

## **EFFECT OF CONTROL ACTIVITIES ON FINANCIAL SUSTAINABILITY OF FAITH-BASED HOSPITALS IN SOUTH NYANZA REGION, KENYA**

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**Abstract:** *Statistics indicate that 40% of health care services in Kenya are provided by Faith Based health institutions. Despite the magnitude of their contribution to health care, they have not responded adequately to the increasing demands, expectation of their clientele in the provision of health services and the changes in the environment under which they operate. The main objective of this study was to evaluate the effect of internal controls on financial sustainability of Faith Based hospitals in South Nyanza Region, Kenya. The specific objectives was to determine the effect of control activities on financial sustainability of Faith Based hospitals in South Nyanza Region. The findings of this study may be useful in identifying gaps within the systems of internal control in Faith Based hospitals in South Nyanza Region. The study findings may also provide invaluable benefits to management and those charged with governance will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the firm's objectives. The study was guided by the Agency Theory, the Institutional Theory and the Contingency Theory. The research used a survey research design. All the 78 auditors of the audit departments in the 78 Faith Based hospitals in South Nyanza Region formed the target population. The research employed primary data which was collected using questionnaires. In order to ensure reliability of the results, study used Cronbach's alpha methodology, which is based on internal consistency. Descriptive statistics (means and standard deviation) and multiple regression analysis were used to analyse the data. Results show that control activities have a positive significant effect on financial sustainability of the faith-based hospitals. Regression results from the analysis based objective show that control activities has a positive significant effect on financial sustainability of the faith-based hospitals. This implies that holding all factors constant, a unit increase in control activities leads to a significant increase in financial sustainability of the faith-based hospitals*

**Keywords:** *faith based hospital, financial sustainability, financial performance*

## **INTRODUCTION**

Globally, and historically, faith-based health providers play an important role in the delivery of health services. The Faith-based organizations (FBOs) are considered an important partner in health-systems strengthening and assuring equity of access to healthcare. For decades churches played an important role in low- and middle-income country health services. During the eighteenth and nineteenth centuries, mission societies began providing medical aid under colonial governments in Asia, Africa, and Latin America. These historical roots remain evident in the continued presence and stature of FBOs in developing countries. As health systems evolved and social services of all kinds became a core component of national social system structures, the

relative importance of FBOs within the broader structure of health services of developing countries has become less certain. However, the financial sustainability of faith-based hospitals in most countries in the world is unsatisfactory. This case is prevalent in the developing nations.

An organization is considered to be sustainable when it has the ability to survive for a long time and at the same time to fulfill its mission (Klaus, 2010). Components of sustainability are influenced by numerous internal and external factors such as financial viability, performance, financial adaptability, financial capacity and external environment for example rules set by government agencies among others. Financial sustainability can be gauged by an organization's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills) and solvency (the relationship of assets and debt or liabilities (USAID, 2001). Financial sustainability can therefore be seen as that aspect of sustainability that focuses on financial planning and control for future survival of an organization Sustainability is the capacity of the system to continue its normal activities well into the future. The two commonly used notions of sustainability are financial and institutional sustainability.

### **Control Activities and Financial Performance**

Control activities are the policies and procedures that help ensure that management directives are carried out, for example, that necessary actions are taken to address risks that threaten the achievement of the entity's objectives. Control activities, whether within IT or manual system, have various objectives and are applied at various organizational and functional levels. Generally, control activities that are relevant to an audit may be categorized as policies and procedures that pertain to the following: performance reviews; These control activities include reviews and analyses of actual performance versus budgets, forecasts, and prior period performance; relating different sets of data, operating or financial to one another, together with analyses of the relationships and investigative and corrective actions; comparing internal data with external sources of information; and review of functional or activity performance, for instance at Moonbluez Limited, the accounts and administrative manager review reports from branches, and notice the variances for adjustments as affirmed by International standards of Auditing (International Standard on Auditing 315, 2009).

Eniola and Akinselure (2016) did a study to determine the relationship between internal control and financial performance of listed manufacturing firms in Nigeria. The study adopted survey research design. Primary data was collected using a questionnaire where a 18 sample of 150 questionnaires was distributed to five manufacturing firms in Kenya. Data collected was tabulated on multiple regression analysis and analysed through SPSS. The study found there is a positive significant relationship between internal control and fraud pertained in the organization. This study recommends that, firms should adopt strategies that will enhance internal control system that will eradicate fraud cases.

Mawanda (2008) conducted a research study on effect of ICS in financial performance of Uganda Martyrs University. Both secondary and primary data was collected and a case study research design was used. A formal interview guide and structured questionnaire was used to collect data. The target population involved a sample of 270 staff members from Uganda Martyrs University. Data collected was analysed using SPSS. The study found internal control dimension have a positive significant effect on performance of the institution.

Asiligwa (2017) researched on effect of internal controls on the financial performance of commercial banks in Kenya. Descriptive research design was adopted in the study. The population of the study was 43 commercial banks in Kenya. The study used five elements of internal controls as suggested by COSO committee and ROE was used as a measure of financial performance. Questionnaires were used in primary data collection and financial statements provided data on financial performance. Regression and correlation models were used in

data analysis. The study concluded that there was a positive relationship between internal control systems and financial performance of commercial banks. The study creates contextual knowledge gap because it focused on banking sector.

### **Statement of the Problem**

According to the Ministry of Health/GTZ Report of 2016, 40% of health care services in Kenya are provided by Faith Based health institutions. Despite the magnitude of their contribution to health care, they have not responded adequately to the increasing demands, expectation of their clientele in the provision of health services and the changes in the environment under which they operate. Moreover, a number of them have been shown to heavily depend on their financiers to remain sustainable. Faith-based hospitals just like other Non Governmental Organizations have commonly depended on funding from donor agencies, charitable institutions and government ministries for their own administration and for conducting programs. In the past, these donor/NGO relationships generally worked well for non-profit, non-governmental organizations. However, in recent years, NGOs in the developing countries have been witnessing a marked increase in available grants and other funding from both overseas and local donors (Population Council and CMS, 2002). Faith-based hospitals in South Nyanza Region have been shown to be highly financially unsustainable as evidenced by the high number of the hospitals that have collapsed.

Several empirical studies have investigated the effect internal controls on performance of firms. Most of the studies indicate a positive effect of internal controls on financial performance. For instance, Muio (2012) studied the impact of internal control on the financial performance of private hospitals in Nairobi and established a significant relationship between internal control system and financial performance. Kakucha (2019) evaluated the level of effectiveness of internal controls operating in Nairobi and established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. Njui (2012) investigated the effectiveness of internal control and audit in promoting good governance in the public sector in Kenya and found that internal control has the greatest effect on corporate governance within Kenya government ministries followed by risk management while compliance and consulting had the least effect. Ngugi (2017) survey of internal control systems among the listed private companies and the public sector companies in Kenya in which the results indicated that the private sector compared to the public sector had a strong internal control system. Simiyu (2017) conducted a study on effectiveness of internal control system in higher institutions of learning in Kenya clearly indicate that Institutions of higher learning face quiet a number of challenges during internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources.

It is clear that internal control practices have been studied empirically. However, majority of these studies have concentrated on different industries, while others have concentrated on a mix of listed firms in their localities. In addition, the studies employed different methodologies hence such studies may not be generalized to the study context. Studies focusing on the effect of internal control practices on financial sustainability of Faith-based hospitals in South Nyanza Region are missing. The present study therefore sought to fill this gap by studying the effect of internal control practices on financial sustainability of Faith-based hospitals in South Nyanza Region.

### **Objectives of the Study**

The main objective of this study was to evaluate the effect of internal controls on financial sustainability of Faith-based hospitals with a specific objective to determine the effect of control activities on financial sustainability of Faith-based hospitals in South Nyanza Region, Kenya.

### **Scope of the Study**

The conceptual scope of this study lies on the effect of internal control systems on financial sustainability of Faith-based hospitals in South Nyanza Region. The management staff of the institutions in the department of finance, operations and administration were involved. It is believed that this would provide adequate information for the study and therefore give reliable results and findings. The study was conducted during the months of June to August 2021.

## **RESEARCH METHODOLOGY**

The research used a survey research design. All the 78 auditors of the audit departments in the 78 Faith Based hospitals in South Nyanza Region formed the target population. The research employed primary data which was collected using questionnaires. In order to ensure reliability of the results, study used Cronbach's alpha methodology, which is based on internal consistency. Descriptive statistics (means and standard deviation) and multiple regression analysis were used to analyse the data.

## **RESULTS AND DISCUSSION**

The researcher first analysed the data descriptively in order to describe the general central tendencies of the responses concerning the study variables. The questionnaire was designed to have 5-point Likert scale measurement which is a measurement with five response categories ranging from "Strongly disagree" (1) to "Strongly agree" (5) which requires the respondents to indicate a degree of agreement or disagreement with each of a series of statements related to explanatory variables. The information is presented in the sub-sections below.

### **Internal Control System**

The objective of the study was to establish the effect of control activities on Financial sustainability in faith-based hospitals in South Nyanza Region. The descriptive statistics for Control activities based on the responses received is shown in Table 1 next page.

*Table 1: Descriptive Statistics on Control activities*

| <b>Statement</b>  | <b>N</b> | <b>Min</b> | <b>Max</b> | <b>Mean</b> | <b>Std. Dev</b> |
|---|----------|------------|------------|-------------|-----------------|
| Clearly defined codes of conduct for all employees assist the firm in minimizing cases of fraud in the firm.  | 78       | 2          | 4          | 3.54        | 0.954           |
| Compliance to the policies and procedures are taken with a lot of seriousness and this assists the firm in narrowing the financial unsustainability . | 78       | 2          | 4          | 3.29        | 0.973           |
| There are clear and well-established control activities can clearly and properly be able to identify symptoms of fraud in your firm.                  | 78       | 2          | 4          | 3.48        | 0.890           |
| There is establishment of independent audit committee assist the audit department in controlling of the financial crimes.                             | 78       | 4          | 5          | 4.10        | 0.301           |
| There is separation of duties in the firm assist in putting in checks and balances and reduce chances of frauds occurring.                            | 78       | 4          | 5          | 4.01        | .598            |
| <b>Weighted Average</b>   |          |            |            | <b>3.68</b> | <b>.879</b>     |

Descriptive results in Table 1 show that there are defined codes of conduct for all employees assist the firm in minimizing cases of fraud in the firm ( $M = 3.54$ ,  $S.D = 0.954$ ), that the respondents neither agreed nor disagreed that compliance to the policies and procedures are taken with a lot of seriousness and this assists the firm in narrowing the financial unsustainability ( $M = 3.29$ ,  $S.D = 0.973$ ), and that they agreed on the issue of there being clear and well-established control activities can clearly and properly be able to identify symptoms of fraud in your firm. ( $M = 3.48$ ,  $S.D. = 0.890$ ). On the other hand, the respondents agreed on both issues that establishment of independent audit committee assist the audit department in controlling of the financial crimes and that separation of duties in the firm assist in putting in checks and balances and reduce chances of frauds occurring ( $M = 4.10$ ,  $S.D. = 0.301$  for both).

The weighted average of 3.68 ( $S.D. = 0.879$ ) shows that the respondents generally agree that there are control activities in issues of Internal control practices in the faith-based hospitals.

### **Correlation Analysis**

Correlation analysis shows the direction, strength and significance of the relationships among the variables of study (Sekaran, 2000). To establish whether there was a relationship between the variables, a correlation analysis was conducted. The relationship between the dependent variable (Y) and the independent variable (X) was tested using multiple linear regression model captured next page.

$$Y = \alpha + \beta_1 X_1 + \varepsilon \text{ where:}$$

$Y$  = Financial Sustainability

$X_1$  = Control environment

$\alpha$  = Constant

$\varepsilon$  = Error term

The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study. A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a positive correlation indicates that as one variable increases the other variable increases (Sekaran, 2003).

*Table 2: Correlation between Study Variables*

|       | $Y$      | $X_1$ |
|-------|----------|-------|
| $Y$   | 1        |       |
| $X_1$ | 0.769*** | 1     |

Note: \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table From the results in Table 2, several conclusions can be drawn. First, it has been indicated that control activities ( $X_1$ ) is positively and significantly correlated with financial sustainability in faith-based hospitals in South Nyanza Region. This is indicated by the correlation coefficient of 0.769 that is significant ( $p < 0.01$ ). This implies that there is a strong and significant positive association between control activities and financial sustainability in the faith-based hospitals in South Nyanza Region implying that control activities lead to a reduction in the financial sustainability in the faith-based hospitals.

### Regression Analysis

Table 3 below show the regression coefficients of the effect of internal control practices on financial sustainability at the faith-based hospitals in South Nyanza Region.

*Table 3: Regression Coefficients*

| Model        | Unstandardized Coefficients |            | Standardized Coefficients | t-stat | Sig. |
|--------------|-----------------------------|------------|---------------------------|--------|------|
|              | Beta                        | Std. Error | Beta                      |        |      |
| 1 (Constant) | 0.320                       | 0.146      |                           | 2.192  | .000 |
| $X_1$        | 0.270                       | 0.061      | 0.264                     | 4.426  | .007 |

From Table 3 above, several inferences can be derived. The constant term in the regression equation of 0.320 indicates the level of financial sustainability that is in existence in the faith-based hospitals.

Regression between internal control practices and financial sustainability, the first objective was to evaluate the effect of control activities on financial sustainability at faith-based hospitals in South Nyanza Region. Table 3 shows that control activities has a positive significant effect ( $\beta = 0.270$ ,  $p = 0.007$ ) on financial sustainability of the organization. This implies that holding all factors constant, a unit increase in control activities practices

leads to a 27.0% significant increase in financial sustainability at faith-based hospitals in South Nyanza Region. These results disagree with those of Ebimobowei (2016) who examined the effect of control activities skills in fraud detection in twenty-four banks in Port Harcourt, the capital of Rivers State. The result revealed that the application of control activities significantly affects the level of fraudulent activities of banks. The study however agrees with that conducted in the Far East by Islam, Rahman and Hossan (2011) who in their study established that internal control practices skills as a fraud detection tool has a big impact in combating fraud and corruption in Bangladesh hence reducing the financial sustainability.

### Summary of Findings

The general objective of the research was to investigate the effect of internal control practices on financial sustainability of the faith-based hospitals in South Nyanza Region.

Regression results from the analysis based on the study objective show that control activities has a positive significant effect on financial sustainability of the faith-based hospitals. This implies that holding all factors constant, a unit increase in control activities leads to a significant increase in financial sustainability of the faith-based hospitals.

Based on findings for the objective, which showed that control activities has a positive significant effect on financial sustainability hence implying that holding all factors constant, a unit increase in control activities leads to a significant increase in financial sustainability, it is concluded that control activities is an important factor in increasing financial sustainability in the organizations.

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