, who has been affected in every way possible by this quest. Thank you. My love for you both can never be quantified. God bless you.

ACKNOWLEDGEMENT

I would like to express my deep gratitude to Dr. Mirie Mwangi, my research supervisor, for his patient guidance, enthusiastic encouragement and useful critiques of this research work. My grateful thanks are also extended to the staff at the level five hospitals in Kiambu County for assisting the study with the data that was needed. Finally, I wish to thank my parents and my siblings for their support and encouragement throughout my study.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
LIST OF ABBREVIATIONS AND ACRONYMS	ix
ABSTRACT	x
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Internal Control.....	3
1.1.2 Revenue Collection.....	4
1.1.3 Internal Control and Revenue Collection	6
1.1.4 Kiambu County Level Five Hospitals	6
1.2 Research Problem.....	7
1.3 Research Objectives	10
1.4 Value of the Study.....	10
CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction	12
2.2 Theoretical Literature	12
2.2.1 Agency Theory	12
2.2.2 Contingency Theory	14
2.2.3 Institutional Theory	15
2.3 Determinants of Revenue Collection	16
2.3.1 Control Environment	16
2.3.2 Internal Audit Function	17

2.3.3 Monitoring of Controls	18
2.3.4 Risk Assessment	19
2.4 Empirical Literature and Research Gap	19
2.5 Conceptual Framework	24
CHAPTER THREE	25
RESEARCH METHODOLOGY	25
3.1 Introduction	25
3.2 Research Design	25
3.3 Population of the Study	25
3.4 Data Collection.....	26
3.5 Data Analysis	26
3.5.1 Analytical Model	26
3.5.2 Diagnostic Tests	26
CHAPTER FOUR.....	28
DATA ANALYSIS AND INTERPRETATION.....	28
4.1 Introduction	28
4.2 Diagnostic Tests	28
4.2.1 Normality Test	28
4.2.2 Multicollinearity	29
4.3 Descriptive Statistics	30
4.4 Control Environment.....	31
4.5 Internal Audit Function	32
4.6 Monitoring of Controls	34
4.7 Risk Assessment.....	35
4.8 Correlation.....	37
4.9 Discussion of the Findings	39
CHAPTER FIVE	42

SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS ...	42
5.1 Introduction	42
5.2 Summary of findings	42
5.3 Conclusion	44
5.4 Recommendations	45
5.5 Limitations of the Study	47
5.6 Recommendation for Further Research.....	47
REFERENCES	49
APPENDICES	53
APPENDIX I: Questionnaire	53
Appendix II: Data Collection Form	56

LIST OF TABLES

Table 4.1 Normality	29
Table 4.2: Collinearity Statistics.....	29
Table 4.3: Log Revenue Collection Statistics.....	30
Table 4.4 Control Environment	31
Table 4.5 Control Environment Chi-square Tests	32
Table 4.6 Internal Audit Function.....	32
Table 4.7 Internal Audit Function Chi-square Tests.....	33
Table 4.8 Monitoring of Controls	34
Table 4.9 Monitoring of Controls Chi-square Tests	35
Table 4.10 Risk Assessment	35
Table 4.11 Risk Assessment Chi-square Tests	36
Table 4.12 Correlations.....	38

LIST OF ABBREVIATIONS AND ACRONYMS

BOD Board of Directors

CBK Central Bank of Kenya

DPC Centralized Document Processing Center

FASB Financial Accounting Standards Board

GDP Gross Domestic Product

KRA Kenya Revenue Authority

SPSS Statistical Package for Social Sciences

UNES University of Nairobi Enterprises and Services Limited

VAT Value Added Tax

WHO World Health Organization

ABSTRACT

This study investigated on the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection. The study utilized descriptive research design. The study targeted 3 level five hospitals in Kiambu County namely; Kiambu, Thika and Gatundu. The study gathered primary data and secondary data. Primary information was gathered using structured questionnaires. Secondary information was gathered through literature review. Analysis of the quantitative data was done via SPSS and tables were used to present the results. A chi-square was used to study the correlation between internal controls and revenue collection. The descriptive analysis indicated a decreasing trend in revenue collected by level five hospitals in Kiambu County since 2013 except in 2015 when there was a slight increase which was followed by a decline in 2016. The findings found a significant correlation between environment of controls and collection of revenue and thus an increase in environment of controls leads to revenue collection increase by the level five hospitals in Kiambu. Integrity in level five hospitals is maintained and management is always committed to ethical values business practices. Level five hospitals in Kiambu provides discipline and structure and their management are committed to competence as well as influencing the control consciousness of its people in the hospitals. Study also established that level five hospitals management in Kiambu County ensures that fraud is prevented by putting in place fraud detection mechanisms and audits which ensure that effective controlled reporting is done. The hospitals examine and evaluate the effectiveness of management control systems and provide re-assurance that the internal control systems are adequate. A strong positive correlation between internal audit function and revenue collection exist and therefore an increase in internal audit function leads to an increase in the revenue collection by the level five hospitals. Further, the study established that an increase in monitoring control measures leads to an increase in the revenue collection. Level five hospitals management adequately monitors the quality of the systems' performance and effectiveness to ensure collection is achieved. Monitoring has been allowing the hospitals to determine whether or not policies implementation procedures are followed while the regular supervision and managing activities help in reducing wastage of revenue. Also, monitoring in the level five hospitals ensures that the findings of audits and other reviews are promptly resolved. Finally, the study revealed that a significant association between the risk assessment and the revenue collection exists. The study suggests frequent evaluation of control environment and activities. This study reveals a decreasing trend of revenue collection of level five hospitals in Kiambu County since 2013 with a minor increment in 2015, therefore this study recommends another study to be carried out to establish the factors which are leading to a decrease in the revenue collection in level five hospitals in Kiambu County.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Internal control is pertinent to every individual in the place of work because it exemplifies their ethical obligation to comprehend and adhere to entity's policies and procedures, as well as to hold themselves accountable. The key drive being to help protect an entity and promote its goals. They similarly aid to lessen risks as well as protect resources, guarantee accuracy of information, facilitate operational efficiency, and promote observance to policies and regulations. Management is having the duty to institute as well as uphold an internal control system that is operational. The audit committee is to watch over these controls and assess their effectiveness in entirety (Kumuthinidevi, 2016).

An internal control system that is effective offers rational guarantee that guidelines, processes, responsibilities, conducts as well as other organization aspects, collectively, enable its operational efficiency, safeguarding the quality of internal and external recording, as well as upholding conformity to relevant guidelines. Internal control keeps an entity on track toward its goals as well as the realization of its objective, and reduces risks on the course. Internal control facilitates operational effectiveness, minimizes the asset loss risk, and assists to ensure conformity to relevant guidelines. Theoretically therefore, an establishment with effective internal control system is anticipated to efficiently and effectively accomplish its objectives (Al-Zwyalif, I2015).

This study is anchored on three fundamental theories namely: contingency theory; agency theory; and institutional theory. Contingency theory is a behavioral theory instituted by

Woodward in 1958 which asserts that there is no unsurpassed approach to provide an effective management. Instead, management effectiveness depends upon a match between the kind of technology, environmental impulsiveness, organization size, the organizational structure features as well as its information system. Incidentally, this study stipulates that the effectiveness of internal control can be best described using contingency theory. The Agency theory popularized by Jensen and Meckling (1976) which argues that, due to information disproportionateness as well as self-interest, leaders lack explanations to have confidence in their agents and tried to get to address these apprehensions by establishing means to align the agents' and principals' interests and to minimize the possibility of disproportionateness of information and opportunistic conduct. (Adelopo, 2016). According to Institutional theory, by Fogarty (1997), organizations internal operations perceived as difficult and complex to determine may take a second place in regards to external legitimacy. The theory also argues that the external image of an organization may be coupled with the kind of technology and operational processes adopted. The theory alleges that the external image of an organization may in this case be coupled with the kind of technology and operational processes adopted.

The administrative management of Level Five Hospitals in Kiambu County are in charge of ensuring a proficient internal control framework explicit to operations of the Hospitals. The management of the Hospitals are in charge of sharing the anticipations as well as responsibility of personnel as elements of a control environment. They are similarly in charge of guaranteeing that the other key matters of an internal control outlined are dealt with specific to the undertakings of their departments and to ensure that the Hospital

controls are observed. The employees at the Hospitals on the other hand have a duty to undertake the internal control actions as established by management (Maichuhie, 2018).

1.1.1 Internal Control

According to Simangunsong (2014), internal control refers to the procedures, practices, responsibilities, behaviors as well as other organization aspects that collectively enable operational effectiveness through allowing it to react in a suitable way to key organizations, operational, financial, conformity as well as other risks to realize its goals. They comprise protection of assets as well as making sure that obligations are pointed out and controlled. Internal control is defined according to Moeller (2013) as all of the guidelines and procedures management employs to accomplish among others the following objectives: Ensuring the financial information's dependability and integrity, safeguarding entity's resources, fostering operational efficiency and effectiveness and lastly ensuring compliance. Ehrlich and Williams (2016) define internal control as a practice, put in effect by the Board of Directors (BOD), management, as well as other staff intended for offering rational assurance with regards to the attainment of goals in the categories of: Effectiveness as well as efficiency of operations, soundness of financial recording and last but not least conformity with the relevant regulations and goals.

A sound internal control system in an entity has a number of indicating aspects. First is the management integrity. The moral conduct of principals at the organization establishes the general outlook of the workplace. Integrity of management is communicated to staff by way of handbooks and procedural booklets. These publications similarly offer staff the required training on organization's policies as well as anticipated conducts. Though,

enforcement of these policies by management is the key indicator of an entity's dedication to an effective internal control system. A second indicator is the competent workforce (James, 2018). Hiring as well as retaining competent staff allows an entity to accurately document accounting transactions continuously by being consistent. Staff retention enhances the comparability of financial information every time. Additionally, confidence of an auditor in the fundamental accounting documentations increases as they observe the dependability of the organization's staff. This sequentially lowers the assessment risk of misstatement of a material in the financial reports of a firm by an auditor (Sigilai & Njiru, 2017).

The third indicator of a sound internal control system is records maintenance. Maintaining records ensures that documentation for every transaction is present. It entails storing, safeguarding and finally doing away with tangible or electronic documentations. Similarly, proper back-up prevents a staff or managers from developing ghost transactions in the fundamental accounting documentations. A proper records management plan minimizes operating costs, enhances efficiency and reduces litigation risk. Lastly are the physical and intangible safeguards. Safeguards keep unapproved staff from gaining access to valuable entity's assets. These include locks on doors, or intangible, for instance computer software passwords. A number of entities' principals automatically safeguard inventory, cash as well as supplies (James, 2018).

1.1.2 Revenue Collection

The simple definition of revenue is the total sum of money generated by operations of an enterprise, evaluated over an established time duration. The revenue of an entity is its

gross earnings before deducting any costs. Kimmel, Weygandt and Kieso (2013) term revenue as the income generated from sale of goods or services, or any other capital or asset utilization, linked with the major operations of an entity before any costs or expenses are deducted. According to Aggestam-Pontoppidan (2017) revenue is the aggregate sum of money obtained by an enterprise for goods sold or services rendered during a particular period of time. It as well embroils all net sales, exchange of assets; interest as well as any other owner's equity increase and is evaluated before the deduction of any expenses.

The Financial Accounting Standards Board (FASB) (198) term revenue as influxes or other assets increase of an enterprise or meeting of its obligations (or mixture of the two) in a period from delivery, service rendering or other undertakings that encompass an enterprise's current key operations. Furthermore Aggestam-Pontoppidan (2017) define revenue as influxes of assets obtained for products or services rendered to clients. Government revenue comprises all sums of money obtained from the government external sources. Big governments typically have an agency or division that takes part in government revenue collection from corporations as well as people. It similarly comprises printed reserve bank currency.

Among the functions of government is to amass taxes as well as other revenues. It encompasses a number of participants for instance the agencies that collect revenue, agencies dealing in accounting, the functions of the attorney of the government, budget division, individuals paying taxes, assessors of tax, treasurer of the County government, other divisions, County and national administrations, commercial banks, as well as private bodies that collect revenue (Kimmel, et al., 2013).

1.1.3 Internal Control and Revenue Collection

Whittington and Pany (2001) stated that the environment of internal control determines the nature of the business by impelling the control awareness of its individuals. Environment of control is the fundamental of every other aspect of internal control. It is made up of aspects for instance; integrity and moral values of staff responsible for developing, managing, as well as assessing of the controls, dedication and capability of individuals undertaking delegated duties, BOD or audit teams, management beliefs and operating approach, as well as entity's structure.

Theoretically, effective systems of internal control enhance efficiency of collection of revenue due to the fact it is an integral management practice constituent (planning, organizing, directing, and controlling). Internal control puts an entity on track toward its goals as well as the realization of its objective, and reduces risks in the course. Internal control facilitates operational effectiveness, minimizes the asset loss risk, and assists to safeguards conformity with guidelines. Theoretically therefore, an establishment with effective internal control system is anticipated to efficiently and effectively accomplish its objectives (James, 2018).

1.1.4 Kiambu County Level Five Hospitals

Kiambu Level Five Hospitals fall under the category of County hospitals. They are located within Kiambu County, that is, Kiambu town, Thika town and Gatundu. The level five hospitals are receiving 1600 to 2500 patients every day, a number of them being from outside the County (Maichuhie, 2018). In 2018 the county bought drugs valued at Sh134 million. The chairman of the health committee of Kiambu County, noted that there

is a scarce supply in drugs and the government owes the contractors an amount of more than Ksh 100m. In 2018, Gatundu level five hospital set up a Renal unit. The unit would help decongest Thika Level Five Hospital, the nearest public health facility offering dialysis. The new unit is equipped with five dialysis machines and can handle up to 10 patients daily (Njenga, 2018).

The County administration also pointed out that the Kiambu level five hospitals' administration stated that they were dedicated to achieving universal health coverage within the country. This improvement of health facilities would ensure that provision of quality healthcare in the county is enhanced. World Health Organization (WHO) officials during their visit at the facilities indicated that the county would similarly institute a college adjacent to Kiambu Level Five Hospital to train medical staff (Njenga, 2018).

The administrative management of the Kiambu level five hospitals are in charge of ensuring proficient internal controls explicit to the operations of the hospitals. The management of the hospitals are in charge of sharing the anticipations as well as responsibilities of personnel as elements of a control environment. They are similarly in charge of guaranteeing that the other key matters of an internal control outline are dealt with specific to the undertakings of their department and to ensure that controls are observed. The employees at the hospitals on the other hand have a duty to undertake the internal control actions as established by management (Maichuhie, 2018).

1.2 Research Problem

Implementation of sound internal controls such as separation of duties has become among the most effective mechanisms of inhibiting fraud. Internal controls as linked to fraud comprise the measures, policies, as well as guidelines that establishments adopt to

safeguard resources and maintain the dependability of accounting information. A number of establishments contend that there are adequate internal controls adopted to inhibit, or even eradicate, fraudulent engagements. However, some internal controls adopted by entities may perhaps not be effective anymore relative to the time they were adopted due to the fact that organizations change, and as such more staff are employed for old as well as newly established positions. Continuous monitoring for entities is therefore a key effective management tool to adopt in developing or amending internal controls (Moeller, 2013).

The management of the Kiambu Level Five Hospitals are in charge of ensuring proficient internal control frameworks explicit to operations of the hospitals. They are also in charge of sharing the anticipations as well as responsibility of personnel as elements of a control environment. The employees at the hospitals on the other hand have a duty to undertake the internal control actions as established by management. However, the internal control systems at Kiambu County Level Five Hospitals similarly encounter a number of problems as principals not engaging in the risk and control procedures, hence formal risk as well as control deliberations are often suspended. Risk and control procedures are similarly detached from operations. Also, establishment of the internal control practice is regarded as the final objective, therefore very intricate procedure and the hospitals' committees are sluggish to adopt. There is also little heightened deliberation or more quantification. Assurance is inconsistent and only strong for traditional risks, lacking in emerging risks as there is lack of a well-defined assurance map. Internal audit policies similarly revolve around similar areas and principals heavily

depend on management self-assurance. There is similarly a lack of robust oversight as well as challenge, hence reporting concentrates on risk coverage, instead of action.

A number of researches have been undertaken both internationally and locally on the concepts of internal control and revenue collection. Internationally for instance, Simangunsong (2014) conducted a research in Indonesia that intended to explore the influence of internal control effectiveness and internal audit role on the local government's performance. Al-Zwyalif (2015) undertook a research in Jordan to investigate role of internal control in improving corporate governance. A study was similarly conducted in Sri Lanka by Kumuthinidevi (2016) to establish the effectiveness of internal control practice in the private banks of Trincomalee. Kwaji and Dabari (2017), did a study in Nigeria that aimed to assess tax revenue collection by the Federal government in Nigeria.

Locally in Kenya, a number of studies on the concepts have similarly been undertaken. For instance, Brian (2013) carried out a research that focused on determining the influence of internal control at Kenya Revenue Authority (KRA). A study by Ndungu (2013) investigated internal controls impact on generation of revenue at the University of Nairobi Enterprises and Services Limited (UNES). Njeri (2014) in her research sought to ascertain the influence of systems of internal control on the Kenyan manufacturing enterprises financial performance. The research employed a hypothesis testing research design. Gitaru (2017), undertook a research that sought to analyze the impact of automation collection system of revenue in KRA.

With regards to the above studies undertaken on the concepts of internal control and revenue collection, it is apparent that no single study considered the two concepts

simultaneously in relation to the context of Kiambu County Level Five Hospitals. This research aims at filling the existing knowledge gaps and adding to the literature by analyzing the internal control practices adopted by Kiambu County Level Five Hospitals and their influence on revenue collection. The research was aimed at answering the study question: What internal control practices are adopted by Kiambu County Level Five Hospitals and their influence on revenue collection?

1.3 Research Objectives

To examine the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection.

1.4 Value of the Study

This research is of importance to policy makers such as Kiambu County Government in the articulation of policies and guidelines of internal controls for collection of revenue. The research through its findings would create awareness concerning the extent to which internal controls have been adopted and to employ the recommendations suggested to add in to the policies that have already been put in place.

The management of Kiambu Level Five Hospitals through the findings and recommendations of this have a comprehensive understanding of the internal controls which help them provide additional reference tools for every staff to ascertain, as well as evaluate operating controls, financial reporting, as well as regulatory compliance procedures and to be decisive on strengthening controls where necessary. Management will also gain insight on effective internal control systems, which leads to enhancing the hospitals capacity to realize their goals as well as minimize the likely liability from penalties that may perhaps be imposed for infringements.

The findings of this study similarly contribute to concepts as well as theories by presenting other evidences to back the existing theories. Scholars and academicians similarly utilize the material in this research as part of literature review when undertaking other studies pertaining to internal control impacts on revenue collection.

The findings of this research are valuable to practice as they facilitate division of tasks between various individuals such that a single individual does not have control over every transaction aspect. They also help to give insight on sound practices such as ensuring that only a single individual to whom authority is delegated approves or authorizes transactions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part provides an explanation of the theoretical contributions made in regards to the subject matter from varied authors on the element of internal controls and revenue collection. The chapter equally makes contributions from various research studies carried out on the topic of discussion before summarizing the varied views of these authors through a conceptualized framework.

2.2 Theoretical Literature

This research study therefore covers a broad range of theories that include the; agency theory; contingency theory; and institutional theory with the intent of supporting the findings of this study.

2.2.1 Agency Theory

This significant body of work was mainly designed by Jensen & Meckling in 1976. The agency theory therefore determines the agent relationship between two parties, one is the principal party that delegates duties and responsibilities while the other is the agent. The agency relationship as provided by its originators tends to have varied disadvantages in relation to the self-interest and level of optimism that lies in an agent. For instance, the agent may choose to act in a manner that is not of principal's best interest, or rather, the agent may act partly in the interest of his principal. On the opposite side, the agency theory posits that a firm mainly embroils a connection of contracts that lies between its economic resources, owners who are considered as the principals, and managers,

perceived as the agents given that they are charged with the control of organization's assets (Jensen & Meckling, 1976).

The concept holds that the agents in several occasions possess the capacity to access more information as opposed to the principals, thus establishing that the information asymmetry mainly impinges on the principals' capacity to assess whether the interests of their organizations are served by their agents. Hence, it is evident that this theory views organizations as a necessary structure in the maintenance of the required contracts, and this way, it is easier to undertake control that lessens the unprincipled behaviors of the agents. According to Jensen & Meckling (1976), to harmonize the principal and agent interests, there is a need to establish a comprehensive contract that addresses the interests of both the parties. In this regard, it is essential to note that the agent-principal connection is primarily held together by the inclusion of a professional as well as other auditing and control systems that help in monitoring the agent.

The agency theory operates under the perception that the agents and their principals operate on a rational manner, thus using contracting as an approach aimed at maximizing their wealth (Kenyon & Tilton, 2014). This study is therefore applicable in this context given that internal control remains one of the main mechanisms utilized by businesses in addressing their agency challenges especially through the reduction of agency costs that may have adverse effects on the performance of the relationships between the two parties.

2.2.2 Contingency Theory

In close association with the situational approach, the contingency theory is a brainchild of Austrian psychologist Fred Edward Fiedler in his milestone 1964. The contingency theory primarily focuses its attention on the significance of the principal's character and the condition or the circumstances whereby the leaders operate. Fiedler and his companions mainly focused their attention on leaders in varied contexts but narrowed down on leaders within the military context. The contingency theory therefore holds that there are provided situational factors that have the capacity to affect the independent and dependent variable relationships in understanding organizational behavior. In this case, the study provides that independent variables are the main cause of change in the dependent variables while variables that are dependent are mainly affected by the variables that are independent.

Leadership and motivation are two of the main examples that are expounded as independent variables explained in the contingency theory, turnover and absenteeism as well as productivity are perceived as the dependent variables (Kenyon and Tilton, 2014). The contingency theory in as much as adduced to have several strengths, falls short due to some shortfalls in making efforts to explain the rationale behind leaders with a given leadership style are only effective in some situations but not in others.

Researchers allege that Fielder's theory has broadened the scope used in understanding leadership from varied perspectives in an effort to underpin the best style of leadership within an organization that meets the varied demands within different situations (Fred, 1964). The contingency theory has equally paved way to unravel the predictive powers

used in determining the styles and types of leadership that are likely to be effective within varied contexts. The theory therefore expects leaders to ensure that they are effective in varied situations and need to consider operating under optimal conditions that complement their leadership styles. The implications of this theory in this study remain evident in its effects driven towards ensuring that the right kind of leadership is employed in meeting varied leadership needs in organizations.

2.2.3 Institutional Theory

The institutional theory was designed by Fogarty (1997), with the intent of explaining the manner in which organizations are designed and function especially in meeting their social requirements and expectations in a manner that is visible and transparent to the entire public. According to this theory, organizations internal operations perceived as difficult and complex to determine may take a second place in regards to external legitimacy. In this regard, Fogarty et al. (1997) alleges that the external image of an organization may in this case be coupled with the kind of technology and operational processes adopted. Fogarty et al. (1997) instituted this theory emphasizing that the contributions of this concept lies in the insights it provides on the manner in which organizations may achieve varied accomplishments and the need for structures to meet these goals.

Fogarty et al. (1997) in this theory equally contends that the internal systems and processes perceived as visible, determine the manner in which organizations operate while other external structures are not very important in the operations of a firm. In this regard, it is essential to note that the scrutiny by outsiders may be avoided in the event that the right structures are put in place within an organization. In other words, the loose

coupling of technology may enable an organization to achieve success in regards to its external problems, thus allowing the element of flexibility in the operational processes of an organization.

According to institutional theorists, institutional environment may be key in influencing the manner in which organizations develop formal structures. The inclusion of innovative structures may therefore be essential in improving the efficiency of an organization mainly related to the adoption of legitimized processes in organizations (Fogarty et al., 1997). Such innovative measures therefore rely on effective processes and leadership employed, thus a failure in the adoption of these measures may be considered as negligence. In a nutshell, the implications of this theory remain evident in the fact that institutional environment may need to accept the order of an organization in maintaining and gaining legitimacy within the corporate environment.

2.3 Determinants of Revenue Collection

Internal control systems function at varying effectiveness levels. Deciding the effectiveness of collection of revenue results from analyzing four components; control environment, monitoring of controls, internal audit function and risk assessment.

2.3.1 Control Environment

The administration of an organization develops the environment control. The administration establishes the sense of an organization and affects people's control consciousness to achieve proper revenue collection (Schiuma, 2013). The attitude of management ought to be focused on practices of moral business and to following procedures of controls that have been established. This is the pillar for all internal control

components, provision of a structure and discipline. Factors of control environment are; Integrity and moral qualities; competence; philosophy of leadership and style of operations; and the manner in which the board relegates obligation and authority, and arranges and builds up its kin.

The control environment develops organizational approach impacting people's control consciousness (Woods, 2009). All internal controls depend on the control environment. It encompasses factors such as; integrity and moral qualities of individuals empowered to create, administer and monitor controls, competence, and duty. Systems of internal control also add to the effectiveness of management in addition to crucial responsibilities in corporate boards. Literature on accounting gives emphasis to the importance of integrity and moral qualities of an organization in ensuring control systems that are effective (Ewa & Udoayang, 2012).

2.3.2 Internal Audit Function

Internal auditing is an autonomous and goal oriented function intended to improve the operations of an organization. It facilitates achievements of objectives through establishing an orderly, restrained method in enhancing and encouraging adequacy of management risks, control, and governmental processes. Gupta (2011), affirms that internal audit is an independent activity aimed at assessing the operations within an organization.

The goal of internal audit is to help individuals from the association in the compelling release of their obligations. It is additionally an independent evaluation function built up to evaluate the effectiveness and financial systems of management controls (Subramaniam, 2016). It aims at assuring management of the condition of their internal

controls in meeting the aims of the organization (Reid and Smith, 2012). The quality and viability of systems of internal audit are vital since auditors within the organization assess many operations in the institution and not just the financial records which the external auditors are most interested in.

2.3.3 Monitoring of Controls

Monitoring alludes to the way towards evaluating the nature of the inner control structure after some time. It is acknowledged that monitoring controls have to be satisfactorily observed with the end goal being to evaluate the quality of a system through a given period. Observing of tasks guarantees successful working of inward controls framework. It's through observing that an association decides if its arrangements and methodology planned and executed by the board are being conveyed out viably by representatives (Abassi, and Hollman, 2010).

As indicated by Bowrin (2010), monitoring can be accomplished by consistently overseeing exercises like observing of client objections and input and reviews directed occasionally by auditors within the organization. Internal auditors can research and assess inner control structure and the productivity with which the different capacities are playing out their allotted obligations. Along these lines, they can bring an orderly approach for the assessment and enhancement of management risk exercises and great administration processes by looking at the inner controls and assessing how sufficient and, viable the controls are. Monitoring guarantees that the discoveries of reviews and other surveys are quickly settled.

2.3.4 Risk Assessment

Risk evaluation alludes to the cautious appraisal of components that influence the likelihood of goals of the association not being accomplished. It alludes to the determination and examination of applicable dangers related with accomplishing the goals of the association (Karagiorgos, 2009). In associations, the executives must decide the dimensions of hazards to be acknowledged, what's more, endeavor to keep up such hazards inside decided dimensions. It is thusly the administration's obligation to structure interior controls to guarantee productivity and viability, unwavering quality of money related risks and in addition, ensure consistence with laws and directions.

The auditors within the association plan intermittent execution and assessment of the ampleness and viability of the controls. An association's arrangement of inside control has a key job in the appraisal of dangers that are huge to the satisfaction of its business targets. A sound arrangement of interior control adds to protecting of associations' resources. Inner control encourages the adequacy and effectiveness of activities, guarantees the unwavering quality of interior and outside detailing, helps consistence with laws, and controls Bowrin, (2010). An organization's goals, it's inside association and the earth in which it works are persistently developing and, thus, the dangers it faces are consistently evolving. A sound arrangement of inner controls hence depends on a careful and normal assessment of the nature and degree of the dangers to which the association is uncovered.

2.4 Empirical Literature and Research Gap

Internationally for instance, Simangunsong (2014) conducted a research in Indonesia that intended to explore the impact of effectiveness of internal control and internal audit on performance by local government. The research adopted a census design. The study utilized primary data obtained by way of questionnaires. Data analysis technique employed to evaluate the hypothesis was by way of regression analysis via SPSS. The

study undertook the validity as well as reliability test prior to the hypothesis assessment. The findings ascertained that there existed a positive effect of the effectiveness of internal control and internal audit on the performance by local government both concurrently and to some extent.

Al-Zwyalif (2015) undertook a research in Jordan to investigate the role of internal control in improving corporate governance. Primary data was obtained through questionnaire. The findings of statistical analysis, the research revealed that the dedication every aspect of internal control leads to reinforcement of the pillars of governance of the corporate to a greater extent. Furthermore, the results pointed out that internal control has a substantial function of reinforcing the corporate governance pillars in insurance enterprises in Jordan. The study recommended that the effectiveness of corporate governance needs adherence to every aspect of internal control.

A study was similarly conducted in Sri Lanka by Kumuthinidevi (2016) to determine internal control frameworks effectiveness in the private banks of Trincomalee. Primary data was obtained by questionnaires which were developed and administered to all the permanent staff of ten banks. Data analysis was undertaken using univariate and bivariate approaches. For the univariate analysis, standard deviation, mean, percentages were employed in assessing the data. The findings of the analyzed data pointed out that risk assessment, control environment and activities, communication, accounting, and assessment of self are helpful in internal control practice effectiveness.

Kwaji and Dabari (2017) did a study in Nigeria that aimed to assess tax revenue collection by the Federal government in Nigeria. The research employed quantitative research design. The study also relied on the secondary data that was retrieved from the

FIRS in relation to the aggregate oil tax revenue gathered as well as non-oil taxes between 2011 and 2015. The population entailed of Federal Inland Revenue Services whereas the sample size comprised planning, reporting and statistics departments. The results of the findings pointed out that capital gains tax, stamp duty, education tax and petroleum profit tax are positively substantial at 1%, 5% and 10% respectively whereas company income tax and value added tax are not substantial. The study hence recommended that there is need for the government to increase tax revenue collection processes as well as ensure that any compliance deviations from the established guidelines are dealt with and punished.

Locally in Kenya, a number of studies on the concepts have similarly been undertaken. For instance, Brian (2013) carried out a research that aimed to examine the internal control impacts at Kenya Revenue Authority (KRA). The study was undertaken by way of qualitative and quantitative methods. The study employed primary information which was gathered using structured questionnaires. The study population involved 38 respondents. The findings of the analyzed data established that the 5 elements of control; environment, assessment of risk, activities related to control, communication and information and assessment ought to be put in place so as to enable internal controls function. The study similarly pointed out that ineffective internal controls have aided conspiracy to fraud, assets loss as well as misappropriation of the revenue collected. The study hence determined that internal controls do operate however, with setbacks and that a substantial influence exists between KRA revenue collection and internal controls.

A study by Ndungu (2013) investigated the impacts of internal controls on generation of revenue at the University of Nairobi Enterprises and Services Limited (UNES). The

research adopted a descriptive design. The study population comprised all the staff at the UNES Limited in the 2013 calendar year. Data analysis of the study was by way of linear regression. The findings pointed out that internal controls lead to revenue creating at the enterprise and that UNES supports internal control by making sure that all documents are accurate, authentic and approve their signing by relevant officers prior to processing to avoid revenue embezzlement. It was similarly revealed that the enterprise has enacted guidelines for all undertakings which enable effective communication, control as well as evaluation of undertakings. The study recommended that the enterprise ought to put in place internal control as well as systems of information that lead to financial, compliance-connected and operational information accounts to allow running as well as controlling the enterprise. Furthermore, there is the need for the enterprise to adequately assess internal control to safeguard the performance effectiveness of the systems over time.

Njeri (2014) in her research aimed to ascertain the influence of system of internal control on financial performance of Kenyan manufacturing enterprises. The research employed a hypothesis testing research design. They comprised H1: there is a positive link between internal control and financial performance; H2: internal control has positive effects on financial performance. The study populous constituted 65 manufacturing enterprises approved by the Kenyan industrialization ministry. The study population sample comprised 65 manufacturing enterprises. Primary information was gathered by written questionnaires whereas the secondary information was sourced by way of financial statements that were available and accessible. From the results, it was determined that a number of manufacturing enterprises had a control environment among the functionality of internal controls adopted that significantly influences their financial performance. The

study therefore recommended that the governing body, perhaps facilitated by the audit committee, ought to make sure that the internal control practice is occasionally examined as well as assessed.

Gitaru (2017) undertook a research that sought to analyze the influence of KRA automation system in collection of revenue. Descriptive research design was utilized. The study utilized secondary data retrieved from KRA Customs information for 10 financial years following Simba System between July 2007 and June 2016. The data analysis was done by way of Gretl and exhibited in figures as well as tables. The results of the findings pointed out that the volume of transactions, improved substantially following the adoption of the process. As a result of automation of revenue systems, a great volume of imported goods was sorted out as well as gone through the centralized Document Processing Center (DPC). The findings similarly pointed out that the revenue collected enhanced at a cumulative proportion following the Simba system's adoption.

Ngugi (2015) conducted a survey on the internal control systems among the registered private enterprises and the Kenyan government establishments. The study took a case study approach and revealed that the foreign exchange market in this case is influenced by a number of factors in Kenya such as institutional changes, the varying patterns of international trade as well as the structural shifts in the process of production. Before the Central Bank of Kenya (CBK) established the Exchange Control Act foreign exchange was primarily earned by commercial banks and private sector institutions which acted mainly as agents for the local exporters. The agricultural exports during this period contributed heavily to the foreign exchange considering the fact that Kenya's economy is mainly reliant on this and tourism as an income earner.

2.5 Conceptual Framework

This section presents diagrammatic representation of the link between internal controls and revenue collection. The independent variables for the study are control environment, risk assessment, internal audit function and risk assessment while the dependent variable is the revenue collection.

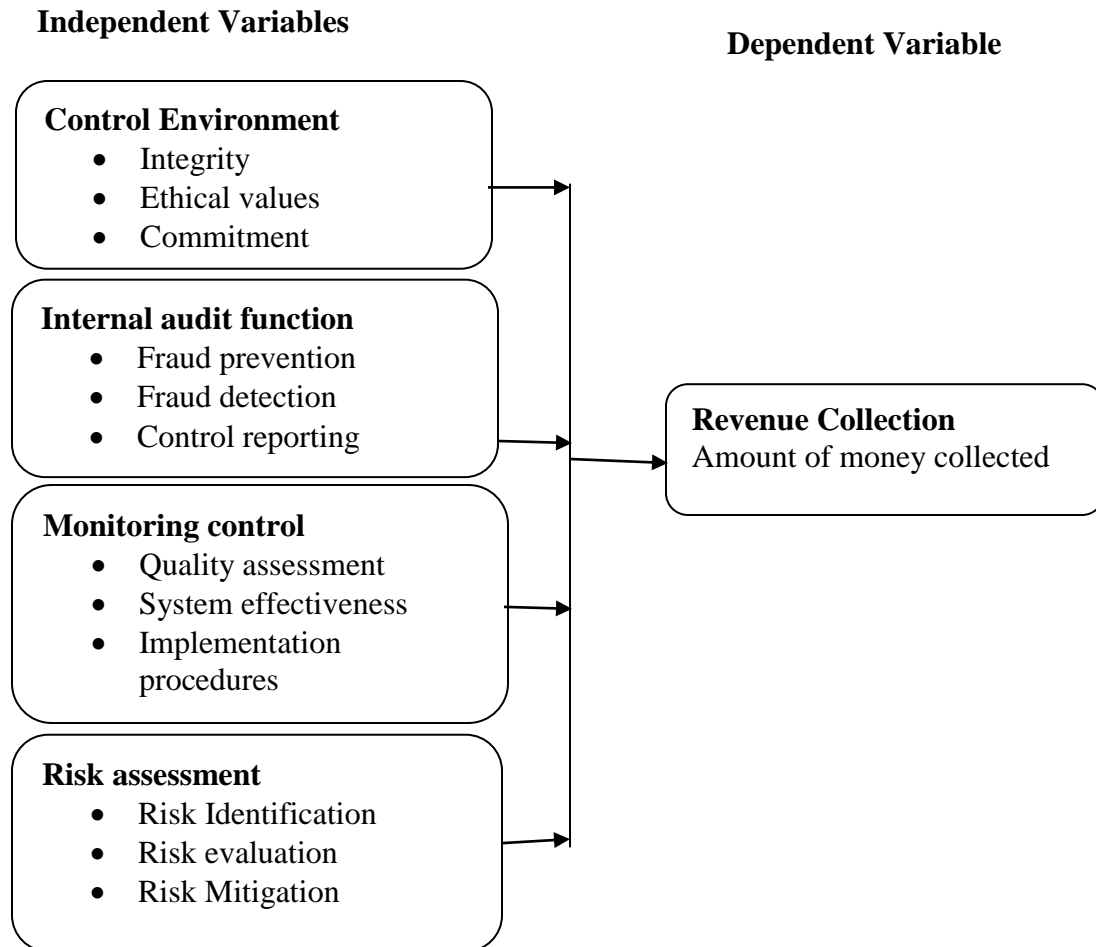


Figure 2. 1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This part focuses on the approaches employed to gather as well as analyze data. It essentially concerns the research design, the study population, sampling techniques, data collection methods as well as the techniques of data analysis.

3.2 Research Design

A descriptive research design was utilized and this allowed the investigator to describe the variables in terms of their characteristics. The design is suited and justified for use in this study because of the variables to be used. The dependent variable was the revenue collection of Kiambu County level five hospitals and the independent variables included; control environment, monitoring of control, internal audit function and risk assessment. The advantage of conducting descriptive design is that they are valuable in defining the specific features of an outsized population and high consistency which guarantees that the observer bias is greatly eradicated and it's easy to attain by presenting all subjects with a regular inducement (Creswell, 2013).

3.3 Population of the Study

According to Kothari (2004), target populous is the means used in generalization of the results. A research populous is defined as the whole assortment of units from which the scholar needs to draw findings from. There are 3 level five hospitals in Kiambu County namely; Kiambu, Thika and Gatundu.

3.4 Data Collection

Primary and secondary information were gathered. Primary information was gathered via a research questionnaire. Secondary data was gathered basically through data collection form. Secondary information was gathered from the hospitals' system. Data collected was annual data covering a period of five years 2013-2017.

3.5 Data Analysis

Primary information was analyzed via descriptive statistics while the secondary data was analyzed by inferential statistics. Both quantitative and qualitative methods were used to analyze the information gathered. Data gathered was analyzed using statistical SPSS version 23. The quantitative data was arranged using chi-square since it entails multiple independent variables and one dependent variable. The data results were presented in tables, mean and standard deviation.

3.5.1 Analytical Model

The study applied chi-square to establish the significant relationship between internal controls (control environment, internal audit function, monitoring of controls and risk assessment) and revenue collection. It was carried out at 95% confidence level to establish the importance of the independent variable in clarifying the changes in the dependent variable.

3.5.2 Diagnostic Tests

The relationship was tested for its significance as well as its strength. Significance was expressed in probability levels p (e.g., significant at $p = .05$). This tells how impossible

the relationship coefficient, r , happened given no relationship in the populace. Connection can go up against any incentive in the range $[-1, 1]$. The indication of the connection coefficient demonstrated the course of the relationship, while the size of the relationship (that it is so near -1 or $+1$) will show the quality of the connection. The examination utilized T statistics since the populace is at 95% certainty level. A t-test's factual brought up regardless of whether the contrast between two factors' midpoints most likely mirrors a "genuine" distinction in the populace from which the gatherings were picked.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter discusses how the results were interpreted and presented. The aim of the research was to examine the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection. Primary and secondary information was gathered from three hospitals for a period of five years (2013-2017).

4.2 Diagnostic Tests

Normality and multicollinearity tests were carried out to test the statistical assumptions; the assumption of the chi-square and statistics utilized.

4.2.1 Normality Test

Skewness is a measure of the availability of symmetry in data while Kurtosis measures whether the data in a study is heavy tailed or light tailed relative to normal distribution. Data is considered to have symmetry when it has similarity on the right and the left in relation to the centre point. The kurtosis levels between -2 to +2 are considered acceptable to prove the existence of normal univariate distribution while a skewness of -1.96 to +1.96 is considered within the normal distribution (Trochim & Donnelly, 2006). From the analysis, kurtosis fell between -0.730 and 0.910 which is within the acceptable levels. Skewness fell between -1.291 and 1.032 which is within the acceptable ranges for existence of a normal distribution. Table 4.1 summarizes the results.

Table 4.1 Normality

Descriptive Statistics				
	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
Control environment	.847	.792	.456	1.389
Internal audit function	1.064	.792	.974	1.389
Monitoring of controls	.926	.792	1.910	1.389
Risk assessment	-1.145	.792	-.974	1.389
Revenue collection	1.002	.792	.974	1.389

Source: Author, 2018**4.2.2 Multicollinearity**

Multicollinearity is determined by examining the Variance Inflation Factor (VIF) and levels of tolerance. A small tolerance indicates that the linear relationship between the variables is almost perfect and should not be added to the regression analysis. A low tolerance of 0.1 should be subjected to further investigation. VIF is a measure of the impact of collinearity among the variables indicated in the regression analysis. The VIF should always be greater than 1. No formal value of VIF has been determined to establish whether multicollinearity exists. However, values greater than 10 are considered to indicate the existence of multicollinearity. Table 4.2 summarizes the findings

Table 4.2: Collinearity Statistics

Variables	Tolerance	VIF
Control environment	.856	1.934
Internal audit function	.985	2.147
Monitoring of controls	.634	1.789
Risk assessment	.898	1.916
Revenue collection	.778	2.398

Source: Author, 2018

The model in this study had a VIF above 1 and tolerance levels above 0.1 showing that multicollinearity does not exist.

4.3 Descriptive Statistics

Descriptive analysis was carried out to establish the range, mean and standard deviation of the revenue collection. The averages were done for the five years' data collected for each level five hospital. The average means and standard deviations for the five years are shown in the table 4.3 below. The study introduced natural logarithms to the data since it was bulky and revenues were in millions of shillings.

Table 4.3: Log Revenue Collection Statistics

Year	Maximum	Minimum	Mean (Log)	Std deviation
2013	8.056	7.576	7.836	0.242
2014	8.046	7.619	7.821	0.214
2015	8.006	7.782	7.899	0.112
2016	7.797	7.759	7.780	0.020
2017	7.734	7.605	7.670	0.064
Average	7.928	7.668	7.801	0.131

Source; Research findings, 2018

Table 4.3 depicts revenue collection of a log average of 7.801 with a minimum of 7.668 and a maximum of 7.928 for the level five hospitals in Kiambu County in a period of five years. The year 2015 had the highest revenue collection of 7.899 while the year 2017 registered the lowest revenue collection of 7.670. The finding shows that for the last five years there has been a decrease of revenue collection of level five hospitals in Kiambu County except 2015 where collections increased. This decreasing trend may be associated with internal controls factors of the level five hospitals.

4.4 Control Environment

The respondents were asked to indicate whether they agreed or disagreed with the given statements on control environment using a scale of 1-5 where, 1. Strongly agree 2. Agree 3. Moderately agree 4. Disagree 5. Strongly disagree. The information was analyzed in the table 4.4 below.

Table 4.4 Control Environment

Control Environment	Mean	Std. deviation
The hospital management ensures integrity is maintained	3.672	0.160
Management attitude in the hospital is committed to ethical values business practices	4.302	0.455
The hospital provides discipline and structure	3.876	0.241
The hospital management is committed to competence	3.685	0.532
It affects peoples' consciousness to control in the hospital	3.621	0.848

Most of the respondents agreed that the hospital management ensures integrity was maintained (M=3.672, SD=0.160) and the management attitude in the hospital was committed to ethical values business practices (M=4.302, SD=0.455). Most of respondents also agreed that the hospital provides discipline and structure (M=3.876, SD=0.241) and management was committed to competence as well as influencing the control consciousness of its people in the hospital (M=3.621, SD=0.848). This finding concurs to Ewa and Udoayang (2012) who argued that the control environment establishes the approach of an organization by impacting peoples' consciousness to control.

Further the study conducted Chi-square to establish whether there exists a relationship between the control environment and the revenue collection of level five hospitals in Kiambu County. Table 4.5 shows the Chi-square finding.

Table 4.5 Control Environment Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.744 ^a	4	.031
Likelihood Ratio	10.489	4	.041
Linear-by-Linear Association	8.543	2	.022
N of Valid Cases	3		

The finding indicates that there is a statistically significant association between control environment and the revenue collection ($\chi^2(4) = 9.744, p = .031$), this means a change in control environment will change the revenue collected by the hospitals.

4.5 Internal Audit Function

The researcher further sought to establish the effect of internal audit functions on the revenue collected by the level five hospitals in Kiambu. Therefore, the respondents were requested to rate the internal audit function statements in table 4.6 below. Mean and standard deviation of the scale were calculated and summarized as below

Table 4.6 Internal Audit Function

Internal Audit Function	Mean	Std. deviation
The hospital management ensures that fraud is prevented	4.102	0.500
The hospital has put in place fraud detection mechanisms	3.779	0.840
The audit ensures effective controlled reporting in the hospital is done	4.258	0.174
The hospital examines and evaluates the effectiveness of management control system	3.804	0.640

The hospital management provides assurance of the adequacy of the systems of internal control	4.090	0.117
---	-------	-------

Table 4.6 findings indicates that most of the respondents agreed; the hospital management ensures that fraud is prevented (M=4.102, SD=0.500), the hospital has put in place fraud detection mechanisms (M=3.779, SD=0.840) and that the audit ensures effective controlled reporting in the hospital is done (M=4.258, SD=0.174). Also, respondents agreed that the hospital examines and evaluates the effectiveness of managements control system (M=3.804, SD=0.640) and that the hospital management provides re-assurance that the internal control systems are adequate. The findings correlate with Gupta (2011) who claimed internal audit is an independent activity aimed at assessing the operations within an organization.

To establish whether there exists a relationship between the internal audit function and the revenue collection of level five hospitals in Kiambu County, a chi-square test was conducted and the finding revealed that there existed a statistically significant association between the internal audit function and the revenue collection ($\chi^2(4) = 6.369, p = .005$), this means a change in internal audit function will affect the revenue collected by the hospitals. Table 4.7 summarizes this finding.

Table 4.7 Internal Audit Function Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.369 ^a	4	.005
Likelihood Ratio	6.981	4	.013
Linear-by-Linear Association	4.954	2	.026
N of Valid Cases	3		

4.6 Monitoring of Controls

Table 4.8 below shows the scale averages and standard deviation of the statements about the monitoring controls of the level five hospitals in Kiambu County.

Table 4.8 Monitoring of Controls

Monitoring of Controls	Mean	Std. deviation
The hospital adequately monitors the quality of the system's performance	3.809	0.760
The hospital monitors system effectiveness to ensure collection is achieved	4.331	0.127
Monitoring allows the hospital to determine whether or not policies implementation procedures are followed	3.667	0.552
Regular supervision and managing activities help reducing wastage of revenue	4.100	0.323
Monitoring ensures audit findings and other reviews are resolved immediately	4.132	0.307

Finding in table 4.8 revealed that majority of the respondents agreed that; the hospital adequately monitors the quality of the system's performance (M=3.809, SD=0.760), the hospital monitors system effectiveness to ensure collection is achieved (M=4.331, SD=0.127) and that monitoring allows the hospital to determine whether or not policies implementation procedures are followed (M=3.667, SD=0.552). Respondents also agreed that regular supervision and managing activities help in reducing wastage of revenue (M=4.100, SD=0.323) and monitoring ensures that the audit findings and other reviews are resolved immediately (M=4.132, SD=0.307). This finding concurred with Bowrin (2010) who revealed that monitoring can be accomplished by consistently overseeing exercises like observing of client objections and input and reviews directed occasionally by auditors within the organization

Chi-square test was further conducted to establish if there is any association between the revenue collected and the monitoring of controls. The findings are summarized in the table 4.9 below.

Table 4.9 Monitoring of Controls Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.935 ^a	4	.001
Likelihood Ratio	6.463	4	.019
Linear-by-Linear Association	4.103	2	.000
N of Valid Cases	3		

Chi-square of $\chi^2(4) = 5.935, p = .001$ was revealed and since the p value was less than 0.05, the study concludes that there is significant association between the monitoring of controls and the revenue collection which means a change in internal audit function affect the revenue collected by the hospitals.

4.7 Risk Assessment

The study further sought to establish the effect of risk assessment on revenue collection. Respondents used a scale of 1 to 5 to rate the risk assessment statements in table 4.10. Mean and standard deviation of the scale were calculated and summarized as below

Table 4.10 Risk Assessment

Risk Assessment	Mean	Std. deviation
The hospital assesses and identifies possible risks of objectives being achieved	3.765	0.683
The organizers identify and evaluates risks related to attaining of hospital objectives	3.694	0.517
The assessment ensures possible risks are mitigated in conformity with general accepted accounting principle of the hospital	4.262	0.192

Management determines and maintains risk within determined levels	3.856	0.496
Risk assessment is ensured by periodic performance review and evaluation in the hospital	4.006	0.116

Majority of the respondents agreed that the hospital assesses and identifies possible risks of objectives being achieved (M=3.765, SD=0.683), the organizers identify and evaluates relevant risks associated with achieving the objectives of the hospital (M=3.694, SD=0.517) and the assessment ensures possible risks are mitigated in conformity with general accepted accounting principle of the hospital (M=4.262, SD=0.192). Respondents also agreed that management determines and maintain risk within determined levels (M=3.856, SD=0.496) and risk assessment is ensured by periodic performance review and evaluation in the hospital. The finding concurs to Karagiorgos (2009) that the risk assessment is guaranteed through repeated reviews of performance evaluation of controls effectiveness.

Table 4.11 Risk Assessment Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.239 ^a	4	.000
Likelihood Ratio	8.635	4	.000
Linear-by-Linear Association	6.546	2	.015
N of Valid Cases	3		

Chi-square in table 4.11 revealed that there is a significant association between the risk assessment and the revenue collection ($\chi^2(4) = 7.239, p = .000$) which means that a change in risk assessment affects the revenue collected by the hospitals.

4.8 Correlation

A Pearson Product-Moment Correlation Coefficient was computed to assess the relationship between the internal control practices and revenue collection in Level Five Hospitals in Kiambu County, Kenya. Table 4.12 presents the findings: It indicates that there was a strong positive correlation between the Control environment and revenue collection of hospitals where $r = 0.585$, $p = 0.000$, $n = 3$. The results also revealed that the p-value was 0.000, which is less than 0.05. This implies that statistically there is a significant relationship between the two variables. A positive correlation means that an increase in one variable leads to an increase in the other variable. In this case, an increase in control environment would lead to an increase in the revenue collected by the hospitals.

A Pearson Product-Moment Correlation Coefficient was further computed to assess the relationship between the internal audit function and revenue collection in Level Five Hospitals. The findings indicate that there was a strong positive correlation between internal audit function and revenue collection, where $r = 0.634$, $p=0.000$ and $N=3$. In this case, an increase in internal audit function would lead to an increase in the revenue collection. Further, the sig 2-tailed, which is the p-value, is less than 0.05. ($p=0.000>0.05$). This implies that statistically, there is a significant relationship between internal audit function and revenue collection.

Further, a strong positive correlation between monitoring of controls and Revenue collection was established, where $r = .801$, $p=0.000$ and $N=3$. This means an increase in monitoring of controls measures would lead to an increase in the revenue collection. Further, the sig 2-tailed, which is the p-value, is less than 0.05. ($p=0.000>0.05$). This

implies that statistically, there is a significant relationship between monitoring of controls measures and Revenue collection.

Lastly a Pearson Product-Moment Correlation Coefficient was further computed to assess the relationship between risk assessment and revenue collection. A positive correlation between the risk assessment and revenue collection was noted where $r = .723$, $p = 0.000$, $n = 3$. The results also revealed the p-value of 0.000, which is less than 0.05. This implies that statistically there is a significant relationship between the two variables. Therefore, a better risk assessment management would lead to an increase in the amount of revenue collected.

Table 4.12 Correlations

		Revenue collection	Control environment	Internal audit function	Monitoring of controls	Risk assessment
Revenue collection	Correlation Coefficient	1.000	.585	.634	.801	.723
	Sig. (1-tailed)	.	.000	.000	.000	.000
	N	3	3	3	3	3
Control environment	Correlation Coefficient	.585	1.000	.142	.037	
	Sig. (1-tailed)	.000	.	.000	.000	
	N	3	3	3	3	
Internal audit function	Correlation Coefficient	.634	.142	1.000		
	Sig. (1-tailed)	.000	.000	.		
	N	3	3	3		
Monitoring of controls	Correlation Coefficient	.801	.037			
	Sig. (1-tailed)	.000	.000			
	N	40	3			

Risk assessment	Correlation Coefficient	.723
	Sig. (1-tailed)	.000
	N	3

4.9 Discussion of the Findings

The study revealed that the log average of the revenue collection by level five hospitals in Kiambu County was 7.801 for the five years with the highest revenue collected being 8.056 in year 2013 and lowest being 7.605 in the year 2017. A decreasing trend in revenue collected in level five hospitals in Kiambu County since 2013 except on 2015 when there was a slightly increase which was followed by a decline in 2016. Further, the study established that the hospital management ensures that integrity is maintained and the management attitude in the hospital was committed to ethical values business practices. It was also noted that level five hospitals in Kiambu provide discipline and structure and their management are committed to competence as well as influencing the control consciousness of its people in the hospital. This finding concurs to Ewa and Udoayang (2012), who argued that the control environment establishes the approach of an organization by impacting peoples' consciousness to control. Further the study established a statistically significant association between control environment and the revenue collection ($\chi^2(4) = 9.744, p = .031$) and correlation analysis revealed that an increase in control environment would lead to an increase in the revenue collected by the hospitals. This finding concurs to Kumuthinidevi (2016) who pointed out that control environment is moderately helpful in the effectiveness of internal control practice.

The study revealed a strong positive correlation between internal audit function and revenue collection ($r = 0.634, p=0.000$ and $N=3$). This association between the internal

audit function and the revenue collection was also evident in the Chi-square test ($\chi^2(4) = 6.369, p = .005$), therefore an increase in internal audit function lead to an increase in the revenue collection by the level five hospitals. The finding correlates to Gupta (2011) who pointed out that objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. Further the study revealed that the level five hospitals management in Kiambu County ensure that fraud is prevented and have put in place fraud detection mechanisms. Audit was found to ensure effective controlled reporting in the hospital is done. Also, the study noted that the hospitals examine and evaluate the effectiveness of management control system and provides re-assurance that the internal control systems are adequate. The findings correlate with Gupta (2011) who asserted that internal audit is an independent activity aimed at assessing the operations within an organization.

Further the study established that the hospitals management adequately monitor the quality of the systems' performance and they also monitor system effectiveness to ensure collection is achieved. Monitoring has been allowing the hospitals to determine whether or not policies implementation procedures are followed while the regular supervision and managing activities help in reducing wastage of revenue. Monitoring in the level five hospitals ensures that the findings of audits and other reviews are promptly resolved. This finding was in line with Bowrin (2010) who revealed that monitoring can be accomplished by consistently overseeing exercises like observing of client objections and input and reviews directed occasionally by auditors within the organization. Chi-square of $\chi^2(4) = 5.935, p = .001$ revealed a significant association between the monitoring of controls and the revenue collection which means a change in internal audit function

affects the revenue collected by the hospitals. Similarly, a strong correlation was established between monitoring of controls and Revenue collection which implies that an increase in monitoring of controls measures would lead to an increase in the revenue collection.

Chi-square results revealed a significant association between the risk assessment and the revenue collection ($\chi^2 (4) = 7.239, p = .000$) which meant that a change in risk assessment affects the revenue collected by the hospitals. Therefore, when risk is correctly assessed it led to an increase in the amount of revenue collected. This was in line with Bowrin (2010) who noted that monitoring can be accomplished by consistently overseeing exercises like observing of client objections and input and reviews directed occasionally by auditors within the organization. Further the study revealed that the level five hospitals in Kiambu assesses and identifies possible risks of objectives being achieved and organizers identify and evaluates relevant risks associated with achieving the objectives of the hospital. The assessment ensures possible risks are mitigated in conformity with general accepted accounting principle of the hospital. Management determine and maintain risk within determined levels and risk assessment is ensured by periodic performance review and evaluation in the hospitals. The finding concurs to Karagiorgos (2009) that the risk assessment is guaranteed through repeated reviews of performance evaluation of controls effectiveness.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part shows an outline of key discoveries made by the investigation, conclusions drawn from the discoveries, and proposals proposed by the analyst. The conclusions and suggestions are centered around tending to the principal goal of the investigation. This part additionally talks about proposed territories for future research.

5.2 Summary of findings

This section presents the key findings as considered under the objective of this study. The descriptive analysis indicated a decreasing trend in revenue collected by level five hospitals in Kiambu County since 2013 except in 2015 when there was a slight increase which was followed by a decline in 2016.

The study has revealed that integrity in level five hospital is maintained and management is always committed to ethical values business practices. It was also noted that level five hospital in Kiambu provides discipline and structure and their management are committed to competence as well as influencing the control consciousness of its people in the hospital. A statistically significant association between control environment and the revenue collection was noted and thus an increase in control environment leads to an increase in the revenue collected by the level five hospitals in Kiambu.

Further the study revealed a strong positive correlation between internal audit function and revenue collection and therefore an increase in internal audit function lead to an increase in the revenue collection by the level five hospitals. It was also noted that level

five hospital management in Kiambu County works out to ensure that fraud is prevented by putting in place fraud detection mechanisms. It was also noted that audits ensure that effective controlled reporting is done in all the level five hospital in Kiambu County. Level five hospitals in Kiambu County also examines and evaluates the effectiveness of management control system and provides re-assurance that the internal control systems are adequate.

Level five hospital management adequately monitors the quality of the system's performance and effectiveness to ensure collection is achieved. Study also revealed that monitoring has been allowing the hospital to determine whether or not policies implementation procedures are followed while the regular supervision and managing activities help reducing wastage of revenue. Also monitoring in the level five hospitals ensures that the findings of audits and other reviews are promptly resolved. Chi-square of $\chi^2(4) = 5.935, p = .001$ revealed a significant association between the monitoring of controls and the revenue collection which means a change in internal audit function affects the revenue collected by the hospitals. Similarly, a strong correlation was established between monitoring of controls and Revenue collection which implies that an increase in monitoring of controls measures would lead to an increase in the revenue collection.

A significant association between the risk assessment and the revenue collection was established, which meant that a change in risk assessment affects the revenue collected by the hospitals. Therefore, when risk is correctly assessed it led to an increase in the amount of revenue collected. Further it was established that internal control facilitates the effectiveness and efficiency of operations and helps to ensure the reliability of internal

and external reporting and also assists to comply with laws and regulations. Further the study revealed that the level five hospital in Kiambu assesses and identifies possible risks of objectives being achieved and organizers identify and evaluate relevant risks associated with achieving the objectives of the hospital. The assessment ensures possible risks are mitigated in conformity with general accepted accounting principle of the hospital. Management determines and maintains risk within determined levels and risk assessment is ensured by periodic performance review and evaluation in the hospital.

5.3 Conclusion

This study has provided a comprehensive review of the effect of internal control practices adopted by Kiambu County Level Five Hospitals on revenue collection. Based on the findings, the study concludes that a statistically significant association between control environment and the revenue collection exists and thus an increase in control environment leads to an increase in the revenue collected by the level five hospitals in Kiambu. Integrity in level five hospital is maintained and management is always committed to ethical values business practices. Level five hospitals in Kiambu provide discipline and structure and their management are committed to competence as well as influencing the control consciousness of its people in the hospitals.

Study also concludes that level five hospitals management in Kiambu County ensure that fraud is prevented by putting in place fraud detection mechanisms and audits ensure that effective controlled reporting is done. The hospital examines and evaluates the effectiveness of management control systems and provides re-assurance that the internal control systems are adequate. A strong positive correlation between internal audit

function and revenue collection exist and therefore an increase in internal audit function lead to an increase in the revenue collection by the level five hospitals.

Further the study concluded that an increase in monitoring control measures leads to an increase in the revenue collection. Level five hospital management adequately monitors the quality of the system's performance and effectiveness to ensure collection is achieved. Monitoring has been allowing the hospital to determine whether or not policies implementation procedures are followed while the regular supervision and managing activities help reducing wastage of revenue. Also monitoring in the level five hospital ensures that the findings of audits and other reviews are promptly resolved.

Lastly the results indicated that a significant association between the risk assessment and the revenue collection exist, which means that a change in risk assessment affects the revenue collected by the hospitals. Internal control enhances efficiency and effectiveness of internal controls and ensures internal and external reliability in reporting possible risks are assessed and identified to achieve the objectives and organizers identify and evaluates relevant risks associated with achieving the objectives of the hospital. The assessment ensures possible risks are mitigated in conformity with general accepted accounting principle of the hospital. Management determines and maintains risk within determined levels and risk assessment is ensured by periodic performance review and evaluation in the hospital.

5.4 Recommendations

The researcher has the following recommendations to make with regard to internal control practices and revenue collection of Level Five Hospitals in Kiambu County, Kenya.

Control environment has a positive significant relationship with revenue collection. The Level Five Hospitals should therefore ensure suitable control environment for security of the operation activities. The management specifically senior risk manager and senior operations manager of the Level Five Hospitals should therefore put in place effective and efficient security network to reduce frequent theft, threat to the hospital operations and property. There is need therefore for the Level Five Hospitals to ensure suitable environment where internal controls are supported for improved revenue collection of level five hospitals.

Monitoring has a positive significant relationship with revenue collection. The level five hospitals' monitoring strategies should be geared towards effective operations and achievement of the hospital's goals. There is need therefore for the level five hospitals' management specifically the risk manager to ensure that there are policies in place guiding the hospitals' dealing with threats to the hospitals' operations.

The management ought to likewise guarantee that their associations have solid inner control condition where inside control exercises in the form of procedures and strategies are sufficient. The control activities and environment ought to all the time be assessed by internal auditors to offer the board with the confirmation on the sufficiency and adequacy of internal controls set up by management.

Risk evaluation has a positive noteworthy association with collection of revenue. It is along these lines critical for level five hospitals to execute legitimate hazard appraisal to direct their tasks.

5.5 Limitations of the Study

In this study the researcher faced challenges in obtaining confidential information from the hospitals because of general perceptions associated with sensitivity of health information and fear of being punished by the management. To deal with this challenge, the study had sent a transmittal note to hospitals' management to inform them the information is collected exclusively for academic objectives. The researcher also faced challenges of getting sufficient number of studies on internal controls in Kenya. This limitation was dealt with through consultation and research with pertinent stakeholders in hospitals in Kiambu County.

The study was faced by a challenge of time constraints due to the short data collection period, the study ensured that it has met the deadline by working overtime. Since it is unrealistic to consider all factors that impact revenue collection, review was intended to create essential comprehension of the dimension of internal controls. In the current study, it was proposed that internal control had an effect on revenue collection. This project implied that not having internal control may hinder hospitals to achieve its revenue collection goals.

5.6 Recommendation for Further Research

This study reveals a decreasing trend of revenue collection of level five hospitals in Kiambu County since 2013 with a minor increment in 2015, therefore this study recommends another study to be carried out to establish the factors which are leading to a decrease in the revenue collection in level five hospitals in Kiambu County.

A comparative report on the impact of practices of internal control on income accumulation is prescribed in level five hospitals in Kenya to check whether the

outcomes are similar. The examination further prescribes that exploration ought to be done on the execution challenges of interior control frameworks in Kiambu County Level Five Hospitals. The investigation likewise recommends that examination on effect of inward control on operational productivity of Kiambu county governments in Kenya ought to likewise be done since the Kiambu district governments should work productively for appropriate administration conveyance.

REFERENCES

- Abassi, SM & Hollman, K.W. (2010). Turnover: *the real bottom line*, *Public Personnel Management*, 2 (3):333-342.
- Adelopo, I. (2016). Auditor Independence: *Auditing, Corporate Governance and Market Confidence*. 19 (7), 22-59
- Aggestam-Pontoppidan, C. (2017). *Interpretation and Application of IPSAS*. Hoboken, NJ: John Wiley & Sons. 25 (4), 78-99
- Al-Zwyalif, I. M. (2015). The role of internal control in enhancing corporate governance: Evidence from Jordan. *International Journal of Business and Management*, 10(7), 57-59
- Beretta, S. (2013). *The relationship between board monitoring and internal control system disclosure in different regulatory environment*. Department of Economics and Management, University of Padova.
- Bowrin, K.P. (2010). Audit services quality in compulsory audit tendering: *Prepare perceptions and satisfaction*. *Accounting Research Journal*, 21(2), 93-122
- Doyle, J.W., & McVay S. (2015). Determinants of Weaknesses in Internal Control over Financial Reporting and the Implications for Earnings Quality. *Journal of Accounting, Auditing and Finance*, 8 (1), 31-52.
- Ehrlich, C. P., & Williams, J. D. (2016). How to avoid running afoul of the SEC. *The CPA Journal*, 86(3), 28-32
- Ewa, E. U., & Udoayang, J. O. (2012). The Impact of Internal Control Design on Banks. Ability to Investigate Staff Fraud, and Life Style and Fraud Detection in Nigeria, *International Journal of Research in Economics & Social Sciences*, 2 (2), 32-43
- Fargoty, T.J., (2013). The imagery and reality of peer review in the U.S: Insight from Institutional Theory, *JSTOR*, 21(2): 243-267

- Gitaru, K. (2017). The impact of system automation on revenue collection in Kenya Revenue Authority. (A Case Study of SIMBA).
- Gupta, P. P. (2011). Internal audit reengineering: Survey, model, and best practices. Altamonte Springs, FL: *The Institute of Internal Auditors Research Foundation*
- Hongming, C., & Yanan, S. (2012). An Empirical Study on the Correlation between the Internal Control and Enterprise Value-Based on the Information System. New Jersey: John Wiley and Sons, Inc
- Honggreen C., & Datar M., (2012). Cost Accounting: A managerial Emphasis. New Delhi, Prentice Hall. 10th Edition
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Karagiorgos, J.S. (2009). Determinants of weaknesses in internal control over financial reporting. *Journal of Accounting and Economics*. (44) 10, 193 -223.
- Kenyon, W & Tilton, P. D (2014), Potential Red Flags and Fraud Detection Techniques: *A Guide to Forensic Accounting Investigation*, (60) 10, 120 -223.
- Kimmel, P. D., Weygandt, J. J., & Kieso, D. E. (2013). *Financial accounting: tools for business decision making*. 4 (18) 52-63
- Kumuthinidevi, M. (2016). A Study on Effectiveness of the Internal Control System in the Private Banks of Trincomalee. *International Journal of Scientific and Research Publications*, 6(6). 71-91.
- Kuria, K, Ngumi, P., & Rugani, J. (2013). Factors affecting Rental Income Tax Compliance among Landlords in Kilifi Municipality in Kenya. *Prime Journal of Business Administration and Management (BAM)*. 3(5) 997-1008.

- Kwaji, S. F., & Dabari, I. J. (2017). Empirical Analysis of Tax Revenue Collection by the Federal Government in Nigeria. *European Journal of Accounting Auditing and Finance Research*, 7(22), 1-16.
- Luft, G. (2016). *The oil crisis and its impact on the air cargo industry*. Institute for the Analysis of Global Security, Washington. 5(2), 1-11.
- Maichuhie, M. (2018). *Hospital plan to improve healthcare*.
- Moeller, R. R. (2013). *Executive's Guide to COSO Internal Controls: Understanding and Implementing the New Framework*. Hoboken, NJ: John Wiley & Sons.
- Muio, C. (2013). Impact of internal control systems on financial performance of Private hospitals in Nairobi. *Published MBA Project, University of Nairobi*.
- Mwachiro, D.B., (2013). Effect of internal controls on revenue collection in KRA. *MBA Project, University of Nairobi*
- Ndungu, H. (2013). The effect of internal controls on revenue generation: A case study of the University of Nairobi Enterprise and Services Limited. *Retrieved on May, 15, 2016*.
- Ngugi, K. M., (2015). *A survey of Internal Control Systems among the Listed Private Companies and the Public Sector Companies in Kenya*. Published Research University of Nairobi.
- Njenga, S. (2018). World Health Organization (WHO) officials visit at the facilities. *Journal of small Business Management*, 21(9), 80-123
- Njeri, C. K. (2014). *Effect of internal controls on the financial performance of manufacturing firms in Kenya*. School of Business, University of Nairobi, Nairobi, Kenya.
- Okiro, A. (2013). The effect of E-payment System on Revenue collection by the Nairobi City County Government. *Journal of small Business Management*, 53(9), 75-80
- Ongeri, S. N. (2014). The Effectiveness of Internal Audit Systems in the Management of Decentralized Funds in Kenya: *A Study of Local Authority Transfer Funds in Kisii Municipal Council*. University of Nairobi.

- Reid, K., & Smith, T. (2012). *The Swansea Internal Quality Audit Processes Quality Assurance in Education*. 5(2), 1-11.
- Sarens, G & De Beelde, I. (2013). Internal Auditors' Perception about their Role in Risk Management: A Comparison between US and Belgian Companies, *Managerial Auditing Journal*, 21(1), 63-80
- Schiuma, B. M. (2013). Business Performance Measurement. *Managerial Auditing*, 680 - 687.
- Sigilai, D. K., & Njiru, A. (2016). Assessment of Internal Control Systems Effects on Revenue Collection at Nakuru Level Five Hospital. *International Journal of Economics, Commerce and Management*, 4, (10), 1004-1022
- Simangunsong, R. (2014). The impact of internal control effectiveness and internal audit role toward the performance of local government. *Research Journal of Finance and Accounting*, 5(7), 50-58.
- Slanislav, K. (2016). Tax Revenue Prediction under Condition of Perfect Control over Tax Collection Authority. *Journal of department of Business and Economics*. 7(22), 1-16.
- Subramaniam, W. F. (2016). A hierarchical approach to the external auditor's evaluation of the internal auditing function. *Contemporary Accounting Research*, 4(2), 337-353.
- Theofanis, K., Drogalas, G & Giovanis, N. (2013). Evaluation of the effectiveness of internal audit in Greek hotel business. *International Journal of Economic Sciences and Applied Research*, 4(1): 19-34.
- Woods, B. (2009). Audit committees, board of directors, and remediation of material weaknesses in internal control. *Contemporary Accounting Research*, 26 (2), 549-579

APPENDICES

APPENDIX I: Questionnaire

This questionnaire is aimed at facilitating the research on “*Effect of Internal Controls on Revenue Collection of Kiambu Level Five Hospitals*”. Respond by ticking appropriately in the brackets. Your response will highly be appreciated.

1. Indicate your level of agreement with the following statements relating to control environment of level five hospitals in Kiambu County. Key Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Control Environment	1	2	3	4	5
The hospital management ensures integrity is maintained					
Management attitude in the hospital is committed to ethical values business practices					
The hospital provides discipline and structure					
The hospital management is committed to competence					
It affects peoples’ consciousness to control in the hospital					

2. Indicate your level of agreement with the following statements relating to internal audit function of level five hospitals in Kiambu County. Key Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Internal Audit Function	1	2	3	4	5
The hospital management ensures that fraud is prevented					
The hospital has put in place fraud detection mechanisms					
The audit ensures effective controlled reporting in the hospital is done					
The hospital examines and evaluates the effectiveness of					

management control system					
The hospital management provide assurance of the adequacy of the systems of internal control					

3. Indicate your level of agreement with the following statements relating to monitoring of controls of level five hospitals in Kiambu County. Key Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Monitoring of Controls	1	2	3	4	5
The hospital adequately monitors the quality of the system's performance					
The hospital monitors system effectiveness to ensure collection is achieved					
Monitoring allows the hospital to determine whether or not policies implementation procedures are followed					
Regular supervision and managing activities help reducing wastage of revenue					
Monitoring ensures that the audit findings and other reviews are resolved immediately					

4. Indicate your level of agreement with the following statements relating to risk assessment of level five hospitals in Kiambu County. Key Use a scale of 1-5, where (1= strongly disagree, 2= disagree, 3= moderately agree, 4= Agree and 5= strongly Agree)

Risk Assessment	1	2	3	4	5
The hospital assesses and identifies possible risks of objectives being achieved					
The organizers identify and evaluate the risks related to					

attaining of hospital objectives					
The assessment ensures possible risks are mitigated in conformity with general accepted accounting principles of the hospital					
Management determines and maintains risk within determined levels					
Risk assessment is ensured by periodic performance review and evaluation in the hospital					

Thank You

Appendix II: Data Collection Form

Revenue Kshs'000'/year Department	2013	2014	2015	2016	2017
Theatre					
Pharmacy					
Laboratory					
Wards					
Maternity and pediatrics					
physiotherapy					
dental					
eye clinic					
ENT					
Mortuary					
Outpatient					
Inpatient					
Medical records					
X-rays					
Comprehensive care centre					