INFLUENCE OF INTERNAL CONTROL SYSTEMS ON THE FINANCIAL PERFORMANCE OF CLASSIFIED HOTELS IN THE NAIROBI COUNTY

BY

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DECLARATION

I hereby declare that this dissertation is my original output and it has never been taken to any other learning institution or research organization by anybody else apart from KCA University in pursuance for academic credit.

Sign___________________________ Date______________________

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And I have approved it for examination

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Dr. Nyaribo M. Wycliffe

ABSTRACT

Over the past five years, there has been an upsurge of hotels around Nairobi County. They have, however, had difficulties with internal controls. The rising fraud in Nairobi's well-known hotels is evidence of this. The goal of this study was to evaluate how internal control systems affect the financial success of hotels in Nairobi County. The study specifically aims to appraise the impact of detective controls, preventive controls, and corrective controls on the financial performance of hotels in Kenya. It also aims to assess the impact of preventative controls and detective controls on the financial performance of hotels. The study utilized a descriptive research design. The study focused on 45 hotels in the county of Nairobi (five-star, four star and three star). Employees in the hotels' internal audit and accounting and finance departments formed the target population of this study. All 45 hotels were included in the study because they are convenient for access. A sample of 90 respondents was drawn from each hotel's finance and internal audit managers for the study. The personnel who took part in the study were chosen via purposeful sampling. Questionnaires was used by the researcher to gather data. Pilot study was conducted in Kiambu County from the five hotels. The supervisors assessed the instruments to determine their validity and recommend any necessary adjustments. STATA generated the Cronbach alpha value based on the results of the pilot research to determine the reliability of the surveys. The information found in the gathered surveys was analysed using descriptive and inferential statistics using STATA software. Tables and graphs was used to present the data. The study concludes that hotels in the Nairobi County use a variety of corrective, detective, and preventative controls based on the descriptive data. The study comes to the further conclusion that asset value and profitability are the major metrics used by Nairobi County hotels to gauge financial performance. The study deduces from the model summary that there is a significant correlation between corrective, detective, and preventative controls and the financial performance of categorised hotels in Nairobi County. The study also comes to the conclusion that the main elements affecting the financial performance of hotels in Nairobi County are corrective, detective, and preventative controls. The study draws the conclusion that corrective, detective, and preventative controls significantly improve the financial performance of hotels in Nairobi County based on the regression coefficients. Due to this, it was determined that internal control systems had an advantage over the financial performance of hotels in Nairobi County. The report suggests installing preventive control systems at hotels in Nairobi County to improve performance. The hotels should also have objective, independent, and active audit committees while also making sure that valuable information is only accessible to the staff with the consent of senior management. This would prevent their staff from having access to valuable information without the permission of senior staff. The hotels should also have organizational asset identification and protection capabilities built into their security systems. For them to improve financial performance, the hotels need set up detective internal control systems. Periodically, the hotels should conduct internal evaluations of their internal controls. In order to prevent instances of stock out and associated expenditures, the businesses should also maintain a regular stock of their stocks. To improve financial success, the hotel departments should also routinely evaluate their budgets. The study suggests that hotels in Nairobi County implement corrective measures. The hotels should implement corrective measures to deal with firm-wide issues that would improve financial performance. The administration of hotels should also create and implement everyday procedures in their establishment. The hotels should also adopt and set up financial reporting software that is frequently updated, as well as regular reviews of reporting standards and procedures. It is advised that future study employ similar experiments with diverse sectors and variables.

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DEDICATION

I dedicate this study to my family.

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LIST ACRONYMS AND ABBREVIATIONS

ANOVA	Analysis of Variance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
NIM	Net Interest Margin
PWC	Pricewaterhouse Coopers
ROA	Return on Asset
ROE	Return on Equity
SACCO	Savings and Credit Cooperative Society
SSE	Small Scale Enterprise
TRA	Tourism Regulatory Authority
SPSS	Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS

Corrective controls:	These refers to efforts made to restore resources and capabilities to their previous condition after an unlawful or unwelcome action (Singleton et al., 2016).
Detective Controls:	These refers to measures designed to detect faults or problems after a transaction has taken place (Lousteau, 2006). They provide evidence that preventive controls are working as intended, as well as an opportunity to uncover abnormalities after the fact.
Financial Performance:	A measure of how effectively a company may utilise assets from its principal method of operation to produce revenue (Anderson, Chandy & Zia, 2018).
Internal Control Systems:	these are rules and procedures created by management to safeguard the integrity of assets and guarantee the efficacy of operations (Jia & Bradbury, 2021). The system prevents losses and assists management in maintaining efficient performance methods.
Internal Control:	Controls relate to efforts to reduce or eliminate all risks posed by factors that impede a corporation from accomplishing its goals (Rittenberg & Schwieger, 2005).
preventive controls:	refers to measures intended to be implemented prior to a threat event in order to diminish or eliminate the likelihood and possible impact of a successful threat event (Hernandez & Groot, 2007)

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Across the globe, there has been a rise in the expectation placed on businesses to carry out efficient internal audits as well as create efficient internal controls. This is because of things like the globalization of the economy and technological improvements, both of which are adding to the complexity of running a corporation, as well as claims of incorrect financial reporting. This is true for all different kinds of commercial enterprises (Adebawojo & Akindehinde, 2017). Internal auditing has two primary objectives: first, to add value to a company's operations, and second, to make those activities more efficient. It is an endeavour that offers guidance that is both neutral and objective, in addition to providing assurance. Companies need to perform this task because it enables them to achieve their goals more efficiently by analysing and improving their risk management, control, and governance procedures through the use of or implementation of a strategy that is methodical and disciplined. This task is essential for companies because it enables them to accomplish their goals more effectively (Yego, 2019).

1.1.1 Internal Control Systems

Internal controls are defined by the Treadway Commission's Committee of Sponsoring Organizations (COSO) as a methodical approach to carrying out an organization's actions and procedures within the confines of predetermined business rules and regulations in order to ensure the overall success of the business (COSO, 2011). Internal controls, according to Hongming and Yanan (2012), function as the organization's version of a human nervous system, communicating various forms of information to and from persons in managerial positions. This network is tightly linked to a firm's organizational structure as well as the regulations and legislation that govern how enterprises are permitted to operate in their particular marketplaces. Internal controls go beyond the compilation of financial reports and the maintenance of records (Hermela, 2019).

Internal control systems are defined by Muhunyo and Jagongo (2018) as a set of organizational policies and standards that ensure all transactions are carried out precisely in order to prevent fraud, waste, and abuse of an organization's resources. Internal control mechanisms also ensure that no resources are squandered. Detective controls, preventative controls, directive controls, and corrective and compensatory controls are the four types of internal control systems. These processes are intended to eliminate substantial errors, omissions, waste, intentional behaviour, and fraud that have a negative impact on an organization's operations (Mendes de Oliveira, D. Imoniana, Slomski, Reginato, Slomski, 2022). An efficient internal control system requires a control environment, monitoring activities, risk assessment, control actions, information, and communication (Woolf, 2013).

Internal control is a set of rules, processes, and other sorts of measures put in place within an organization to assist ensure that its goals are reached while also limiting the risks that could prevent those goals from being met (Rahim, Nawawi & Salin, 2017). Internal auditors are in charge of carrying out internal audit duties, but operational management functions are in charge of maintaining internal control (Chang, Chen, Cheng & Chi, 2019). Internal controls are in charge of doing continuing inspections to guarantee that operational effectiveness and efficiency are attained through risk management, whereas internal audits are a one-time assessment of a company's activities. Internal audits are carried out by the personnel of a company. Internal control, according to some risk management professionals, should even play a part in the day-to-day activities of a company's management and administration (Baker, Cohanier & Leo, 2017).

The five components of internal control can be used to assess the efficacy with which a company's management controls its assets and tries to prevent amassing liabilities that would make it impossible for the business to run efficiently. This assessment can be used to determine the effectiveness of internal control implementation. These components include control activities, monitoring, risk assessments, information and communication systems, control environments, and control environments (Baker, Cohanier & Leo, 2017).

The control environment is usually thought to serve as the foundation for an organization's internal control system. This component of internal control in an organization focuses on concerns such as the sincerity and moral integrity of those in charge of overseeing, as well as the evaluation of controls, assurances, and the competency of those working at various levels of the organization (Sigilai, 2017). The internal controllers are directly responsible for the overall success of the control environment. It considers a company's organizational structure and is influenced by the company's history as well as the ideas that it adheres to. When it is built in an efficient and effective manner, it ensures an effective technique for both internal control and corporate administration (Yego, 2019).

Monitoring is used to assess the quality of an enterprise's control process by tracking, analyzing, and implementing the necessary steps to ensure the control process's success (Dutta, Kumar, Sindhwani & Singh, 2021). A corporation's monitoring procedure could be continuous or one-time. According to Oliviera, Sá, and Fernandes (2017), administration and employees at various levels are constantly evaluating the overall performance of the company as well as the performance of the various divisions or departments. This is done to confirm that the control mechanisms are operational. Individual auditing, on the other hand, is a method of internal auditing that operates as its own unique procedure.

The risk assessment process is used to evaluate an organization's risk management strategy as it works toward achieving its goals. This is premised on being aware of and managing all the hazards to which a business may be exposed. Most dangers are caused by fraudulent conduct in financial reporting and the improper use of funds. Jia and Bradbury (2021) contend that proper administration monitoring can lead to the evaluation and identification of potential hazards in advance. This can occur as a result of internal controls put in place. The stages that bring this about are outlining the company's aims, recognizing the dangers involved, and determining the potential that these dangers might be managed.

A well-functioning information and communication system is critical to the process of monitoring the company's finances. This is because it guarantees that information is transmitted effectively within the firm and that information systems are integrated efficiently (Chang et al, 2019). An effective information and communication system allows information to flow in numerous directions throughout the organization (Adegbile, Suleiman & Umaru, 2021). This is because it ensures that all employees may successfully work toward reaching their goals due to the efficient movement of information among them.

Every company has its own set of rules, procedures, and systems in place to ensure that the administration's directives are carried out correctly (control activities). An organization must have the proper regulations in place in order to fulfil its role of ensuring that all control measures are carried out in accordance with the company's standards (Oliveira et al, 2017). This is done to ensure that all of an organization's major obligations are correctly carried out and to help it achieve its goals. An organization is continually engaged in internal control responsibilities such as authorizing, reviewing operational performance, securing assets, and authenticating persons.

Preventative measures are designed to defend against fraudulent behaviour, inaccuracies, and errors before they occur. Detective controls are used to undertake investigations into previously reported incidents of fraud, inconsistency, or inaccuracy. In order to obtain optimal levels of protection, it is common practice to combine investigative and preventative measures. Losses can be averted by implementing preventative measures, which entail making an effort to discourage or prevent negative occurrences from occurring. They were founded on the notion of responsibility compartmentalization (Dixit, 2013).

1.1.2 Financial Performance

Financial performance, according to Erdachew (2018), is a management initiative to improve the accuracy and timeliness of financial data in order to meet requirements and support ongoing company activities. This term emphasizes the significance of making financial information readily available. Aldahdooh (2022) defined it in terms of a company's operational strength in proportion to its income and expenditures as demonstrated by its financial statements. A poor debt policy, a high level of profitability, a low customer dropout rate, growth, a decrease in fixed asset value, in-person visits by commercial staff, debt age analysis, and public media are all markers of a successful financial condition.

The ability of a corporation to make profits from its existing assets can be assessed by looking at its financial performance. It guides future corporate decisions, asset acquisitions, and managerial control responsibilities Husna and Satria (2019). It provides information on the financial successes of management over a specific time period and can be used to compare firms in the same industry. When we talk about financial success, we mean an organization's ability to function financially while overcoming industrial constraints, discovering and responding to opportunities, and addressing environmental challenges. It is determined by the level of achievement inside an organization (Limo, 2021).

Taouab and Issor (2019) an organization's financial success is a reliable measure for assessing its performance. Furthermore, financial performance is commonly used to assess the management team's ability to transform firm resources into profits. Businesses must continue to operate normally and ensure that shareholders receive acceptable returns on their investments. A company's profitability is the most crucial aspect in determining whether or not it will exist in the future. It is sometimes seen as the most crucial goal of an organization, and it reflects a company's ability to make a sufficient quantity of money from the activities it engages in (Feng & Fay, 2020).

There are several ways that can be used to calculate an organization's level of success. Examples include, but are not limited to, a rise in sales rate, market expansion, increased productivity, and increased profitability (Anderson, Chandy & Zia, 2018). The sales growth rate is a ratio that measures the rate at which sales fluctuate over time or over a specific period of time. When attempting to forecast future growth, one way that can be used is to use past growth rates. The amount of money a company sells or the number of units it creates and sells can be used to assess its market share. Market share can be calculated in one of two ways. One of the most important criteria that can be measured using market share is a company's level of competitiveness, or how well it operates in comparison to its competitors.

Because of the company's strong financial performance, the profitability of a firm may be measured in terms of the quantity of money it brings in. A company's production success can be measured in a variety of ways, including return on investment, return on assets, and value added. The financial performance of a corporation reflects how well its output is doing. Commercial banks' primary goal is to improve their profit margins whenever possible. A company's profitability can be measured using a variety of different metrics in a variety of different methods. Return on Asset (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) are the three most important financial statistics (Wuave, Yua & Yua, 2020). According to Kaplan and Norton, a number of measures are used to assess the level of financial success that a company has attained. Return on equity and return on assets are two examples of these indicators. To calculate the return on equity, divide the net income remaining after taxes by the total amount of equity capital (ROE). Return on total assets, on the other hand, is a widely used metric that corporations use as a broad indicator of financial performance. This is because return on total assets is a more comprehensive indicator of a company's financial performance. To arrive at this amount, subtract Net Income from Total Assets (Wuave, Yua & Yua, 2020).

1.1.3 Classified Hotels in Nairobi County

Hotels are classified to analyse the market sector which aid in comparisons, analysis of performance, identifying market gaps, marketing strategies and customer requirements. In addition, hotels are classified to describe the type of hotel for advertising and promotional purposes based on location, form of ownership, facilities, type of client, standard, star rating and size. All hotels in Nairobi are town hotels based on the category classification as per Hotels and Restaurant Act Cap 494. Town hotels are hotels located within the city of Nairobi and any other municipality or township. In determining the classification of a hotel, the Authority shall take into consideration all the factors affecting the overall standard of the hotel and in particular the structure of the hotel buildings and the amenities provided; the standard of cleanliness throughout the hotel; the quality of the food; the degree of comfort afforded, the quality of the equipment and furnishings, the proportion of bathrooms to the number of guest rooms and the number of private bathrooms in proportion to the hotel.

Hotels around the world are classified based on different system of classifications. The star classifications system of Hotels is common in many countries. The higher the star rating of the Hotel indicates the higher luxury. Hotels in Kenya are classified in star-rating system that includes 5-star the higher luxury, 4 –star Hotels, 3-star Hotels, 2-star Hotels and 1-star Hotels. According to Johanna (2010), currently every country tends to have its own rules and requirements for determining hotel classifications in spite of the recognized body. Hotels assessment is based on the facilities they have and the service quality they offer.

Nairobi has seen an increase in the number of hotels namely Windsor Golf and Country Club, Sankara Hotel, Tribe hotel, Hemingways and Villa Rosa Kempinski.These entrants have increased the competition in the market as they all try to get a piece of the clientele. In addition, all of them are sourcing from a limited labor market. Further, the international chains like Villa Rosa Kempinski and Hemingways bring in their international experience that means that changes in the already existing players in the industry to survive. New hotels mean new state of art rooms and restaurant services and the old players have to look for ways to remain competitive by undertaking initiatives like renovations that are competitive. All these factors thus mean that hotels have to properly manage their available limited resources so as to perform and remain competitive.

1.2 Statement of the Problem

Internal control is a key part of corporate governance since it determines the accuracy and reliability of a company's financial reporting. Board supervision is another key governance instrument (Skaife et al al., 2007). When such controls are in place, a company knows it will achieve its goals (Gerrit & Abdolmohammadi, 2010). A company implements internal controls to ensure it meets its goals, has accurate financial reports, complies with all financial requirements, and doesn't lose organizational resources. A corporation implements internal controls to ensure it meets its goals (Emasu, 2010).

There has been a significant increase in the number of hotels located within and close to Nairobi County over the course of the past five years. In spite of this, they have struggled with a variety of issues with the internal controls. This is demonstrated by the rise in the number of incidences of fraud that have been reported at some of Nairobi's most famous hotels (Yego, 2019). In the past, prosperous local and international hotels with bases in the major towns of Nairobi County rose to prominence as a result of active participation in the hotel sector and strong financial management. This occurred as a direct result of the aforementioned factors. In spite of this, hotels in Nairobi have been shutting down, cancelling the employment contracts of the bulk of their personnel, or entering receivership over the course of the past few months. For example, in the year 2016, the Edens Hotel ceased business activities as a result of problems related to the performance of the hotel. The Norfolk hotel, on the other hand, was compelled to go into temporary hibernation in the year 2020 as a result of a decline in the number of guests staying there. This is an unavoidable consequence of the unresolved problems with the hotels' overall financial performance.

There are various studied that have been conducted on internal control systems and organization performance. Internationally, Salameh (2019) conducted a study on the impact of internal control system on the quality of banks financial statements in Jordan; Ajao and Oluwadamilola (2020) did a study on internal control systems and quality of financial reporting in insurance industry in Nigeria. In Uganda, Eton, Murezi, Fabian and Benard (2018) carried out a study on internal control systems and financial accountability. In Kenya, Bett and Memba (2017) investigated the effects of internal controls on the financial performance of processing companies in Kenya, and Magara (2013) investigated the effects of internal controls on deposit-taking SACCOs using the Menengai Company as a case study. Both of these studies were conducted in Kenya. However, most of this study were conducted on control activities, information and communication, monitoring activities and control environment. The current study focused on preventive controls, detective controls and corrective controls as the objective of this study. This demonstrates that industries other than hotels were the focus of the local study. The study aims to assess the influence of internal control system on the financial performance of classified hotels in the Nairobi County.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study is to assess the influence of internal control system on the financial performance of classified hotels in the Nairobi County.

1.3.2 Objectives of the Study

i. To find out the effect of preventive controls on the financial performance of classified hotels in the Nairobi County.
ii. To determine the effect of detective controls on the financial performance of classified hotels in Nairobi County.
iii. To assess the effect of corrective controls on the financial performance of classified hotels in Nairobi County.

1.4 Research Questions

i. What is the effect of preventive controls on financial performance of classified hotels in Nairobi County?
ii. What is the effect of the detective controls on the financial performance of classified hotels in Nairobi County?
iii. What is the effect of corrective controls have on the financial performance of classified hotels in Nairobi County?

1.5 Justification of the Study

Incredible developments in Kenya's tourism sector led to several changes in the hotel industry, particularly in Nairobi County, where the bulk of hotels, particularly those with five and four stars, have their main offices. On the other hand, because of their inadequate internal control mechanisms, classified hotels in Nairobi were unable to accomplish their goal. These internal control issues are especially pronounced in some corporate areas, such as the hotel sector of the hospitality industry, one of Nairobi and Kenya's fastest-growing industries.

Globalization of economy, technological advancements, complexity of business, businesses failures and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention to internal controls especially in the hotel industry (Karagiorgos, Drogalas, Gotzamanis & Tampakoudis, 2019). Therefore, classified hotels without internal control are basically a business that is not designed to accomplish goals quickly, under no circumstances have a chance to uncover fraudulent activity, and exhibit little revenue (Kumar & Sharma, 2015).

1.6 Significance of the Study

1.6.1 Hotel Management and Other Stakeholders

The findings of this study will help the management of the hotels in Kenya find and fix any gaps in their establishments' control procedures. The managers will be able to develop plans to increase hotel performance through internal control systems using the information from this study.

The management of the company's resources is the responsibility of the administration, as well as of all the stakeholders in the financial division. They will have more knowledge about the best control procedures they may use to protect the company's assets and enhance the establishment's financial performance.

1.6.2 Policy Makers

The research will also help those who create policies. Policy makers, such as the Ministry of Tourism, will be able to promote the adoption of the necessary regulations thanks to the study's findings, which will ultimately boost hotels' general performance. In an effort to improve hotel performance, policymakers will also develop guidelines for internal controls at hotels.

1.6.3 Researchers and Scholars

Furthermore, the study will build on, and add value to existing studies on the impact of internal controls on different establishments (in this case the hotel industry in Kenya). This will be helpful to scholars and researchers who in future may want to advance, or add new knowledge to this study.

1.7 Scope of the Study

The study focused on the influence of internal control systems on the financial performance of hotels in Nairobi County. The study targeted 45 classified hotels in Nairobi County. The employees in the internal audit and accounting/finance department were involved. Purposive sampling was used to select 90 employees as respondents. The research was carried out between March 2021 to October 2022.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of literature is essential in this study to assess the current level of knowledge in this field of study. The focus in this chapter was reviewed and compared different studies that have been published in the internal controls field, and determine the impact that this has had on the financial performance of organizations.

2.2 Theoretical Review

There are multiple theories that were formulated on the internal controls and financial performance. In this study, the focus was on four theories: the agency theory, institutional theory of organizations, stakeholder theory and the contingency theory.

2.2.1 Attribution Theory

Attribution theory is a social psychology theory that explores how people interpret events and behaviors and how they ascribe causes to the events and behaviors. Bonner et al. (1998) found that auditors are more likely to be sued when they fail to detect common misappropriations that would result in decreased revenues and the evaluators believe that the fraud could have been detected by other auditors. The auditor's accountability for detecting fraud is extended by Reffett's (2007) study, which predicted that auditors are more likely to be held accountable by evaluators when the auditors fail to detect fraud after they have identified the fraud occurrence as a fraud risk.

The result of Reffett's study shows an increase in auditors' liability when an audit fails, after the auditors have identified the perpetrated fraud as a fraud risk and performed procedures to investigate the identified fraud risk. The findings support Reffett's prediction. According to Bonner et al. (1998), evaluators can use the audit processes as a basis to determine negligence if auditors fail to detect internal control-related fraud that may occur. This theory is relevant to the study in that it suggests that when fraud occurs, identified parties should be held accountable and auditors are most likely to be held accountable if evaluators determine substandard audit services were provided.

2.2.2 Institutional Theory of Organizations

In 1987, Zucker created what is now known as the Institutional Theory of Organizations. The institutional theory of organizations is an approach to the study of organizations that looks at institutions to establish the function that institutions play as the major predictor of the structure and behaviors of organizations. Organizations do not operate in a void; rather, they are vulnerable to the impact of a number of external forces, such as various cultural norms, distinct legislative needs, and established conventions and standards. This is because organizations do not function in a vacuum. In addition, the operation of these facilities is influenced by a wide variety of other stakeholders. These stakeholders include, amongst other organizations, customers, suppliers, regulatory agencies, and labor unions.

Institutionalization is the process by which a group or organization achieves a status that is not only consistent but also long-lasting after it has been in operation. It is of the utmost importance to have a profound comprehension of the dissimilarities that exist between an institution and an organization. In order to provide just one example, a school is an example of an organization, whereas education is an example of an institution. In addition, whereas restaurants and other types of lodging are regarded to be organizations, hotels are considered to be institutions.

A collection of beliefs, rules, roles, and symbolic characteristics that influence the form of an organization and are independent of resource flows and technical constraints make up an institution. To put this into perspective, an institution is a collection of beliefs, rules, roles, and symbolic characteristics. To put it another way, the culture of an institution influences the aesthetic of an organization. The distinctions between cognitive, normative, and regulative rules and beliefs are useful for categorizing rules and beliefs. The term "regulative" is used to describe the regulations that must be followed because they are required by law. The second category is called normative, and it describes regulations that are enforced by a common sense of propriety in situations where it is believed that doing so is proper (conceptualized as mental models).

The institutional theory is most frequently utilized in order to explain the adoption and growth of formal organizational structures such as written regulations, standard processes, and new organizational forms. This is because the institutional theory posits that formal organizational structures are inherently more stable and reliable. The institutional theory serves this as a primary objective, making it one of its fundamental functions. Both David and Bitektine (2008) and Greenwood, Oliver, Sahlin, and Suddaby (2008) came to the conclusion that institutional theory is one of the most influential methodologies for conducting organizational research in the modern era. However, there is a lack of agreement among academics regarding the meaning of essential terminology and fundamental assumptions regarding the influence of social norms and expectations on organizations. This lack of consensus stems from the fact that there is no universally accepted definition of the terms. For instance, Meyer and Rowan (1977) discovered that a particular organizational necessity is regarded to be an institution. Friedland and Alford (1991), in a separate piece of study, came to the conclusion that an institution is a representative of the norms and values of an organization.

The discipline of institutional theory is home to two significant schools of thought that have emerged as influential over the course of its history. These schools of thought are old institutionalism and modern institutionalism. According to Powell and DiMaggio (1991), the term "new institutionalism" refers to an emerging school of thought in the fields of sociological and organizational studies that is characterized by its rejection of the models provided by classical economics. This school of thought can be found in sociological and organizational studies. Under these conditions, attempts are made to provide cognitive and cultural explanations for social and organizational phenomena that cannot be reduced to aggregations of individual characteristics or reasons.

These explanations are sought because such phenomena cannot be reduced to aggregations of individual reasons. According to Scott (1995), in order for organizations to continue existing in their particular settings, they need to comply with the standards and belief systems that are currently in place. This is necessary in order for them to continue to exist. This is because institutional isomorphism assists an organization in reaching a high level of legitimacy, which is why it is essential. The reason for this is due to the fact that institutional isomorphism helps an organization achieve this goal.

According to institutional and neo-institutional theory environmental alignment and organizational practices are considered to be the result of normative, coercive, and mimetic effects. This is the case even though institutional and neo-institutional theory were developed independently. Because of these limits, the organization is compelled to make use of its own methods for internal control in order to establish organizational uniformity (Tickle, 2013). With the support of the internal control measures, the organization is able to comply with all of the social criteria. On the other hand, the idea has been criticized for the fact that it rests on the assumption of organizational optimism and does not place sufficient attention on the behavior of a strategic nature. Contrary to the assumptions made by institutional theory, organizations are able to engage in manipulative behaviors, which have the capacity to change their efficacy on the political and social fronts. This is a possibility because organizations have the ability to influence public opinion.

2.2.3 Stakeholder Theory

A person who is considered to have a significant interest in a firm, organization, or effort is referred to as a stakeholder in that context. The influence of the stakeholders is felt most strongly throughout all organizational operations and, to a lesser extent, among the individuals who run these businesses, including upper management, employees, and even end users of the product or service. In addition, the stakeholders are able to exercise some kind of influence over the broader culture of the businesses. As a result, stakeholder theory is concerned with the business ethics, morals, and values that are applied to manage the stakeholders engaging in the operation of a firm. This is because stakeholders are individuals or groups that have an interest in the success of a corporation. This is due to the fact that stakeholders are engaged in the process of an organization's day-to-day operations.

The purpose of this theory is to explore the various ways in which the different stakeholders interact with one another in order to improve the operation of the organization as a whole. According to the stakeholder theory, any and all interested parties, such as a company's employees, suppliers, government agencies, trade groups, and financiers, need to be included within the stakeholder theory's umbrella of stakeholders. This is because the stakeholder theory considers all of these groups to be stakeholders. According to this idea, in order for a business to be successful, it must first communicate its aims and values to its stakeholders. This is done so that the stakeholders can contribute to the organization's financial gains in the manner that the organization had envisioned for them to do so. However, there is also the acknowledgment that due to the sheer number of stakeholders in an organization, it is extremely difficult to please or fulfill the requirements of each and every stakeholder in the company. This is due to the fact that it is extremely difficult to please or fulfill the requirements of each and every stakeholder in an organization. Even if the company is successful, not all of the shareholders will share in the profits to the same extent as others.

2.2.4 Contingency Theory

The study of organizational behavior using contingency theory is a method that explains how the design of organizations and their performance are influenced by contingent factors such as technological advancements, cultural norms, and the external environment. The concept that there is no one organizational structure that is suitable to all different kinds of enterprises serves as the basis for contingency theory. This principle forms the bedrock of the field. Rather, the success of an organization is contingent on a compatibility or match between the type of technology, environmental volatility, the size of the firm, characteristics of the organizational structure, and the information system that the organization utilizes.

The structural approaches to organizational studies that were pioneered by individuals such as include the sociological functionalist concepts of organizational structure that gave rise to contingency theories (Woods, 2009). The contingency theory investigates the linkages between the environment and the structure of an organization's internal control effectiveness and organizational performance, with a particular emphasis on the dependability of financial reporting. Specifically, the theory looks at how an organization's internal control effectiveness and organizational performance are affected by the environment. According to the findings of empirical research, it will be possible for internal auditors to achieve an internal control effectiveness analysis if they have specialized training and a higher degree of internal audit competence. As a consequence of this, the corporation will reap the benefits of increased organizational efficiency as a direct result of the successful operation of the internal control mechanism (Cadez & Guilding, 2018).

Cadez and Guilding (2018) brought attention to a variety of elements that have the potential to have an impact on management control systems. The external environment, technical advancements, the size and structure of the organization, the strategy that it adopts, as well as the national culture are all elements that fall under this category. It provides the appearance that the development of ways to coordinate and control activities inside the organization is what is driven by the demands generated by technological duties on the organization. The arrangement of information in relation to both technology and the environment has a significant impact on the organizational structure because of the substantial implications this has on the flow of information.

Within unpredictable and complex contexts, information can frequently be kept private by utilizing technologies that are only seldom put to use. It is possible to acquire information from the outside world when the conditions are stable or when the technology is dependable. Aspects of structure and control include the structures of authority and activity, which are the rules and processes that govern the discretion of persons. These structures are included in the category of "aspects of structure and control." There is a link between the authority that one possesses and their social power. When there are non-routine technology or unknown surroundings, the contingency model finds that decentralized authority is a more acceptable form of governance. When the circumstances can be anticipated, it is better to have a power structure that is centralized rather than decentralized.

According to the contingency hypothesis, the design and implementation of control systems are said to "depend on the context of the organizational setting in which these controls function." This statement is made in light of the fact that the contingency hypothesis is a hypothesis that is based on the idea of contingency (Fisher,1998). The premise that underlying contingency theory is that the selection and usage of a management control system is contingent on a variety of factors that are both internal and external to the organization. This is a consequence of the fact that the preceding hypothesis underpins contingency theory. As a direct result of this, it should come as no surprise that elements like as the external environment, technical breakthroughs, organizational structure and scale, strategic planning, and national culture all have an impact on management control systems.

Specifically, the contingency hypothesis contends that businesses are not closed systems that can be constructed without taking into account the ways in which environmental factors affect the business. This view is supported by the argument that businesses are open systems that are affected by environmental factors. This is due to the fact that businesses are subject to change over the course of time (Jokipii, 2006). Businesses should do regular risk assessments of environmental interaction, monitoring measures, and the organization's commitment to coping with such unforeseen occurrences in order to enhance and maintain their performance.

These analyses should be done at least once per quarter. It does not appear that the internal control system is a fixed component of the organizational structure or design. This is the impression that we are given. According to Eriksson-Zetterquist, Müllern, and Styhre (2011), the theory helps to relax the assumption that, as provided by the agency theory, the sole best way to manage a company is to achieve the goals of its shareholders. In other words, the theory helps to relax the assumption that the sole best way to manage a company is to achieve the goals of its shareholders. This is due to the fact that the theory helps to explain why this particular method of running a business is not necessarily the most effective one. According to Anggriawan and Yudianto (2018), companies have the ability to expand the scope of the implementation of internal controls or modify the controls themselves in order to reduce mismatch to quasi-misfit and, as a result, increase performance. This can be accomplished by expanding the scope of the implementation of internal controls.

According to this theory, the demands that are imposed on an organization by technical tasks are what drives the establishment of systems that are intended to coordinate and manage the activities that take place within the company. Analysis of the organization of audit teams is another possible use of the concept of contingent events. The majority of the time, the supervisors of the audit teams are the ones that are given responsibility for audit projects. They then construct ad hoc audit teams for the projects, selecting auditors for those teams based on the subject-matter knowledge and experience of the auditor, in addition to auditor availability, all of which adds to audit project contingencies.

2.3 Empirical Review

Muraleetharan (2011) carried out research in order to determine the extent to which the presence of internal controls has an impact on the financial performance of businesses that were situated in the Jaffna district of Sri Lanka. A self-assessment questionnaire was given to 181 respondents who were selected from 47 public and private institutions located within the Jaffna area. In addition, personal interviews were carried out in order to collect data from these individuals. Using Strata, which featured methods for regression analysis, we were able to complete the investigation of the data and get accurate results. The outcomes of the study indicate that there is a correlation that can be supported by statistical analysis between effective internal control and high levels of performance. There is a gap in the contextual research as a result of the fact that the study was conducted in Sri Lanka. This gap cannot be filled with data from Kenya because the study was conducted in Sri Lanka.

Limo (2021) conducted research to explore the impact that ICS has on Uganda Martyrs University's economic outcomes. His findings can be seen in this article. We used a method to study known as case studies in order to collect both secondary and primary sources of information. We used a standardized questionnaire for the goal of data collection, as well as an official interview guide. Both of these were used in conjunction with one another. The 270 faculty and staff personnel employed at Uganda Martyrs University constituted the population of interest for this study. In order to do the analysis on the data, SPSS was utilized. The findings of the study indicate that the component of internal control has a major effect, both positively and significantly, on the performance of the institution. This was shown to be the case.

Research was carried out by Asiligwa (2017) to determine the degree to which internal controls have an impact on the financial performance of Kenyan commercial banks. In this examination, a descriptive research strategy was applied in order to get the best results. The poll was taken part in by a total of 43 commercial banks operating in the country of Kenya. The COSO group determined that there are five distinct areas of internal control, and the return on equity was utilized as a criterion for determining the level of a company's overall financial success in the study. The primary data were collected through the use of questionnaires, and the information regarding the organization's financial performance was collected via financial statements. The use of regression and correlation models was necessary in order to carry out an analysis of the data. The outcomes of the research indicate that there is a connection between the effectiveness of commercial banks' internal control systems and their financial performance. The study fills a void in the context of previously held knowledge, although this is only possible as a result of its singular concentration on the banking sector.

Ajao and Oluwadamilola (2020) did a study on the impact of internal control systems and the quality of financial reporting in insurance industry in Nigeria. The research employed a survey research design. The study administered 100 questionnaires randomly to respondents, 98 questionnaires were returned and analysed. The data collected were analysed using descriptive and inferential statistics. The research hypothesis was analysed using regression analysis using Statistical Product and Service Solutions (SPSS 26). The results of the findings revealed that control environment, risk assessment, control activities, information and communication and monitoring has a statistical significant positive effect on quality of financial reporting of insurance industry in Nigeria. The study concluded that effective and efficient internal control system can affect the quality of financial reports of insurance industry in Nigeria

In order to make sense of the results of this inquiry, descriptive and inferential statistical approaches were both applied, respectively, as part of the analysis process. In the descriptive analysis, percentages, tabulation, and graphical representations of the data are utilized so that the results can be more accurately described. As a component of the statistical analysis done in order to draw conclusions, the chi-square test was carried out. His analysis revealed that the most major element that contributes to bank fraud in Nigeria is an inadequate system of internal controls. These conclusions were reached based on the findings of his inquiry. It is therefore recommended that in order to ensure the bank's liquidity, solvency, and continuing concern concept, the management of each bank should develop and implement a standard internal control system that is robust enough to withstand the schemes of fraudsters. This is something that should be done in order to ensure the bank's continuing concern concept. This is done to ensure that the bank will be able to keep operating as a continuing concern even after this.

2.3.1 Preventive Controls and Financial Performance

It is common practice to use the idea of separate functions as the basis for preventative controls, which are designed to cut down on the possibility of errors and fraudulent behaviour before they occur. Because they are both proactive and quality-focused, preventive controls are an important necessity when it comes to ensuring product quality. Controls that are preventative are put in place with the intention of preventing unfavourable outcomes from occurring or discouraging their occurrence. These controls are preventative measures that help to ensure the safety of assets. Examples of preventive measures include dividing up responsibilities, obtaining the necessary approvals, maintaining a suitable amount of paperwork, and exercising physical control over assets. Controls that are preventative anticipate possible issues, make any required adjustments, and prevent errors, omissions, and intentional acts from occurring in the first place. When a company wishes to lessen the likelihood of employees not following company policies and regulations, it will install preventative controls in the appropriate locations throughout the organization. They are preventative controls that help bring the danger of a loss to a level that is lower or even eliminated altogether. Controls that are preventative include, among other things, dividing up responsibilities, making sure that right authorisation is in place, keeping adequate documentation, and exercising sufficient physical control over assets (Lousteau, 2016).

Internal controls are broken down into several categories, one of which is preventive controls. Preventive controls are an important part of internal controls since they are proactive instruments that reduce noncompliance. One of the most important aspects of internal controls is the preventive controls. When it comes to putting preventive measures into effect, one can choose from a wide variety of different strategies. In the majority of cases, management has the option of either imposing severe penalties, modifying the limitations that were previously established, or rewarding staff members with incentive packages. They also have the option of utilizing any other available choice that is available to them (COSO, 2013). When preventative controls don't work, it can be an indication that there are major issues with the control system as a whole. This can result in weaknesses in the subcomponents, which, in turn, makes the organization more susceptible to a diverse range of threats (Yodbutr, & Thanjunpong, 2018).

A breach in preventive control could be anything, such as confidential information being accessed by a third party who is not allowed to do so. As a consequence of the implications, the company might sustain damage that is both significant and irreparable. In a similar vein, a study found that a breakdown in internal control may potentially put an organization's business plan in peril, which would have significant ramifications if it were to occur. Even though preventative controls are superior, they are still an essential component of internal controls because they are proactive measures that restrict noncompliance. This makes preventative controls a vital component of internal controls. As a result, preventative controls have become an essential subset of internal controls. When it comes to putting preventive measures into effect, one can choose from a wide variety of different strategies.

In the majority of cases, management has the option of either imposing severe penalties, modifying the limitations that were previously established, or rewarding staff members with incentive packages. They also have the option of utilizing any other available choice that is available to them (COSO,2013). When preventative controls don't work, it can be an indication that there are major issues with the control system as a whole. This can result in weaknesses in the subcomponents, which, in turn, makes the organization more susceptible to a diverse range of threats (Armstrong, Blouin,Jagolinzer, & Larcker, 2015; Bangmek, Yodbutr, & Thanjunpong, 2018). A breach in preventive control could be anything, such as confidential information being accessed by a third party who is not allowed to do so. As a consequence of the implications, the company might sustain damage that is both significant and irreparable.

Ozigbo (2015) carried out study on the ways in which Nigerian commercial businesses might reduce their risk of fraud and improve the efficiency of their internal controls. Within the metropolitan region of Warri, a number of different businesses were visited with the purpose of conducting a survey. It was discovered that having sufficient internal controls has a substantial association with minimizing the likelihood of committing fraud. This was one of the findings of the study. Because of this finding, the researchers arrived at the conclusion that an efficient internal control system is an essential protection that guarantees absentee business owners that their funds are being utilized effectively. This conclusion was reached as a consequence of the finding that an effective internal control system is essential. It was proposed that accurate accounting records should be stored in a secure location at all times, and that authorization and approval constraints for employment and funding should be formulated and disseminated to all of the relevant parties who have an interest in the matter. Both of these things should be done as soon as possible.

Ahmed and Nganga (2019) did a study to establish the effect of audit function, risk management, financial reporting and cash management on financial performance of county governments in the coastal region. The study was based on the following theories: The Agency theory, Attribution theory and procedural justice theory. The researcher adopted a descriptive research design. The target population of the study were 30 employees drawn from 5 departments in the Ministry of Finance, Budget and planning in the county governments of the Coastal region. The study targeted 4 Counties in the coastal region of Kenya, that is Mombasa, Kilifi, Kwale and Taita and the respondents were 40 finance managers obtained from Finance Planning Ministry of the listed County governments. A census of 40 respondents was carried out. Primary data was collected using questionnaires. Data was analysed using descriptive statistics and inferential statistics. The study found a positive and significant effect between risk assessment, monitoring, control environment, information and communication on financial performance. The study concluded that the risk identification and mitigation play the most significant role in influencing financial performance of the County governments. Hence, risk identification can essentially be said to be the key starting point of any risk management program as the Counties cannot manage what is unknown. Monitoring the financial performance of the County creates more certainty and confidence in making both short and long term decisions.

According to the findings that were presented by Arundel, Casali, and Hollanders (2015), a breach in an organization's internal control may put an organization's business plan in peril, which may result in severe consequences. Even though preventive controls are superior to detective controls, the effectiveness of preventive controls can only be determined through regular monitoring. For example, validating accounting processes to prevent manipulations from occurring in the first place is an example of validating preventive preventive control. This demonstrates that preventative controls collaborate with investigative controls to achieve their goals (Brzeziski &Bk, 2015).

The introduction of computerized accounting procedures has additionally resulted in a reduction in the quantity of work that is required by internal auditors. This reduction in workload has been a positive side effect of the implementation of computerized accounting procedures. This system alerts management about any potential breaches in the control system, such as errors, fraudulent payments, or payments that exceed thresholds. The following are some examples of various types of violations: Due to the fact that preventative control is applied prior to the formation of errors and irregularities, management should enforce the separation of responsibilities among staff, particularly among those workers who are doing jobs that are identical to one another (Bogt & Tillema, 2016). According to Bajra and ade (2018), a rigorous assessment of the commitment of a company's leadership to the control environment should be carried out.

According to Matei and Drumasu (2015)) the rules of accounting state that it is incorrect for an individual performing accounting functions to process and authorize payments. This is because doing so goes against the principles of accounting. Other aspects of these controls include the heads of departments conducting checks to see whether or not the user departments have a genuine requirement prior to accepting purchasing requests, and ensuring that only authorized individuals have the ability to provide their approval (Horne, 2017). A recent study came to the conclusion that preventive controls should include the appropriate documentation of newly purchased assets, the updating of old asset registries with precise details on book values, and the confirmation of the availability of the assets as well as the locations to which they have been allocated. According to Garca-Meca and Garca-Sánchez (2018), the fundamental principle that underpins the concept is that an organization should take a proactive approach to combating risks, in particular those that are initiated with the aim of causing damage. According to Dzingai and Michael (2017), preventative controls may have a financial burden due to the nature of the controls themselves; nonetheless, the advantages of these measures outweigh the financial burden.

Christ, Emett, Summers, and Wood (2012) carried out research to investigate how preventative and detective controls influence the levels of motivation and performance displayed by workers. An experiment was carried out by the researcher in order to understand how and why these two distinct types of formal controls effect employee performance in the context of an incomplete contract. In this case, just one facet of the activity that the employees are engaged in is compensated, and only one component is regulated. According to the findings, limiting employee autonomy in conjunction with preventative controls does not have an additional effect on employee performance in relation to the control objective when compared to detective controls with timely feedback; however, doing so has a significant negative impact on employee motivation. In the same way that the last one did, this one does its analysis using preventive controls as an independent variable as well. On the other hand, the performance of the workers was used in the earlier study to determine the dependent variable; but, in the current investigation, the performance of the organization will be used to define the dependent variable. This highlights a gap in our comprehension of the idea, which we will make an effort to address with the work that we do.

Abu Musa (2010) conducted research in order to determine whether or not computerized accounting information systems in the Saudi banking industry have adequate security measures applied to them and whether or not those measures currently exist. Additionally, he investigated whether or not those measures have ever existed. According to the findings of the survey, an overwhelming majority of banks in Saudi Arabia take appropriate safety measures to protect their customers. The findings also assist bank managers and practitioners in better securing their computerized accounting information systems and in lobbying for greater information technology security as a means of boosting bank performance. This is made possible as a result of the findings. The importance of taking preventative measures, often known as safety precautions, was emphasized throughout the course of the research. On the other hand, the research not only linked the systems to performance but also evaluated whether or not controls of this kind existed. It is important to point out that the research was also conducted in the banking industry, which may lead to conclusions that are different from those of the current study, which was conducted in the hotel industry. These potential differences should be taken into consideration. This study analyses the connection between the controls that a firm has in place and the level of success that the organization experiences.

Olamide and Anastasia (2018) looked into the management controls and profitability of small businesses in the state of Ogun in Nigeria. The influence that SSE management controls have on the company's profitability was investigated in this study. Regression using ordinary least squares was carried out so that the study's hypothesis could be evaluated. In order to collect information for the survey, questionnaires were used. The summary of the model shows that there is a connection between preventative control measures and the financial performance of SSE. The profitability of the business is used as a performance metric to guide the study's primary focus on management controls. On the other hand, the current study relies on internal control mechanisms other than managerial controls to compile its findings. In contrast to the first survey, which was conducted in various local businesses and eateries, the current one was carried out just in lodging establishments. In the preceding investigation, we used the method of ordinary least square regression to determine the effect that the controls had on performance. We shall be employing multiple linear regression in this inquiry that we are conducting.

2.3.2 Detective Controls and Financial Performance

A detective control is a type of internal control that detects problems in a company's operations after they have already taken place (Bryan, 2017). Checks of the physical inventory, audits of the account reports and reconciliations, and assessments of the controls that are currently in place are all instances of detective controls. Due to the fact that detective controls are performed after the fact, further losses may be incurred on top of those that have already been incurred if the issues that they find are not addressed as quickly as possible. The detective controls are utilized to identify and report on any errors, omissions, or malicious behaviours that may have occurred. Controls that are directive are designed to identify problems after they have already transpired as part of the system. Although it is essential for an effective internal control system to be able to identify a breach of independence after it has already occurred, prevention is always preferred. In the absence of strong repercussions, detective controls are typically ineffective as a form of crime prevention (Lousteau, 2006).

These are approaches that are aimed to find and uncover problems like as fraud, abnormalities, and errors after they have already taken place in an organization. Despite the importance of detection, prevention is always preferred. Examples of these controls include post-audits, reporting of exceptions, and validation of information. They demonstrate that a loss has occurred, but they make no effort to stop it from happening again in the future. Examples of detective controls include audits, reviews, analyses, reconciliations, and physical inventories. Other types of detective controls include variance analyses. On the other hand, detective controls are extremely important in determining how effective preventative controls are and in averting losses (Wells, 2006). Following the execution of a random check to evaluate transactions and compliance procedures, this type of control identifies individuals within an organization who have violated the internal control structures of the company. This serves as the basis for the work that is done by internal and external auditors, who carry out evaluations to evaluate the quality and dependability of accounting and financial events that took place during an accounting year (Bawole & Ibrahim,2016; Bryan,2017).

Detective controls are utilized in an effort to detect inappropriate behavior. They demonstrate that a loss has occurred, but they make no effort to stop it from happening again in the future (Charest, Bouffard, & Zajmovic, 2016). Examples of detective controls include audits, reviews, analyses, reconciliations, and physical inventories. Other types of detective controls include reviews and variance analyses. Each of these subtypes of controls is necessary for an efficient internal control system. Because they are proactive and quality-focused, preventive controls are an essential component of quality management. On the other side, detective controls are extremely important when it comes to establishing the efficiency of preventative controls and preventing losses.

In actuality, the term "detective controls" refers to a control system that is designed to identify issues and keep management updated on any deviations that occur in any process or activity in a timely manner (Detthamrong et al., 2017; Gordon, Loeb, Lucyshyn, & Sohail, 2006). When compared to their private sector counterparts, who place a greater emphasis on preventive controls, management experts in most cases debate whether the public sector places too much emphasis on investigative controls. On the other hand, private sector counterparts place a greater emphasis on preventive controls. According to Gursoy and Swanger (2007), detective controls could be especially useful in mature economies that already have a high degree of compliance; in this scenario, they could augment preventive controls.

Internal control measures, such as the discovery of false recording, are carried out after the fact. On the basis of this idea, numerous academics place a higher priority on preventative measures than detective controls (Jimmieson, Tucker & Campbell, 2017). The reconciliation of accounting ledgers and bank statements is the most common type of investigative control. Its purpose is to find abnormalities in the system. This step has a strong connection to the work that is done by both external and internal auditors while conducting an in-depth investigation of the accounting processes and activities. The method has traditionally been linked to daily standard conformance and is, in a practical sense, cantered on daily goals and objectives, in addition to identifying accounting errors and fraudulent reporting (Chang et al., 2014).

The primary purpose of detective controls is investigation; they are not designed to forestall the occurrence of unforeseen occurrences. Any violation of the procedures for internal control, such as fraudulent recording, is only found out after the event has already occurred. On the basis of this idea, numerous academics place a higher priority on preventative measures than detective controls (Jimmieson, Tucker, & Campbell, 2017).

Detective controls are a type of internal control that aims to discover and identify any problems that may already be present. They are designed to look for and identify problems as soon as they appear in the environment. They demonstrate that a loss has occurred, but they make no effort to stop it from happening again in the future (Ellsworth, 2016). Audits can be thought of as investigative controls that assist a company in adhering to all of the relevant laws and regulations. Examples of detective controls include reconciling bank accounts on a monthly basis, performing return reviews and verifications, reconciling petty cash accounts, auditing payroll disbursement, and performing physical inventories (Walker, 2014).

The evaluation of reports, statements, reconciliations, and other information by management is an essential part of the control process; such content should be assessed to determine whether it is consistent and whether it is appropriate. Evaluations of performance provide the foundation for figuring out what the problems are. Comparison of current performance data to budgets, expectations, historical periods, or other benchmarks should be performed by management in order to evaluate the degree to which goals and objectives are met, as well as to identify unexpected results or unusual conditions that call for further investigation. The evaluation that management has made of the reports, statements, and other data, as well as the resolution of any concerns that have arisen as a result of this evaluation, must be documented.

Due to the fact that it is an integral part of the management process, an efficient internal control system ought to have the potential to improve the efficacy of fraud detection and prevention (planning, organizing, directing, and controlling). Control processes inside an organization are designed to steer day-to-day business activities toward the accomplishment of predefined objectives while simultaneously lowering the risk of failing to meet those objectives. Internal control systems are designed to improve the efficacy and efficiency of activity execution, guarantee compliance with legal and regulatory requirements, and reduce the danger of losing assets. In general, a company that has a robust internal control system ought to be able to achieve its objectives in a timely manner and with sufficient efficiency (Willis, 2000).

According to Jensen (2003), internal audits are a component of a system of internal controls and processes that are designed to improve the dependability of a company's financial performance by fostering a higher level of accountability among the organization's information sources. Sanusi et al. (2015) conducted an investigation into the efficiency of the internal control, financial management, and accountability procedures utilized by mosques in Malaysia. They came to the conclusion that internal control systems improve accountability and transparency, which in turn enables mosques in Malaysia to fulfil their mission and achieve their goals.

Muraleetharan (2011) conducted research to determine whether or not the implementation of internal control systems can improve the financial performance of an enterprise. Communication and information, environmental control, and financial performance were found to have a link that was statistically significant. This was also the case with the association between internal control and financial performance. Boritz, Kotchetova, and

Robinson (2008) conducted a study with forensic accountants and auditors to determine the benefits of involving fraud specialists in the formulation of audit plans that would aid in the detection of fraud. In this study, forensic accountants and auditors were asked to discuss their experiences with detecting fraudulent activity. They came to the conclusion that this was a more efficient method of communication than simply speaking to them.

Olamide and Anastasia (2018) conducted an analysis of managerial controls and the profitability of small-scale firms in the state of Ogun in Nigeria. This study's objective was to determine whether or not there is a correlation between SSE management controls and their level of profitability. For the purpose of testing the hypothesis of the study, ordinary least square regression was carried out. Questionnaires were used to compile the survey's results. The correlation between implementing investigative control systems and SSE's financial success is explained by a value of r equal to.333, as stated in the model's executive summary. According to this study, deploying detective control systems can only explain 11% of the factors that influence the outcome of company profitability among SSEs. However, the R-square indicates that there are more factors impacting the outcome of company profitability among SSEs.

The model was found to be statistically significant, with a significance level of 0.001 and a Fvalue of 11.068. The results may be found in the table below. As a consequence of this, the results of our investigation indicate that the alternative hypothesis is more plausible than the null hypothesis. While the previous study concentrated on small and medium-sized enterprises (SMSEs) in Nigeria, this one will be looking at hotels in Kenya. Because of this, the research that is conducted for this study will concentrate on a different sector of the economy and a different nation in order to compare the outcomes of internal controls and performance.

Christ, Emett, Summers, and Wood (2012) conducted research to investigate the effect that preventative and detective controls have on the motivation and performance of employees. In order to determine how and why these two different kinds of formal restrictions affect employee performance in an environment in which one aspect of the employees' activity is compensated and one dimension is controlled, the researcher carried out an experiment to investigate the matter. The research indicates that detective controls that provide employees with more immediate feedback increase employee performance, but they do not boost financial success. In spite of the fact that the current investigation is focused on performance and detectives, the researchers decided to make employee performance rather than organizational performance the dependent variable.

Barra (2010) developed an analytical method to evaluate the impact that sanctions and other internal controls have on the tendency of employees to engage in dishonest behavior. Her attention was directed toward control actions as well as monitoring. Both management and non-management individuals were questioned for the purpose of data collection. The findings indicate that there is an increase in the cost of committing fraud when there are control actions present, such as role separation. In addition, it was found that segregation of duties is the "least-cost" fraud deterrent for employees who are not in managerial positions, whereas maximal sanctions are the "least-cost" fraud disincentives for employees who are in managerial positions. The findings indicate that the effectiveness of detective controls is necessary for the efficacy of preventative controls such as occupational segregation. The independent variable in the present study is measured through the use of detective controls, whereas the independent variable in the previous study was measured through the use of penalties and other detective internal controls. On the other hand, the researcher made dishonesty the dependent variable in the study, but the current study makes performance the dependent variable. The research did not indicate how other types of internal controls, such as fines, affect the performance of corporations.

Bett and Memba (2017) investigated the influence of internal control on the financial performance of Kenyan processing companies using Menengai Company as an example. The examination was conducted using a research design known as a survey. The study relied on responses from 189 people who took part in the survey. The tabulation of the acquired data was followed by an analysis utilizing both descriptive and inferential statistical methods. In order to show the findings in an organized manner, charts, tables, and graphs were utilized. Based on the results of the ANOVA test, it was determined that the Menengai Company's financial performance was significantly impacted by the detective controls. The previous study focused on businesses that were involved in manufacturing, whereas the current study is more concerned with hotels. The former study (which focused on Menengai Company) was also based on a case study, but the current study is a survey, and as a result, the findings can be extrapolated to a more extensive population.

Magara (2013) investigated how the presence or absence of internal controls influenced the financial performance of deposit-taking Savings and Credit Cooperative Societies in Kenya (SACCOs). The control environment, risk assessment, control actions, and monitoring systems were the study's independent aspects, while financial performance was the study's dependent variable. The conclusions of this study, which was carried out on 122 deposit-taking SACCOs in Kenya, were based on both primary and secondary data acquired from the SACCOs' annual reports. The study was done by the University of Nairobi. In order to study the nature of the relationship that exists between the dependent variable and the independent factors, a multivariate regression model was utilized.

According to the findings of the regression analysis, the independent variables have a meaningfully positive connection with the dependent variable. The study also reveals that in the absence of robust internal controls inside these institutions, SACCOs would function poorly, increasing the likelihood that they would eventually fail as a result of inadequate financial performance. This study mostly concentrated on looking at performance as well as internal controls. Despite this, there is no investigation of the internal control mechanisms that might have an effect on performance in the study. In addition, SACCOs were utilized for this investigation. This demonstrates that there is a distinction in the detective control systems and performance, particularly in the hotel industry, which is the primary subject of the current research.

Mugo (2015) conducted research in Kenyan Technical Training Institutions to investigate the connection between detective controls and the institutions' levels of financial performance. While the financial performance was evaluated based on liquidity, accountability, and reporting, the controls were evaluated from the perspectives of the control environment, internal audit, and control activities. The study found that institution management is committed to control systems and actively participates in the monitoring and supervision of Kenya's Technical Training Institutions' activities. However, the study also found that the internal audit department is inefficient, understaffed, does not conduct regular audit activities, and does not produce regular audit reports, despite the fact that the few reports produced by the internal audit department address control system weaknesses.

Barra (2014) evaluated the extent to which institution management is committed to control systems and actively participates in the monitoring and supervision of Kenya's Technical Training Information was submitted by individuals in management as well as individuals not in management. According to the findings of the research, the availability of control mechanisms such as role separation results in an increase in the cost of fraud. As a consequence of this, in a job environment that is segregated, the reward for engaging in fraudulent activity must be greater than the penalty for fraudulent activity by an employee.

Based on the data, it appears that detective controls, such as the separation of roles, are necessary for the effectiveness of preventative controls.

Ezeagba (2014) conducted research into the role that quality assurance and forensic auditing play in the process of financial reporting for a variety of commercial banks in Nigeria. In this particular study, the research designs of descriptive and survey were utilized. The annual reports collected from the chosen commercial banks serve as the secondary data on which this study is based. In order to collect primary data, two hundred questionnaires based on the Likert scale were sent out to respondents who had been chosen by a simple stratification process. According to the findings of the study, the implementation of forensic accounting has the potential to significantly strengthen the fundamental qualitative aspects of accounting (relevance and faithful representation), as well as financial reporting and the improvement of qualitative qualities.

Eyesi and Ezuwore conducted research on the effect that forensic accounting has on the governance of corporations (2014). This was an investigation based on secondary data and theoretical concepts. Although it is not the responsibility of financial auditors to find evidence of fraud during financial audits, management is responsible for internal controls. As a result, management has sought the services of a forensic accountant to defend the internal control system. The use of computer software in data processing and the computer information system by forensic accountants enabled the discovery of frauds and errors, which ultimately led to management becoming more accountable to all of the organization's stakeholders.

Research was carried out in Nigeria by Ewa and Udoayang (2012) on the topic of the influence of internal control design on a bank's capability to investigate employee fraud, as well as the relationship between employee lifestyle and fraud detection. The research discovered that the design of the internal controls had an effect on how employees felt about the possibility of fraud. Because all of the required checks are in place, robust internal control mechanisms discourage fraudulent behavior on the part of staff members.

This limits staff members' ability to participate in any kind of intentional fraudulent behavior. A vulnerable mechanism leaves the system vulnerable to fraud and provides possibilities for staff to commit fraud. These vulnerabilities are the result of existing defects. As a consequence of this, the research highlighted how essential it is to set up a reliable system of internal controls in order to forestall instances of fraud. The researchers Sarens and De Beelde (2006) found that the role of an organization's internal audit function and its ability to detect fraudulent activity is significantly related to certain control environment characteristics. These characteristics include the tone at the top of an organization, the level of risk and control awareness, and the extent to which risk management and internal control responsibilities are clearly defined and communicated.

Ondieki (2013) conducted research to investigate the impact that internal audit has on the financial performance of commercial banks. Independent factors in the study included things like the control environment, risk assessment, control activities, and monitoring systems; the dependent variable was financial performance. The findings of the study suggest that internal controls may include procedures designed to ensure that fraudulent truncations are either recognized or rendered difficult to transact, if not impossible to do so entirely. Audits of internal controls ensure that those measures are working properly, but they do not guarantee that any instances of fraud or corruption will be found. The objectives of an audit of internal controls focus on the methods, techniques, and procedures employed by management to carry out the mission, aims, and objectives of the company. Njenga and Osiemo (2013) conducted research to determine how the identification of fraud through the use of internal controls affects the overall performance of deposit-taking microfinance enterprises in Kenya. Nevertheless, a comprehensive review of all aspects of the internal control system was not part of the purview of this study's topic of investigation.

Opiyo (2017) conducted research into the role that forensic accounting plays in preventing and detecting instances of fraud within Kenyan government agencies. According to the findings of the research, Kenyan government agencies are equipped with compliance procedures, management override of controls, and duty segregation, all of which contribute to the reduction of fraud. The resolution of disputes has almost no bearing on the amount of fraud that occurs. The study discovered a strong link between forensic accounting and fraud reduction in Kenyan parastatals.

2.3.3 Corrective Controls and Financial Performance

Corrective controls address errors discovered by detective controls and modify the processing system to reduce the likelihood of the problem occurring again in the future (Singleton et al., 2016). When detective internal controls detect a problem, corrective internal controls are frequently implemented. These controls include discipline, reports, software patches or upgrades, and new policies that prohibit practices such as employee tailgating. Corrective controls, according to Simmons (1995), are put in place to address anything foreign and any faults that have occurred in the system. System redesign, follow-ups, post-audits, and management consequences for wrongdoing are all examples of corrective control.

The Committee of Sponsoring Organizations-COSO-of the Treadway Commission explicitly stated that the duty of management and the board entails corrective actions to resolve serious setbacks following monitoring and assessments of operational systems. This type of control manifests itself directly in the form of control activities designed to solve identified problems (Lawson, Muriel, & Sanders, 2017; Mokhtar, Elharidy, A., & Mandour, 2018). As a result, training programs may be modified, new reward systems implemented, and penalties for noncompliance may be increased.

As the government's financial responsibilities expand, operations are jeopardized by a variety of risks, while stakeholders expect accountability and efficiency from public officials. As a result, these controls are regarded as a management tool for preventing errors and mistakes in the accounting, administration, and reporting processes (Jimmieson et al., 2017). It may also be included in daily routine policies to enforce compliance, influence quality performance, and raise overall standards; primarily, a review of reporting standards and processes is part of corrective controls (Dang, Henry, Yin, & Vo, 2017; Ge, Koester, & McVay, 2017). The primary goal is to develop a new method for evaluating existing regulations in order to account for new business and operational trends (Amore & Bennedsen, 2016; Meyer & Leixnering, 2015).

Financial irregularities may have occurred undetected with this type of control, but clear communication of management's goals may address the issue and reduce the occurrence of future hazards. Another aspect of this issue is that Mohd-Sanusi et al. (2015) contend that, despite the existence of specific laws and guidelines for controls, the best method of corrective control may be to implement a system of continuous development in leadership and management science (Ahsan & Rahman, 2017; Cao, Li, & Zhang, 2015). This is consistent with the findings of Bajra and ade (2018), who concluded in a study that collaboration between public and private sector entities could contribute to the quality delivery of certain vital services based on shared compliance objectives. He says that significant privatizations of public entities occurred as a result of a lack of compliance and insufficient supervision. Scholars such as Caperchione, Demirag, and Grossi (2017) argue that a lack of emphasis on advanced knowledge management is a contributing reason of poor performance in public institutions. According to Gómez-Jiménez et al. (2018), the private sector invests more in succession planning, which encompasses knowledge transfer across a company and provides everyone with goals and responsibilities.

Olamide and Anastasia (2018) evaluated managerial controls and small-scale firm profitability in Ogun State, Nigeria. The purpose of this study was to investigate the impact of SSE management controls on their profitability. Ordinary least square regression was performed to assess the study hypothesis. Survey data was gathered via questionnaires. The model summary indicates a link between corrective control activity implementation and SSE financial performance. The R-square, on the other hand, shows that there are more factors that influence a firm's profitability, but only 11.5 percent of those factors are explained by employing corrective control procedures, according to this study. Despite the fact that it evaluated corrective internal controls and performance, the paper's focus, as with this study, was on SSEs other than hotels. The current study was also conducted in a different economic situation, which calls for research on corrective control systems and hotel performance in Kenya.

2.4 Research Gaps

According to the research reviewed, there is no agreement that there is a relationship between internal control systems and organizational financial performance. A review of the existing research demonstrates that the effect of internal controls on financial performance yields contradictory results. For example, whereas Olamide and Anastasia (2018) discovered a substantial positive relationship between internal controls and financial performance.

Christ, Emett, Summers, and Wood (2012) demonstrated that internal controls had no effect on firm financial performance. However, the researcher claimed that relatively few studies have been conducted to assess the impact of internal control performance in firms. In addition, the researcher noticed that no single study had been undertaken to investigate the impact of internal control financial performance in the Kenyan hotel business. The papers reviewed also focus on industries other than hotels, resulting in a research gap that this study aims to fill. This study thus contributed significantly to providing an informed perspective on the impact of internal control systems on the financial performance of Kenyan hotels.

2.5 Summary of Literature

The study examined theoretical and empirical studies on internal control systems and financial performance. The review was based on the aims and factors of the study. The agency, institutional, stakeholder, and contingency theories will guide the research. The empirical investigation will focus on preventative, investigative, and corrective controls, as well as their impact on financial performance. The variables' design was likewise finished. The independent variables were preventative, detective, and corrective controls as indicators of internal control systems. Financial performance as measured by asset value and profit margin was the dependent variable.

2.6 Conceptual Framework

The conceptual framework for this study is developed based on the concepts that the researcher determined were appropriate in terms of determining the problem that is under investigation.

Independent Variable   Dependent Variable

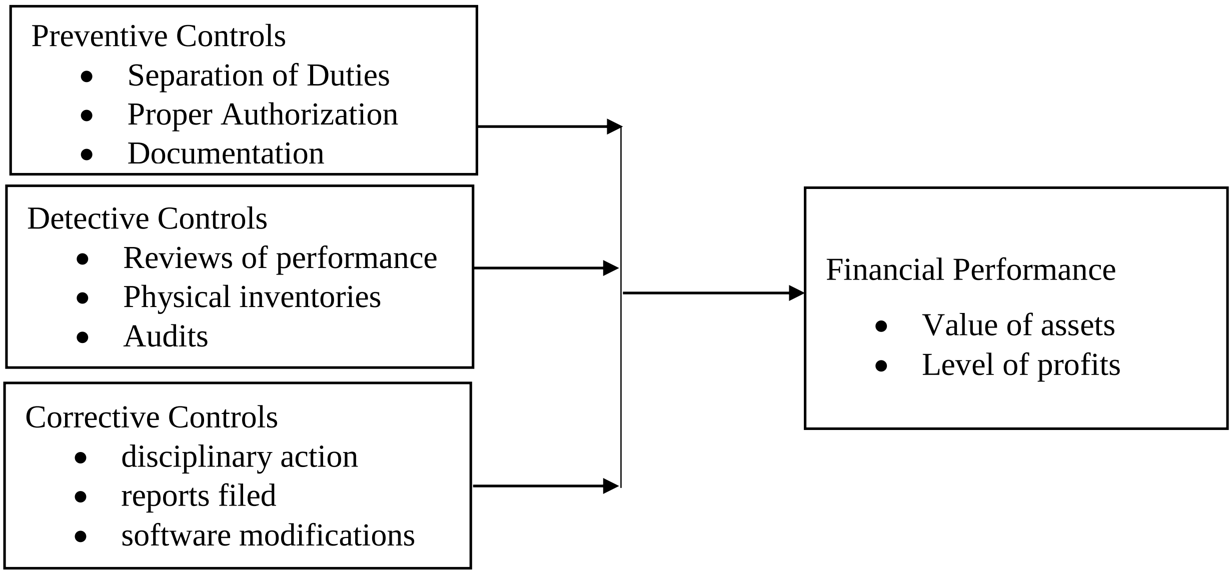

Figure 2.1: Conceptual framework

2.7 Operationalization of Variables

This section gave the variables and elaborates how the variables will be measured to facilitate data analysis and measurement by the researcher in the study.

Table 3.1: Operationalization of Variables

Type of Variable	**Variables**	**Indicators**	**Measurement Scale**	**Type of Analysis**
Dependent	Financial Performance	• Value of total assets • Level of profits	Ordinal	• Descriptive • Inferential
Independent	Preventive control	• Separation of Duties • Proper Authorization • Documentation	Ordinal	• Descriptive • Inferential
	Detective control	• Reviews of performance • Physical inventories • Audits	Ordinal	• Descriptive • Inferential
	Corrective control	• disciplinary action • reports filed • software modifications	Ordinal	• Descriptive • Inferential

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the approach the researcher adopted in carrying out this study. It defines the research design, data collection methods, research procedures and data analysis methods.

3.2 Research Design

Cooper and Schindler (2014) define research design as a plan for a research process. It gives readers a foundation for how the research was carried out as well as instructions for replicating it to get comparable results in the future. It describes the sample selection approach, data gathering devices, and research procedures used by the researcher during the study.

Cox and Hassard (2010) define it as a suitable structure in which specific research is carried out. A descriptive research design framework was used in this study. To attain maximum intuitive presentations, the research will apply analysis and description phenomena procedures from unexplained assumptions. Dannels, (2018) a descriptive research design chronicles a specific study phenomenon in its natural setting without the risk of a research investigator interfering and so influencing the study's conclusions.

3.3 Target Population

Cooper and Schindler (2014) describe a population as a collection of the elements that the researcher want to investigate. The target population of this study was 45 classified hotels in Nairobi city county. The hotel covered in this study ranged from 5-star, 4-star, and 3-star hotels. By the end of 2021, Nairobi County had 11 five-star hotels, 20 four-star hotels, and 14 three-star hotels (TRA, 2020). The respondents of the study were hotel internal audit and finance managers. This is due to the fact that they are the departments in charge of the hotels internal controls and financial performance.

3.4 Sample and Sampling Design

Cooper and Schindler (2014) describe a sample size as a set of respondents drawn from a larger target population and carefully chosen to reflect a population. A sample size enables a researcher to draw meaningful conclusions based on the research objectives established at the start of the project. The survey included all 45 hotels since they are conveniently accessible. Each hotel had two (2) respondents, that is, financial manager and internal audit manager, formed the sample size for this study. This resulted in total sample size of 90 participants in the study. The sample size was selected using purposive sampling technique.

According to Majid (2018) a sample design is the technique used by the researchers to select a subset of the overall population for this study. It serves as a foundation for the researcher to use in determining how the study sample was drawn from the study population. The personnel who took part in the study were chosen using purposeful sampling. It is a non-random sampling strategy in which only individuals of the researcher's designated target demographic can be chosen to participate in this study. The respondent were internal audit and finance managers since they are involved in day to day running of the hotels and have adequate information pertaining to internal control systems and financial performance.

3.5 Data Collection Instrument

As stated in the preceding section, the researcher will gather data using questionnaires. Questionnaires are defined as a series of questions developed by a researcher, to which respondents are expected to provide meaningful answers in an honest and non-biased manner. It was a structured questionnaire with a 5-point Likert scale as well as closed-ended questions on the respondents' general information and the hotels.

Following the successful recruitment of respondents for the quantitative phase, the researcher delivered the questionnaires via email. The researcher called the respondent and asked him questions before filling out the questionnaire. This ensured that the researcher and respondents had as little contact as possible. It also guaranteed a high response rate.

3.6 Pilot Testing

A pilot test is a small study conducted before to the main study to ensure the research instrument's reliability (Majid, 2018). The study piloted five hotels in Kiambu County. A sample size of 10-20% of the sample population is a good quantity to consider (Baker, 2014). The test-retest method was used for the pilot project, with questionnaires being delivered and re-administered after two weeks.

The research instrument's validity was evaluated. Validity describes the soundness of the study tools and how they correspond to the phenomenon (Orodho, 2011). The instruments were checked by the supervisors for validity, and any adjustments were advised. The necessary tweaks and revisions were made to the study instruments to assure their validity.

The degree to which research instruments produce reliable results is measured by reliability (Mugenda & Mugenda, 2013). When a survey/questionnaire contains several rating scale questions that form a scale, the researcher used the widely used internal consistency measure known as the alpha coefficient (a). Internal consistency Cronbach's Alpha (1997) is a reliability coefficient that ranges from zero to one and indicates how strongly the measured items are related. Only constructs with a cutoff of 0.7 or higher was considered for further analysis. For any researchable analysis, a reliability test of 0.7 is recommended (Kothari, 2014).

3.7 Diagnostic Tests

Diagnostics tests were done. This involved multicollinearity and normality test.

3.7.1 Normality

This is a typical assumption in the development and application of statistical procedures (Khatun, 2021). Examples of these processes include regression coefficient testing in regression analysis. According to Khatun (2021), the normalcy test assesses if data is well-modelled by a normal test. The Shapiro Wilk test was used in this investigation.

3.7.2 Multicollinearity

Multicollinearity describes how some predictor variables in the model are connected to others (Martz, 2013). The variance inflation factor was used to test for multicollinearity, providing a measure of how the variance of the estimated regression coefficient increases.

3.8 Data Analysis and Processing

It is described as the processes used by a researcher to organize, structure, and interpret the material gathered throughout the investigation. For the data analysis of the information contained in the gathered questionnaires, descriptive statistics using Strata software were used. Multiple regression was also employed by the researcher to establish the association between the variables. The regression equation was written as:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \boldsymbol{\varepsilon}$

Where:

Y = Performance of hotels as measured by return on assets

β_0 = Regression

β_1 to β_3 = Regression coefficients

X_1 = Preventive controls

X_2 = Detective controls

X_3 = Corrective controls

ε = Error term

Data and the results findings were presented in tables.

3.9 Ethical Considerations

The research used precise ethical rules to ensure and assure that all research participants were not subjected to any type of harm that could influence or ruin their reputation and professions at any point during the research. The researcher safeguarded the identities of all research participants. This implies that, while respondents supplied their personal information, there was no part where they were asked to write their names or any other information that may be used to individually identify them. Second, the surveys and email information were only accessible to the researcher. This information was not accessible to any third party. These severe measures were intended to ensure that the identities of research participants were not divulged during or after the research procedure.

The researcher was likewise concerned about not manipulating or altering the data used in the study. It was also vital to highlight that copyright guidelines were followed and that all writers whose work was used in this thesis were properly credited using the appropriate APA formats for in-text citations and reference pages. It was also vital to note that the researcher acted ethically and promoted trust between himself and the participants during the data gathering process. This was accomplished by being truthful about the subject and objective of the investigation.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This research study's objective was to determine the influence of internal control system on the financial performance of classified hotels in the Nairobi County. This chapter covers data presentation and analysis of the findings of the implementations of the methodology outlined in chapter three.

4.1.1 Reliability Results

The study also tested the reliability of the research instruments through alpha Cronbach test scores on the questionnaire items per each indicator. The pilot study's findings show that preventive controls were highly reliable (α= .788), detective controls were also found to be reliable (α=.704). Finally, corrective controls indicators were found to be reliable (α=.770). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Nunnally, 1978).

Table 4.1 Reliability Results

Variable	Cronbach's Alpha	Verdict
Preventive controls	0.788	Reliable
Detective controls	0.704	Reliable
Corrective controls	0.770	Reliable
Overall	**0.754**	**Reliable**

4.2 Response Rate

From the study, 83 out of 90 respondents filled in and returned the questionnaires, constituting a 92% response rate which conforms to the assertion made by Garg and Kothari (2014) that a response rate greater than 70% is excellent. The response rate of the questionnaires is illustrated in table 4.1 below.

Table 4.2 Response Rate

Response	Frequency	Percentage(%)
Filled in questionnaires	83	92
Unreturned questionnaires	7	8
Total	**90**	**100**

4.3 Demographic Information

The study also examined the respondents' various background information variables to help ascertain the reliability and validity of the information they provided. These demographic variables included: age, education level, working duration and department that respondents work at.

4.3.1 Age of the Respondent

Figure 4.1 shows the attributes of the respondents in terms of age category. Most (44.6%) of the respondents were aged below 25years, 30.1% were aged between 25-35 years, 15.7% were aged between 36-45 years, 3.6% were aged between 46-55 years while 6% were having more than 56 years.

AGE	Freq.	Percent
Below 25 years	37	44.58
25-35 years	25	30.12
36-45 years	13	15.66
46-55 years	3	3.61
56 years and above	5	6.02
Total	83	100.00

Figure 4.1 Age of the Respondent

4.3.2 Highest Education Level

The study sought to investigate the highest education level obtained by the respondents. From the findings, most 45.8% were undergraduate, 25% were post graduate, 16.9% were having diploma as their highest academic qualification while 12% were having certificate as their highest academic qualification.

highest level of education	Freq.	Percent
certificate	10	12.05
diploma	14	16.87
undergraduate	38	45.78
post graduate	21	25.30
Total	83	100.00

Figure 4.2 Highest Education Level

4.3.3 Duration of Working in the Hotel Sector

Figure 4.3 shows the findings of the study on the duration that employees have been working in the hotel sector. From the results, 42.2% of the respondents have been in working in the hotel sector for 6-10 years, 29% have been working in the hotel sector for more 11-15 years, 18% have been working in the hotel sector for more than 15 years while 10% have been working in the hotel sector for 1-5 years.

period worked in the current hotel	Freq.	Percent
1-5 years	9	10.84
6-10 years	35	42.17
11-15 years	24	28.92
more than 15 years	15	18.07
Total	83	100.00

Figure 4.3 Duration of Working in the Hotel Sector

4.3.4 Department of Working

The study also aimed to investigate the department that respondent have been working at. From the findings, 74.7% of the respondent have been working at finance and accounting department while 25.3% have been working at audit and assurance department.

department of the hotel do you work	Freq.	Percent
Audit and Assurance	21	25.30
Finance & Accounting	62	74.70
Total	83	100.00

Figure 4.4 Department of Working

4.4 Preventive Controls

4.4.1 Influence of Preventive Controls on Financial Performance

The study also aimed to investigate the influence of preventive controls on financial performance. From the study findings, most of the respondents agreed that individual performing accounting duties process and authorize payments in their hotel as depicted by means score of 4.69. Respondent also agreed it is impossible for one staff to have access to all valuable information without the consent of senior staff as shown by a mean score of 4.66. Likewise, respondents agreed that the reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization as illustrated by a mean score of 4.61. Respondents agreed that there is proper documentation of newly purchased assets in the hotels as illustrated by a mean score of 4.41. Further, respondents agreed that their hotel has clear separation of roles and that there is updating of existing assets register with clear details on book values as depicted by a mean score of 3.98 and 3.94 respectively.

Variable	Obs	Mean	Std. Dev.
Q5a	83	3.975904	.6434644
Q5b	83	4.036145	.6707437
Q5c	83	4.144578	.7007406
Q5d	83	4.686747	.4666359
q5e	83	4.156627	.689325
q5f	83	4.662651	.4756794
q5g	83	4.024096	.6621455
q5h	83	4.614458	5.63489
q5i	83	4.036145	.6707437
q5j	83	4.301205	.619499
q5k	81	4.444444	.5700877
q5l	83	3.939759	.6314791
q5m	83	4.024096	.6434644
q5n	83	4.060241	.668989

Figure 4.5 Influence of Preventive Controls on Financial Performance

4.4.2 Influence of Detective Controls on Financial Performance

The study investigated the extent to which the construct of detective controls influences financial performance. Most of the respondents pointed out that their firm keeps a regular stock of the inventories to a great extent as depicted by a mean score of 4.98. Internal reviews of implementation of internal controls in units are conducted periodically to a great extent as shown by a mean score of 4.36. Respondent also pointed that performance review is done for the employees within the hotels to a great extent as illustrated by a mean score of 4.13. Likewise, respondent pointed that staff are trained to implement the accounting and financial management system and departments have budget reviews where actual expenditure is compared to a great extent as indicated by a mean score of 4.096 and 4.084 respectively. To a great extent, hotels have auditors who perform reviews to ascertain quality and reliability of accounting and financial events as shown by mean score of 4.00. Lastly, the respondent pointed out that security system identifies and safeguard organizational assets and that reconciliation of the accounting ledgers and the bank statements to discover discrepancies is done in the hotels regularly to a great extent as depicted by a mean score of 3.976 in each case.

Variable	Obs	Mean	Std. Dev.
Q6a	83	4.084337	.7019975
Q6b	83	4.13253	.6583624
Q6c	83	4.361446	.673149
Q6d	83	4.096386	.7260729
Q6e	83	4.975904	4.375586
Q6f	83	3.975904	.6434644
Q6g	83	4	.6625892
Q6h	83	3.975904	.6434644

Figure 4.6 Influence of Detective Controls on Financial Performance

4.4.3 Influence of Corrective Controls on Financial Performance

Figure 4.7 illustrates the study finding on the respondent's agreement on aspects related to influence of corrective controls on financial performance. From the findings, respondents pointed that the employees in their hotel give regular reports to the management as indicated by a mean of 4.69. There is a financial reporting software in their hotel which is updated regularly as shown by mean score of 4.66. Respondents also revealed that there are daily routine policies in their hotel and corrective action is taken to address weaknesses as depicted by mean score of 4.16 and 4.14 respectively. Finally, respondents agreed that there are appropriate measures are taken to correct misfeasance in operation of the accounting & finance management systems and reporting standards and procedures are reviewed regularly in their hotel as shown by mean score of 4.04 and 4.02 respectively.

Variable	Obs	Mean	Std. Dev.
Q7a	83	4.036145	.6707437
Q7b	83	4.144578	.7007406
Q7c	83	4.686747	.4666359
Q7d	83	4.156627	.689325
Q7e	83	4.662651	.4756794
Q7f	83	4.024096	.6621455

Figure 4.7 Influence of Corrective Controls on Financial Performance

4.5 Financial Performance

The study investigated the extent to which the construct of internal control systems enhances financial performance of hotels. Most of the respondents pointed out that internal control systems have influenced assets growth to a great extent as shown by mean score of 4.614. Internal control systems have influence market share to a great extent as shown by mean score of 4.301 while Profitability have increased to a great extent as illustrated by mean score of 4.036.

Variable	Obs	Mean	Std. Dev.
Q8a	83	4.614458	5.63489
Q8b	83	4.036145	.6707437
Q8c	83	4.301205	.619499

Figure 4.8 Financial Performance

4.6 Checking for Correlation Analysis

Correlation analysis was carried out and the results of the analysis are summarized in figure 4.9. The findings are that preventive control have a positive and a significant relationship with the financial performance of hotels of classified hotels (rho=0.8330, p-value< 0.05), detective control has a positive and significant relationship with financial performance of hotels of classified hotels (rho=0.3420 p-value<0.05). In contrast, corrective control has a positive and insignificant relationship with financial performance of hotels of classified hotels (rho= 0.1933, p-value>0.05).

```
pwcorr Y X1 X2 X3, sig star(5)
```

	Y	X1	X2	X3
Y	1.0000			
X1	0.8330*	1.0000		
	0.0000			
X2	0.3420*	0.2428*	1.0000	
	0.0016	0.0270		
X3	0.1933	0.0921	-0.0194	1.0000
	0.0800	0.4076	0.8619	

Figure 4.9 Checking for Correlation Analysis

4.7 Diagnostic Test

4.7.1 Normality Tests

To confirm whether the data were distributed normally, a normality test was conducted. In the statistics, the rule is that if the value of Asymp.Sig is greater than 0.05, then the data is not normally distributed in that given research, and if the value of Asymp.Sig is less than 0.05, then the data is normally distributed in that given research. From the study findings, the value of each variable was obtained as shown in the table below. Based on the output obtained, we can conclude that the data is normally distributed in this study since all the variables produced an Asymp.Sig less than 0.05.

```
. sktest residual
```

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	joint adj chi2(2)	joint Prob>chi2
residual	83	0.0008	0.0583	12.25	0.0022

```
. normality X1 X2 X3 Y
```

Figure 4.10 Normality Tests

4.7.2 Multicollinearity

The multicollinearity test was performed and it was found that the mean-variance inflation factor was 1.05, which is proof of no multicollinearity since the minimum threshold for multicollinearity is 5. This is illustrated by the figure below.

```
. vif
```

Variable	VIF	1/VIF
X1	1.07	0.931656
X2	1.06	0.939274
X3	1.01	0.989664
Mean VIF	1.05	

Figure 4.11 Multicollinearity

4.8 Fitting a Multi Linear Regression Model

From figure 4.10 the study establishes that preventive control, detective control and corrective control variables combined explain up to 73% of the financial performance of hotels of classified hotels. The rest of the 27% is explained by other extraneous factors not covered in this study. The preventive control is significant since the p-value is 0.00 and the confidence interval does not include zero. Detective control is significant since the p-value is 0.013 and the confidence interval does not include zero. Corrective control is significant for the study since its p-value is 0.038. The overall model fits well in the study since the probability is 0.002 which is less than 0.05.

Thus the Multiple Linear Regression model is denoted as follows

$Y = -3.317 + 0.273X_1 + 0.044X_2 - 0.065X_3$ **................ Fitted regression equation**

The regression equation result shows that if the entire predictor variable were rated zero, financial performance of hotels of classified hotels would be -3.317. There is a positive and significant relationship between preventive control and financial performance of hotels of classified hotels from the study data. This implies that a unit increase in preventive control will lead to a 0.27 change in financial performance of hotels of classified hotels while a unit increase in detective control would lead to a 0.043 change in financial performance of hotels of classified hotels. Lastly, a unit change in corrective control would lead to a 0.065 increase in financial performance of hotels of classified hotels.

```
. regress Y X1 X2 X3

      Source |       SS       df       MS              Number of obs =      83
-------------+------------------------------           F(  3,    79) =   71.13
       Model |  115.066293     3  38.3554309           Prob > F      =  0.0000
    Residual |  42.5963579    79  .539194404           R-squared     =  0.7298
-------------+------------------------------           Adj R-squared =  0.7196
       Total |  157.662651    82  1.92271525           Root MSE      =   .7343

------------------------------------------------------------------------------
           Y |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          X1 |   .2733512   .0211195    12.94   0.000     .2313139    .3153886
          X2 |   .0437919   .0171658     2.55   0.013     .0096243    .0779595
          X3 |   .0651754   .0308905     2.11   0.038     .0036895    .1266614
       _cons |  -3.316549   1.038365    -3.19   0.002    -5.383364   -1.249735
------------------------------------------------------------------------------
```

Figure 4.12 Fitting a Multi Linear Regression Model

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a briefing on the results and findings in the previous chapter. The chapter then draws detailed conclusions based on the previous chapter findings and makes policy recommendations for further research.

5.2 Summary of the Findings

The study aimed at analyse the influence of internal control system on the financial performance of classified hotels in the Nairobi County. The study's specific objectives were to establish effect of preventive controls, detective controls and corrective controls on the financial performance of classified hotels in Nairobi County.

The study revealed most of the employees in the classified hotels within Nairobi County are aged below 35years. Most of these staff were undergraduate with majority of them having worked in the hotel sector for 6-10 years. It was revealed that most of the employees were working at finance and accounting department. These are the department that department that are concerned with the financial performance of the organization and therefore were in a better position to provide information that this study sought.

The first objective of the study aimed to determine influence of preventive controls on financial performance. To achieve this, the respondents were required to rate how often preventive controls influence financial performance of the firm on a five-point Likert scale. The study established that employees performing accounting duties were the responsible for processing and authorizing payments in their respective hotels. The findings established that preventive controls had a significant influence on financial performance. Correlation analysis established that preventive control had a positive and a significant relationship with the financial performance of hotels of classified hotels. Upon fitting the multiple linear regression equation, it was established that preventive control has significant influence on financial performance.

The second objective of the study sought to determine influence of detective controls on financial performance. To achieve this, the respondents were required to indicate how detective controls affect financial performance of hotels on a five-point Likert scale. The result indicated that firm keeps a regular stock of the inventories and that implementation of internal controls in units are conducted periodically. Correlation analysis revealed that detective control has a positive and significant relationship with financial performance of hotels of classified hotels. Multiple regression analysis indicated that detective control has significant influence on financial performance.

The third objective of the study sought to determine influence of corrective controls on financial performance. To achieve this, the respondents were required to rate their opinion on how corrective controls influence financial performance of classified hotel using a five-point Likert scale. The findings established that corrective controls had a great effect on financial performance. Correlation analysis found that corrective control has a positive and insignificant relationship with financial performance of hotels of classified hotels. Upon fitting the multiple linear regression equation, it was established that the Corrective control has significant influence financial performance.

5.3 Conclusions

Concerning the first objective, the study concludes that employees performing accounting duties were the responsible for processing and authorizing payments in their respective hotels. This implies that most of the staff working at finance and accounting were answerable to financial activities happening to the classified hotels. The findings conclude that preventive controls had a significant influence on financial performance. Preventive control had a positive and a significant relationship with the financial performance of hotels of classified hotels. It was established that preventive control has significant influence on financial performance. The findings concur with Abu Musa (2010) who found that preventive controls increased financial performance. They also are comparable to those of Olamide, and Anastasia (2018) who observed that there exists a relationship between preventative control measure and the financial performance. However, they vary with the findings of Christ, Emett, Summers and Wood (2012) who showed that preventive controls had no impact on performance.

To the second objective the study conclude that most firms keeps a regular stock of the inventories and that implementation of internal controls in units are conducted periodically. The study also concludes that detective control has a positive and significant relationship with financial performance of hotels of classified hotels. The findings accord with the findings of Olamide and Anastasia (2018) who showed that there exists a relationship between introducing detective control techniques and the financial performance. From the regression analysis, an increase in detective controls would produce an increase in financial performance. This shows that a positive association exists between detective controls and financial performance. The findings are similar to those of Bett and Memba (2017) who evaluated the effects of internal control on the financial performance of Menengai Company and found that detective controls had a substantial influence on the financial performance. The findings also accord with those of Magara (2013) who concluded that detective controls have favourable effect on financial performance. However, the findings disagreed with those of Christ, Emett, Summers and Wood (2012) who showed that detective controls had no effect on financial success.

On the influence of corrective controls on financial performance the study concludes that corrective controls had a great effect on financial performance. Corrective control has a positive and insignificant relationship with financial performance of hotels of classified hotels. The outcomes from the regression analysis showed that an increase in corrective controls boosted financial performance. The findings are similar to those of Olamide, and Anastasia (2018) who discovered that corrective control actions had an effect on the financial performance of SSEs. The findings accord with those of Muraleetharan (2011) who discovered that internal control system is statistically significant in predicting performance. It also concurs with those of Mawanda (2008) who discovered that internal control system had a favourable substantial effect on the institution's performance and Asiligwa (2017) who concluded that a correlation exists between internal control systems and bank financial performance.

5.4 Recommendations

Based on the study findings, the following recommendation was made:

The report suggests that hotels in the county of Nairobi use preventive control systems to improve their performance. It is advised that the hotels establish the independence of the board of governors and its committees. The hotels should also have audit committees that are objective, independent, and active. The hotels should also ensure that important information can only be accessed by their employees with the approval of senior management. It should be impossible for their employees to access valuable information without the approval of senior management. Additionally, the hotels' security systems should detect and protect organizational assets.

In order to improve their financial performance, the hotels should implement internal control systems with an investigative focus. Periodically, the hotels should conduct internal evaluations of internal controls. The firms should also maintain a steady stock of inventory to minimize stock-out situations and the associated costs. Additionally, hotel departments should conduct periodic budget reviews to improve their financial performance.

The conclusion of the study is that corrective controls have a favourable impact on the financial performance of hotels in Nairobi County. The study suggests that hotels in Nairobi county implement remedial controls. In order to improve their financial performance, the hotels should take corrective action to address shortcomings within their organizations. Additionally, hotel management should design and enforce daily routine policies. The hotels should also adopt and install software for financial reporting that is routinely updated. They must develop reporting standards and procedures that are routinely evaluated.

5.5 Recommendations for Further Research

Similar research is suggested based on other aspects that influence financial performance. For the purpose of comparing outcomes, the researcher also suggests conducting similar research outside of hotels. Based on unclassified hotels in Nairobi County, a similar analysis is suggested.

5.6 Limitation of the Study

Several limitations encountered during the research included respondents' unwillingness to share information critical to the study out of fear of victimization or exposure of personal information. This is demonstrated by the hotel staff failure to return questionnaires. They were informed, however, that their information would be kept confidential and their names would not be recorded in order to maintain their privacy. Additionally, the data collected is self-reported, making it somewhat difficult to independently verify the data. Such data may be skewed slightly depending on the respondent. Because the study was conducted in classified hotels in Nairobi County, generalizing the findings may result in an accurate result that does not reflect the reality in other counties.

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APPENDICES

Appendix I: Questionnaire

Section I: General Information

1. What is your age?

   Below 25 years [ ] 25-35 years [ ]

   36-45 years [ ] 46-55 years [ ]

   56 years and above [ ]

2. What is your highest level of education?

   Certificate [ ] Diploma [ ] Undergraduate [ ]

   Post graduate [ ]

3. How long have you been working with the current hotel?

   Less than 1 year

   1-5 years [ ] 6-10 years [ ] 11-15 years [ ]

   More than 15 years [ ]

4. Which department of the hotel do you work in?

   Audit and Assurance [ ] Finance & Accounting [ ]

   Section II: Internal Controls and Performance

5. To what extent do you agree on the following statements relating to preventive controls and financial performance in your hotel? use the scale where 1-very little extent, 2-little extent, 3-moderate extent, 4-great extent, 5-very great extent

1 2 3 4 5

a) Our hotel has clear separation of roles

b) Our Board of governors and its committees are independent of management

c) Our organization has an objective, independent and active audit committee

d) Individual performing accounting duties process and authorize payments in my hotel

e) Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance items noted in those audit reports

f) It is impossible for one staff to have access to all valuable information without the consent of senior staff

g) Our security system identifies and safeguard organizational assets

h) The reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization

i) Our organization has a well-developed chart of accounts

j) Proper documents are kept by my hotel

k) There is proper documentation of newly purchased assets in my hotel

l) In my hotel there is updating of existing assets register with clear details on book values

m) Unauthorized access to vital information is rampant in my hotel

n) Proactive internal control tools deter noncompliance

6. To what extent do you agree on the following statements relating to detective controls and financial performance in your hotel? use the scale where 1-very little extent, 2-little extent, 3-moderate extent, 4-great extent, 5-very great extent

	1	2	3	4	5
a) Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					
b) Performance review is done for our employees within our hotel					
c) Internal reviews of implementation of internal controls in units are conducted periodically					
d) Staff are trained to implement the accounting and financial management system					
e) My firm keeps a regular stock of the inventories					
f) Our security system identifies and safeguard organizational Assets					
g) My hotel has auditors who perform reviews to ascertain quality and reliability of accounting and financial events					
h) Reconciliation of the accounting ledgers and the bank statements to discover discrepancies is done in my hotel					

7. To what extent do you agree on the following statements relating to corrective controls and financial performance in your hotel? Use the scale where 1-very little extent, 2-little extent, 3-moderate extent, 4-great extent, 5-very great extent

1 2 3 4 5

a) Appropriate measures are taken to correct misfeasance in operation of the Accounting & Finance Management Systems

b) Corrective action is taken to address weaknesses

c) The employees in my hotel give regular reports to the management

d) there are daily routine policies in my hotel

e) There is a financial reporting software in my hotel which is updated regularly

f) Reporting standards and procedures are reviewed regularly in my hotel

Section III: Financial Performance

8. To what extent do you use the following measures of financial performance in your hotel? Use the scale where 1-very little extent, 2-little extent, 3-moderate extent, 4-great extent, 5-very great extent

	1	2	3	4	5
a) Assets					
b) Profitability					
c) Market share					

Appendix II: List of Hotels in Nairobi County

Five Star

1 Intercontinental Nairobi
2 Radisson Blu Hotel Nairobi
3 The Sarova Stanley
4 Villa Rosa Kempinski
5 Fairmont The Norfolk
6 Sankara Nairobi
7 The Boma Nairobi
8 Crowne Plaza Nairobi Airport
9 Tribe Hotel
10 Dusit D2
11 Hemingway's Nairobi

Four Star

12 Hilton Nairobi Limited
13 Crowne Plaza
14 Hilton Garden Inn Nairobi Airport
15 City Lodge Hotel At Two Rivers
16 Southern Sun Mayfair Nairobi
17 Eka Hotel Nairobi
18 Sarova Panafric Hotel
19 Silver Springs Hotel
20 Nairobi Safari Club
21 The Panari Hotel, Nairobi
22 Ole Sereni Hotel
23 Windsor Golf Hotel and Country Club
24 Fairview Hotel Nairobi
25 Weston Hotel
26 Golden Tulip Westlands
27 Pride Inn Lantana Apartments and Suites
28 Executive Residency by Best Western
29 House of Waine
30 Carnivore Restaurant
31 Ibis Styles Nairobi Westlands

Three Star

32	Azure Hotel
33	Best Western Plus Meridian Hotel
34	Ngong Hills Hotel
35	The Heron Portico
36	Pride Inn Raptha
37	Sportsview Hotel Kasarani
38	Kenya Comfort Suits
39	La Masion Royale
40	The Clarion Hotel
41	Boma Inn Nairobi
42	Utalii Hotel
43	Marble Arch Hotel
44	Fahari Gardens Hotel
45	Villa Leone Guest House

Source: Tourism Regulatory Authority (TRA), 2020