

**INTERNAL CONTROL PRACTICES ON FINANCIAL  
PERFORMANCE OF PRIVATE HOSPITALS IN WESTERN REGION,  
KENYA**

**BY**

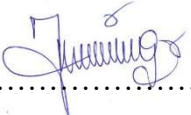
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILLMENT  
OF THE REQUIREMENT FOR THE AWARD OF AMASTER DEGREE  
IN BUSINESS AND ADMINISTRATION OF THE UNIVERSITY OF  
NAIROBI**

**DECEMBER, 2021**

## DECLARATION

This research project is my original work and has not been presented to any university or Institute of higher learning for Examination or Academic Purpose.

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This research Project is submitted for Examination with my approval as the University supervisor.

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## **ACKNOWLEDGEMENT**

I would like to acknowledge the Almighty God who has given me the strength and ability to be able to write this research project .And to my supervisor Dr. Otieno Luther, My moderator Dr. Omoro, and all entire team of University of Nairobi Kindly receive my sincere gratitude and appreciation for the guidance and support throughout the MBA period.

## **DEDICATION**

The research project is dedicated to my family members, fellow students and friends for their relentless support both morally and financially throughout the research period. I also dedicate it to the Private Hospitals in Kenya as part of my study topic and I encourage them to make good use of it in order to grow their business and operates effectively.

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## ABBREVIATIONS

<b>KMPDU-</b>	Kenya Medical practitioners and dentist Board.
<b>KEMSA-</b>	Kenya medical Suppliers Authority.
<b>ICS-</b>	Internal control Systems.
<b>FITC-</b>	Financial Institute Training Centre.
<b>CSR-</b>	Corporate Social Responsibility.
<b>ROI-</b>	Return on Investment.
<b>WHO-</b>	World health Organization.
<b>ERP-</b>	Enterprise Resource Planning.
<b>VFM-</b>	Value for Money.
<b>ROI-</b>	Return on Investment.
<b>SOPs-</b>	Standard Operating procedures.
<b>GDP-</b>	Gross Domestic product.
<b>SOD-</b>	Segregation of Duties.
<b>PESTEL-</b>	Political, Economic, Social, Technical, ecological and legal.
<b>SWOT-</b>	Strength, Weakness, Opportunities and Threats.
<b>IAS-</b>	International Accounting Standards.
<b>SMEs-</b>	Small and Medium Enterprises.
<b>ICPs -</b>	Internal Control practice.
<b>IFAC-</b>	International Federation of Accountants.
<b>ACA-</b>	Institute of Chartered Accountants.
<b>F-test</b>	Fishers test
<b>T-test</b>	Student t-test.

## ABSTACT

Private hospitals plays a key role in any economy for both developed and developing countries in terms of economic growth as well as creation of employment opportunities. However, despite the vital role, Private hospitals are still faced with a number of challenges that deprives them from effective and optimal competition in the current market dynamics. And as such, an effective internal control practice that has the potential to reduce theft, fraud and fraudulent activities is an essential enabler towards the achievements of organizational objectives as well as goals. This study examines the internal control practices on financial performance of private hospitals in western region, Kenya. A descriptive research design was used for the study. A population of 19 registered private hospitals was randomly selected with a sample size of 3 people per organization giving a total of 57 self-administered questionnaires which were distributed to respondent and collected after filling for analysis. The research results established that through Segregation of duties, Authorization of work activities, and internal audit of books, financial performance of the organization increased for the year 2020 as compared to year 2019 and hence a positive correlations in respect to financial perspective of private hospitals in western Kenya region. The results further revealed that Documentation of transactions and Standard operating policy has significant negative correlations on financial performance of private hospitals in western region, Kenya. The study therefore concluded that there exist an inverse relationship between documentation of transaction and standard operation policy on financial performances of private hospitals in western region Kenya. The studies also further concluded that there exist a direct relationship between Segregation of duties, Authorization of work activities and internal audits of books on financial performance of private hospitals in western region Kenya. The study recommend that private hospitals should implement an effective internal policies on Documentation of transactions and standard operating policy to facilitate efficient flow of work schedules as well as minimizing fraud and loss of resources and this should be geared towards achievement of Mission, Vision and goals .They should also ensure proper strategic plans targeted towards success through provision of services that are beyond customers expectations. They should also ensure that regular monitoring and evaluations of the control practices are carried out for consistency and effective operation.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Private hospitals constitute a bigger portion of healthcare sectors around the world. According to World health organization (WHO), private hospitals are ranked at top level healthcare facilities which provide the best of healthcare services around the globe as per the patient's feedback of 2020. They also account for a great portion of total employment and total production units (Hussain, Millman & Matley 2006). Based on this fact, they therefore play a very vital role in an economy of any country. Due to the deterioration in service delivery of public hospitals which are managed as Governments institution, Private hospitals currently play an alternative role in healthcare provision as well as employment opportunities all over the world (Mutandwa, Teremwa & Tubanambazi 2015).

Studies have affirmed that a high level of confidence in operations, although affected by the cost of putting up an effective internal control practice that has the capacity and capability of optimal performance level of private hospitals is necessary (Shanmugam,Heart & Ali 2012) Hence internal control is an important segment of management tool and a process by which an organization ensures that their activities and operations are achieved in regards to organization Mission, Objective and core values for effective and efficient operation (IFAC, 2012). Internal control practices have the capacity and ability of providing a reasonable assurance but not complete assurance in regards to achieving the organization set goals and objectives. Putting up an effective control system enable an entity to operate in an effective manner (Sulaiman, Siraj & Mohamed, 2008). It is difficult for an entity to know if they have full and accurate information when they lack proper internal control practices in place (Long, 2009).

The adoption of a strong and effective internal control in an entity is crucial for a safe and sound management of an entity. An entity is always opened to many risks if it lacks an effective internal control systems and practice. Several risks may be caused by improper records of accounting transactions and making unauthorized transactions, may significantly affect the performance of the entity and more specifically in financial perspective (Dumitrascu & Savulescu 2012). An entity can therefore benefit more if it has an effective internal control as this enhances its reputation in terms of complying with applicable laws and regulations as compared to an entity that doesn't have a proper internal control

(Shanmugan, Heat, & Ali, 2012).It is in this regards that my study seeks to find out if private hospitals in Western Region adhere to the standards required of internal control practices and if this has an effect on their financial performance.

### **1.1.1 Internal Control Practices**

Internal control practice is defined as a set of policy and procedures, processes enforced by an organization in ensuring that entity operates in appropriate manner in order to control theft, wastes and misuse of economic resources. (Mwakimasinde, Odhiambo & Bryaruhanga 2014). According to the institute of Chartered Accountants(ACA), Internal controls practices (ICPs) is "not only focused on check and balances but the whole practice of controls, both financial and non-financial, established by the company in-order, safeguard assets and secure as far as possible, the reliability, accuracy and consistency of those records". And according to Financial Institute Training Centre (FITC) ICs is the whole system of control practices establishment by the management to enable them carry on the business enterprises an efficient manner and full adherence to management policies.(Badmus & Edegbe, 2003). Therefore, it is no doubt that adherence to good and sound internal control practice and effective internal check is for sure to reduce a high rate of fraud and fraudulent activities in the private healthcare facilities which are always marked with high level fraud and misuse of resources.

A good internal control practice should include both preventive and detectives measures otherwise known as measures of internal control practice. It should also be aimed at providing the Management with reliable financial reports that finally assist them to make proper and good financial decisions to eliminate fraudulent acts within the business entity (Uzun, 2011). Preventive control activities are focused to detect the instances of errors and frauds before actual occurrence. On the other hand detective control activities are intended to find the problem after occurrence. They include reconciliation, verification and auditing of records. It is important to understand the risk factors and focus on these key internal control practices to minimize these risk to achieve the organizational objectives (Mwakimasinde, Odhiambo & Bryaruhanga 2014). Separation of duties is the division of responsibilities between different people so that one individual is not allowed to micro manages or controls all the transaction as in the Organizational structure. This promotes responsibility in terms of operational guidelines of employees. Authorization and approvals of work activities is another way of internal control practice, it ensures only a person with delegated authority

approves or authorizes transactions on behalf of the organization. Reconciliation on the other hand, refers to the regular examination of transaction records for verification of accuracy, appropriateness and proper compliance. Documentation of transactions refers to materials that provide official information and evidence that serves as a record for reference; they include Invoices, receipt, Cash sale receipts, M-Pesa transaction code, Pre-authorization forms, procedure request forms, and Laboratory request forms, Doctors Notes, Nursing cadets, Consent forms and daily delivery notes. And finally auditing ensures that all the reconciled documents are subjected to review and verification in order to re-affirm the reconciliation process with certainty (Theofanis, Drogalas & Giovanis 2011)

In a stiffer competitive business environment, an organization's success cannot be sustained only by aggressive business promotions, advertising activities or larger market share, but of an equivalent importance to the entity is the trust and relationship acquired through business partnership with customers, shareholders as well as the operational internal practices put in place. And to sustain this kind of relationship, the organization needs to adhere to the ethical standards and effective internal control practices which should be guided by good governance (ICAC). This is very important for Private Hospitals whose core business is to offer a health care service that meets the standards of the World Health Organization (WHO), the international health regulation and above all, exceeds the expectations of the customer.

### **1.1.2 Financial Performance**

A study by Stoner (2003), defines performance as the ability to operate efficiently, effectively, profitably and also to grow up the business within the environmental challenges which include Opportunity and threats. This is also supported by Kagoyire and Shukla (2016) whose study affirms that performance is a measure of efficiency and effectiveness with a view to optimal usage of available resources geared towards achievement of organizational objectives either through an individual effort or team collectively EFQM (1999). An organization can measure its performance through return on investment (ROI), profitability ratio, growth and expansion, Asset level, and the level of human resource base for efficiency and effective business operation. In private organizations, especially private hospitals and other service entities, financial performance is one aspect that has always posed a challenge to business owners. Employees entrusted with various financial responsibilities have always not done much as required of them by the organization's policies and by the business owners. Resources they are entrusted with are not safeguarded or not accounted for in good time. To

this extent it has been a critical issue to these upcoming businesses more particularly the private hospitals in Kenya and this has led to their collapse. Internal control practices primarily focused on the enhancement of performance of the organization includes internal audits for reliable financial reports (Akinruwa, Awolusi & Ibojo, 2013). This is also reflected on the trading profit and loss account prepared at the end of each trading period for the entity.

For a firm to achieve its mission, Vision, Objectives and goal, a good and sound internal control practice must be in place. This will enable both the firm and the customers to achieve the Value for their money (VFM) either in terms of quality goods and services or as profit. And to Sustain the VFM, the firm should be able to control and effectively use the available resources with a keen focus on cost and risk minimization for optimal profit (LGIAM, 2007). It is also important to note that, proper internal control practices also encourage honesty and trust worthiness in the organization set up. It provides a pivot point to which all the employees rotates while discharging their daily routine. On the other hand, financial performance acts as the heart of the organizations. All the operations of the organization begins with the availability of funds discharged and implemented by these funds with a greater expectation on the return on investment (ROI) which is later transferred to shareholders wealth (dividend).

According to a study by Wainaina (2014), an organization is able to improve its net income through reduction in the level of irregular and fraudulent act by putting in place strong internal control practices. The management is also expected to regularly review all aspect of the company and to ensure that internal control systems are periodically strengthened to increase profitability (Kamau, 2014). It is also important to note that businesses are prone to risks and the only way to achieve good result is to mitigate risk through effective and proper internal control practices and more importantly, the management commitment. Brennan & Soloman (2008) in their study, they revealed other measures of performance which included sound financial muscles, non-current assets value as well as corporate viability. He further deliberated on non-financial factors of performance like sound innovation, Employees ability to perform work effectively, good management, satisfactory goods and services and finally social services and environmental responsibility through corporate social responsibility (CSR). It is therefore in this regard that the study focuses on the most appropriate methods of internal control practice and the appropriate financial gains that the private hospitals can adopt in order to maximize their return on investments, otherwise known as profit. The researcher therefore majors on the relationship between the effective internal control

practices which can result into a better financial performance of the private Hospitals in Western Region.

### **1.1.3 Internal control Practices and Financial Performance**

Control as one of the principles of management is a major task which squarely lay on the shoulders of the firm's owners and management. Internal control practices on private hospitals are very crucial since it plays a great role on the entity performance (Uzum, 2011). Systems of internal controls also play an important role in every organization on their financial performance goals. Strong an effective internal control practice as the possibility of strengthening firms governance, help in achievement of goals and objectives by the management and also risk mitigation (Shanmugan, Haat &Ali, 2012). IFAC (2012), posits that effective internal control has a potential of creating a competitive advantage since a firm with an effective control system is able to take an additional risk.

Jensen (2003), systems of internal control and practice comprising of internal audits are aimed at enhancement of reliability of performance in financial perspective by simply increasing accountability among providers of information in the firm. Sanusi et.al.(2015) also studied internal control effectiveness and accountability practices of Mosques in Malaysia and the study revealed that systems of internal controls indeed enhanced the performance of Malaysians mosques to achieve their mission and goals. A study by R.Odek and E.Okoth, the effect of internal control systems on performance in financial perspectives of Distributions companies in Kenya, a case of Moon Blooz Enterprises, the study revealed both negative and positive effect on performance in regards the variables for the study.

A further study by Muraleethaaran (2011) on the effect of internal control systems on information and communications of organizations in regards to financial perspective also revealed a positive correlation between communication, information and environmental control in financial perspective. Simiyu, (2011) also conducted a study on the effect of internal control practices Tertiary learning institutions of in Kenya. The study indicated that Technical training institutes face a number of problems during internal control implementation period. These include liquidity problems, growth prospects, accountability issues as well as resource management issues. However, for any organization to have an effective internal control practice, every section of the organization or departments within organization are expected to work hand in hand to prevent any loop hole or leakages thereby promoting a sustainable profit level, growth and corporate goals. Thus the focus of this study



was to find out relationship that exists between internal control practices in regards to the firm's financial performance of private hospitals in Western Kenya region.

#### **1.1.4. Private Hospitals in Western Region Kenya**

Western region is one of the Kenyan seven administrative provinces before the 2013 new constitution. It borders Rift valley to the east, Uganda country to the south and Lake Victoria in Busia County. Private Hospitals in Western Kenya are either sole, partnership or owned by private owners in their own individual or group capacity .They operates under the companies Act CAP 486 No 17 of 2015 to carry out certain service functions which are relevant to their areas of certification in different market segments .The services offered by private hospitals includes; Nursing care, Physiotherapy as well as Radio logical and laboratory services .Private Hospitals are part and parcel of the entire larger service organizations registered under the private companies Act and is regulated by the Kenya Medical Practitioners and dentist Union Board (KMPDU). Western Kenya just like any other region hosts quite a number of such registered private companies which the study finds relevant.

Private hospitals form the largest healthcare institution in Kenya and they play a very important role in the Kenyan workforce as well as the growth of our GDP at about 17.9% (Jun 2020 statistical report). The number of private hospitals has been in the rise since 2018 due to the demand on the healthcare sector in Kenya and this has made exceptional contributions to the Kenyan economic growth (Oseh 2013). As such, the private hospitals are vast majority of service business entity found in Western Region and they have created a larger portion of employment workforce in this region.

Private hospitals are most likely to have some internal control practices to help them reduce the risk of mismanagement and fraud.(Jiang,2010).This understanding of the internal control practice and how best the practice can work to the advantage of the entity is paramount for growth and development. And with proper internal control practices, the private hospital would be able to properly manage their financial resources in a better way so as to safeguard owner's interest. Thus, internal control practice is only able to provide a high level assurance, but not an exceptional assurance which private hospital objectives are likely to be achieved (Neneh & Zyl 2012).

## 1.2 Research Problem

Internal Control practice is a full process that is slowly adapting to the environmental changes in many organizations in Kenya organization. Private hospitals in Western Kenya are one of such organizations in that play a major integral role in economy of any Nation but more so upcoming nations and in particularly notable emerging economies (Chakraborty, 2015) .A greater number of private hospitals are really thriving to survive due to mismanagement and lack of enough funds to facilitate their day to day activities. And those organizations which are able to survive are still performing dismally below the expected level despite their crucial role and contribution to the entire health industry as well as the country's economy (Neneh & Zyl 2012). As such, complimenting a successful internal control practice in private hospital is seen as a potential enabler for the effective performance, success and also to reduce fraud and theft related activities (European Federation of accountants, (2014).

However, many private hospitals comprise of only few business owners with one or two executive and some few employees at management level whose focus is on the business performance but with lesser importance on internal control practices (Long 2009). Kenyans private hospitals have been ranked with high level failure within the first few years of initial operations (Njaramba & Ngugi, 2014). Past statistics indicates that out of three new private hospitals, only one has a possibility of surviving in the first few months or years after opening (Government of Kenya, 2007). Quite a number of researches have also been carried out on the internal control and financial performance. A research by Oseifuah and gyekye (2013) on the effect of internal control effectiveness in South Africa SMEs , revealed a low performance due to non-effective internal control practices with only few business entities having internal controls practices in place. A further study on Social responsibility and financial performance by Aleksandra Lech 2013 revealed a negative correlation since the argument was that CSR is only geared towards profit maximization by the company but not customer satisfaction.

Dineshkumar and Kogulacumar (2013) in their study that was focused on the internal control systems and how they influence a firms financial performance. And the study revealed a strong relations between internal controls systems and performance in financial perspective of Sri Lanka Telecommunication industry but the research did not focus on internal control practices on Private hospital performance. Another study by Kamau (2014) done in Kenya, also studied the effect of internal control systems on financial performance on manufacturing

industries and the study found a positive correlation on systems of internal control and performance in financial perspective, however; the study was based on manufacturing firms and therefore its findings may not be applicable for private hospitals case. Many empirical studies by different scholars indicate that internal control practice is very important in business organization. However, despite this fact, firms regardless of ability and size, there are still little evidence on the internal control practices on financial performance since most of the research on internal controls done globally and in Kenya are not in agreement either and majorly of them, focuses more on manufacturing industries and financial entities but not service entity particularly the healthcare industry. Thus a literature gap which this study unveils by examining what are the internal control practices on financial performances of private hospitals in Western region, Kenya by digging deeper into the control variable?

### **1.3 Objectives of the Study**

The research objective was to find out the internal control practices in regards to Financial Performance of Private Hospitals in Western region, Kenya.

### **1.4 Value of the Study**

This research focuses on the internal control practices in private hospital and therefore the results obtained was used to unveil gaps within the systems of internal control for healthcare industries and especially among the private Hospitals in western region. The researcher also believe that the results and recommendation of this research can benefit both senior team and other individuals empowered with governance to align the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of Organizational objectives. Losses, improper authorization, lack of communication and stealing affect profits of a firm. Therefore, accountability must be assessed in the light of the present internal control practices.

The research study forms part of the already existing knowledge bank regarding internal control practices and financial performance. The business partners/suppliers/stakeholders Government Agencies and other institutions, who are usually interested in managing and controlling their finances with less leakages and wastes can now find the study beneficial. Finally to the scholars and research persons who would like to carry out more studies on internal Controls on financial performance both public and private health care sectors can find the study beneficial in that it can add value to the existing theories of internal controls practices. The study finally may help the overall healthcare industry to improve on the quality

of internal control practices, ensure proper external reporting and to promote efficiency and effective operations of the entity that exceeds the expectations of their customers through high quality products and services.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

Chapter two of the study focuses on some of the existing literature's done by different researchers regarding the internal control practices on performance in financial perspective with a view to deeply understand the various way used by those scholars and their ideas on the study area in order to relate the same with the current research study.

The chapter therefore focuses on the already done literature by other scholars in regards to factors of financial performance, and the principles of internal control practices, the empirical literature review and finally a literature review summary.

### **2.2 Theoretical Literature Review**

Theoretical literature review is used to establish the degree of the existing theories and to develop the hypotheses to be tested by the current study. We can also use theories to generalize the observations (Matalanga, 2014). A theoretical framework mainly guides how the research will be carried out. Theories are very important to the researcher because they describe and explain the phenomenon of the research work. The chapter will also try to bring out the scope of this study with a view to the internal control practices of private hospitals in western region in-regards to their financial performance being the area under study. The scope of the literature review will include journals, scholarly articles and books on internal control practices and other financial articles that may be relevant for this study.

Thus the study was basically supported by three corporate governance theories and they were; Agency theory, contingency theory and stakeholder's respectively.

#### **2.2.1 Agency Theory**

Agency theory is a principle that is used to examine, identify and resolve issues that affects the relationship between the Principals (employer) and their agents (employee). The agency problem starts when the principle who cannot manage his business on his/her own delegates the responsibilities to an agent to act on his/her behalf (Jensen & Mackling 1976). The problem arises because of the desire and the goals of principal and agent which normally conflict.

Mugo (2013) in his research, proposes that in order to reduce the conflicting interests of the agent and the principal and of which in this case are the Owners of the private hospitals

(shareholder) and the Management (employees) which may include doctors, accountants, nurses and other non-medical staffs) a well-defined contract should be drafted and signed by both parties to address their interest. Moreover, he explains that the relationship can further be strengthened if the principal employ an expert or a third party to monitor the work of the agent. Coarse (1937) also is in support of this but further added his voice that the drafted contract should also provide for conflict resolutions mechanisms where the agent work is clearly defined and determined. Mugo (2013) also alluded to the fact that the principal avoids responsibility and this deprives him or her from gaining from the work of the agent. Moreover, the theory also supports that due to information asymmetry which normally results into bad relationship, work performance of the agent becomes a moral hazard for the organization. The study further expounded on the possible cause of adverse selection that affects the overall output of the agent and hence resulting to poor performance of the organization.

The theory is the most preferred theory for this study since it explains and address agency problem and because internal control practices are also geared towards reducing the agency cost function through standard operating procedures (Jensen and Payne 2003).

### **2.2.2 Contingency Theory**

Contingency theory is used to describe the type of management and decision making process of an organization. It is usually applied to compare the relationship that exists between context and structure of an effective internal control in respect to organizational performance especially in financial reporting perspective (Jokipii, 2010). This theory believes that there is no better way of leading and managing organization situations in an effective and successful way (Bobkova, 2014). Empirical studies suggests that internal audits, checks and balances are intended to be more reliable and also to have the ability to achieve internal control effectiveness that would results into more benefits for the organization and hence promote efficiency and effective business operations.

Cadez and Guilding (2008) in their study highlighted some factors, which impact management controls practices and these are environmental factors both internal and external, technological factors, organizational size, Business strategy, Organizational structure and culture. They suggested that the demands imposed by technical team in the organization encourage the development of new strategies for better coordination of internal control activities. The information's which relates to technology development and environmental

improvement has an important influence on organization structure. In most of the organizations where technology changes over time, information is considered as an internal affair and should not be disclosed. Where organization operates in open environment, or where technology is regular, information is external and can be shared for external purposes. This revolved around the organization structure, control which include authority, rules and regulations, that outlines individual or group performance and the level of social power within the organization. And this therefore means that the idea of contingency theory in organizations is to provide the management with technical skills that will enable them in the development of strategies to facilitate coordination and control of internal practices. It is also interesting to note that, the contingency theory has effectively worked for many organizations that include service industries like private hospitals and hence the need for this study.

### **2.2.3 Stakeholders Theory**

Stakeholders theory is used defines the interconnected relationship between a business entity and its supplier, customers, shareholders, society and others who have stake in the business entity .It main focus is on how to create value for all stakeholders and not just for a specific individual as in the current cases where owners are given more priority. Whilst, Donaldson & Preston (1995) in their study claimed that all participants in the business should obtain an equal benefits. Moreover, Clarkson (1995) also suggested that a firm is viewed as a system. And as such should focus on satisfying all the sub systems which includes stakeholders as well as customers. Freeman (1984) also alluded to the same fact that the process of relationships with many Groups can affect decision making processes just like stakeholder theory is concerned with the nature of these relationships in terms of processes and results. Donaldson & Preston (1995) argued that this theory basically for managerial decision making and interests of all parties with intrinsic value, and as such, no sets of interests is presumed to dominate one another.

In order to achieve results and be consistent over time, the organization management must consider the interests of employees at heart, customers, supplier's shareholders, communities and other stake holders aligned in the same direction. Freeman, in his famous book of business strategic management, argued that managers are not just answerable to shareholders only, but to all parties involved in business chain. And in addition to shareholders or stockholder they also need to consider any group or all the proponents that affected the achievement of the Organization objectives. These proponents include competitors,

communities, customers, employees, financiers, political groups, suppliers, trade associations, trade unions as well as the Government. The reason for taking a stakeholder approach as my study theory is that it has been tested for success in most of the organizations for over decades and recently the theory was recognized by the World financial crisis (University of Cambridge Press, 2015.) The proponents of the theory argue that profits to the shareholder are residue of the value created to all other stakeholders. To the customers, the company creates good products and services that meets the standard of satisfying their needs beyond their expectation; to the employees, good salaries and a conducive work environment; to the government, paying of Duties and taxes and to the suppliers of credit, timely repayment of the loan and interest due (Freeman, 2004). Hence this theory is one among the best which can be applied by Private Hospitals in Western region, Kenya.

### **2.3 Determinants of Financial Performance**

The term determinant refers to the factors that an entity should consider important for it to achieve and improve on its financial base for fair competition. COSO, 2013 in its study, noted that the factors include dependent and independent variables. For an internal control practice to be effectiveness, the dependent variable should be able relate well with the independent variable. This can only be achieved by the presence of proper functioning relation to each grade of the organization's objectives (Owusu, 2012).

The chapter therefore examined deeply the internal control practices in regards to the following key indicators, internal control activities, employee's competency, firms' characteristic, availability of funds and industry competitive advantage.

#### **2.3.1 Internal Control Activities**

Control activities refers to the techniques, mechanisms, policies and procedures that help the organization through the management effort to identify risk, assess those risks and finally minimize the risks for better goal achievement and hence promotes efficiency of business operations.

In addition, internal control activities also provides reasonable reliability of financial reporting systems, timely business planning and proper decisions making process as well as the risk identification and reduction of fraud and fraudulent activities within a business. (Uzun, 2011).



### **2.3.2 Employees Competency**

Employees competency refers to the Knowledge, skills, attitude towards certain work schedules, expertise as well as capability of a successful job performance .This always impact directly on the financial output of the organization. (Hans 2014). Skilled and knowledgeable employee always carry out his /her work scheduled with a lot of professionalism and achieve his/her targets at the very minimum time frame. This finally translate to overall performance achievement of the organizational goal.

### **2.3.3 Firm Characteristic**

Firms characteristics are defined as firm's personalities and attribute that are unique about a particular firm. They range from the nature of the firm, firms knowledge about its external environmental factors and finally firms size. (Hans 2014). Private hospitals just like any other organization must have a proper knowledge and understanding of firms characteristic to facilitate efficient and effective management. A study by Lucy & Minai (2011), defines knowledge of a firm as, marketing Organizations, service organizations, advertising organizations or manufacturing firm's etc.

Firm's knowledge therefore entails the owner's adequate knowledge in regards to customers, suppliers, employees and other stake holders of the firm in order to effectively manage the business. Whereas a firm's size may include, small, medium and large as may be the case for conducting business.

### **2.3.4 Availability of Funds and Other Resources**

Resources are defined as those items that are able to generate income to the organization. They are basic to the extent that without them, a firm might not be able to do much in terms of performance. Akinruwa, Awolusi & Iboji (2013), defines funds as the heart of any organization since it determines a bigger portion of the business operation and performance. Lack of enough resource, in adequate funds and limited access to credit facilities are some of the challenges faced by the private hospitals in Western region to the extent that they cannot grow and compete fairly in the market segment. This normally impact so much on the growth aspect, expansion and even improvement of service delivery (Mahmood 2008)

### **2.3.5 Industry Competitiveness and Market Share**

Competition refers to the ability of an entity to face off with other similar organizations operating in the same industry. It requires the understanding of both the external and internal

environmental factors through SWOT and PESTEL analysis to perfectly operate. Market share refers to the portion of market controlled and managed by a particular company within a given region of operation. Firms are therefore required to strive and gain competitive advantage over others to enable it achieves its intended goals. Private hospitals just like any other organization always operate in a highly competitive environment.

## **2.4 Principles of Internal Control Practices**

There are several principles that relate to best internal control practices in various organizations depending on the type, nature as well as size. However, the study only focuses on the commonly used control practices that relates to the private hospitals in Western region. They include but not limited to; Segregation of Duties, Authorization and approval, Documentation, Internal Audits and internal policies and procedures.

### **2.4.1 Segregation of Duties**

The term segregation of duties (SOD) refers to the division of work activities among EST different departments or sectors of the organization. The principle of separation of duties is based on divided responsibilities, activities of the organization and key process that deliver the critical functions of that process to different individual person, sectors (shared functions). Without this separation of duties in key processes, errors, fraud and fraudulent activities are far less manageable in a proper manner (AICPA, 2006).The modern design of the doctrine of separation of powers which we relate to the separation of duties in internal control practices can be found in the constitutional theory of John Locke (1632-1704). In this book of second treaties of Civil Government, he wrote as follows: “It may be too tempting for the human beings to ascend to power, if the same persons who have the powers of making laws, also in their hands have the powers to execute the same laws, whereby they may exempt themselves from the law, both in its making and execution to their own private advantage, then the law would be selective in applications”. According to this book, he was advocating for the separation of government functions into three levels which includes executive, judicial and legislature respectively. My study used this to narrow down the separation of power to an organization whereby duties and responsibilities are clearly defined to each and every employee in respect to organizational structure and according to job specification. There ought to be a well-established road map between those who initiate the process and those who discharge the final processes? However, this does not completely remove the possibility of fraud acts. This is just a control measure that is targeted to minimize the level of fraud and

fraudulent activities that can result into financial loss. Other measures also have to be instituted by the firm and these might include strict follow up on employee's backgrounds before hiring (Human resource screening). Adequate screening of different employees before employing them may help detect some unfamiliar behavior and characters of these individuals and this can be identified and worked on before offering employment. Management checks and supervisory activities can also help to detect collusion among EST employees if it has indeed occurred (Matamande, 2012). It's also important to carry out regular performance appraisals on employee's performance over a period where necessary to avoid any misfortune along the way.

#### **2.4.2 Authorization and Approval of work Activities**

Authorization refers to the ability and powers vested on an employee/individual person within the organization that may enable him/her approve work activities. It is regarded as the basis by which an individual authority enable others to accomplish the various stages of a transaction and to finalize work activities has delegated to them. The stages of authorization may include the processes of initiate admission for Hospital, process discharge submitting invoices for claiming and reconciliation debtor's accounts etc. Authorization is basically treated as a privilege which typically grant the ability to perform work on behalf of the entity through a department head /sector head knowledge. Employees are expected to own their responsibility and work delicately and with a lot of precaution as contained in the SOP's. Proper authorization practices serve as an early approach for preventing unauthorized business activities from occurring and also ensuring that standard operating policies and procedures are followed. This applies to all sectors and departments in private hospital and the main focus is to limit/minimize fraud and fraudulent activities.

#### **2.4.3 Documentations of Transactions**

Documentation of transaction refers to a legally relevant document which is either printed, mailed, inserted or electrically presented to authenticate an occurrence of a firm's activity at a particular time. And as part of the internal control practice requirement, any document that provides evidence for a transaction, and also highlight who has performed the transaction, with a further specification of such kind of authority to perform such activities is considered as a record for future reference. Documents are used to provide chronological of each event or activity as and when they occur therefore ensure the accuracy, consistence and completeness of events in relations to the business operations for a given trading period. A

According to the International Accounting standard 1 on financial reporting (IAS), the following documents represent primary source documents in accounting for any valid transactions during a trading period and as for the case of private hospitals in Western region. These may range from, pre-authorization forms for cases of admission of patient in an hospital set up , receipt books for payments made, invoices for credit clients , delivery notes, cash books credit notes and all other relevant accounting documents for such transactions. All these provides checks and balances for accounting purposes (Gray 1999).

#### **2.4.4 Internal Audits of Books**

Internal auditing is defined as an independent and an objective event geared towards ensuring that business transaction and documents are reviewed, reassess and verified by an independent person or body with a clear view to a certain the flows and reconfirm the transaction validity as well as accuracy. An internal audit assist to improve an organization's operation and efficiency of transaction through verification and review of events once they occur. It helps the firm to focus more on its strategic plans for the achievement of objectives, and goals through efficiency of internal control practices as well as good governance approaches. Private hospital in Western region, just like any other corporate entity is bound to carry out internal audits regularly to ensure checks and balances of all business transactions. An effective internal controls practices enhance discipline among employees as well as steam lining the organization's work force. As part of the internal audit strategy, auditors work is basically to find any variation between the operational processes as well as functionality of the design plan. And in case the auditors do find any discrepancies, he/she is expected to report this to the entity leadership/management through an audit recommendation document so that the processes can be improved and made more efficient to enable goal achievement.

#### **2.4.5 Standard Operation Policies (SOP's)**

Standard Operating policy and procedure is defined as a step by step approach by an organization to help its employees or workers to carry out their routine work operations in an organized manner. Sop's depicts, rules, regulations and guidelines formulated and adopted by an organization to meet both its short and long-term goals. Policies and procedures are designed to influence and determine all major decisions, directions actions, and all activities carried out within the boundaries of the Organization as set by them.

The main focus is to ensure that the organizational Core values, objectives and goals are implemented by the management across the organization, for example, Codes of Conduct of,

report channels as may be defined by the structure. This help to promotes best practice in the organization. Policies facilitates shared communication and common understanding of certain particular terms or issues but not limited to human resource issues as per the need of private Hospitals.

## **2.5 Empirical Literature Review**

The history of internal control practice can be drawn back to several years ago. Quite a number of research on internal control practices so far done, either relates to manufacturing entity, small and medium enterprises (SMEs), telecommunication services and these researchers have already formed part of the related studies and they include:

A study by Jacinter Kamau (2016) on the effect of control practices on performance in financial perspective of small and medium enterprises (SMEs) found a positive correlation between internal control practices and financial performance of SMEs Nairobi County. A study by Shanmugan, Heat and Ali, (2012) examines the relationship between internal controls systems on the performance of small and medium enterprises. Significant relationship was noted in this study during the implementation process of internal control systems of small and medium enterprises in financial perspective. The study also revealed that most of small and medium enterprises in Malaysia were ready for the implementation of the control measure but this was still in an initial stages. The study also revealed lack of awareness as the main stumbling block hence the resultant slow phase of implementation noted by the study.

According to Mugo (2013), the study explored the relationship between system of internal control and performance in financial perspective in Technical training institutions in Kenya. Data for the study was collected using questionnaire for a population of 37 technical institutions in Kenya. The study findings revealed that management of the institutions were committed to control system and they actively participate in monitoring and supervision of the activities of the technical Training institutions in Kenya. And hence a significant relationship was noted between internal control system and financial performance. A Study by Aleksandra Lech 2013 on Social responsibility and financial performance revealed a negative correlation since the argument was that CSR is only geared towards profit maximization by the company but not customer satisfaction through quality goods and services.

A further study by Odhiambo (2014) also explored effect of systems of internal control in financial perspective of sugarcane out growers in Kenya. The study adopted a descriptive correlational survey design and collected data using questionnaire. Additionally, the study used the key informants method where data was obtained from all the financial managers and heads of internal audit for every out grower company. The data collection instrument was administered to all nine sugarcane out grower's institutions. And the study findings were a significantly positive on the effect of system of internal control on performance in financial perspective of Sugar can out growers Company. Muraleetharan (2011), also assessed whether internal control system can lead to an increased performance in financial perspective of organization. The study revealed that internal control and performance in financial perspective are statistically significant and a positive relation between communication, information, environment control and performance in financial perspective was generally noted. Marteza, Parviz and Shima (2015), a study on the existence of relationship between internal control system and performance in financial perspective of Telecommunication Company of Golestan province in Iran. The study revealed a positive correlation between internal control system and financial perspective of the Telecommunication Company of Golestan province. And in conclusion, it is noted that the existence of systems of internal control to some extent affect or influence financial performance either in a positive way or negative way as alluded to by these scholars. A study by Robert Odek and Elmad Okoth (2019), on the effect of internal control systems on performance in financial perspectives of Distributions companies in Kenya, a case of Moon Blooz Enterprises, the study revealed both negative and positive effect on performance in regards the variables used which were risk assessment, control activities and information and communication.

The emphasis on all these studies is that through internal controls a firm may or may not be able to achieve its objectives and goals since it is not very clear from the past empirical studies due to both positive and negative argument as seen above. It also goes without say that internal control system is the entire process and not means to an end in itself and therefore it is a step by step approach by entities. All the studies noted that internal controls systems are bound to provide reasonable but not absolute assurance about the attainment of an entity's objectives, thus the focus of the study was to find out the Internal control practices on the Financial performance of Health care sectors according to the meanings under the empirical Literature Review as stated above.

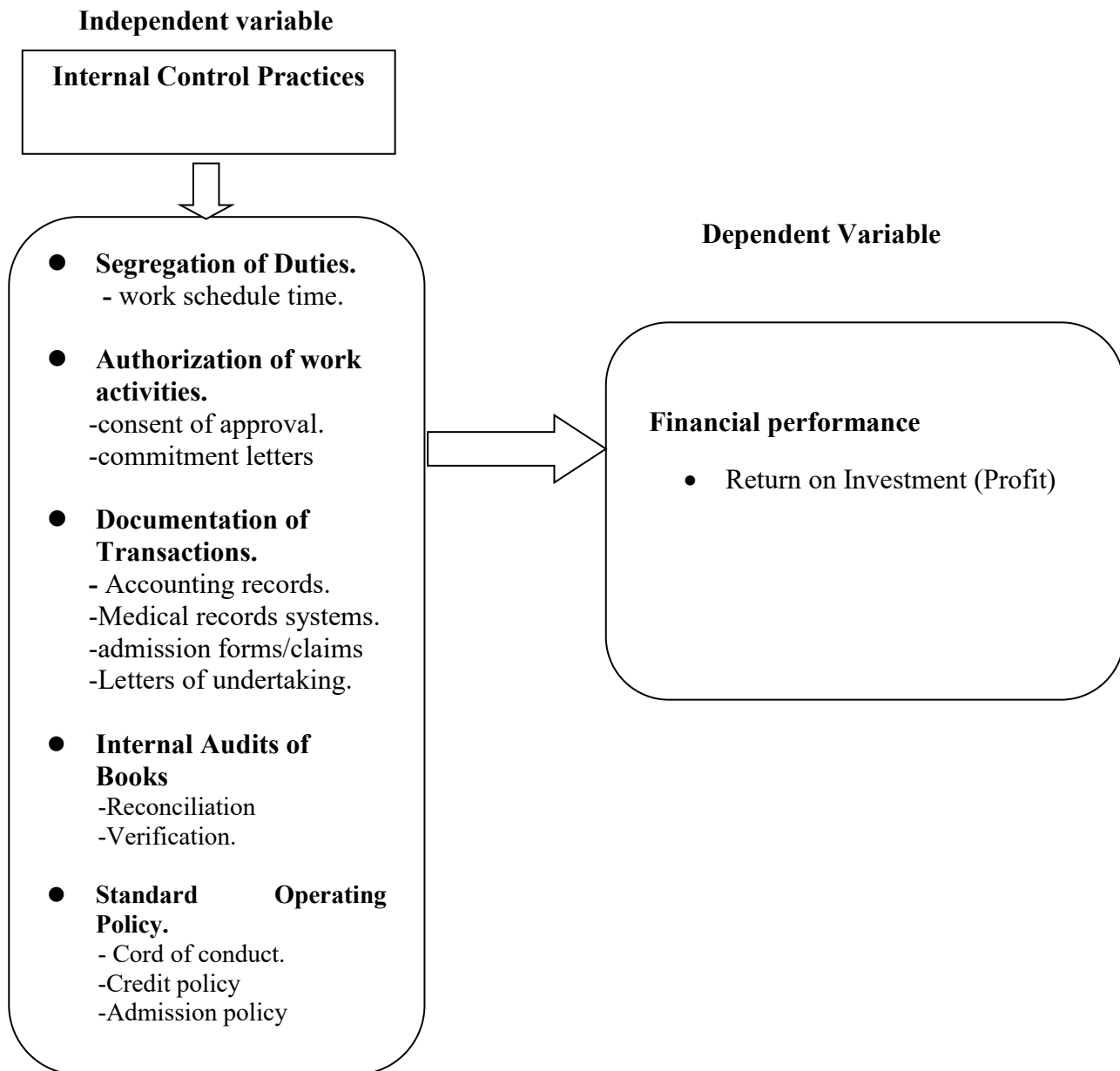
## **2.6 Conceptual Framework**

A conceptual framework usually demonstrates what the reader expect to find out about the research. It lays out the relevant research variables with a clear map of their relationship to one another. Burns & Grove (2005) in their study, defines a conceptual model as the abstract and logical structure which guides the development of the study and enables the researcher to compare the findings with the existing body of knowledge and make summary of analysis to the current study. It is in this regards that a conceptual model therefore depicts the relationship between the dependent variable and the independent variable of the study diagrammatically.

And as for this study, the dependent variable is Performance in financial perspective which is otherwise known as Return on Investment (RO) otherwise known as profit and the independent Variable includes segregation of duties, authorization, documentations, internal audit and finally Standard operating procedures.

## 2.7 Conceptual Model

**Figure 2.1: Below depicts the Conceptual Model for this Study**



**Figure 1: Conceptual Model: Source: Researcher (2021)**



## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Introduction

The section spells out the various stages and phases that the researcher used to achieve its intended goal. Research methodology is defined as the blue print for the collection, measurement and analysis method. The study therefore focuses on research design, Population, Sample design, data collection technique, Validity and Reliability, and finally data analysis Technique.

### 3.2 Research Design

Research design refers to the research plans or methodology that are applied by the researcher to basically to achieve the research objectives. According to Bryman & Bell (2003), established that research design present a frame work of logical arrangement of action for the study. The study used a descriptive research design. Descriptive research defines and explains a subject by creating a pool of events, people or problems through data collections. This study therefore can be used generalized the findings and relates it to all private hospitals in regards, their internal controls practice on financial performance.

### 3.3 Population

Population is defined as a set of things, items or people that share some common characteristic which the researcher intends to study and deduce statistical inferences or conclusion. And according to Gall et al., (2006), Population can comprise of lower, middle or top level managers of the selected private hospitals in Western region. A research population of 19 registered private hospitals was used with 3 employees targeted for interview per hospital and this brought a total population of 57 people to be appropriate for the study.

### 3.4 Sample Design

The Sample formula of Ya-mane (1967) was be used as follows.

$$n = \frac{N}{1+N(e^2)} \quad \text{Thus } \frac{57}{1+57(0.12)} = 0.9827 * 100 = 98.27$$

Where n=sample size, N= population & e= significant level (0.1).

### 3.5. Data Collection

Data collection is a well-defined process of obtaining information through a standard validated statistical technique method that ensures accuracy of data as obtained. The study used both primary and secondary data. The researcher used a structured questionnaire which were distributed to respondent to fill and thereafter collected back for further analysis.

### 3.6. Validity and Reliability

Validity refers to the ability of a research instrument to measure and give out consistent results and how well it does this over a period of time. Reliability is the ability of the research instrument to obtain a constant similar results over a period of time and also its degree to control random error. Coefficient alpha was applied to estimate multiple items scale reliability and alpha value of **0.7** or more was used.

### 3.7 Data Analysis

Analysis refers to a systematic and logical way to describe a phenomenal in a research study. Data collected was sorted, classified and coded using descriptive statistics such of means and standard deviation. Inferential statistic was used to draw conclusion. The SPSS (version 22.0) computer software was used to aid the analysis since it is more appropriate according to Martin and Acuna, (2002).

#### 3.7.1 Analytical Model

The study employed regression analysis model to derive the relationship between the two variable that is internal control practices and financial performance of private hospitals in Western region through linear regression analysis formula as below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Where Y=performance of private hospitals using Likert scale

X<sub>1</sub>= Segregation of duties measured using Likert Scale

X<sub>2</sub>= Authorization of works measured using Likert scale

X<sub>3</sub>= Documentation of transactions measured using Likert scale

X<sub>4</sub>=Internal audits of books measured using Likert scale

X<sub>5</sub> = Standard operating policies measured using Likert scale

$\beta$  = Constant

$\beta_1 - \beta_5$  = Regression coefficient

$\varepsilon$  = Error tem

### **3.7.2 Test of Significance**

The study used F and t -test statistics to measure significance. F was used to establish statistical significance of regression equation and T-test to measure significance of regression coefficient at 0.005 level of significance.

## CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

### 4.1 Introduction

Chapter four of the study highlights the research findings. It presents the response rate, data reliability, descriptive statistics, and regression analysis and data interpretation findings.

### 4.2 Response Rate

The study used a sample of 19 registered hospital across western region, Kenya with a targeted response of three (3) people per each hospital and hence a total of 57 questionnaire were distributed .And out of the distributed questionnaire, a total of 44 were responded to and thus a response rate of 77.19% was realized and this was adequate for the research finding.

### 4.3 Data Reliability

**Table 4.1 Data Reliability**

Variable	Chronbach's Alpha	Number of Items
Segregation of Duties	-0.347	4
Authorization of Work activities	.557	5
Documentations of Transactions	-.040	3
Internal audits of Books	.153	3
Standard Operating policies	-1.065	4

**Source. Research Findings 2021**

**Table 4.1.**Indicates the results of all the data collected and tested using the chronbach alpha coefficient. The results are varied because of the difference in the number of items for each variable, however, depending on each test, they are above the recommended rate of 0.7 alpha coefficient since each question had a difference number of items for the respondent to answer. This means therefore that the questionnaire used was more reliable for the study.

#### 4.4 Descriptive Statistics

The section highlights the descriptive statistics of the study Variables. The section first looked at the background information of the respondents which included: Distribution of the respondent by Gender and Age, gender and education, gender and position in the organization. It further continued to highlight the study Variable in regards to; -Segregation of duties, Authorization of work activities, Documentations of transactions, internal Audits of books and standard Operating Policies (SOP's) as the key variables under study.

**Table 4.2: Respondents Distribution by Gender and Age.**

Gender		Age					Total
		Below 25 yrs.	Between 25 to 30 yrs.	Between 30 to 35 yrs.	Between 35 to 50 yrs.	Above 50 yrs.	
Female	f	0	6	6	8	0	20
	%	0.0%	13.6%	13.6%	18.2%	0.0%	45.5%
Male	f	4	4	6	4	6	24
	%	9.1%	9.1%	13.6%	9.1%	13.6%	54.5%
Total	f	4	10	12	12	6	44
	%	9.1%	22.7%	27.3%	27.3%	13.6%	100.0%

**Source: Research Findings 2021**

**Table 4.2** Indicate that in-terms of Gender and age, 9.1% and 0% of the respondent were male and female below 25 years. 9.1% and 13.6 % of age between 25-30yrs were male and female respectively giving a total of 22.7% of those who responded .Between the age of 35-50 yrs., 9.1% and 18.2% of male and female responded respectively giving a total response rate of 27.3% and finally 13.6% of male and 0% of female gender also participated in this research outcome giving a total response of 13.6%

**Table 4.3: Respondents Distribution by Gender and Education**

Gender		Education level				Total
		Secondary level	College level	Degree level	Masters level	
Female	f	0	12	4	4	20
	%	0.0%	27.3%	9.1%	9.1%	45.5%
Male	f	2	10	5	7	24
	%	4.5%	22.7%	11.4%	15.9%	54.5%
Total	f	2	22	9	11	44
	%	4.5%	50.0%	20.5%	25.0%	100.0%

**Source: Research Findings 2021.**

**Table 4.3** Indicates that 4.5% of those who responded have secondary education, 50% % of these who responded have collage qualification. A further 20.5% of all the respondent had a degree qualification and finally, 25% and 13.3 %, already had master’s degree

**Table 4.4: Respondents Distribution by Gender and Position in Organization**

Gender		Position in Organization:		Total
		Employee	Manager	
Female	f	17	3	20
	%	38.6%	6.8%	45.5%
Male	f	18	6	24
	%	40.9%	13.6%	54.5%
Total	f	35	9	44
	%	79.5%	20.5%	100.0%

**Source: Research Findings 2021**

**Table 4.4** Indicates that a total of 79.5 % of those who responded were merely employees. And of which, 38.6% and 40.9% were female and male respectively . A further 20.5% were noted to be managers of which all 6.8% and 13.6% were female and male respectively.

#### 4.4.1 Segregation of Duties

**Table 4.5 Ratings on Segregation of Duties n=44**

Items on Segregation of duties	Mean	Std. Deviation
Does the organization consider segregation of duties among different employees as a guidelines in terms of its internal control practice?	4.23	.859
Does the process of Segregation of duties aligned with organization objectives, core values and goals?	3.68	1.073
Does segregation of duties as part of internal control practice affect the entire/part of the organization in regards to its financial performance?	3.23	1.179
Does process of segregation of duties help the organization to reduce the level of fraud and fraudulent activities through risk assessment mechanism?	3.73	1.336
<b>Mean ratings on Segregation of duties</b>	3.716	0.585

**Source: Research Findings 2021**

**Table 4.5** The table above indicate that the highest value of mean at 4.23 which indicates that the respondent agreeing that segregation of duties among different employees affect the entire performance of the organization in regards to the principles of internal control practice. 3.68 agreed that the process of segregation of duties in their organization is aligned with objectives core values and goals. while a mean of 3.23 eluded that segregation of duties affect entire/ part of the organization in regards to its financial performance . A further 3.73 responded that segregation of duties as part of the internal control practice helps the organization to reduce the level of fraud and fraudulent activities. The overall mean response of 3.716 for all the questions under the same category was realized.

#### 4.4.2 Authorization of Work Activities

**Table 4.6. Ratings on Authorization of Work Activities n=44**

<b>Items on Authorization of Work Activities.</b>	<b>Mean</b>	<b>Std. Deviation</b>
Does Authorization of work activities help to identify and control risk factors facing the organization?	3.95	1.200
Does the Authorization of work activities assist the management to determine the situation that can results into legal or financial risk to the Organization?	3.77	.937
Does Authorization of work help the organization to detect and identify fraud and fraudulent activities before occurrence and hence prevent loss of revenues?	4.09	1.007
Does Authorization of work integrate management thinking/ judgment about probable adverse conditions and the likely hood of any possible financial losses?	3.64	1.059
Does Authorization of work help the management to make viable and informed risk decisions and does it influence individual responsibility?	4.32	.909
<b>Mean ratings on Authorization of Work Activities</b>	<b>3.790</b>	<b>0.603</b>

**Source: Research Findings 2021**

**Table 4.6** .The table indicates that a highest mean of 4.32 of the respondents agreeing that Authorization of work help the management to make viable and informed risk decisions and also influence individual responsibility. A mean of 4.09 responded to the question of authorization of work activities in regards to identification and control of risk factors facing the organization. A mean of 3.9 agreed that authorization of work activities help to identify and control risk factors facing organization. A further 3.77 agreed that authorization of work activities assist the management to determine the situations that can results into legal and financial risk to the organization. A mean of 3.64 also in response to authorization of work activities to integrates professional judgement about probable adverse conditions and the likely hood of a possible financial loss. A total mean of further 3.790 was realized.



### 4.4.3 Documentation of Transactions

**Table 4.7 Ratings on Documentation of Transaction n=44**

Items on documentation of transaction	Mean	Std. Deviation
Does the organization have a standard way of documenting transaction as soon as they occur?	4.20	.978
Does the documentation process ensure that necessary actions are taken to minimize risk factors to ensure only genuine transactions are captured and recorded?	3.89	.754
Does documentation process aligned with the policy, procedure, systems and the best practices of accounting that facilitates financial reporting process of the organization?	3.18	.756
Documentation of transaction	3.955	0.648

**Source: Research Findings 2021**

**Table 4.7** The table above indicates the results of the findings of the study at the highest mean response of 4.20 in regards to a standard way of documenting transactions as soon as they occur. 3.89 mean on the process of documentation process which ensures that necessary actions are taken to minimize risk factor's and ensure that only genuine and actual transactions are captured and recorded. And finally a mean of 3.18 of the responded to the process of documentations being a aligned with policy, procedures, systems and best practices of accounting that facilitates proper financial reporting process for the organization financial reports. Mean response rate of 3.955 was noted.

#### 4.4.4 Internal Audit of Books

**Table 4.8 Ratings on Internal Audit of Books n=44**

<b>Items on Internal Audit of Books</b>	<b>Mean</b>	<b>Std. Deviation</b>
Does the Organization have a process of internal audit to ensure that accounting books are verified and reconciled before financial reporting?	4.07	.846
Does internal audit policy enable people in the organization to carry out their responsibilities in a free and fair manner?	4.23	.803
Does internal audit of books considered as key activity by management/employees as part of the accounting requirement and as one of the principles of internal control practices?	4.70	.553
<b>Mean ratings on Internal Audit of Books</b>	<b>3.983</b>	<b>0.388</b>

**Source: Research Findings 2021**

**Table 4.8.** The table above present the findings of the study in regards to internal audit of books. The research noted a higher mean of 4.70 who responded to question that internal audit of books is considered as a key activity in the organization by the management/employees as part of the accounting requirement and as one of the principle of internal control practice. A further mean of 4.23 was also noted in regards to to the internal audit policy which is geared to ensure that people in the organization carry out their responsibility in a free and fair manner.Finally a mean of 4.07 responded to the internal audit process which ensure that accounting books are verified and reconciled before financial reporting period. A mean score of 3.983 was noted for the case of internal audit of books as a principle of internal control practices.

#### 4.4.5 Standard Operating Policies (SOP s) n=44

**Table 4.9: Rating on Standard Operating Policies**

<b>Items on Standard Operating Policies.</b>	<b>Mean</b>	<b>Std. Deviation</b>
Does the organization operate under standard Operating policy guidelines?	4.11	1.224
Does the standard Operating procedures communicated to all departmental heads and all employees?	3.64	1.259
Does standard operating policy considered a key indicator for the achievement of the organizational objectives and goals?	3.57	1.208
Does the SOP guides the management decisions in terms of financial reporting as a principle of internal control practice?	3.75	1.037
<b>Mean ratings on Standard Operating Policies</b>	<b>3.767</b>	<b>0.462</b>

**Source: Research Findings 2021**

**Table 4.9.** The table above indicates a greater mean of 4.11 of all the respondents who reacted to the question of their organization being operating under standard Operating policy guidelines. A mean of 3.75 agreed that SOP's guides the management decisions in terms of financial reporting as a principle of internal control practice. A further mean of 3.64 responded that the standard Operating procedures are communicated to all departmental heads and all employees. A mean of 3.57 responded that standard operating policy is considered as key indicator for achievement of the organization objectives and goals. A mean response rate of 3.767 was realized under standard operating policy as a principle of internal control variable.

#### 4.4.6 Performance from 2020 compared to 2019

**Table 4.10 Ratings on Performance year 2020 compared to 2019**

Items on performance from 2019 to 2020	Mean	Std. Deviation
Increase in Net profit for the organization in 2020	3.50	1.045
Total Assets values of the organization	3.45	1.229
Number of New Branches Opened	3.75	1.144
<b>Mean ratings on performance 2020 as compared to year 2019</b>	<b>3.568</b>	<b>0.645</b>

**Source: Research Findings 2021**

**Table 4.10.** The table indicates the highest mean of 3.75 of those who responded that the organizations has opened new branches during the year 2020 compared to 2019. A mean of 3.50 was also noted in response to increase of net profit in 2020 as compared to previous year 2019. However, a low response rate was also noted on the increase of total assets in the year 2020 compared to 2019. A total mean of 3.568 was noted for an improved performance in year 2020 in relations to internal control variable for the study.

**Table 4.11 Summary of the Mean Responses Rate**

Factor	Mean	Std. Deviation
<b>Mean ratings on authorization of work activities</b>	3.716	0.585
<b>Mean ratings on authorization of duty</b>	3.790	0.603
<b>Mean ratings on documentation of transaction</b>	3.955	0.648
<b>Mean ratings on internal audit of books</b>	3.983	0.388
<b>Mean ratings on standard operating policy</b>	3.767	0.462
<b>Mean ratings on performance from 2019 to 2020</b>	<b>3.568</b>	<b>0.645</b>

**Source: Research Findings 2021.**

## 4.5 Inferential Statistics

### 4.5.1 Correlation Analysis

**Table 4.12 Correlation N = 44**

		X <sub>1</sub>	X <sub>2</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>5</sub>
X <sub>1</sub>	Pearson Correlation	1	.565**	-.262	.270	.212
	Sig. (2-tailed)		.000	.086	.077	.167
X <sub>2</sub>	Pearson Correlation	.565**	1	-.281	.242	.321*
	Sig. (2-tailed)	.000		.065	.114	.033
X <sub>3</sub>	Pearson Correlation	-.262	-.281	1	.028	-.141
	Sig. (2-tailed)	.086	.065		.859	.361
X <sub>4</sub>	Pearson Correlation	.270	.242	.028	1	.025
	Sig. (2-tailed)	.077	.114	.859		.870
X <sub>5</sub>	Pearson Correlation	.212	.321*	-.141	.025	1
	Sig. (2-tailed)	.167	.033	.361	.870	
Y	Pearson Correlation	.700**	.758**	-.348*	.358*	.356*
	Sig. (2-tailed)	.000	.000	.021	.017	.018

**Source: Research Findings 2021**

KEY:

Y - Performance of private hospitals

X<sub>1</sub> - Segregation of duties

X<sub>2</sub> - Authorization of works

X<sub>3</sub> - Documentation of transactions

X<sub>4</sub> - Internal audits of books

X<sub>5</sub> - Standard operating policies

### 4.5.2 Regression analysis

**Table 4.13 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.844a	.712	.682	.36371

a. Predictors: (Constant), Standard Operating policy, Documentation of transaction., Authorization of work activities., Segregation of duties., Internal audits of Books.

**Source: Research Findings 2021**

- a. Predictor (constant) Standard operating policy, documentation of transactions, Authorization of work activities, Segregation of duties, internal audit of books.

### 4.5.3 Model Summary

**Table 4.13** .The model summary above indicates R-square value of 0.712, which relates to the independent variable at 71.2% . The other 0 .363 which translates to 36.3 % is explained by other variables other than the model and error term.

**Table 4.14 ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.750	4	3.188	24.095	.000b
1 Residual	5.159	39	.132		
Total	17.909	43			

a. Dependent Variable: Y - Performance of private hospitals from 2020 compared to 2019

b. Predictors: (Constant), X<sub>5</sub> - Standard operating policies X<sub>3</sub> - Documentation of transactions., X<sub>2</sub> - Authorization of works., X<sub>1</sub> - Segregation of duties, X<sub>4</sub> - Internal audits of books

### Source: Research Findings 2021

a Dependent variable

b. predictor (constant)

### 4.5.4 Anova

**Table 4.14** The table Indicates the regression equation is significant to explain the relationship between the internal control practices and financial performance of private hospitals in western Kenya region since p value is 0.000(<0.05) at a recommended rate of 95% confidence level.

#### 4.5.5. Regression Coefficient

**Table 4.15 Coefficients a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.355	.754		-.472	.640
Segregation of duties	.388	.118	.351	3.286	.002
Authorization of works	.524	.114	.489	4.590	.000
Documentation of transactions.	-.122	.091	-.123	-1.347	.186
Internal audits of books	.246	.151	.148	1.635	.110
Standard operating policies	-.355	.754		-.472	.640

a. Dependent Variable: Performance of private hospitals from 2019 to 2020

**Source: Research Findings 2021**

**Table 4.15.** The results on the table above indicates that Documentation of work activities has negative significant relationship with financial performance of private hospitals in western Kenya region. It also shows a negative relationship on Standard operating policy on financial performance of private hospitals in western Kenya region. However, On Segregation of duties, authorization of transactions and internal audit of books, the study noted a significant positive relationship in regards to financial performance of private hospitals in western Kenya region. From the results, below is the regression analysis which was generated.

Y - Performance of private hospitals

X<sub>1</sub> - Segregation of duties

X<sub>2</sub> - Authorization of works

X<sub>3</sub> - Documentation of transactions

X<sub>4</sub> - Internal audits of books

X<sub>5</sub> - Standard operating policies.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Therefore the regression equation linking Performance of private hospitals from comparing the financial year 2020 and 2019 is

$$Y = -.355+ .388X_1 + .524X_2 + .057X_3 + -.122X_4 + -.355X_5 + \epsilon$$

## **4.6 Discussions of Findings**

The study found a negative relationship between documentation of work transactions and financial performance of private hospitals in Western Kenya region. And thus an inverse relationship on financial performance of private hospitals in western Kenya region. And on the Standard operating policy, it was also noted that a negative relationship between standard operating policy and financial performance do exist. The study further found a positive relationship between segregation of duties on financial performance and a further positive relationship on internal audit of books and financial performance of private hospitals in Western Kenya region. Thus the study is not very far from the previous studies which also showed a positive correlations on one side of the variable and a negative correlation on the other side of the variable in regards to internal control practices and financial performance as highlighted below;

A study by Jacinter Kamau (2016) on the effect of control practices on financial performance of small and medium enterprises found a positive correlation between internal control practices and financial performance of SMEs Nairobi County.

A Study by Aleksandra Lech 2013 on Social responsibility and financial performance revealed a negative correlation since the argument was that CSR is only geared towards profit maximization by the company but not customer satisfaction through quality goods and services.

A study by Odhiambo and Bryerahanga (2014) , which also revealed a positive significance of internal control systems on financial performance. A further study by Shanmugan, Heat and Ali, (2012) examines the relationship between internal controls on SMEs performance and a positive correlation was revealed.

And finally a study by Robert Odek and Elmad Okoth(2019) on the effect of internal control systems on performance in financial perspective on the distributions companies which revealed both negative and positive correlations as per the study variable used.



## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMENDATION**

### **5.1 Introduction**

Chapter five highlights the summary of the research study, Findings, conclusion, recommendation, Limitation and suggestion for areas which might need further consideration for future researchers.

### **5.2 Summary**

The study examined the internal control practices on financial performance of private hospitals in western Kenya region. The study used agency theory, contingency theory and stakeholders' theories. The dependent variable for the study was performance in financial perspective while the independent variables were; segregation of duties, authorization of work activities, documentations of transactions, internal audit of books and standard operating policy. The study used a population of registered 19 private hospitals which were randomly selected and a sample size of 3 employees selected for the interview resulting to a total of 57 questionnaire which were successfully distributed. Out of the 57 questionnaires distributed to respondents, 44 were successfully filled and handed back to researcher and thus a response rate of 77.19% and this was considered reasonable for the study findings.

Descriptive results established that a number of respondents at highest means 4.23 which indicates that the respondent agreeing that segregation of duties among different employees affect the entire performance of the organization in regards to the principles of internal control practice. Lowest mean 3.73 of respondent was noted on the question of that relates to segregation of duties as part of the internal control practice helps the organization to reduce the level of fraud and fraudulent activities. The overall mean response of 3.716 for all the questions under the variable Segregation of duty was realized.

Highest mean of 4.32 of the respondents agreeing that Authorization of work help the management to make viable and informed risk decisions and also influence individual responsibility. and a lowest of 3.64 in response to authorization of work activities to integrates professional judgement about probable adverse conditions and the likely hood of a possible financial loss. A total mean of further 3.790 was realized. A mean response of 4.20 in regards to a standard way of documenting transactions as soon as they occur was noted and a lowest a mean of 3.18 of the respondents noted on the process of documentations

being aligned with policy, procedures, systems and best practices of accounting that facilitates proper financial reporting process for the organization financial reports. Mean response rate of 3.955 was noted.

In regards to internal audit of books. The research noted a higher mean of 4.70 for those who responded to question that internal audit of books is considered as a key activity in the organization by the management/employees as part of the accounting requirement and as one of the principle of internal control practice. And a lower mean of 4.07 responded to the internal audit process which ensure that accounting books are verified and reconciled before financial reporting period. An overall mean score of 3.983 was noted for the case of internal audit of books as a principle of internal control practices.

In regards to SOP's, a greater mean of 4.11 of all the respondents who reacted to the question of their organization being operating under standard Operating policy guidelines. And finally a lower mean of 3.57 responded that standard operating policy is considered as key indicator for achievement of the organization objectives and goals. A mean response rate of 3.767 was realized under standard operating policy as a principle of internal control variable. Performance was seen to have increased over the period 2020 as compared to period 2019. Highest mean of 3.75 of those who responded that the organizations has opened new branches during the year 2020 compared to 2019. A mean of 3.50 was also noted in response to increase of net profit in 2020 as compared to previous year 2019. However, a low response rate was also noted on the increase of total assets in the year 2020 compared to 2019. A total mean of 3.568 was noted for an improved performance in year 2020 in relations to internal control variable for the study.

The research also revealed a negative relationship between documentation of work transactions and financial performance of private hospitals in Western Kenya region. And thus an inverse relationship on financial performance of private hospitals in western Kenya region. And on the Standard operating policy, it was also noted that a negative relationship between standard operating policy and financial performance do exist. The study further found a positive relationship between segregation of duties on financial performance and a further positive relationship on internal audit of books and financial performance of private hospitals in Western Kenya region.

### **5.3 Conclusions**

The findings of this study had both according to the research variables, has both negative and positive effect on financial performance. The study found a negative correlation between documentation of work activities and Standard operating policy on financial performance of private hospitals in Western Kenya region. And thus an inverse relationship on financial performance of private hospitals in western Kenya region. However, the study further found a positive relationship between segregation of duties, Authorization of work activities and internal audit of books on financial performance of private hospital in western Kenya region. And thus a direct relationship concluded in regards to segregation of duties, authorization of work activities and internal audits of books of private hospitals in Western Kenya region. The model summary indicates of the variation in the dependent variable at 0.363. The regression coefficient established negative significant relationship on documentation of work and standard operating policy with regards to financial performance of private hospitals at -1.347 and -0.472 respectively. However, the results also revealed a positive correlations on Segregation of duties, authorization of work activities and internal audit of books on financial performance of private hospitals in western Kenya region.

### **5.4 Recommendations of the Study**

The study findings leads to conclusion that segregation of duties, authorization of work activities, documentation of transactions, internal audits of books and standard operating policies has varied relationship with performance in financial perspective of the the private hospitals in western region Kenya. Thus the study recommend that private hospitals should implement effective internal control policies on Documentation and SOP s to facilitate efficient flow of work schedules as well as minimizing fraud and fraudulent activities geared towards achievement of Mission ,Vision and goals of the organization. They should also ensure proper strategic plans targeted towards success. They should also ensure that regular monitoring and evaluations of the control practices are carried out for consistency on policies and procedures.

## **5.5 Limitations of the Study**

The study was focused on the internal control practices on financial performance of private hospitals in western region Kenya. Thus the findings are basically on the private hospitals and may not be well applicable on the Public Hospitals scenario or any other manufacturing industries not related to service entity or healthcare sector.

Data collected was merely primary and secondary data related to performance in financial perspective of private hospitals and these data were attained using questionnaire and then coded and analyzed using SPSS. Some of the data given by the responded on financial performance were for the previous years 2019 and not for the current year 2021 and thus might not be relevant for the current year since a number of things might have changed due to changes in accounting policy. This may impact on the validity and reliability of the data.

## **5.6 Suggestion for Further Study**

The study recommends an in depth analysis on the Determinants of financial performance and how they influence the effectiveness of the internal control practice on private hospitals in Western Kenya region. A further analysis can also be carried out on the effect of Implementation process of internal control practices on the performance of private hospitals in Western Kenya region. Since the finding of the study on Documentation and Standard operating policy were found to have a negative correlation, a further in depth study on the same may be commended for future researchers.

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## APPENDICES

### Appendix 1: Questionnaire

Dear Respondent,

The aim of this questionnaire was to enable you respond to the questions as provided in regards to the Internal control practices on financial Performance of Private Hospitals in Western region Kenya. The study is purely for academic purpose and any information given will be used for academic purpose only and will be treated with confidentiality it deserves. Your kind support and cooperation will be highly appreciated.

#### Section I: Background Data.

1. Kindly indicate as appropriate by ticking inside the bracket as provided below ;

- i. **Gender:** Male ( ) Female ( ).
- ii. **Age:** Below 25 yrs. ( ) Between 25-30 yrs. ( ) Between 30-35yrs ( ) Between 35-50 ( )  
Above: 50 yrs. ( )
- iii. **Education:** Secondary Level ( ) Collage Level ( ) Degree Level ( ) Masters Level ( )
- iv. **Position in Organization:** Employee ( ) Manager ( )

#### Section II: Segregation of duties.

2. Kindly evaluate the following statements in regards to segregation of duties employed by the organization as part of the internal control practice. Use the following scale as may be the case.

- 5. Strongly agree.
- 4. Agree
- 3. Neutral
- 2. Disagree
- 1. Strongly disagree.

Statement	5	4	3	2	1
Does the organization consider segregation of duties among different employees as a guidelines in terms of its internal control practice?					
Does the process of Segregation of duties aligned with organization objectives, core values and goals?					
Does segregation of duties as part of internal control practice affect the entire/part of the organization in regards to its financial performance?					
Does process of segregation of duties help the organization to reduce the level of fraud and fraudulent activities through risk assessment mechanism?					

### Section III: Authorization of work activities.

3. Kindly evaluate the below statement on Authorization of work activities as part of internal control practice for the organization. Use the below provided scale as appropriate.

- 5. Strongly agree.
- 4. Agree
- 3. Neutral.
- 2. Disagree
- 1. Strongly disagree.

Statement	5	4	3	2	1
Does Authorization of work activities help to identify and control risk factors facing the organization?					
Does the Authorization of work activities assist the management to determine the situation that can results into legal and financial risk to the Organization?					
Does Authorization of work help the organization to detect and identify fraud and fraudulent activities before occurrence and hence prevent loss of revenues?					
Does Authorization of work activities integrates professional judgment about a possibility of adverse conditions and the likely hood of possible financial losses?					
Does Authorization of work help the management to make viable and informed risk decisions and does it influence individual responsibility?					



**Section IV: Documentation of transaction.**

4. Kindly evaluate the below statement on documentation of Transactions as an internal control practice. Use the provided scale below as may be the case?

- 5. Strongly agree.
- 4. Agree.
- 3. Neutral.
- 2. Disagree.
- 1. Strongly disagree.

Statement	5	4	3	2	1
Does the organization have a standard way of documenting transaction as soon as they occur?					
Does the documentation process ensure that necessary actions are taken to minimize risk factors to ensure only genuine transactions are captured and recorded?					
Does documentation process aligned with the policy, procedure, systems and the best practices of accounting that facilitates financial reporting process of the organization?					

**Section V: Internal audits of Books.**

5. Kindly evaluate the following statement on Internal Audits of books as an internal control practice. Use the below scale where appropriate.

- 5. Strongly agree.
- 4. Agree.
- 3. Neutral.
- 2. Disagree.
- 1. Strongly disagree.

Statement	5	4	3	2	1
Does the Organization have a process of internal audit to ensure that accounting books are verified and reconciled before financial reporting?					
Does internal audit policy enable people in the organization to carry out their responsibilities in a free and fair manner?					
Does internal audit of books considered as key activity by management/employees as part of the accounting requirement and as one of the principles of internal control practices?					

**Section VI: Standard Operating policy.**

6. Kindly indicate the values in the column provided below in regards to Standard Operating policies as an internal control practice. Use the below scale as appropriate.

- 5. Strongly agree.
- 4. Agree.
- 3. Neutral.
- 2. Disagree.
- 1. Strongly disagree.

Statement	5	4	3	2	1
Does the organization operates under standard Operating policy guidelines?					
Does the standard Operating procedures communicated to all departmental heads and all employees?					
Does standard operating policy considered a key indicator for the achievement of the organizational objectives and goals?					
Does the SOP guides the management decisions in terms of financial reporting as a principle of internal control practice?					

**Section VII: Performance**

7. In regards to the Organizational Financial performance for the year ended 2020, kindly evaluate if performance has increased compared to year 2019 due to the internal control practices as highlighted below.

Statement	S. Agree (5)	Agree (4)	Neutral (3)	D. Agree (2)	S.Dis Agree (2)
Does the net profit for the financial year 2019 for the organization increased as compared to 2019?					
Does the Assets values of the organization increased for the years 2020 compared to previous 2019?					
Did the organization grow its branches during the years 2020 compared with previous year and 2019?					