THE EFFECT OF INTERNAL CONTROLS ON THE FINANCIAL PERFORMANCE OF THREE STAR HOTELS IN NAIROBI COUNTY

BENJAMIN KIPLABAT CHERUTICH

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

DECEMBER 2018

DECLARATION

I hereby declare that this research project is my original work and it has not been presented in any University or Institution for an award of a degree and that all the references cited in this study have been fully acknowledged.

Signature: ………………………………….. Date: …………………………..…..

Benjamin Kiplabat Cherutich

D61/79500/2015

This research project has been submitted for examination with my approval as the University Supervisor.

Signature... Date...

Dr. Kennedy Okiro,

Department of Finance and Accounting,

School of Business

University of Nairobi.

ACKNOWLEDGEMENTS

I would like to convey my earnest appreciation first and foremost to the Almighty God for the strength, courage and guidance throughout this study programme, I would not have accomplished it without His help. I would also wish to recognize the institution, University of Nairobi and its staff in entirety for the facilities, assistance and support they accorded me, and to all my lecturers for very ably imparting their knowledge. Thank you!

I wish also to convey my gratefulness and deep appreciation to my very committed supervisor, Dr. Kennedy Okiro, who was inspirational never retired and was always at hand to offer professional help in the efforts of guiding me in the development of the topic, research proposal and subsequently project writing. Thank you!

I seize this opportunity to extend my sincere gratitude to hotels in Nairobi County for allowing me to carry out a research on the effect of internal controls on the financial performance.

DEDICATION

This research project is dedicated to the Almighty God for guidance and enabling me to accomplish this task. I dedicate this project to my parents, my family and friends for their unwavering support, encouragement and their unconditional guidance.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ESOK	The Eco-tourism Society of Kenya
GDP	Gross Domestic Product
KAHC	Kenya Association of Hoteliers & Caterers
KATA	Kenya Association of Tours Operators
KATO	Kenya Association of Travel Agents
SPSS	Statistical Package for Social Sciences
UNES	University of Nairobi Enterprises
WTO	World Tourism Organization

ABSTRACT

The hospitality sector bears an extensive intriguing history starting with hotels, and inns, and developing into the hospitality sector. The purpose of the investigation is to verify the bearing of the internal controls in the performance of three star hotels in Nairobi County. This investigation will be key to tourism enterprises, general public, students as well as the government because it will provide essential contributions theoretically as well as practically. The investigation depended on agency concept, institutional theory and stakeholder's theory hypothetically, it will augment the general comprehension of internal control and their bearing on enterprise performance. The population consisted of all 37 three star hotels in Nairobi County. The investigation utilized primary data sourced by a structured questionnaire which was analyzed through descriptive and inferential statistics to analyze on SPSS version 22. The targeted respondents were the senior management staff in various departments of the firm; that is accounting, human resource, procurement and security department. Data obtained and analyzed was from 32 respondents of the target population. All the 32 respondents answered the questionnaire as required. Regression analysis outcomes illustrated in table 4.6 shows R, which is correlation coefficient, was 0.622, indicating a powerful link between the research variables. Coefficient of determination ($R2$) of 0.542 points out that 54% of the variations in financial performance are elucidated by the predictor factors in the analytical model i.e control activities, control environment, risk assessment and monitoring. On the other side, 46% of the variation in value of financial performance is explained by other aspects not encompassed in the model. The outcomes on the bearing of unsuccessful internal control system points out that since most of the respondent weren't sure whether the enterprise have an updated accounting procedures guidebook. It is recommended that hotel administration ought to come out with an up to date document with details about the policies and procedures of the organization

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

A watertight control process is essential in enabling an establishment to lessen hitches arising from decreasing incomes as well as meeting its underlined objectives. The hospitality business bears a lengthy intriguing account starting with lodges and resorts, and developing into the hospitality business (Michael & Richard, 2001). A far-fetched transformation in the in the global tourism industry brought about numerous transformations in the hotel industry domain. This implies that, the spreading out and development of tourism has been substantial in the the growth of hotel business. Contrariwise, the enterprises have not been able to attain their goals owing to their unsound control systems. These control hitches are highly apparent in certain business segments, for instance the hotels enterprise in the hospitality sector that is among the expanding sectors globally. Additionally, economy's globalization, technical knowhow, business complexity, companies' botches as well as claims of dishonest financial recording have lately polished the ever-increasing focus on internal controls Adeyemi et al. (2011).

Improved internal control can be referred to as measure taken to ensure that the enterprise achieves its objectives and goals. Internal control is fundamental to elimination of wastage, fraud and adherence to set rules and regulations of the organization. Although there is a lot to be done to improve internal control in hotel industry due to competition from other tourist destinations. This calls for well-defined systems of internal controls.

Internal control systems entails the upholding of the policies, strategies where internal control service providers have to develop and manage hotels resources in an efficient and effective manner while being accountable to the recipients of the services

1.1.1 Internal Controls

The term means the component of control that is intended for assessing appropriate working of the control process that is the tributary purposes (Controls) and points out that possibility exists for enhancements in circumstances in which flaws are being seen. Subsequently, Hamed (2009) indicates that it is a structured combination of functions as well as processes, within a whole structure of controls set up by the management with the intention of effective performance of the enterprise. Internal Controls are the approaches that the management pursues to make sure that to a huge level, as much effective collaboration as possible with the organization director, capital insurance, inhibiting as well as revealing fraud, and timely planning of the key financial material .(Keitany, 2000). Internal Control System bears a resemblance to the nervous system of human that is spread all through the enterprise conveying instructions and responses to and from the administration. It accurately links to the organizational structure as well as the broad guidelines enterprise's (Hongming & Yanan, 2012).

Whittington (2001), outlined that a system of internal control encompasses more than issues directly relating to the accounting functions as well as financial reports. Additionally he indicates that internal control is an orderly process that will result in assessing the extent of the link between those set up standards as well as the actual organization's outcomes. Internal control, is an autonomous assessment and accreditation from an evaluator who the organization has hired to control the funds consistent with the authorized scheme set up every time. From the previous hence, the independent role of control is to allow detailed as well as high service level rendered for the administration, and conversely, the provision of aid to the organization members for the utmost effective undertaking of their roles. The implementation of Internal Controls in enterprises is a tool to add up value to the organization. Thus, a systematic method fot the maximum efficient processes of the enterprise, as a unison can be achieved (Schleifer and Greenwalt, 1996).

Internal controls are procedures set up by enterprises for the aims of the enterprise are attained (Rezaee, 2002). They are a series of administrative guidelines that makes sure any transacted business is administered appropriately to eliminate waste, embezzlement and misappropriation of enterprise's resources. With internal controls, enterprises realize performance as well as their goals, inhibits resources loss, allows establishing of dependable information and guarantee conformity to guidelines. Hence they are instituted by enterprises to make sure that the enterprise's operations are undertaken effectively and systematically. It similarly guarantees sticking to the administration policies, resources protection as well as obtaining the comprehensiveness and truthfulness of the accounts. Enterprises are continuously and comprehensively seek to enhance their internal controls for the reason of boosting income inflow, live on in the fast shifting business settings, and adjust to the changing clients' demands as well as main concerns (Kantzos and Chondraki, 2006).

Internal control embroils interconnected constituents that are attributed to the manner that administration runs an enterprise, and are mixed with the administration practice (Carmichael, 1996). Liu (2005) notes that in the present enterprise undertakings broadly, the internal control roles could be categorized as; identifying error and dishonesty, lessening prohibited ways, increasing the proficiency of the enterprise, enhancing data quality, allowing the creation of enterprise infrastructure as well as shrinking fees of auditors.

1.1.2. Financial Performance

Kohlar (2008) term performance as a broad word used in a section or to entire conducts in enterprise undertakings in a period of time usually regarding previous or expected cost proficiency and administration accountability. Hence, the value of outcomes attained is the performance. It points out an enterprise's success, situations as well as conformity. Mawanda (2008) also notes that it is the capability to proficiently and profitably operate, live on, develop and respond to the environmental prospects as well as pressures. It is assessed by the enterprise's efficiency in resources utilization to accomplish its goals. Hitt, et al (1996) indicate that several enterprises' dwindling performance is attributed to bad assets (businesses) performce. Dwindling performance from assets performing below par is usually attributed to strategic faults that occurred previously in the purchase process. Enterprise's performance embroils its real outcomes as assessed in comparison to its anticipated goals. It entails an enterprise's capacity to accomplish its anticipated goals by way of good administration, robust management and a determined drive to attaining outcomes (John & Morris, 2011). Metrics of performance could be financial or non-financial. Both metrics are applied for competitive enterprises in the pulsating enterprise setting (Jenning et al., 2008).

Broadly, financial performance is the extent to which financial aims are being met. It entails assessment of upshots of an enterprise's guidelines as well as operations monetarily. It assesses enterprise's total financial health in a specific period and similarly matches identical enterprises in a similar industry or to match businesses in collection. Financial performance subjectively evaluates an entity's the accountability for the outcomes of its procedures and undertakings measured for a given period in financial expressions. In government establishments the type of financial performance is a role of what the government establishment is answerable for achieving in financial expressions in the given time. Numerous standpoints of financial performance measured collectively offer a broad portrait of a government establishment's accomplishment concerning the numerous responsibilities it ought to undertake.

Although assessing financial performance is considered an easy undertaking, it similarly bears its particular impediments. There is slight unanimity regarding the sort of evaluation tool to adopt. Several academics employ market metrics (Alexander et al, 1975), others employ accounting metrics (Waddock et al, 1984) while others use both of metrics (McGuire et al, 1988). The two metrics that signify various viewpoints of the way to assess enterprise's financial performance, bear various hypothetical associations (Hillman and Keim, 2001) and each is depends on certain preferences (McGuire et al, 1986). Adoption of various metrics, makes difficult the assessment of the outcomes of various researches. This investigation will put emphasis in financial as well as non-financial metrics.

1.1.3. Internal Controls and Financial Performance

Internal controls' primary aim is to boost the dependability of financial performance, either wholly or partially through answerability enhancement amongst organization's information sources. They offer an autonomous assessment of managerial performance quality in undertaking delegated roles for performance (Jensen, 2003). Fadzil et al (2005) indicated that a proficient control process clearly connects with enterprise's efficiency in attaining its performance goal. It similarly puts an enterprise moving in the direction its goals as well as realizing them. They also facilitate operational effectiveness, lowers the risk of resources loss, and allows conformity to. They as well safeguard the financial recording dependability (i.e., all transacted businesses are real and documented appropriately, accurately valued, appropriately categorized, as well as summed up and displayed).

An enterprise having efficient internal control system is anticipated to proficiently attain its goals. Therefore, role of internal control, it may be determined that, the general drive of the idea is to enable an enterprise attain achieve its goals, be systematic, cost-conscious, efficient processes and create superior products and services as per its aim of protecting resources from loss caused by waste, misconduct and errors. It similarly encourages conformity to regulations, conventions and administration dictates as well as create and keep dependable financial and management information, and correctly depict that information in timely accounts. All these internal control functions have a bearing on the enterprise’s performance.

1.1.4 Hotel industry in Kenya

Hotels are known as being accommodation away from home; they however do not only offer accommodations alone but also provide other facilities. Medliks & Ingram (2000) noted that hotels not only provide accommodation but also provide different facilities for holding business transactions and meetings, facilities for entertainment and recreation purposes. The hotel industry is said to be powered by the Tourism industry, this is due to their close relation, and any change in either of the two industries will have an almost relative change in the other. The tourism industry draws the clientele into the country or certain regions and the hotels have to provide accommodation services. The World Tourism Organisation (WTO) has noted that there was an impressive outcome in the first quarter of 2014; there was a 5% increase in international tourists’ arrival worldwide unlike the previous years. WTO also revealed that in 2013 there was an international tourism expenditure totaling to USD 1159 Billion which was spent on accommodation, food, drinks and entertainment.

The Tourism industry in Kenya has been one of the top revenue earners for a numbers of years now, it is however the top revenue generating industry in the country. In 2010, Ministry of Tourism announced that it generated the highest amount ever of Ksh. 73.68 Billion Kenya shillings; it contributes 12.5% of the National G.D.P and also creates more than six hundred thousand jobs in the country, WTTC (2014). 6 The hotel industry first kicked off in the country by the building of The Grand Hotel in Mombasa in the 19th century, and Stanley hotel in Nairobi Mwanzia (2012). There are currently one hundred and twenty three town and vocational hotels in total and 65 lodges in the country. The hotel industry in Kenya has the support of different organizations that consist of industry participators who have come together for purposes of lobbying and supporting of each other in the industry.

1.1.5 Hotels in Nairobi County

In Kenya, the Restaurant and Hotel Act Cap 494 is in charge of licensing of hotels and restaurants and also regulates the way hotels are operated in the country. The Act defines a hotel as a premise other than those specified in the third schedule where room is offered with or without diet services for a pay. The hotels are classified as per the Hotel and restaurant act using star ratings, from one star hotel's to five star hotels. The star ratings are a way of classifying hotels in terms of the standard it upholds and amenities it contains, they are said to be a depiction of great ambiance, the highest quality of service/products.

One of the earliest five star hotels to be recognized in Nairobi was The Norfolk hotel back in the early 1960s. As per the Kenyan Gazette, Gazette Notice No. 3976 (Vol. CV- No. 62) here are currently sixteen 5 star hotels in the country and eight of them are situated in Nairobi. The hotels have a bed capacity ranging from forty six beds to seven hundred and sixteen beds. The eight five star hotels in the region are hotels from the Intercontinental hotels group (IHG), Hilton Hotels, Fairmont Hotels, Sarova Group of hotels while the last two are independent hotels, they are specifically, Intercontinental hotel Nairobi, Hilton

Hotel Nairobi, Fairmont the Norfolk Hotel, Safari Park Hotel, Nairobi Serena Hotel, Laico Hotel which was formally the Grand Regency Hotel, Windsor Hotel and Sarova The Stanley Hotel.

1.2 Problem Statement

Recently, several organizations worldwide nosedived regardless of internal controls. This has triggered alarms regarding the bearing of internal control, particularly as it impinges on an enterprise's financial performance. The occurrence of internal control flaws, inadequate and declining service delivery bear the negative influence of not merely declining the enterprise's capacity to proficiently offer services but similarly fosters conspiracy, embezzlements, revenue loss, and intentional errors, corruption, lack of openness as well as answerability for revenue and other resources collection. The enterprise's management ought to disseminate internal control processes that will safeguard efficient service delivery as well as the anticipated financial performance (Efozie, 2010)

Slanislav (2006) highlighted that the heightened attentiveness to internal controls is, to a certain extent attributed to substantial losses that numerous organizations incur. An evaluation of the issues concerned with losses pointed out that they could possibly have been circumvented if the organization had upheld proficient internal controls. Such controls would have prohibited or allow timely discovery of issues that brought about losses in the banking segment, thus controlling loss to the organization. This similar concept is revealed in Kaplan (2007), that, weak corporate governance standards had brought about inadequate controls being adopted to inhibit erroneous undertaking in the United States in the 1990s, as established by the downfall of Enron and WorldCom.

Muio (2012) verified the bearing of control process on the financial performance of in Nairobi's private clinics and determined a substantial association between control process and financial performance. Njui (2012) verified the role of controls and audit in supporting sound governance in the Kenyan government establishments and ascertained that control process holds the highest bearing on corporate governance in government departments then risk controlling whereas conformity as well as consulting bore the minimum. Ndungu (2013) studied the bearing of control processes on revenue production in University Of Nairobi Enterprises and Services limited (UNES) and established that control processes should be operational consistent with the anticipated procedures for allowing proficiency as well as correct data capturing. This ultimately ensures that revenue amassing goals are attained. Musya (2014) studied the bearing of control processes on revenue collection of Kenyan County administrations and established that a substantial bearing exists between internal controls and revenue collection in Kenyan County administrations

However, from all the previous studies, none has been done on the internal controls of five star hotels in Nairobi County. Thus, this investigation aimed at verifying the bearing of internal controls and the performance of hotels in Nairobi County.

1.3 Research Objectives

The aim of the investigation was to verify the bearing of internal controls and the performance of three star hotels in Nairobi County.

1.4 Value of the study

The outcomes of the investigation will allow the management of the hotels to point out loopholes in the control processes in their companies. It is will also help the administration as well as the ones responsible for the financial management of the company resources since they will appreciate the control processes and come up with ways on the manner to restructure the internal control systems thus safeguarding greater performance and attainment of the company anticipated aims**.** It will similarly help policy makers in setting policies that are relevant to the enterprise's performance and make the necessary adjustments to the already existing ones to ensure better enforcement of standards.

Researchers and Scholars will get to know the extent at which internal controls affect financial performance of Hotels in Nairobi County since the investigation will augment the present body of knowledge pertaining to internal controls and will therefore use the findings herein as reference to other studies and further investigation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part illustrates hypothetical as well as experimental material from literature on subjects pertaining to the study problem. It summarizes the literature from other scholars who have undertaken their research in the similar area of control process and its bearing on enterprise's performance.

2.2 Theoretical Literature Review

Different concepts have been established pertaining to internal controls and performance. Among them are Agency theory, Institutional theory and Stakeholders theory as discussed below

2.2.1 The Agency Theory

This significant body of work was mainly designed by Jensen & Meckling in 1976. The agency theory therefore determine the agent relationship between two parties, one is the principal party that delegates duties and responsibilities while the other is the agent. The agency relationship as provided by its originators tends to have varied disadvantages in relation to the self-interest and level of optimism that lies in an agent. For example, the agent could choose to act in a way that is not of principal's best interest, or rather, the agent may act partly in the interest of his principal (Mitnik, 1973). On the other hand, the agency theory posits that a firm mainly embroils a connection of contracts that lies between its economic resources, owners who are considered as the principals, and managers, perceived as the agents given that they are charged with the control of organization's assets (Ross, 1972).

The concept holds that the agents in several occasions possess the capacity to access more information as opposed to the principals, thus establishing that the information asymmetry mainly impinges on the principals' capacity to assess whether the interest of their organization are served by their agents. Hence, it is evident that this theory views organizations as a necessary structure in the maintenance of the required contracts, and this way, it is easier to undertake control that lessens the unprincipled behaviors of the agents (Jussi and Petri, 2004).

According to Jensen and Meckling (1976) to harmonize the principal interests of the principals and the agents, there is a need to establish a comprehensive contract that addresses the interests of both the parties. In this regard, it is essential to note that the agent-principal connection is primarily held together by the inclusion of a professional as well as other auditing and control systems that help in monitoring the agent. The agency theory operates under the perception that the agents and their principals operate on a rational manner, thus using contracting as an approach aimed at maximizing their wealth (Ross, 1972).

This concept is pertinent to this investigation as internal control is among the numerous ways employed in enterprises to tackle the agency issues by cutting agency charges that impinges on the general performance of the association and the principal's importance (Payne, 2003; AbdelKhalik, 1993). Control processes augments the giving of extra material to the shareholder regarding the conduct of the management decreases unevenness as well as investor risk.

2.2.2 Institutional Theory

The institutional theory comes from the woks of designed by Meyer and Rowan (1977) and DiMaggio and Powell (1983) who sought to explain the manner in which organizations are designed and function especially in meeting their social requirements and expectations in a manner that is visible and transparent to the entire public. According to this theory, organizations internal operations perceived as difficult and complex to determine may take a second place in regards to external legitimacy. In this regard Meyer and Rowan (1977) alleges that the external image of an organization may in this case be coupled with the kind of technology and operational processes adopted. This theory emphasizes that the contributions of this concept lies in the insights it provides on the manner in which organizations may achieve varied accomplishments and the need for structures to meet these goals.

Dillard, Rigsby and Goodman (2004) equally content that the internal systems and processes perceived as visible determine the manner in which organizations operate while other external structures are not very important in the operations of a firm. In this regard, it is essential to note that the scrutiny by outsiders may be avoided in the event that the right structures are put in place within an organization. In other words, the loose coupling of technology may enable an organization to achieve success in regards to its external problems, thus allowing the element of flexibility in the operational processes of an organization.

According to institutional theorists, institutional environment may be key in influencing the manner in which organizations develop formal structures. The inclusion of innovative structures may therefore be essential in improving the efficiency of an organization mainly related to the adoption of legitimized processes in organizations (Bergerand Luckmann, 1966). Such innovative measures therefore rely of effective processes and leadership employed, thus a failure in the adoption of these measures may be considered as negligence. In a nutshell, the implications of this theory remains evident in the fact that institutional environment may need to accept the order of an organization in maintaining and gaining legitimacy within the corporate environment. The institutionalization process is the way social procedures of various natures come to take on a rule-like position in ordinary society. Recurrent forms of activities turn into establishments, or established guidelines, hence institutional theory is relevant to this investigation as it describes organizational occurrences through indicating the environment as well as the formal and informal guidelines that are obligatory on organizational undertakings

2.2.3. Stakeholders Theory

The stakeholder theory alleges that a company may need to be managed by considering the relationships and welfares of all its shareholders, establishing the need for a wider constituent as opposed to focusing only on the shareholders (Freeman, 1984). The proponents of this theory therefore, hold that ethics in any form of business in an effort to discourage procedures directed towards shareholder value maximization at the expense of organizations stakeholders (Friedman & Miles, 2001). According to this theory, focus is driven on the effects of corporate activities on all the identified stakeholders of an organization.

This theory therefore alleges that corporate managers may need to take into consideration all the interests of an organizations stakeholder in its process towards ensuring corporate governance. Stakeholders as provided in the views of Friedman and Miles (2006) exert an influence on an organization in as much as they are not directly involved in the governance process. Central in the stakeholder theory lays the realization that all of organizations stakeholders may engage to some extent with the corporation with the intention of expecting that a corporation delivers the type of value expected and desired. The benefits in this case include salaries, bonuses, dividends, new jobs, additional orders, and tax revenues.

The stakeholders are however, limited in the sense that it is currently viewed as an historical approach of conducting business with other companies following the realization that that there are several challenges and disadvantages that may emanate from the concentration on the interest of a firms stakeholders (Frooman, 1999). The focus on short term strategies as well as the greater risk taking is considered as the inherent dangers involved in this theory. In this regard, Waddock (2001) argues that the role of the stakeholder theory may be seen as the demise of a corporation where continual pressures mount on the managers with the intent of increasing the returns to their shareholders which leads to the manipulation of an organization accounts.

2.3. Determinants of Financial Performance

Internal control embroils of five related elements. These are attributed to the manner that the administration manages a company and are combined with the administration process. Though the elements are relevant to every enterprise, SMEs could adopt them in their own way compared to oversized ones. Its controls could possibly not be as formal and structured as the oversized ones, however they could still put in place operational internal control.

2.3.1. Control Environment

It sets the ambience of the enterprise through impinging on the control awareness of its individuals (Whittington and Pany, 2001). It is the basis for every other internal control aspect. It embroils aspects like; truthfulness and moral standards of people charged with crafting, overseeing, as well as evaluating the controls, assurance and proficiency of people undertaking delegated tasks, BOD or audit teams, administration viewpoint and functional approach, as well as organizational structure. Several aspects discuss control environment however this aspect is greatly impinged on by the BOD efficiency, the administration, and the enterprise's audit unit. Internal auditors are key to the success of control environment as the efficacy of these elements are greatly subject to their relationship with the internal as well as external auditor. Control environment establishes the ambience of an enterprise, impelling the control cognizance of its entities (Aldridge and Colbert, 1994). Also, it is swayed by the enterprise's principles and history and takes a devious bearing on the manner that an enterprise's undertakings are organized. Hence it establishes a constructive as well as helpful approach for internal control and diligent administration.

2.3.2. Risk Assessment

It is the process employed by an enterprise (management) to determine the manner it handle he risks that inhibit accomplishing its goals (Maitin, 2010). It embroils the recognition and listing of goals, the recognition of risks and evaluation of their possibility as well as bearing. Accordingly Menon & Williams (2010) consider risk evaluation as the recognition, and controlling of risks. They also indicate that risks could be linked to financial reporting dishonesty or to the misuse of funds. This is the recognition and evaluation of pertinent risks to the aims attainment, creating a ground for the manner in which risks should be controlled.

As stated by Menon & Williams (2010) this internal control element underlines the role of administration prudently recognizing and examining aspects that could prevent it from goals attainment. Risk assessment is the recognition and investigation of their related risks to attainment of the goals, forming a ground for the manner in which risks ought to be controlled. As economic, market, monitoring and operational situations will keep on changing, ways are necessary to recognize and tackle the distinctive risks linked with transformation (Crerar, 2007). It is similarly organized procedure for incorporating specialized decision regarding likely hostile situations and happenings, and evaluating the possibility of likely financial and non-financial damages attributed to their happening (Morris, 2011). The second internal control guideline focusses on risk evaluation. Internal control ought to offer for the risk evaluation the organization encounters from internal as well as external origins. After risks have been recognized, they must be inspected for their likely weight

2.3.3. Information and Communication System

As noted by Aldridge and Colbert (1994), control processes need that every associated fact be recognized, taken, and conveyed in a timely manner to allow individuals to undertake their financial recording roles. Enterprises ought to embrace internal control as well as information systems that bring about functioning, financial as well as conformity linked information statements to allow the running as well as controlling of the enterprise. A successful communications ought to happen broadly and information flowing in every direction within every organization’s division (Theofanis et al., 2011). Current literature on control processes has put forth some issues on information and communication as among the control process mechanisms as their significance impinges on the operational association within each level the enterprise (Amudo and Inanga, 2009). Thus, such material ought to be conveyed in the whole business to aid employees undertake their roles consistent with the goal attainment.

2.3.4. Control Activities

They are policies, guidelines, and systems established to make sure administration’s instructions are correctly undertaken (Aikins, 2011); (Rezaee et al., 2001). Proper and correct records of guidelines assists to establish the manner that the control undertakings ought to be implemented. It similarly offers sufficient material for auditors’ scrutiny of the general appropriateness of control structure over financial administration undertakings (Aikins, 2011). They make sure that every key activities out to be performed so as to tackle risks so that enterprise’s goals are realized. Rezaee et al. (2001), notes that internal control activities happen in the entire enterprise. They encompass variety of undertakings like;

authorizations, authentications, operational performance review, asset security as well as roles separation. Several of of them are realized by the assistance of the internal audit role.

2.3.5. Monitoring

Monitoring aids to evaluate the quality of enterprise control process performance through tracing and evaluation the control process, functioning nature and undertake appropriate measure to make sure control process can efficiently function. Monitoring could be continuous or individual. Constant monitoring undertakings often are that the administration and every personnel at different extents examine as well as evaluate the effectiveness of production as well as operating undertakings of their individual divisions in the control process implementation. It is a type of self-control approach. The greater the level is, the less individual assessment necessity. Individual examination is to regularly assess the control process and often undertaken by the quite self-governing internal audit division.

2.4. Review of Empirical Studies

An investigation undertaken in the United States by Aikins (2008) on public administration internal audits' responsibility in enhancing financial performance aimed to verify the manner in which the function of government internal audits bring about government financial performance's enhancement. Though internal audit is a single domain having the proficiency to evaluate proficient financial resources use and aid enhance overseeing and financial performance, government research has not fully focused on the internal audit role in the financial administration practice. Puttick (2001) maintains that control process is a series of enterprise guidelines and authorized internal procedures created by an enterprise's management to presumably attain administration's key goal of making sure that the enterprise functions soundly. He elucidated that a n enterprise is considered operating efficiently if they can adhere to the management guidelines, to safeguard the enterprise's resources, establish a process that would discontinue and eliminate mishandling of the accounting data.

Doyle et al. (2007) investigated the determinants of flaws in control process over financial recording. They used a sample of enterprises that revealed information flaws. They found out that information flaws in control process are to be expected for less profitable undersized enterprises, more difficult, expanding fast, or experiencing streamlining. The findings were congruent to enterprises grappling with their financial recording controls in spite of shortage of resources, difficult accounting problems, as well as a swiftly shifting business atmosphere. They similarly documented that these determinants vary in strength subject to the type of information flaw revealed.

Ge and McVay (2005) investigated the disclosure of information flaws internal practices. They found out that, inadequate control process is often associated with an inadequate apportionment of resources for accounting practices like accounting personnel shortage. Precisely, information flaws in control systems are as a result of lack of training by administration and insufficiencies in the reporting practice ending period as well as accounting guidelines. Okuda et al. (2013) explored determinants of Japan's inadequate and audit quality. The study investigated the elements of internal controls system as well as audit feature. It established that, first, because of the bearing of control processes, the enterprise that must institute sound control possesses and risky enterprises have a pessimistic approach for sound control process. The firms possibly consider the negatives above merits for establishing good internal controls. Though, the enterprises that bear a great growth and should need to ensure a sound control process do not often possess a negative approach, instead they weigh the control process confidently. This suggests that they bear a sound control process by putting the force outside. Second, the stronger force from outside creditors the enterprise have the more expected the enterprise ought to establish internal controls.

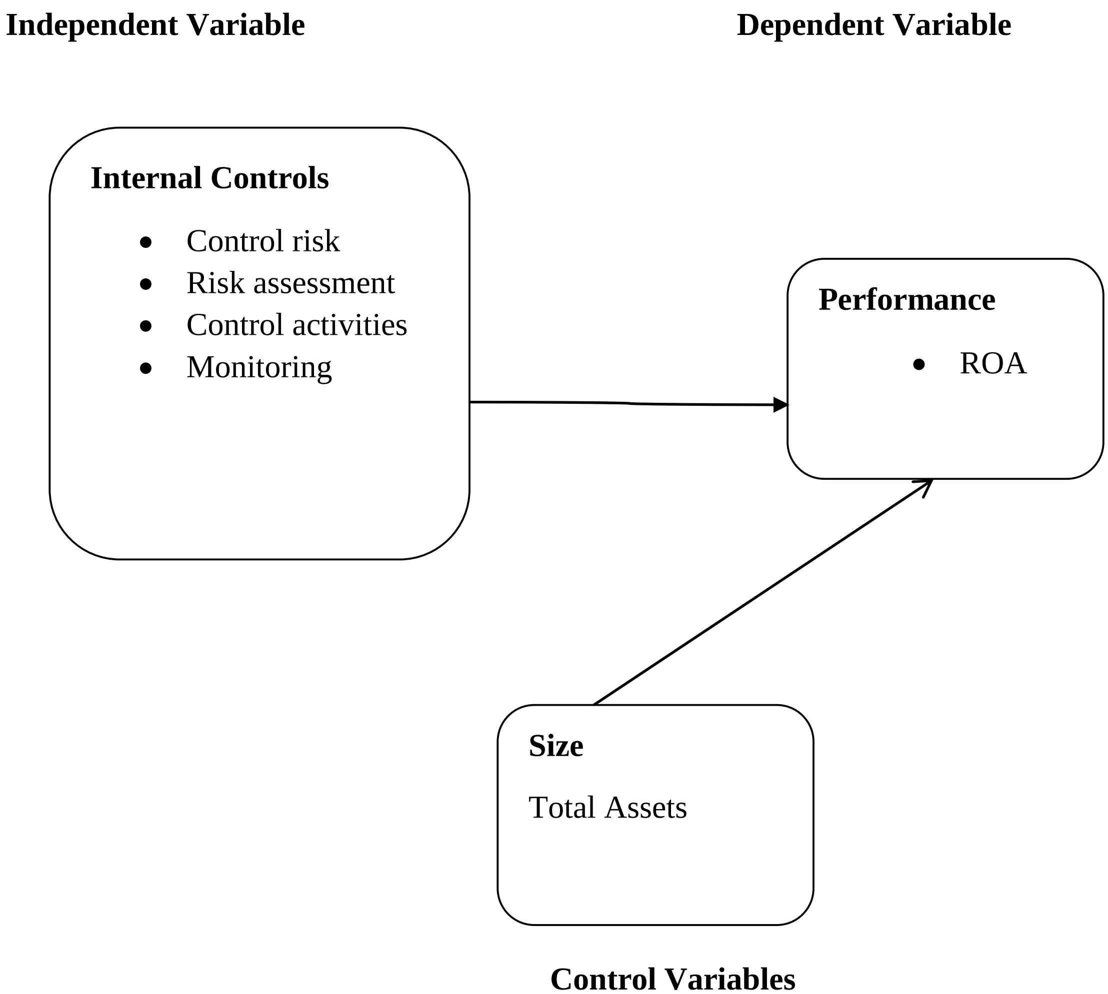
Ewa and Udoayang (2012) performed an investigation to verify the bearing of control process on Nigerian banks' capacity to probe employee dishonesty and employee lifestyle and fraud discovery. The study found out that control process design impinges on employee approach to fraud such that a strong control process is a discouragement to employee dishonesty whereas an inadequate one uncovers the structure to fraud and creates opening for employee to be dishonest. The investigation concluded that effective and efficient control process is necessary to reduce the banking segment discontent. Mawanda (2008) examined the bearing of internal control systems on Ugandan universities, financial performance. The investigation verified the link between internal control systems and Ugandan universities, financial performance. He examined internal controls from the viewpoint of control environment, Internal Audit as well as Control Activities while financial performance considered liquidity, answerability as well as recording as the financial performance metrics. The investigation ascertained a substantial association between control process system and financial performance hence approved the internal audit division's role in instituting controls systems that have a bearing on the financial performance of organizations.

A study conducted by Onyango (2014) on impact of control process on Kenyan County administrations' performance, pointed out that county administrations encounter a number of setbacks in internal controls in performance for instance; financial reports are done in time, dishonesties and misappropriation of institutional assets. Musya (2014) carried out an investigation on the bearing of control process on Kenyan County administrations' revenue collection. This investigation aimed to verify the role of internal control system in the Kenyan County administrations' revenue. The research targeted the 47 counties in gathering data for the study. The study concluded that internal controls affects revenue collection in County governments.

A study conducted by Mwachiro (2013) on the effects of internal controls on revenue collection, investigated the internal controls practices at Kenya Revenue Authority (KRA) with a view to establish whether they have produced any substantial results in increased collected revenue. The study pointed out that the five elements of control environment, risk assessment, control activities, information and communication as well as evaluation ought to be available for them to be functional. The investigation verified that weak control processes have nurtured conspiracy to scam, revenue loss as well as misuse of revenue collected. The investigation hence concluded that a substantial bearing exists between control processes and KRA's revenue collection.

2.5. Conceptual Framework

Saunders (2007) state that conceptual framework, are organized from a series of comprehensive concepts that enable a researcher to appropriately ascertain the problem under investigation, structure their questions and identify appropriate literature. As stated by Young (2009), conceptual framework is a clear illustration that indicating the link between the study variables. The major elements are theories or variables and the supposed link among them.



2.6. Summary of Literature Review

The theoretical review embroils three concepts regarding internal controls. The empirical works reviews literature undertaken regarding internal controls. The direct investigations undertaken on the bearing of internal controls to various investigation has considered the performance of three star hotels in Nairobi County. A gap thus arises in the literature about the bearing of internal controls on the performance of water companies. These two variables have not been studied together in the Kenyan context and this investigation hopes to fill that gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1Introduction

This part presents the research design and approach utilized to carry out the research. It is a comprehensive description about the means utilized when obtaining handling as well as scrutinizing data. This part of the investigation hence outlines the research design, the study population, sampling design, data gathering as well as analysis procedures utilized.

3.2 Research Design

It is a plan, arrangement as well as scheme of study to find answers to research questions as well as control variance. A research design is the outline, or blueprint utilized in generating answer to study problems (Cooper and Schindler, 2010). This investigation utilized a descriptive research design to allow the augmentation of an understanding of internal controls and financial performance. It described the link between financial performance and control processes, with internal controls being assumed to be a causal factor of performance.

3.3 Target Population and Sampling

The study population refers to as a whole series of characters, cases or objects bearing certain mutual observable features (Mugenda and Mugenda, 2003). It ought to match a particular description that the researcher is examining. It is therefore seen as the large group for which a researcher can draw a representative sample for the case of amassing material relevant to the investigation being undertaken. Therefore, the target population for this research was the 37 3 star hotels in Nairobi county.

3.4 Data Collection

Data was gathered by way of primary and secondary methods. Primary data was sourced primarily by closed-ended structured questionnaires and also through interviews. The main instrument of data collection was a questionnaire.

Secondary data was obtained from financial reports, library materials, the company accounts, media journals as well as numerous web sources pertaining to the business practice administration of hotels in Nairobi County.

3.5 Data Analysis

Data analysis was by way7 of Statistical Package for Social Sciences (SPSS Version 21.0) package. It similarly entailed quantitative as well as regression analysis. The data obtained was subjected to a model to openly verify the bearing of control processes on performance of hotels in Nairobi County. A regression model was utilized to verify the link between the investigation variables.

The regression equation is: $\mathbf{P = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon}$

Where, β_0, β_1, β_2, β_3, β_4 and β_5 are the regression co-efficient

P- Performance of hotels in Nairobi County (Measured by ROA)

X1- Control Environment

X2- Risk Assessment

X3- Control Activities

X4 - Monitoring

X5 – Total assets (Ln of total assets)- control variable

ε = Error term

3.5.1 Diagnostic Tests

Regression assumptions will be considered so as to validate the regression equation and reduce the probability of type I and type II errors. The researcher therefore, will conduct the following: Multicollinearity test and heteroscedasticity.

The multicollinearity is a normally met statistical occurrence where a multiple regression model's independent variables in are greatly associated (Robert, 1967). If the link is 1 or -1, in its greatest austerity this causes the assessment of the regression coefficients awkward or unreliable (Robert, 1967). Variance inflation factors (VIF) measured the level of the collinearity between the variables. When the VIFs values are greater than 10, collinearity is problematic. However,if VIFs values are less than 10, collinearity is not problematic and therefore there is no significant collinaerity in the data set that can hinder regression analysis.

Heteroscedasticity is a desecration of one of the conditions of ordinary least squares (OLS) in which the error variance IS is intermittent (Gujarati, 2007). Its outcomes are that the approximated coefficients are neutral and ineffective. The changes are either tiny or too big, bringing about Type I error in which the Null hypothesis is overruled when it is correct or Type II error in which one does not disallow a wrong Null hypothesis. Heteroscedasticity is predominantly prevailing in cross-sectional data series for instance that utilized in this investigation.

3.5.2 Test of Significance

The coefficient of determination R2 is calculated to ascertain the model's explanatory strength and how well data fit into the statistical model. The F statistic is calculated to ascertain the models' significance in entirety. Analysis of variance (ANOVA) tests is utilized to measure experimental data to test the variables for statistical significance.

CHAPTER FOUR: DATA ANLYSIS, FINDINGS AND INTEPRETATION

4.1 Introduction

This part illustrates detailed examination of the amassed data through the questionnaires. The questionnaires were sorted and coded through use of excel and SPSS. The collected Data was summarized and presented informs of percentages, pie charts, tables and figures. The data was collected from, top management staff. Section 4.3 highlights the summary statistics while part 4.4 illustrates the outcomes of diagnostic tests. part 4.4 presents the inferential statistics.

4.2 Data presentation

4.2.1 Response rate

As presented in figure 4:1 below, the study targeted 37 three star hotels in Nairobi county employees. Data obtained and analyzed was from 32 respondents of the target population. From the analysis more than 50% of the respondents were able to answer the questionnaire as required, therefore adequate for reporting (Mugenda & Mugenda, 1999). Questionnaire completion rates is the sample's percentage that took part as desired in every investigation process. In the study, out of 37 questionnaires administered 32(87%) filled in and returned, this questionnaires return rates was considered sufficient for the study.

4.3 The Demographic Information

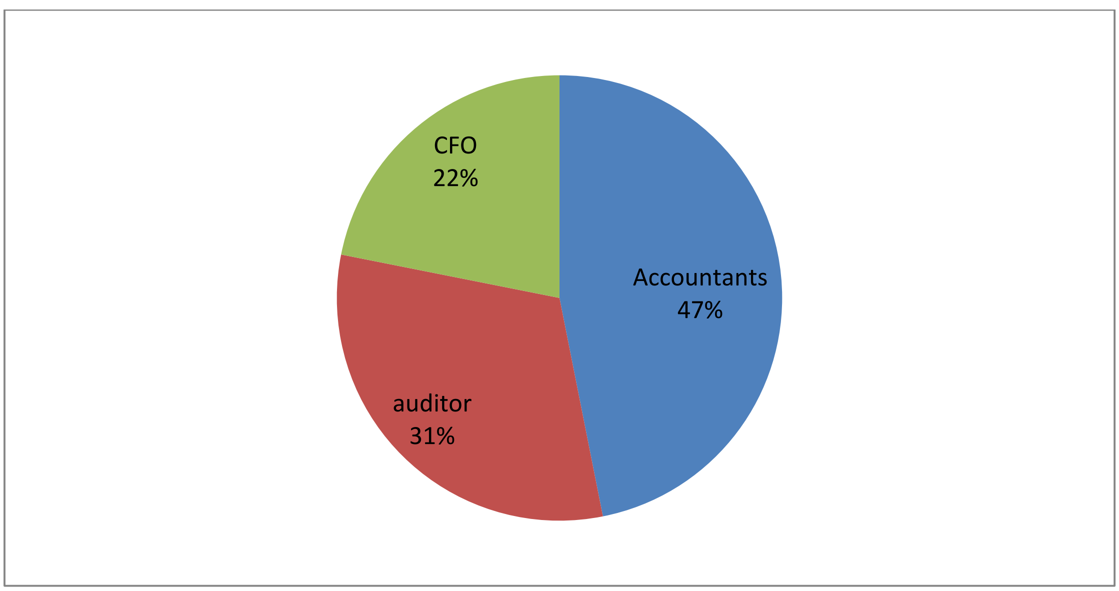
Table 4.1: Gender

FACTOR	FREQUENCY	PERCENTAGE
Male	15	47
Female	17	53
TOTAL	**32**	**100**

Source: Research Findings (2018)

The figure 4.1 above points out the highest sum of respondents were female with 17(53%) while 15(47%) were male respondents. The study implied that large numbers of the respondents were drawn from female respondents.

Figure 4.2: Designation



Source: Research Findings (2018)

When they were asked about their designation the response was as follows 15(47%) indicated accountant, 10(31%) indicated auditor and 7(22%) indicated chief financial officer. The researcher concluded that most of the respondents were accountants.

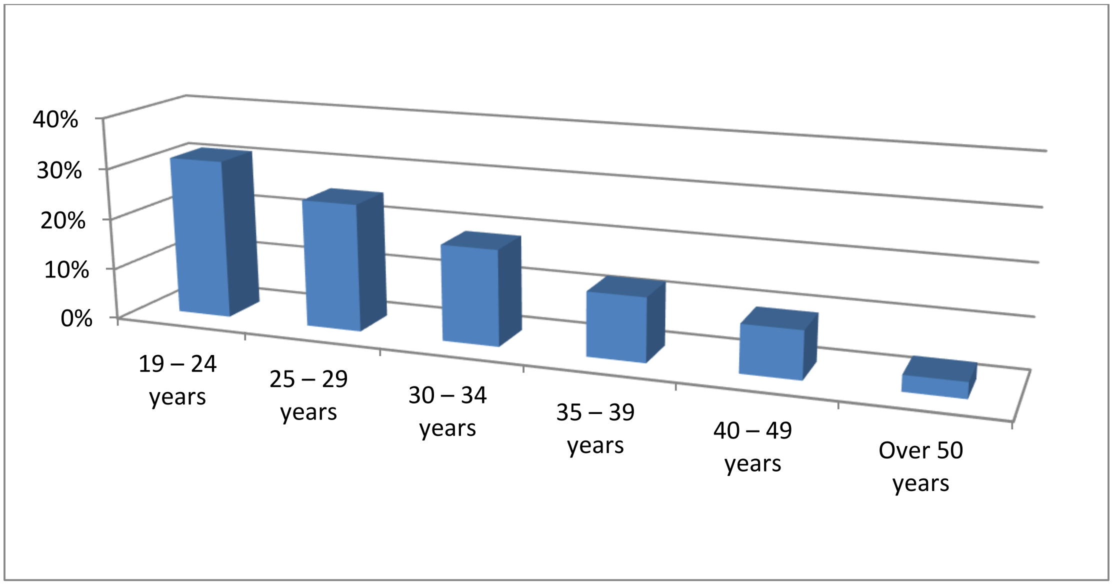
Table 4.2: Age

FACTOR	FREQUENCY	PERCENTAGE
19 – 24 years	10	31%
25 – 29 years	8	25%
30 – 34 years	6	19%
35 – 39 years	4	13%
40 – 49 years	3	9%
Over 50 years	1	3%
TOTAL	**32**	**100**

Source: Research Findings (2018)

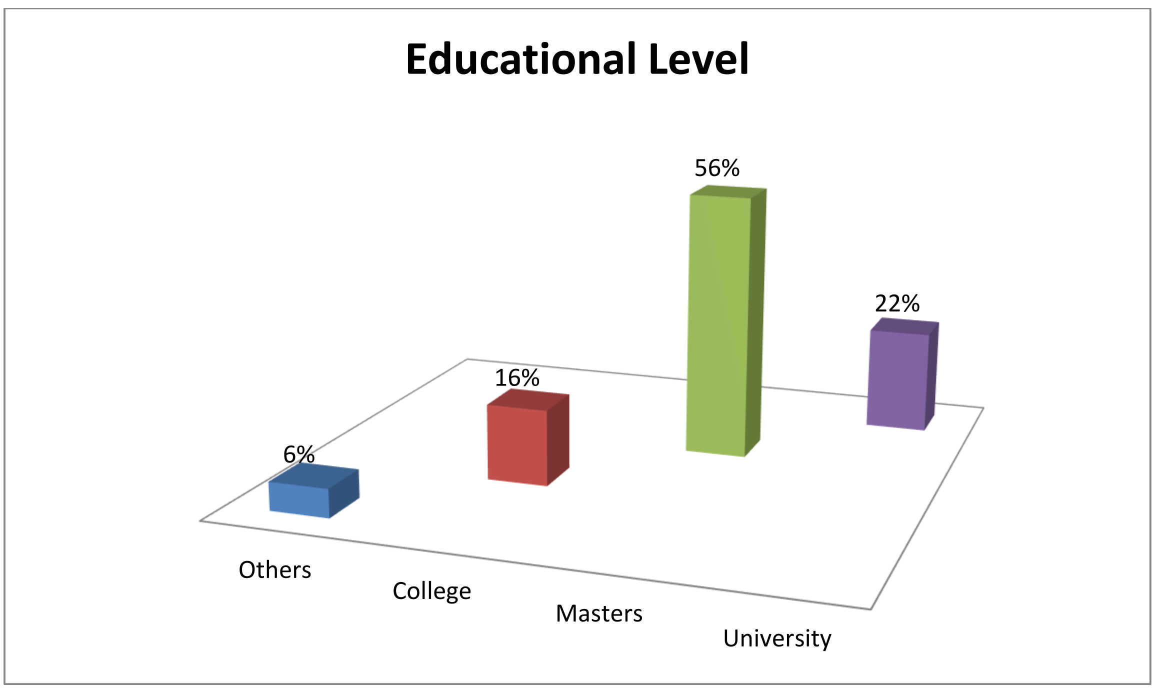
As per table 4.2 above 10(31%) were drawn from the age group of 19 – 24 years while 8(25%) were drawn from 25 -29 years and 6(19%) were drawn from the age group of 30 – 34 years. This study concluded that large numbers of respondents were drawn from the age group of 19 – 24 years.

Figure 4.3: Age



Source: Research Findings (2018)

Figure 4.4: Educational Level



Source: Research Findings (2018)

On the educational level the majority of the respondents attained Master's Degree level 18(56%), this was closely followed by University which is 7(22%), and those who indicated College level were 5 (16%) while those who indicated others were 2 (6%). The investigation pointed out that majority of the respondents had Masters Level of education.

Table 4.3: Working Years

FACTOR	FREQUENCY	PERCENTAGE
1 – 10 years	10	31%
11 – 20 years	8	25%
21 – 30 years	6	19%
31 –40 years	4	13%
Over 40 years	4	13%
TOTAL	32	100%

Source: Research Findings (2018)

As per the working years in the hotels the response were as follows 10(31%) indicated 1 – 10 years then 8(25%) indicated 11 – 20 years, 6(19%) was 21 – 30 years while 31-40 years and over 40 years each indicating 4(13%). The study revealed that most of the workers have worked from 1 – 10 years in the hotels.

4.4 Data Analysis

Data was analyzed in this part using descriptive statistics, utilizing charts to aid comprehending the sample of concern. The statistical methods applied assumed that variables were normally distributed. Multivariate statistics were adopted with the supposition that the mixture of variables assumes a multivariate distribution normality. As there was straight measure for multivariate normality, the study tested every variable separately and assumed that they bear multivariate normality if they are separately normal.

4.4.1 Control environment

The investigation aimed at exploring the bearing of control environment on performance of three star hotels in Nairobi County, finding are indicated in table 4.4 below;

Table 4.4: Control Environment

	N	Minimum	Maximum	Mean	Std. Deviation
The company has a sound Accounting and Financial Management System established	32	1.00	5.00	4.4332	.56541
Organization Structure is well elaborated in the enterprise that adequately reflect chain of command	32	1.00	5.00	4.7406	.89443
Formal guidelines for every key operations of the entity are in place.	32	2.00	5.00	4.5210	.45223
Particular authority lines as well as roles have been defined to safeguard conformity to the guidelines.	32	1.00	5.00	4.0741	.74041
The enterprise's values, principles, HR procedures and performance compensation schemes backs its goals as well as internal control systems.	32	1.00	5.00	4.7778	.71026

Duties are assigned and continuation action is done to obtain feedback on performance outcomes of duty assigned	32	1.00	5.00	4.5120	.81220
Audit Team sufficiently maintains a straight communication line with the enterprise's external as well as internal auditors	32	1.00	5.00	4.5214	.70165
There is truthful as well as impartial dealings with all stakeholders for the benefit of the organization	32	1.00	5.00	3.9154	.78563

From the above table 4.4 the company has a good accounting and financial administration system instituted with mean of 4.4332, there is a detailed organization structure in the company which adequately reflect chain of command with a mean 4.7406, formal guidelines for every key operations of the entity are in place with a mean 4.5210, Particular authority lines as well as roles have been defined to safeguard conformity to the guidelines with a mean of 4.0741, the enterprise's values, principles, HR procedures and performance compensation schemes backs its goals as well as internal control systems with a mean of 4.7778, duties are assigned and continuation action is done to obtain feedback on performance outcomes of duty assigned with a mean of 4.5120, Audit team sufficiently maintains a straight communication line with the enterprise's external as well as internal auditors with a mean of 4.5214 and there is truthful as well as impartial transactions with all stakeholders for the enterprise's benefit with a mean of 3.9154.

4.4.2 Control Activities

The investigation aimed at establishing the beaaring of control activities on performance of three star hotels in Nairobi County, finding are pointed out in table 4.5 below;

Table 4.5: Control Activities

	N	Min	Max	Mean Std. Dev.
There is a well-defined segregation of duties in finance department	32	1.00	5.00	4.5321.4654
employees are proficient to execute the accounting and financial administration system	32	1.00	5.00	4.8104.7245
Variances between actual and projected financial performance is explained by management on a timely basis	32	1.00	5.00	4.7541.5452
People not dependent of receivables accounts keeping quickly probe disagreements with billing sums that are stated by clients.	32	1.00	5.00	4.6247.8404
Accounting reports are restricted to staff with titled duty for such reports	32	1.00	5.00	4.7254.6125
Alterations to the approved billing sum need the consent of an approved person	32	1.00	5.00	4.6512.7822

Guidelines are in place to inhibit the interference or change by unapproved individuals of billings or accounts prior to recording	32	1.00	5.00	4.6587	.5701
Reconciliation is performed monthly to reconcile isolated records and appropriately resolve any differences	32	1.00	5.00	4.9214	.7682

From the above table 4.5 There is a well-defined segregation of duties in finance division with mean of 4.5321 and a standard deviation of .4654, the staff were well trained to implement the accounting and financial administration system with a mean of 4.8104 and a standard deviation of .7245, People not dependent of receivables accounts keeping quickly probe disagreements with billing sums that are stated by clients. had a mean of 4.6247 and a standard deviation of .8404. Accounting reports are restricted to staff with titled duty for such reports with a mean of 4.7254 and a standard deviation of .6125.

Table 4.6: Risk Assessment

	N	Min	Max	Mean	Std. Dev.
The Company analyzes the internal environment before introducing any change	32	2.00	5.00	4.832	0.4765
The Company analyzes the external environment prior to any decision making	32	1.00	5.00	4.710	1.8243

The Company is acquainted with the global environment	32	1.00	5.00	4.6542.5652
Divisions craft separate policies to reduce risks	32	1.00	5.00	4.7247.7404
The Company carry out internal audits and external audits on timely basis	32	1.00	5.00	4.8722.5126
The Company has contingent strategies to overcome risks	32	1.00	5.00	4.6514.7221
Administration has instituted means of moderating of critical risks which could be attributed to dishonesty	32	2.00	5.00	4.7635.5873
Measures have been put in place for risk identification	32	1.00	5.00	4.8944.7589

From the above table 4.6 there is an indication that the minimum for the risk assessment was 1 while the maximum was 5. The mean for the risk assessment were above 4.5. The company analyzed the internal environment before introducing any change thus the mean was 4.8320 with a standard deviation of. 4765.

Table 4.7: Monitoring

	N	Min	Max	Mean	Std. Dev.
The Company examines the internal environment prior to presenting any alteration	32	1.00	5.00	4.5531.4751	
The Company examines the external environment prior to any decision making	32	2.00	5.00	4.8810.7722	
The Company is aware of global environment	32	1.00	5.00	4.7954.5545	
mitigate risks	32	1.00	5.00	4.6824.8501	
The Company carry out internal and external audits on timely basis	32	1.00	5.00	4.7254.7612	
The Company has contingent strategies to overcome risks	32	2.00	5.00	4.6853.8782	
Administration has instituted means of moderating of critical risks which could be attributed to dishonesty	32	1.00	5.00	4.7656.6451	
Measures have been put in place for risk identification	32	1.00	5.00	4.8014.5673	

From the above table 4.7 the hotels analyzes the external environment before making any decision with mean of 4.5531and a standard deviation of .4751, Departments formulate individual strategies to overcome risks with a mean of 4.6824and a standard deviation of .8501.

4.5 Diagnostic Tests

The chosen regression model was put to several diagnostic tests to assess the model's validity. They comprised: Breusch-Pagan scrutiny for heteroskedasticity and White Heteroskedasticity Test (LM) for constant change of residual over time, the ARCH (Autoregressive conditional heteroscedasticity) test which identifies the issues of heteroscedasticity and Ramsey RESET test for the measurement of the regression. Also regression as well as correlation analysis were performed to verify the link between the study variables. The outcomes are pointed out in Table 4.8 below.

Table 4.8.: Diagnostic Tests

Test	**F-statistics**	**Probability**
Ramsey RESET Test:	1.760507	0.163014
White Heteroskedasticity Test:	2.125333	0.079932
ARCH Test:	1.185552	0.324352
Breusch-Pagan Test for Heteroskedasticity	1.12472	0.573265

Table 4.8 shows that the limitations of the regression analysis were constant and the model could be utilized for assessment at 5% confidence level. The Ramsey RESET Test for model measurement, ARCH Test and White Heteroskedasticity Test for steady change of residuals and Breusch-Godfrey Serial Correlation LM Test for successively linked residuals utilized the null hypothesis of good fit (specification, heteroskedasticity, and non-autocorrelated against the other hypothesis of model mis-specification, heteroskendasticity, and autocorrelated respectively. Every probability figure was below F-statistics coefficients at 5% significance level hence the null hypothesis was not overruled. The diagnostic test results were for that reason acceptable.

4.6 Correlation Analysis

The Pearson product-moment correlation coefficient is an extent of the power of a linear link between two variables and is pointed out by r. The Pearson correlation coefficient, r, follows a series of figure from +1 to -1. A figure of 0 points out that there is no link between the two variables. A figure above 0 points out a positive link, that is, as the figure of one variable increases the other variable similarly increases. A figure below 0 points out a negative link, that is, as the figure of a single variable increases the figure of another decreases.

Table 4.9.: Correlation coefficient

	Control Environment	Control Activities	Risk Assessment	Monitoring
Control Environment	1			
Control Activities	0.6548	1		
Risk Assessment	0.7850	0.6678	1	
Monitoring	0.5612	0.5163	0.4567	1

The investigation in table 4.9, points out that every predictor variable was pointed out to bear a positive link between them at a 0.05 significant level and therefore involved in the examination. A strong positive link existed between control environment and control activities (correlation coefficient 0.6548), risk assessment and control environment (correlation coefficient 0.7850), control environment and monitoring (correlation coefficient 0.5612), control activities and monitoring (correlation coefficient 0.5163) and risk assessment and monitoring (correlation coefficient 0.4567). The study thus verified a significantly strong link between the control process and performance of hotels in Nairobi County.

4.7 Regression Analysis

Performance of three star hotels in Nairobi county was regressed against four predictor variables; control environment, control activities, risk assessment and monitoring. The regression analysis was performed at 5% significance level. The investigation got the model summary statistics as pointed out in table below.

4.7.1 Model Summary

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.622[a]	.542	.492	.07396

Source: Research findings (2018)

Regression analysis outcomes exhibited in table 4.6 above points out R, that is correlation coefficient, was 0.622 that points out a powerful link between the investigations variables. Coefficient of determination ($R2$) of 0.542 points out that 54% of the variations in financial performance are explicated by the predictor factors in the analytical model (Control activities, control environment, risk assessment and monitoring). On the other side, 46% of the variation in value of financial performance is explained by other factors not involved in the model. The value of adjusted R was .492, which indicates that there was 49.2% variation in financial performance of the three star hotels due to changes in number of independent variable.

4.7.2 Analysis of Variance

Table 4.2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.743	4	.211	37.385	.000[b]
	Residual	.220	28	.005		
	Total	.863	32			

Source: Research findings (2018)

The significance figure is 0.01 which is below p=0.05. This suggests the model was statistically substantial in projecting how control environment, control activities, risk assessment as well as evaluation influence performance.

4.7.3 Coefficient of Determination

Table 4.3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.217	.287		11.880	.000
	Control environment	.091	.028	.327	2.902	.008
	Control activities	.245	.057	.516	4.129	.000
	Risk assessment	.018	.012	.244	2.500	.020
	Monitoring	.145	.030	-.122	-1.487	.050

From the above results, it is evident that there is positive and significant link between control environment as well as ROA shown by p values that are less than 5%. Risk evaluation and control activities and control environment produced positive and statistically significant values for this study as shown by p values that are less than 5%. Monitoring produced a positive statistically significant relationship as shown by as shown by p values that less than 5%.

The following regression equation was estimated:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon}$$

$$Y = 1.217 + 0.091X_1 + 0.245X_2 + 0.018X_3 + 0.145X_4$$

On the estimated regression model above, the constant = 1.217 points out that if selected dependent variables were rated zero, three star hotels financial performance would be 1.217. A unit upsurge in control environment would bring about an upsurge in financial performance by 0.091. A unit upsurge in control activities would bring about an upsurge e in financial performance by 0.245 and 0.018 respectively while a unit increases in risk evaluation would bring about an upsurge in financial performance by 0.145.

4.8 Discussion of the Research Findings

The investigation aimed to verify the bearing of control process on financial performance of three hotels in Nairobi County. The firm's financial performance was measured using net revenue as a ratio of total assets ratio while the internal control systems utilized in model comprises; control environment, control activities, risk assessment and evaluation.

The effect of every independent variable on the dependent variable was analyzed with regards to power and course.

On the correlation matrix, the findings indicated that a strong correlation existed between control environment, control activities, risk assessment, monitoring and financial performance. Further model analysis findings indicated there is a strong (R= 0.622) association between control process and financial performance of three star hotels in Kenya. The independent variables namely Control environment, control activities, risk assessment and evaluation explains about 54% the total variations of financial performance of three star hotels in Nairobi, the other 46% is explained by other factors.

The significant of ANOVA results of the study showed that the model was substantial at 5% significance level with an F-ratio of 37.385 and a P value of 0.001. The study coefficients results indicated that Control environment P-value 0.008, Risk assessment P-value 0.001 and control activities P-value 0.020 significantly affects financial performance of sugar firms, with P-value <0.05. Hence, the entire regression model was statistically substantial and appropriate in projecting how the independent variables picked imping on ROA of three star hotels in Nairobi County.

The findings of this study are similar to Muraleetharan (2011) who researched on the bearing of control processes on financial performance of Jaffna district organizations in Sri Lanka. Data was collected through self-assessment questionnaire and personal interviews and 181 respondents were drawn from staff working in 47 public and private institutions in Jaffna district. Data was analyzed using SPSS where regression analysis tools were used. The study found that internal control is statistically significant in predicting performance. Locally, Asiligwa (2017) researched on bearing of control processes on the Kenyan commercial banks' financial performance. Descriptive research design was adopted in the study. The population of the study was 43 Kenyan commercial banks. The investigation concluded that there existed a positive relationship between internal control systems and commercial banks' financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part focuses on the overview, research outcome, conclusions and the commendations of the investigation. The researcher then presents the study limitations and endorsements for more investigation.

5.2 Summary of the findings

The investigation sought to verify the bearing of control process on financial performance of three star hotels in Kenya. The independent variable for the investigation was internal control systems and the dependent variable was firm's financial performance. It adopted descriptive research design. The population consisted of all 37 three star hotels in Nairobi County. The investigation utilized primary data sourced by structured questionnaire which was analyzed through descriptive and inferential statistics to analyze on SPSS version 22. The targeted respondents were the senior management staff in various departments of the firm; that is accounting, human resource, procurement and security department. Data obtained and analyzed was from 32 respondents of the target population. All the 32 respondents answered the questionnaire as required.

The model summary R-square value was 0. 542 suggesting that the predictor variables chosen for this investigation explains 54% of variations in the dependent variable. This suggests that there exist other aspects not incorporated in this model that make up 46% of variations in financial performance of three star hotels in Nairobi. The model is fit at 95%

confidence level. Hence, the entire multiple regression models was statistically substantial and thus appropriate in describing how the financial performance of the three star hotels in Nairobi County is impinged on by the chosen independent variables.

The regression outcomes point out that if selected dependent variables were rated zero, three star hotels financial performance would be 1.217. A unit upsurge in control environment would bring about an upsurge in financial performance by 0.091. A unit upsurge in control activities would bring about an upsurge in financial performance by 0.245 and 0.018 respectively while a unit increases in risk assessment would bring about an upsurge in financial performance by 0.145.

5.3 Conclusions

Based on the analyzed data, there are several conclusions drawn. First, as part of its control measures to improve its financial performance, the study concluded that the company has set forth a good working relationship between the staff, they are committed to their jobs, all employees have job schedules therefore no job encounters and that there is a way to examine consistent employee attendance.

Based on the risk assessment, the investigation concluded that in an effort to manage its risks, the company has ensured risks are evaluated according to variation in the operational environment. There are means instituted as well as respond to variations that can possess intense bearing on the Company, the management has criteria for ascertaining the fraud-related risks to the organization and communication channels are instituted for variations in service delivery. There are well-defined objectives for the Company, changes of new employee are patently explored for the risks it could bring and that administration recognizes risks that imping on attainment of the Company's goals.

As regards to the information and communication system, the study observed that, to enhance its information systems, the company has effective reporting of revenue targets to be achieved in a particular financial year. Information flows freely in the company without any interference, the recording procedure on company outlines every role of each division in the enterprise and communication allows us to assess how well procedures of the company are functional and being executed and that all operational information is given to staff in time.

5.4 Recommendations

The outcomes on the reasons of unsuccessful internal control system points out that since most of the respondent weren't sure whether the enterprise bears an updated accounting procedures guidebook. It is recommended that the hotels' administration ought to come out with an up to date document with details about the policies and procedures of the organization. This to a large extent would help solve some of the internal control systems in their enterprises.

Secondly, the investigation recommended that the administration should always institute mechanisms to enable it identify risks that affect achievement of the company's objectives and that it should also put in place mechanisms reduce to risks which could be attributed to dishonesty in the enterprise.

Thirdly, the management should ensure it gets apt, appropriate as well as dependable reports for decision-making and that all appropriatet information is conveyed to employees, every communication channels is used by Company staff, and that there is quick and free flow of information in time. This will enable them communicate decisions made to the junior employees on time.

5.5 Limitations of the Study

The researcher met several drawbacks associated with the investigation and mainly in data collection process. Owing to insufficient resources, the researcher undertook this investigation under financial limitations hence amassed data from a single urban center. Some respondents could be uncooperative and some of them could provide irrelevant information and even opt to leave some of the research questions unanswered thinking that the study will be of no help to them. To overcome this challenge, the researcher will engage the respondents and explain to them the importance of the research, hence creating a good rapport with which the respondents could give the required information.

The hotel administration ought to recognize mechanisms of instituting suitable internal control measures so as to enhance the system as the findings here reveal that most of the respondents rated the overall processes of internal control of the organization as weak.

Also, on determining the causes of high employee turnover by ensuring control activities are being employed to ensure internal control in which respondents hold the view that the control over planning of withdrawal requests of finances were only significant mechanisms administration should design new ways of dealing with the preparation of withdrawal applications of funds and also create an innovative ways handling control over bank and cash balances as the findings revealed a negative procedure. For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

5.6 Suggestions for Further Research

There ought to be further investigations in this domain to verify how risk management practices influences financial performance of enterprises in Kenya. This could be undertaken by encompassing every other Kenyan financial institutions and through performing a panel regression analysis. Further investigations ought to be undertaken verify other aspects that could possibly impinge on performance of enterprises in the hospitality industry. This investigation examined how risk management practices can influence performance and more studies need to examine other factors that may impinge on enterprise performance.

It is similarly essential that future research explore the element of risk management practices deeply by examining the risk management practices in organisations and the trends in the risk management practices. This will inform policy makers on what areas need changes for the risk management practices to be effective.

REFERENCES

Adams, M. (1994). Agency Theory and the Internal Audit. *Managerial Auditing Journal*, Vol. 9.

Adeyemi, O. O., Akindele, S. T. & Agesin, B. (2011), *Corporate Governance in the Nigerian Financial Sector:* The Efficacy of Internal Control and External Audit, Global Conference on Business and Finance Proceedings.

.Albrecht, W. S. (2003). "*Fraud Examination*", Mason: Thomson South-Western Publishing.

Aldridge, R &Colbert, J. (1994), "Management's Report on Internal Control, and theAccountant' Response", *Managerial Auditing Journal, 9(7), 21-28*

Amudo, A & Inanga, E. L. (2009), "Evaluation of Internal Control Systems: A Case Study from Uganda", *International Research Journal of Finance and Economics, 3, 124 –144.*

Ashbaugh-Skaife, H., Collins, D., Kinney, W. & Lafond, R. (2008), *"The Effect of SOX Internal Control Deficiencies and their Remediation and Accrual Quality", The Accounting Review, 4 (2), 217-250.*

Babbie, E. (2002), Survey Research Methods. Woodsworth: Belmont.

Clarkson, M.B.E, (1995). "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance*", Academy of Management Journal*, 20(1), 92-118.

Doyle, J., Ge,W. & McVay,S. (2005), "Determinants of Weaknesses in Internal Control over Financial Reporting and the Implications for Earnings Quality", *Journal of Accounting, Auditing and Finance*, 8 (1), 31-52.

Doyle, J., Ge, W. & McVay, S. (2007). Determinants of weakness in internal control over financial reporting. *Journal of Accounting & Economics*, 44(1/2), 193.

Doyle, J., Ge, W. & McVay, S. (2007b), "Accruals Quality and Internal Control Over Financial Reporting", *Accounting Review Journal*, 6 (3), 357-386.

Ewa, E. U. & Udoayang, J. O. (2012), The Impact of Internal Control Design on Banks" Ability to Investigate Staff Fraud, and Life Style and Fraud Detection in Nigeria, *International Journal of Research in Economics & Social Sciences*

Fitzgerald, L, Johnston, R, Brignall, S, Silvestro, R. & Voss, C (1991), *Performance Measurement in Service Businesses*, CIMA, Black Bear Press Ltd. King's Hedges Road, Cambridge

Freeman, R.E (1984). Strategic Management: A stakeholder Approach. Boston, MA: Pitman

Friedman, A.L. & Miles, S. (2001). "Developing a Stakeholder Theory", *Journal of Management and Studies*, 39, 1-21.

Friedman, A.L. & Miles, S. (2006). Stakeholders: Theory and Practice.Oxford University Press.

Groom, Halpern & Ehrhard (2006), Water supply and sanitation sector board discussion paper series.Vol.6

Jensen, M. C. & Meckling, W. H., (1976). Theory of the firm: managerial behavior, agency costs and ownership structure.*Journal of Financial Economics, Vol. 3*

Krishnan, J. (2005). Audit Committee Quality and Internal control: *An Empirical Analysis.* The Accounting Review

Mawanda, S. P. (2008). *Effects of Internal Control Systems on Financial Performance in an Institution of Higher Learning in Uganda*: A Case of Uganda Martyrs University.

Michael and Richard (2001). Managing Front Office Operation. United States of America: American Hotel and Lodging Association. U.S.A.

Muio, C., (2012). *Impact of internal control systems on financial performance of Private hospitals in Nairobi*: Unpublished MBA Project, University Of Nairobi

Mwachiro, D.B, (2013).*Effect of internal controls on revenue collection in KRA*: Unpublished MBA Project, University of Nairobi

Ndungu, (2013). *Effect of internal controls on revenue generation in University of Nairobi Enterprise and Services limited*: Unpublished MBA Project, University of Nairobi

Njui, R. W. (2012), *"The Effectiveness of Internal Audit in Promoting Good Governance in the Public Sector in Kenya*", Unpublished MBA thesis, University of Nairobi.

Samson, A. & Vincent, C. (2006*)*.Impact of the effective Internal Control System on the Internal Audit effectiveness at Local Government Level. *Journal of Social and Development Sciences. University of Ghana.*

Simmons, M. (1997). COSO. The framework of Internal Control: A strategic Approach to Internal Audit. *Article on Internal Audit.*

Whittington, P. (2001). Principles of Auditing and other Assurance Services. McGraw Hill High Education. 5th Edition.

APPENDICES

APPENDIX 1: QUESTIONNAIRE

Appraisal of Internal Controls of Hotels in Nairobi County. This investigation is solely academic and respondents are guaranteed confidentiality in whatever material they provide.

Instructions:

Please tick the box that openly articulates your assessment about a question.

Name of the Company…………………………………………………………………….

The Department ………………………………………………………………………..

How long have you been in the company?

i) Less than 6 months [ ] ii) 6 months-1 year [ ] iii) 1-2 years [ ] iv) 2-3 years [ ] v) 3-4 years [ ] vi) More than 4 years [ ]

Rank the extent to which your Company practices the following on Control Environment

	CONTROL ENVIRONMENT	1 Strongly disagree	2 Disagree	3 Not sure	4 Agree	5 Strongly agree.
1	The company has a good Accounting and Financial Management System in place					
2	There is a detailed Organization Structure in the Company which adequately reflect chain of command					

3	There are formal guidelines for every key process of the enterprise.					
4	Specific lines of authority and responsibility have been established to ensure compliance with the policies and procedures					
5	The company's culture, code of conduct, human resource policies and performance reward systems support its objectives and internal control systems.					
6	Responsibilities are delegated and follow up action is made to get feedback on results of performance of all tasks delegated					
7	Audit Committee adequately maintain a direct line of communication with the entity's external and internal auditors					
8	There is honest and fair dealings with all stakeholders for the benefit of the organization					

Rank the extent to which your Company practices the following on Control Activities

	CONTROL ACTIVITIES	1.Strongly disagree	2.Disagree	3.Not sure	4.Agree	5.Strongly agree.
1	There is a well-defined segregation of duties in finance department					

2	Employees are proficient to execute the accounting and financial administration system					
3	Variances between actual and projected financial performance is explained by management on a timely basis					
4	People not dependent of receivables accounts keeping quickly probe disagreements with billing sums that are stated by clients.					
5	Accounting reports are restricted to staff with titled duty for such reports					
6	Alterations to the approved billing sum need the consent of an approved person					
7	Guidelines are established to inhibit the interference or change by unauthorized persons of billings or reports prior to recording					
8	Reconciliation is done monthly to reconcile separate reports and appropriately settle any variances					

Rank the extent to which your Company practices the following on Risk Assessment

	RISK ASSESSMENT	1 Strongly disagree	2 Disagree	3 Not sure	4 Agree	5 Strongly agree.
1	The Company analyzes the internal environment before introducing any change					
2	The Company analyzes the external environment prior to any decision making					
3	The Company is acquainted with the global environment					
4	Divisions craft separate policies to reduce risks					
5	The Company carry out internal audits and external audits on timely basis					
6	The Company has contingent strategies to overcome risks					
7	Administration has instituted means of moderating of critical risks which could be attributed to dishonesty					
8	Measures have been put in place for risk identification					
9	Administration has established right goals for the enterprise.					

10	Administration recognizes risks that impinges on attainment of the goals.					
11	Management has a criteria for ascertainment of which fraud related risks to the organization are most critical					

Rank the extent to which your Company practices the following on Monitoring

	MONITORING	1 Strongly disagree	2 Disagree	3	4 Agree	5 Strongly agree.
1	Administration evaluates the system of control continuously					
2	There are autonomous procedure instructions and assessments of control processes on an continuous basis					
3	Internal evaluations of execution of control processes in divisions are performed constantly					
5	Occasionally, administration performs assessments of internal control systems that are instituted					
6	Monitoring has eased assessment of the performance quality of the enterprise over time					

7	Administration delegates duties for the timely evaluation of audit accounts and resolve of any non-conformity items identified in those audit accounts					

APPENDIX II: DATA COLLECTION FORM

1. Name of the Hotel...

2. Year of Establishment...

FINANCAIL RECORDS

	2013	2014	2015	2016	2017
Financial performance in terms of (ROA)					
Total Assets					
Net Income					

APPENDIX II: LIST OF HOTELS

1. Ambassadeur
2. Boma Inn
3. Boulevard Hotel
4. Crowne Plaza
5. Eka Hotel
6. Fairview
7. Grand Regency/CTC
8. Hemingways Nairobi
9. Holiday Inn
10. Hotel County
11. Hotel Inter- Continental
12. Jakaranda Hotel
13. Kasarani
14. Land Mark (Jacaranda)
15. Lenana Mount
16. Marble Arch
17. Meridian Court
18. Nairobi Hilton
19. Nairobi Serena
20. Ngong Hills
21. Oakwood

22. Ole-Sereni Hotel
23. Panafric Hotel
24. Safari Park
25. Sagret Hotels
26. Sankara
27. Silver Springs
28. Six Eighty
29. Southern Sun Mayfair Nairobi
30. Sport View
31. The Nairobi Safari Club
32. The Norfolk
33. The Stanley
34. Tribe - The Village Market Hotel
35. Utalii
36. Villa Rosa - Kempinski
37. Windsor Club