RELATIONSHIP BETWEEN AUDITING PRACTICES AND FINANCIAL PERFORMANCE OF STAR RATED HOTELS IN KISUMU, KENYA

BY

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DECLARATION

By student:

This project report is my original work and has not been presented for the award to any university or institution of higher learning.

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Sign………………………….. Date…………………………

By Supervisor:

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

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DEDICATION

This work is dedicated to Lonnie, Leon, Lemuel, my husband Joel and my spiritual father Elder John Odongo.

ABSTRACT

Auditing practices aim to minimize financial losses and pilferage through misstatement of financial records in a firm. The hotel industry has proved to be very competitive globally, with worrying declining trends being witnessed in some areas within Kenya. During 2019 – 2021, hotel enterprises in Kisumu County of Kenya have been facing annual declines in revenue of over 23%, more than national rate of 12%. During the same period, more than 20% of hotel firms which had been operating in the area (Kisumu) for the last 10 years closed down due to low revenue.Whereas increased competition, oversupply and security advisories have been documented to be factors affecting hotel industry, the contribution of auditing practices in enhancing financial management has been overlooked. Prior studies have focused on fraud detection, internal control mechanisms and segregation of duties among firms. The purpose of this study was to analyze the relationship between auditing practices and organizational performance among star rated hotels in Kisumu City, Kenya. The specific objectives were to assess the relationship between internal control monitoring and financial performance, establish the relationship between compliance with authorization monitoring and financial performance and determine the relationship between independence of the auditor and financial performance. The study was guided by agency and stewardship theories. A correlational research design was employed. The study target population was 144 sectional heads from 9 star rated hotels whereby,14 respondents were used for piloting and excluded for final data collection exercise. All the remaining 130 respondents were used as the sample size of study. Primary data was collected using structured questionnaires. Reliability of questionnaire was tested through Cronbach's's alpha using data gathered from pilot study, and a reliability coefficient of 0.81, 0.74, and 0.73 obtained respectively for internal control monitoring, compliance with authorization and approval, and independence of the auditor. Validity was enhanced through consultation with experts from accounting and finance department during questionnaire construction. Data was analyzed using descriptive and inferential statistics. The findings showed that 76.7% of the changes in finanancial performance is attributed to the auditing practices investigated by the study (R^2 =0.767). The study additionally established internal control monitoring (β=0.936); compliance with authorization and compliance (β=1.188), and independence of the auditor (β=0.088) are significant predictors {$F_{(1, 119)}$ =105.295, P<0.05} of financial performance among the star rated hotels. This implies that unit improvements in these practices stand to cause significant improvement in financial performance in the hotels. The study concludes that while internal control monitoring and independence of the auditor influence financial performance of star rated hotels differently, compliance with authorization & approval procedures has universal influence on financial performance of the enterprises. It is recommended that star rated hotels should benchmark for best internal control practices in the sector, while more working autonomy should be accorded the auditor so as to enhance independence oversight of business activities. Further researcher should be done to investigate how benchmarking-based internal control practices influence financial performance of star rated hotels in the study area.

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LIST OF ABBREVIATIONS AND ACRONYMS

A.I.E	-	Authority to Incur Expenditure
COSO	-	Committee of Sponsoring Organizations
EACC	-	Ethics and Anti-Corruption Commission
ERM	-	Enterprise Risk Management
GoK	-	Government of Kenya
ISO	-	International Standards Organization
PFMR	-	Public Finance Management Regulations
PPDA	-	Public Procurement & Disposal Act
KENAO	-	Kenya National Audit Office

OPERATIONAL DEFINITION OF TERMS

Audit	Is an independent examination of financial statements to see whether they portray a true and fair view of company state of affairs and as to whether books of account and vouchers are kept according to company's Act
Independence of the Auditor	Is the ability of an auditor to report misstatement in financial statement without being compromised
Auditing Practices	Are monitoring practices for adherence to internal control, compliance with authorization policy and independence of auditor.
Compliance withAuthorization Monitoring	Is the requirement to adhere to guidelines for approval of transactions by mandated and authorised employees
Financial Performance	Achievement of financial goals in terms of sales (meals and accommodation) and profitability of hotel enterprises
Hotels	Are organizations offering accommodation and catering services
Internal Control Monitoring	Is the practice of scrutinizing whether preventive and detective measures for financial operations are adhered to in the organization
Performance	Is the achievement of goals and objectives of an enterprise in terms of profitability and annual losses
Star Rated Hotels	Are categories of hotel organizations based on accommodation services offered in them, looked at from the perspective of available luxuries

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The global financial crisis of the past decade created incentives leading to the introduction of effective auditing systems to avoid frauds similar to those that have taken place in recent years worldwide (Boskou, Kirkos and Spathis, 2019). Auditing, the systematic and independent examination of financial statements and accounting records, has become an indispensable management tool in management operations (Ahmad, 2018). The Institute of Internal Auditors (2018) emphasises that auditing is critical to assessing and reporting the attainment of an institution objective including organizational performance. The main goal of auditing practice is to advance the competencies and effectiveness of an organization's operations (Nyikuli, 2022). Whereas numerous studies existing across the globe have focused on the association between auditing practces and organizational performance, such literature have yielded mixed and inconsistent findings. For instance, Çakali and Baloğlu (2023) in a study done in Turkey showed that the audit quality in terms of external quality assessment review does not make a difference in the financial performance indicators of enterprises. On the other hand, a study done in the Republic of Serbia by Radovic, Vitomir and Popovic (2021) revealed that audits improve performance of public enterprises. In a study done in Saudi Arabia and the United Arab Emirates, Alzeban (2020) showed that audit practices improve organizational performance and help institutions attain their objectives. Similarly, audit functions were found to be determinants of financial performance among public universities in Ghana (Ziniyel, Otoo and Andzie, 2018). In addition, significant effect of auditing on organizational performance among state corporations was also established in Kenya (Nyikuli, 2022). Therefore, the relationship between internal audit and organizational outcomes is still an on-going discussion.

Auditing is the examination of accounting records for ascertaining their accuracy and compliance with relevant statutory provisions, accounting standards, professional pronouncements, and the organisational policies (Dauda & Olawale, 2019). Auditing practice is an independent, objective assurance activity designed to add value and improve an organisation's operations (Cho, Lee, & Park, 2017). Similarly,Boskou et al (2019) argues that effective audit can enhance financial reporting quality. Researchers (Butcher, Harrison & Ross, 2013; Nedelcu et al, 2015; Scott, 2017; Bilal, Twafik and Bakhit, 2018) have argued that audit practices such as internal control monitoring, compliance with authorization policy for transactions monitoring, and independence of the auditor are essential for realization of sound financial performance among organizations. However, studies focusing on auditing practices have tended to veer towards corporate governance and fraud risk management more than financial performance especially in the hospitality sector. Moreover, while researchers (Cho et al, 2017; Nyikuli, 2022; Radovic et al, 2021) have observed that auditing practices are often performed through means of deploying preventive and detective controls in fraud risk prevention endeavors, effectiveness of these practices on financial performance in the hospitality sector has been overlooked.

In the hotel industry, variables such as average daily rate (ADR) and revenues per available room (RevPAR) are often used to measure performance success of the enterprises (Baranova &Bogatyreva, 2019; Murimi, Wadongo&Olielo, 2021; Yenidogan, Gurcaylilar-Yenidogan&Tetik, 2021). This is because the responsible managers are able to know the number of tourists or customers received and the price they pay hence proper computation of profits or losses can be carried out (Dimitrić, Žiković&Blecich, 2019; Ratemo, Mairura&Nyaboga, 2022). Researchers (Murimi et al, 2021; Pereira-Moliner et al, 2021; Yenidogan et al, 2021) have stated that RevPAR is calculated by dividing the total room revenue by the number of rooms available. On the other hand, ADR is arrived at by dividing room revenue by the number of rooms sold. In essence, RevPAR is ADR multiplied by room occupancy rate (Yenidogan et al, 2021). However, Dimitrić et al (2019) widens the performance measurement debate in the hotel sectore and argues that for purposes of benefitting from the economy of scale, hotels should be built to an optimal size of approximately 500 rooms. Similarly, Stoffers, Eringa, Niks&Kleefstra (2021) note that financial performance in the hospitality sector across the globe is faced with challenges associated with advancement in information and communication technology (ICT) and globalization. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), fraud and money laundering have emerged as activities which affect corporate mission and vision particularly the organizational performance.Nedelcu, Siminică and Țurlea (2015) assert that audit function plays an important role in the corporate mechanism, particularly due to its capacity to add value to the governing process and public confidence in the organization.

Many studies have been documented on the relationship between internal control monitoring and organizational performance. According to Rantelangi, Affan, Deviyanti and Sari (2018)is any action taken by management to enhance the reliability of financial statements and the effectiveness of all organizational activities. Internal control monitoring involves the scrutiny, be they preventive or detective, of whether measures for financial operations are adhered to in the organization (Radovic et al, 2021). However, existing studies on the relationship between internal control monitoring and organizational performance have posted mixed results. The studies of Cho et al, 2017 and Rentor et et al, 2017 used both descriptive design with correlation and regression methods and random sampling method to report a strong positive relationship between internal control mechanisms and organizational performance. On the contrary, studies of Uwaoma and Ordu, 2015 and Munene, 2017 employed correlational research design to assess internal controls on financial management performance and reported a negative relationships. Moreover, Kibue (2015) investigated the effect of internal controls on fraud detection and controls in the banking sector using exploratory research design but results were neutral (no effect).

Literature on the relationship between internal controls and organizational performance show diverse results. Previous studies have revealed that no consensus on the internal control mechanisms-performance relationship in organizations including star rated hotels. This is because some studies revealed strong positive results while others posted negative results. Those that revealed positive results applied descriptive and inferential statistics with correlation and regression methods while those that revealed negative results used correlational research design. Additionally, others reported inconclusive results using exploratory designs. Therefore, the study sought to determine the relationship between internal controls monitoring and financial performance of star rated hotels in Kisumu County, Kenya.

Another auditing practice that has received significant attention in the financial management spheres is compliance with authorization (and approval) policies. Alemu (2020) explains that authorization (and approval) are internal audit control measures which specify the persons responsible for authorizing and approving transactions and the limits of such authority. Empirical studies on the relationship between compliance with authorization policy and organizational performance posted conflicting results. Studies of Goban et al (2015) and Joshi (2020) used descriptive analysis method and found a positive impact on organizational performance whereas Akande (2019), Kang'aru (2016) and Olatunji and Adekola (2017) employed correlational research design to find a negative impact on organizational performance, though for efficiency purposes, organizational performance after economic crises need to be assessed. Other studies (Masinde, 2014; Kyalo, Kalio and Ngahu, 2012) used mixed method and reported inconclusive results recommending further interrogation across the sectors.

Majority of the reviewed literature on the relationship between compliance with authorization policy monitoring and organizational performance were conducted in manufacturing and banking sectors and reported contradictory results. Some revealed positive results while others revealed negative results. Those that revealed positive results applied descriptive and inferential statistics method with correlation analysis to find a positive impact on organizational performance. On the contrary, studies that revealed negative results employed descriptive research design. None of these studies was done post-economic crises period. The current study used correlational research design to assess the relationship between compliance with authorization policy monitoring and financial performance among star rated hotels in Kisumu, Kenya.

For audit function to be effective, there is need for the auditor to be accorded independence. According to Rantelangi et al (2018), independence of the auditor refers to freedom from pressure and other factors, indicated through certain activities or relationships including objectivity and integrity, while doing the auditing process. Studies have also been documented on the relationship between independence of the auditor and organizational performance. However, these studies have tended to yield contrasting findings, besides adopting different methodologies of data collection and analysis. The studies of Brad et al (2015), Bilal et al (2018) and Alabdullah and Ahmed (2020) used descriptive research design with correlation and regression methods to report a strong positive relationship with organizational performance. On the contrary, studies of Dellai and Omri (2016), Njeru (2013) and Jepkemei (2016) employed correlational research design to post negative relationships.

Literature on the relationship between independence of the auditor and organizational performance post divergent results. Previous studies have revealed that no consensus on the auditor independence-performance relationship. This is because some studies revealed strong positive results while others posted negative results. Those that reported positive results applied inferential statistics with correlation and regression methods while those that revealed negative results used exploratory research design. Therefore, the study sought to determine the relationship between Independence of the auditor and financial performance of star rated hotels in Kisumu, Kenya.

Auditing practices are necessary as they aim at monitoring financial activities of an enterprise to ensure good performance that satisfies all the stakeholders of the firm. Star rated hotels in Kisumu County have been facing frequent annual declines in revenue of over 23% between 2019 and 2021, more than national rate of 12% and this has adversely affected their financial performance (Tourism Regulatory Authority, 2022). Ratemo, Mairura and Nyaboga (2022), citing Cytonn Research (2018) sources, state that average revenue per available room (RevPAR) over the years has also declined by 23%, higher than Nairobi at 12.5% and Mombasa (18%). Between 2019 and 2021, more than 20% of star rated hotels which have been operating in Kisumu for the last 10 years closed down due to low revenue (Tourism Regulatory Authority, 2022). Previous studies on auditing practices have ineffectively addressed the problem of declining revenue base of star rated hotels since they have posted mixed and inconclusive results on internal control monitoring, compliance with authorization and independence of auditor. Therefore, this study sought to analyze the relationship of auditing practices and financial performance.

Kisumu city has 11 star rated hotels at the end of 2022 financial year (Tourism Regulatory Board, 2022). These include one 4-star hotel, five 3-star hotels, four 2-star hotels and one 1-star hotel. However, the growth rate of the hotel industry in Kenya has been declining from 18.1% in the last quarter of 2018 to 12.1% by the end of 2019 according to the economic survey report of 2018 (Cytonn Research, 2020).Moreover, the sector has experienced decline in revenue in the country, registering a national decline of 12% during 2019 – 2021, with hotels within Kisumu County registering a higher rate of more than 23% (Ouma&Mutinda, 2022). The decline in revenue among star rated hotels in Kisumu is so dire that Sunset Hotel, a 44-year old enterprise, has been struggling with solvency and bankruptcy issues since 2016 (Ratemo et al, 2022). Coupled with overall national trend of decreasing bed occupancy rate of over 29% (Murimi&Wadongo, 2021), hospitality enterprises in Kisumu seem to be at a precarious position.

In addition, records available at the Tourism Regulatory Board (2022) at least 3 hotel enterprises are being closed or sold to new entrepreneurs each year during period in Kisumu County. There was therefore need to explore the effectiveness of internal auditing practices in enhancing financial performance among enterprises in this sectors especially in Kisumu County.

1.2 Statement of the Problem

Auditing practices are necessary as they aim at monitoring financial activities including those related to internal control measures, compliance with authorization and approval policy for transactions, and independence of internal audit. Thus in Kisumu County star rated hotels have been facing frequent annual declines in revenue of over 23%, more than national rate of 12%, resulting into the closure of more than 20% of the enterprises during 2019 and 2021. Previous studies on auditing practices have ineffectively addressed the problem of declining revenue base of star rated hotels since they have posted mixed and inconclusive results on internal control monitoring, compliance with authorization and independence of auditor. This is because some studies revealed strong positive results while others posted negative results. Those that reported positive results applied inferential statistics with correlation and regression methods while those that revealed negative results used exploratory research design. Therefore, this study sought to analyze the relationship of auditing practices and financial performance of star rated hotels in Kisumu County.

1.3 General Objectives

The general objective of this study was to establish the relationship between audit practices and financial performance among star rated hotels in Kisumu County, Kenya.

1.3.1 Specific Objectives

The specific objectives of the study were to:

i. Determine the relationship between internal control monitoring and financial performance among star rated hotels in Kisumu County, Kenya
ii. Establish the relationship between compliance with authorization & approval monitoring and financial performance among star rated hotels in Kisumu County, Kenya
iii. Determine the relationship between independence of the auditor and financial performance among star rated hotels in Kisumu County, Kenya

1.4 Research Hypotheses

The study sought to test the following null hypotheses:

i. H_{o1}: Internal control monitoring has no significant relationship with financial performance among star rated hotels in Kisumu County, Kenya

ii. H_{o2}: Compliance with authorization & approval monitoring has no significant relationship with financial performance among star rated hotels in Kisumu County, Kenya

iii. H_{o3}: Independence of the auditor has no significant relationship with financial performance among star rated hotels in Kisumu County, Kenya.

1.5 Scope of the study

This study sought to analyse the relationship between auditing practices and financial performance. The study focused on internal control monitoring, compliance with authorization monitoring, independence of auditor, and the level of financial performance in terms of profitability in sales of meals and accommodation, as well asRevPAR and ADR. The study involved sectional heads among star rated hotels in Kisumu County. The area lies between latitude 0,20°s and 0°, 50°s of equator and Longitude 0°6′S 34°45′E. Data was collected from targeted sectional heads of 9 star rated hotels which had been in operation between 2019 and 2023**.**The threshold for performance decline was pegged at 23%, as highlighted in Ouma&Mutinda (2022).

1.6 Justification of the Study

The study findings stand to be beneficial to academicians by providing additional knowledge with regards to audit practices and organizational performance. In addition, scholars in the field of auditing might be able get new areas for further research based on the study recommendations.

The study findings might also provide data to stakeholders in the sector for purposes of adopting a holistic approach on how to best turn around the overall financial performance of the hotels. This would be possible based on the revelations of strengths and weakness in the financial management and risk factors in as far as financial operations in the enterprises is concerned.

The star rated hotels stand the chance of understanding areas in the internal audit sections that require strengthening for the purpose of enhancing its role in both financial and non financial management. Findings from this study would equally be expected to aid in the formulation of effective strategies of managing financial misreporting and adopting audit practices hence organizational performance.

1.7 Conceptual Framework

The relationship between audit practices and financial performance among star rated hotels is presented in a diagram known as conceptual framework. Figure 1.1 presents the conceptual framework of the study.

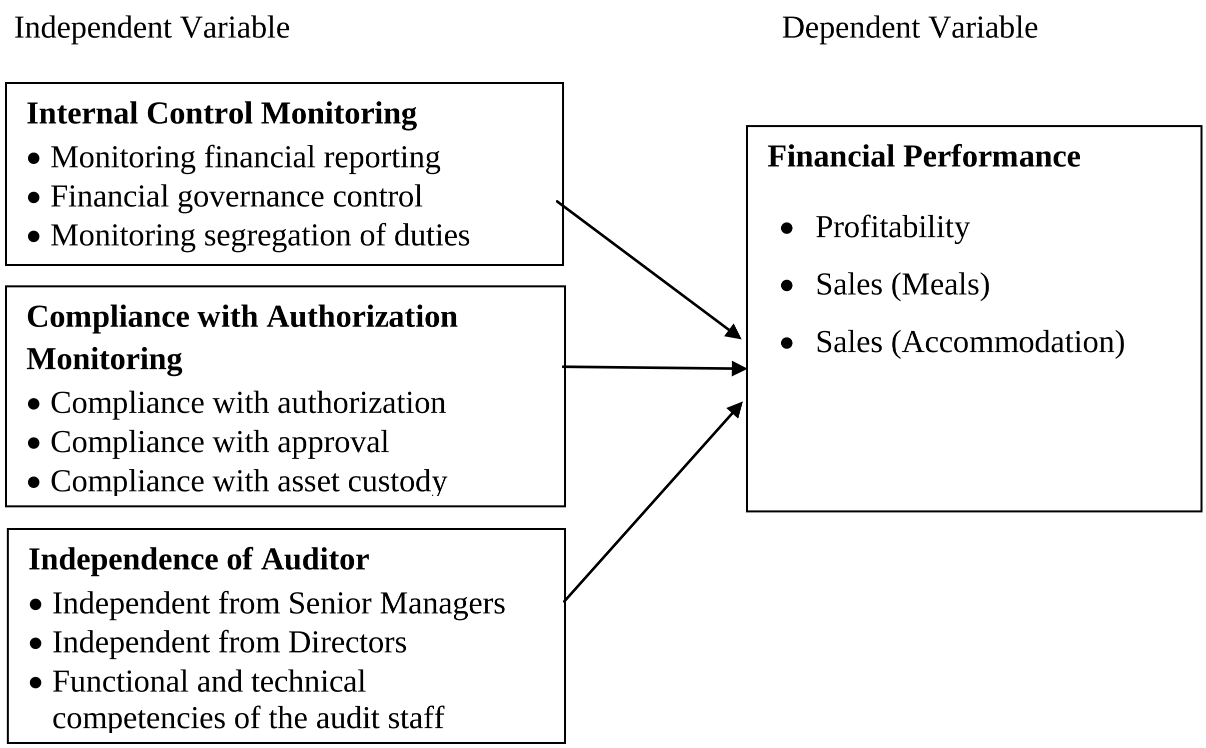

Figure 1.1: Conceptual Framework showing the relationship between Auditing Practices and Financial Performance.

Source: Adapted from Nedelcu*et al* (2015)

In Figure 1.1, the independent variable is auditing practices with three sub-variables namely internal control monitoring, compliance with authorization monitoring and independence of the auditor. For internal control monitoring, the study focused on monitoring of financial reporting, monitoring of financial governance controls, and monitoring practices related to segregation of duties. It was hypothesized in this study that these control practices have some relationship with organizational performance in terms of profitability of star rated hotels in Kisumu County.

In regard to compliance with authorization monitoring, the study focus on compliance with authorization of purchases or payments, compliance with approval of payments or purchases, and compliance with policies related to custody of purchased goods. This study hypothesized that these authorization practices has a relationship with financial performance of star rated hotels in the area.

For independence of the auditor, the study assessed the independence from the audit committee, independence from directors, and functional as well as technical competencies of the auditor. This study hypothesized that the independence of the auditor practices have some relationship with organizational performance with regard to profitability of star rated hotels operating in Kisumu County.

The dependent variable, on the other hand, is financial performance denoted by profitability in terms of food and accommodation sales, as well as RevPAR and ADR. To determine financial performance, consideration of these indicators (accommodation sales, as well as RevPAR and ADR) were observed over a period of five (5) years as stipulated byDidin and Mochklas (2018). This study hypothesized that financial performance of star rated hotels in the study area has some relationship with the three independent variables: internal control practices, authorization monitoring practices, and independence of the auditor.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section discusses the theoretical framework of the study as well as empiric studies done on auditing practices and organizational performance, and identifies gaps for hypothesized relationships in study variables.

2.2 Theoretical Review

The study was guided by the agency theory that describes the relationship between the principal and the agent, the systems' theory that provides that the purpose of an organization is to create as much value as possible to its stakeholders and the theory of financial control that highlights the need for prudent management of resources for sustainability of any organization.

2.2.1 The Agency Theory

According to de Almeida (2014), citing Meckling and Jensen (1976), agency theory is relationship in a contract under which one or more person(s) (the principal) engages another person (agent) to perform some service on their behalf which involves delegating some decision -making authority to the agent. Sarens and Abdolmohammadi (2011) argue that agency theory in its purest form also assumes that individuals will take into account all available information, rationally and instantly, to make decisions. Assumptions of an efficient market can be relaxed to explain the importance of accounting practices and contracting services. In an imperfect market where principals cannot know everything at any one point in time, emphasizes the need to incur agency costs as a means of monitoring. This involves contracting accountants and auditors.

Namazi (2013) proposes that separation of security ownership and control can be explained as an efficient form of economic organization within the "set of contracts" perspective. He set aside the typical presumption that a corporation has owners in any meaningful sense, and the concept of the entrepreneur for the purposes of the large modern corporation. Instead, the two functions attributed to the entrepreneur, management and risk bearing were treated as naturally separate factors within the set of contracts called a firm. Salehi (2010) proposes that the firm is disciplined by competition from other firms which forces the evolution of devices for efficiently monitoring the performance of the entire team and of its individual members. In addition, individual participants in the firm and in particular its manager face both the disciplined and opportunity provided by the markets for their services both within and outside of the firm.

Namazi (2013) suggests that internal auditing is a bonding cost borne by agents to satisfy the principal's demand for accountability made by external participants especially shareholders. The cost of internal auditing can be judged to be a monitoring cost which is incurred by the principals to protect their economic interests. Agency theory contends that internal auditing like other intervention mechanism like financial reporting and external auditing helps to maintain cost efficient contracting between owners and managers.

Watiki (2014) uses agency theory to mark the internal audit department as an important monitoring body that enables management to evaluate possible information asymmetry between principal and agent. He assumes that management sees internal audit as a mechanism to supervise external auditors and control costs. Further, he questions why some companies have internal audit while others don't and he assumes that more complex organizations are more likely to have it than the less complex. It is assumed that the more information asymmetry the greater the need for monitoring to reduce this information asymmetry resulting in a larger internal audit function. In a large internal audit function there will be more staff representing a more diverse range of skills and competences that will be able to reduce a greater range of information asymmetry problems. Further, the scope of the internal audit function covered would be greater in a larger function than a small function. It is further assumed that a larger internal audit function has a broader scope of work and is able to cover more areas where information asymmetry exists. Carcello, Hermanson and Raghunandan (2005) assert that this separation is considered as the basic principle behind the demand for corporate governance which forms the growing importance of internal audit monitoring role in contemporary management spheres. From the foregoing it is apparent that agency theory can help explain the existence of internal audit, the nature of internal audit function and the particular approach adopted by internal auditors to their work.

2.2.2 Stewardship Theory

The study also reviews stewardship theory that was introduced by Donaldson and Davis (1991) to understand the existing relationships between ownership and management of the company.

According to Franco-Santos, Nalick, Rivera-Torres and Gomez-Mejia (2017), stewardship theory contrasts with agency theory as it is not concerned with controlling agents. Stewardship theory accepts that managers are stewards whose responsible is to align their behaviors with the objectives of their principals. This shows that internal auditors can also be a steward in assisting the achievement of organizational objective through the influence of various relevant variables. This theory assumes that the interests of the two parties are already aligned, so incentives and monitoring are not necessary for performance to occur (Keay, 2017). According to stewardship theory, pro-organizational, collectivistic behaviours have higher utility than self-serving, individualistic behaviours (Segal and Lehrer, 2012). Therefore, when people act as stewards they strive to protect and maximize the principals' interests by facilitating the delivery of organizational outcomes; and, in doing so, they also maximize their own interests and satisfaction.

Stewardship theory can be associated with collegial-oriented governance practices or simply collegial governance that complement the notion of 'clan control' (Waldkirch and Nordqvist, 2016), including a disbursed power structure that emphasizes high trust, self-control, and self-management. A collegial governance approach supports such a power structure by incorporating governance mechanisms focused on greater employee empowerment and well-being (Segal and Lehrer, 2012). Employees, including managers are stewards who are intrinsically motivated to work for the organization to accomplish the tasks and responsibilities with which they have been entrusted (Segal and Lehrer, 2012). The steward therefore puts in place strict internal control measures which would ensure the accomplishment of organizational performance. Stewardship theory therefore befitted this study since the interest of the steward is to enhance organizational performance by ensuring that monitoring of internal control, compliance with authorization policy, and service quality are in place.

2.3Auditing Practices

Poor corporate governance resulting into phenomenal scandals of large companies such as Enron and WorldCom in early 2000s in the United States and other countries inspired the need for auditing and the creation of an effective internal control system (Al-Shaheen& Bai, 2020;Mensah, Ngwenya &Pelser, 2020). The auditor often helps in ensuring the highest level of regularity and propriety for the use of resources and promoting effective, efficient and economic management in a company (Al-Shaheen& Bai, 2020). The concept of auditing refers to the evaluation of the financial capability of a company as reflected in the prepared financial statements covering business activities of the firm, and representing the organization's overall performance (Abhishek &Divyashree, 2022; Çakali&Baloğlu, 2023;Yuan, Cheng & Ye, 2016).

According to Mensah et al (2020), the auditor fulfills the interests of both the shareholders and management. Shareholders require assurance that managers they have hired are acting in their best interest in maximizing their wealth and profit. The management on the other hand needs to assess incessantly that their set organizational goals and objectives are met according to the strategic plans (Yuan, Cheng & Ye 2016). In this case, the auditor is the only figure who can independently provide an assurance that risk is managed effectively and laid down operational procedures are adequately operational for enhancing achievement of organizational mission, both commercial and non-commercial (Al-Shaheen& Bai, 2020). For this to be realized, several authors (Bilal et al, 2018; Joshi, 2020; Munene, 2017; Rentor, Setiawan&Lusanjaya, 2017) must employ monitoring practices such as internal control monitoring, compliance with authorization monitoring, and independence of the auditor. However, while these practices have been found to be effective in industries such manufacturing, learning institutions and financial sectors, there was also need to interrogate their contribution in the hotel industry.

2.3.1 Concept of Internal Controls Monitoring

Internal control monitoring is an effort to protect institutional assets through a good control system (Rantelangi, Affan, Deviyanti& Sari, 2018). It is any action taken by management to ensure the achievement of the goals and objectives of the organization by enhancing the reliability of financial statements and the effectiveness of all organizational activities (Radovic et al, 2021). Internal control is concerned with ensuring that the implementation of operational procedures is done in accordance with established guidelines, in which the division of functions, authority, and the use of documents and the determination of the flow of institutional activities are adhered to. According to Kumuthinidevi (2016), effective internal control do not only form the foundation upon which safe and sound organizational activities can be launched; but also minimizes the possibility of significant errors and irregularities, besides aiding in timely detection of any fraud and errors.

It has been observed by researchers (Lachney, 2018; Tenbele, 2019) that an appropriately designed and continuously implemented internal control systems stand the chance of helping the management to protect resources of the organization, and generation of reliable financial reports besides complying with statutes and regulations. Thus, an effective internal control considerably increases the probability of financial information's reliability and accurate information to the board regarding to the assets and records of the organization. Internal control is critical, if 5/10/85 rule by Noviyanti and Winata (2015) is to be observed: that 5% of employees will steal regardless of the circumstances, 10% will never steal, and 85% may commit fraud, depending on certain conditions. The internal audit function of monitoring internal control activities in any organization is therefore a mandatory requirement for its survival.

2.3.2 Concept of compliance with Authorization

Authorization (and approval) are internal audit control measures which specify the persons responsible for authorizing and approving transactions and the limits of such authority (Alemu, 2020). All transactions should be authorized and approved by responsible officials before the organization is financially committed. Such authority should be clearly specified in writing and the limit of authority or responsibility clearly defined (Umar &Dikko, 2018). Authorization and approval have been noted to mitigate the risk of inappropriate transactions, hence serve as fraud deterrents and enforce segregation of duties (Simon, 2021). The management should always define the terms of the authorization and ensures that those terms are documented and clearly communicated and adhered to, hence monitoring of this responsibility is critical (Alemu, 2020). A documented level of authority creates an expectation of responsibility and accountability, and only those acting within the scope of their responsibility should authorize, approve, and execute transactions (Kumuthinidevi, 2016)).

The accountability perspective articulated by authorization and approval is that the number of officers authorizing payments and bank accounts signatories should be limited or minimized as much as possible (Ngari, 2017). This makes it easier for each of the officers to check the authenticity of the payment as approved by the department raising invoice. The COSO (2013) guides that the person making authorization of a transaction should be separated from the one keeping custody of the bought asset for purposes of preventing embezzlement. For example, when there is no such control, the administration department supervisor can endorse a payment of an invoice and also sign a cheque to make the payment. This in essence opens an avenue for the supervisor to open a dummy business that sends out a fake invoice to his or her employer company. He or she endorses payment of the fake invoice, signs a payment cheque, and eventually pockets the money as the owner of the fake business. Consequently, the authorizer and the approver are, to some extent, just as accountable as the person executing the transaction. Because of this, the internal auditor must monitor and have actual knowledge of the transactions approved and should question any unusual items before signing.

2.3.3 Concept of Independence of the Auditor

Independence of the auditor refers to freedom from pressure and other factors, indicated through certain activities or relationships including objectivity and integrity, while doing the auditing process (Rantelangi et al, 2018). Independence means ensuring the possibility of objective performance of internal auditor's duties. This is linked to the organizational positioning of internal audit in the company, reporting relationships with boards of directors, audit committee, or other governing bodies separated from the management, authority for the evaluation of information, reports, and the like (Đorđević and Đukić, 2017). Independence of the auditor is equally important at the individual, functional, and level of individual engagement (Stewart & Subramaniam, 2010). According to Asiimwe, Akankunda and Nalukenge (2019), freedom from undue control and pressure must be exercised through investigative independence such as in the selection of areas, relationships, and management policies to be examined. Freedom from control should also be through programming independence when selecting audit techniques and procedures. Finally, freedom from control should also be through reporting independence in regard to statement of audit information obtained by the auditor during the implementation of audit procedure.

According to Ndubuisi, Okeke and Chinyere (2017), an auditor's lack of independence increases the possibility of lack of objectivity, and the likelihood of discovered breach being reported. The independence of the auditor has also been lauded for ensuring audit quality (Aliu, Okpanachi and Mohammed, 2018). Manayseh and Stalin (2020) also observed that an independent auditor will be able to produce reliable financial report, which in turn stands to raise the satisfaction of stakeholders in any organization. This therefore provides the notion that independence of the auditor is a critical audit environment requirement which goes further in ensuring that various organizational activities are improved.

2.3.4 Financial Performance

Performance is multidimensional when goals are manifold and is a subset of action; performance is subjective because it is the product of operation (Kuya, Ngure&Ngunyi, 2021). According to Elena-Iuliana and Maria (2016) performance refers to the level at which an organization achieves its set objectives. In the hotel sector, Pereira-Moliner et al (2021) outlines specific variables for measuring performance, such as occupancy rate per room, average daily rate (ADR) and revenues per available room (RevPAR). The authors argue that these operational variables of hotel performance are appropriate to measure the success of hotels, as they are always known by hotel managers and are related to the number of tourists received and the price they pay. Albandari (2020) asserts that a number of earlier scholars of organizational studies related resources in the possession of an organization as a determining factor of performance, while other studies highlighted varying context-based measurements of performance. For instance, Bresciani, Thrassou and Vrontis (2015) investigated the relationship between performance and its determinants in the Italian hotel industry. The study used a sample of 450 hotels, and a questionnaire for data collection. Results showed a clear relationship between category and performance, while size and variety of the services provided do not appear to be linked to performance.

Dimitrić et al (2019) examined the determinants of profitability of hotel enterprises in selected Mediterranean countries using 2007 – 2015 dataset. The results indicate that the cash flow to operating revenue has a statistically significant and positive impact on profitability in all observed countries. The total asset turnover ratio is significant for all countries except Portugal, while labor productivity is significant only for Spain, which is also the country with the highest turnover per employee. The solvency ratio is positively related to profitability, except for Greece as the most indebted country. Size proved to be significant for hotels in Spain and Portugal, while age is the variable by which the countries mostly differ, as findings show a different impact of underlying variable on hotel profitability.

Ali, Bagram and Ali (2018) analyzed the various risks which affect banking operation in Pakistan and the effect of risk management on the performance of large and small banking sectors. The data is taken from the published annual report of the commercial banks from 2005 to 2015. Descriptive statistics, correlation matrix and regression analysis use to analyze the data. The study concluded that the better risk management system leads to the better performance of the banks. It also concludes that capital adequacy ratio, non-performing loans, interest rate risk, liquidity risk and operational risk that are key drivers of the profitability for the large banking sector of Pakistan.In Oman, Albandari (2020)analysed the impact of leadership development programme on organizational performance of an Oil and Gas Company. This was a mixed research methodology using a survey questionnaire and interviews. A multivariate ANOVA analysis was made to test three research hypotheses. The results revealed that there is a significant impact of leadership development programs on transformational leadership, innovation culture, and organizational performance.

Ghebregiorgis (2018) investigate the main factors affecting the performance of employees in the hotel industry in Eritrea. A survey was conducted in the city of Asmara on a sample of 150 employees from 4 private and government owned hotels. Data was analyzed using regression and correlation test. The results showed that there is a positive and significant relationship between motivation, training, working conditions and employee performance. The results also reveal that training as a factor influencing performance is more prevalent in privately-owned hotels than government hotels. However, leadership and employee-employer relationship emerged to have no significant relationship.

Ohando (2015) sought to establish the relationship between fraud risk management practices and financial performance of commercial banks in Kenya using a target population of senior officers in the risk management department of the 43 commercial operating in Kenya. The questionnaire was self-administered through drop and pick later. The results of the study indicated that there exists a positive relationship between fraud risk management practices and financial performance of commercial banks in Kenya. It also found out that preventive and detective fraud risk management practices had a very strong positive influence on financial performance of commercial banks as measured by ROA.

Otieno (2013) sought to establish the role of risk management practices towards enhancing project success in commercial banks in Kenya during Core Banking Software Change. The researcher used survey research design and the target population was 14 banks that have changed their Core Banking Software in the last five years (2007-2013) based in Nairobi, Kenya's capital city. A sample size of 7 banks was taken consisting of Project Managers, System Owner and Super Users as respondents. The study revealed that most commercial banks in Kenya employ risk management practices during Core Banking Software Project implementation. and most respondents believed that Risk Management is a major contributor to project success.

2.4 Empirical Review of Literature

2.4.1 Internal Control Monitoring and Organizational Performance

Rentor et al (2017) analyzed the implementation of tasks separation associating with analysis of personality in a credit department at one of the banks in Indonesia. The authors specifically focused on the procedure of segregation of duties as a form of control activity associated with the analysis of risks, and individual personality as a determinant of the effectiveness of the assessment toward the current procedure. The study targeted 280 branch managers spread over 22 provinces. The study adopted a descriptive designed involving data collection via interviews, questionnaire, and field observation. The results showed that placement of employees related to functions separation in credit department does not meet management expectations. This unit had too many employees with various personality types who respond differently to risks. Meanwhile, the employee placement at in credit department was found to meet the management expectation as well as the employee placement. However, Rentor et al (2017) failed to focus on exposing whether organizational performance is affected by task separation monitoring. Furthermore, the authors did not use the context of hotel industry in the study, but the banking sector.

Uwaoma and Ordu (2015) examined the impact of internal controls on the financial management of selected production companies in Rivers State in Nigeria. Specific objectives were to ascertain whether perpetration of fraud and losses of revenue in an organization were as a result of weakness in internal control system; examine the extent that internal control system helps in minimizing misrepresentations of facts; determine the relationship between internal control measures and proper keeping of accounting records, and to ascertain the extent to which internal controls help organizations in staying on budgets. Two hundred and two (202) correctly responded copies of questionnaires out of 222 administered were obtained for the analysis. Multiple regressions and Pearson's Correlation Coefficient (r) statistical tool were used in testing the hypothesis. The findings reveal that effective internal controls enhance financial management of organizations. It is, however, important to note that Uwaoma and Ordu (2015) did not highlight how internal control monitoring impacts on financial performance. The authors, in addition, did not use the context of hotel industry in the study, but the banking sector.

In another study, Simon (2021) analysed how administrative internal control affects performance among firms in the telecommunication sector of South West and South East Nigeria. This was a descriptive study involving the use of structured questionnaire and interviews on randomly sampled respondents. Cronbach Alpha method was used to certify the reliability of the instruments. In the results, the two null hypotheses (organization's internal control environment ($p=0.000<0.05$, $\beta=0.890$) and risk assessment ($p=0.000<0.05$, $\beta=0.242$) were rejected and the alternative hypotheses accepted. The study concluded that an organization's internal control environment and risk assessment has a positive influence on organizational performance.

Kabue (2015) investigated the effect of internal controls on fraud detection and prevention among commercial banks in Kenya. Specific objectives were to establish the effect of reconciliation controls on the level of fraud prevention and detection; determine the effect of financial governance controls on the level of fraud prevention and detection and to investigate the effect of reporting and budget controls on the level of fraud prevention and detection. The study adopted an explanatory research design. The population of the study was all the 43 commercial banks operating in Kenya in the study period. The study conducted a census on all the 43 commercial banks. The results indicated that there was a negative and significant relationship between reconciliation control and level of fraud prevention and detection. The results also indicated that there is a negative and significant relationship between financial governance control and level of fraud prevention and detection. While the relationship between reporting and budget control and level of fraud prevention and detection was positive and significant. However, it is critical to note that Kabue (2015) did not highlight how internal control monitoring affects organizational performance. Instead, the author focused on how internal controls relate with fraud detection. The author, in addition, did not use the context of hotel industry in the study, but the banking sector.

Munene (2017) did a study on the effects of internal controls on financial performance of Embu county government. The objective of the study was to establish the causes of persistent poor financial performance from the perspective of internal controls put in place by the county government. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities, whereas Financial performance focused on Liquidity, Accountability, and Reporting. The study took a survey approach and both quantitative and qualitative approach. Data were collected using Questionnaires as well as review of available documents and records, and the target population of study was all chief officers and heads of departments in the county. The study established a significant relationship between internal control system and financial management at the county. However, Munene (2017) did not highlight how internal control monitoring affects organizational performance in terms of profitability and reduced wastage. Instead, the author focused on how internal controls relate with accountability and financial reporting. The author, in addition, did not use the context of hotel industry in the study, but the county government.

Lagat, Okelo and Terer (2016) sought to establish the effect that internal control systems has on financial management in Baringo County government of Kenya. Internal control systems are integral components of the management processes of a public sector institution, which should be established in order to provide reasonable assurance that the financial operations are carried out transparently and accountably. The study adopted the Committee of Sponsoring Organizations of the Tread way Commission (COSO) theoretical framework for analysis of internal control systems. According to COSO framework, the internal control system is analyzed using five variables namely; control environment, control activities, risk assessment, information, and communication and monitoring. The research concluded that control activities and monitoring of information communication technology, significantly influences financial management, as indicated by these analysis; ($F=5.836$, $p = 000$). Control activities ($\beta = .315$, $p = 0.045$) and ICS monitoring ($\beta = .432$, $p = 0.049$) significantly predict changes in financial management, while control environment ($\beta = .162$, $p = 0.186$) and information and communication ($\beta = .264$, $p = 0.128$) does not significantly predict changes in financial management

Many studies have been documented on the relationship between internal control monitoring and organizational performance. However, these studies have posted mixed results. The studies of Kobelsky, 2014 and Rentor et et al, 2017 used both descriptive design with correlation and regression methods and random sampling method to report a strong positive relationship between internal control mechanisms and organizational performance. On the contrary, studies of UwaomaandOrdu, 2015 and Munene, 2017 employed correlational research design to assess internal controls on financial management performance and reported a negative relationship. Moreover, Kibue (2015) investigated the effect of internal controls on fraud detection and controls in the banking sector using exploratory research design, but results were neutral(no effect).

Literature on the relationship between internal controls and financial performance show diverse results. Previous studies have revealed that no consensus on the internal control mechanisms-performance relationship in organizations including star rated hotels. This is because some studies revealed strong positive results while others posted negative results. Those that revealed positive results applied descriptive and inferential statistics with correlation and regression methods, while those that revealed negative results used correlational research design. Additionally, others reported inconclusive results using exploratory designs. Therefore, the study sought to determine the relationship between internal controls and financial performance of star rated hotels in Kisumu City, Kenya

2.4.2 Compliance with Authorization Monitoring and Organizational Performance

Cioban et al (2015) assessed the impact and results of the internal audit activity exercised in the public sector in Romania in order to identify the reasons for malfunctioning and finding possible solutions that lead to more efficient internal audit activity. Regarding this, the research disseminated information obtained from 169 branch managers of public organizations in the country; it examines audit risk, organizational framework, attributes of the audited entity and highlights the interaction of these factors that influence differently the effectiveness of internal audit. Findings revealed that the impact of internal audit in the public sector is strongly influenced by the quality of internal audit mission and also by early and accurate identification of the risks.Cioban et al (2015) however relied on secondary data (records and frameworks) instead of primary data which reflects relevant perspectives of practitioners. Similarly, the authors did not focus on the hotel industry neither did the study highlight how compliance with authorization policy relates with financial performance.

In a study aimed at encouraging internal auditors to develop core skills and competencies in the area of risk assessment and Big Data Analytics for delivering better services to the auditees. Joshi (2020) sought to identify the determinants of effectiveness of internal auditing for listed firms in India. The study tested the hypotheses that: there is an association between risk-based plan and guidelines used by internal auditors and effectiveness of IA; a frequent meeting of internal auditor with audit committee enhances the effectiveness of IA, and that the usage of big data and analytics by IA is associated with IA effectiveness. A sample of 300 listed companies was drawn. Questionnaires were mailed to the head of audit department, internal audit managers, internal auditor and head of accounts of each company. The results were derived by applying multiple regression method and the three determinants turned out to be significant. The three determinants found were risk-based planning, usage of Big Data and Analytics, and frequency of meetings of internal auditor (IA)with audit committee (AC) respectively. The model explains 42.8% of variations in the dependent variable (IAeffectiveness).Joshi (2020) however, did not focus on the hotel industry neither did the study highlight how compliance with authorization policy relates with financial performance.

Akande (2019) employed qualitative multiple case study to explore whether compliance with regulations enhance corporate governance in the Nigerian Banking Industry for business sustainability and improved financial performance. The objectives were to determine how the corporate financial leaders have integrated regulatory compliance with their strategy to achieve best corporate governance practices, analyse how corporate financial leaders have integrated regulatory compliance with their strategy to improve financial performance, and to explore the critical factors in mitigating regulatory noncompliance with regard to corporate governance? The sample for this study was 18 corporate financial leaders and regulators with at the least ten (10) years of banking and regulatory experience. The Agency theory served as the conceptual framework for the study. Data collection included semi-structured face to face interviews. The finding revealed that compliance is improving in the Nigerian financial industry. However, there are still issues of noncompliance and problems related to conflict of interest. However, Akande (2019) compared compliance with regulations and corporate governance and not organizational performance in terms of profitability, among others. Additionally, the author did not involve a population from the hotel sector ,which forms a core interest of the current researcher.

Another study done in Nigeria by Umar and Dikko (2018) analysed how internal control systems affect the performance of commercial banks. A survey method was employed on a stratified randomly sampled 382 staff of operations, marketing, or security department commercial banks in the study area. The findings of the study revealed that there is a positive and significant relationship between the four components of internal control (control environment, control activities, monitoring, and risk assessment) and bank performance. While information and communication were found to have an insignificant positive relationship with bank performance. However, the context of Umar and Dikko's study was commercial banks ,while the current study focused on star rated hotels.

Masinde (2014) studied the effects of Internal Control Systems on Financial Performance of Sugarcane out grower companies in Kenya, with specific practices being the policies and procedures on approval and authorization of transactions, risk management, information system and control activities. The study adopted a descriptive correlational survey design where all the 25 sugarcane out grower companies comprising 137 accountants were studied. The data collection instruments were administered to all the nine sugarcane outgrower institutions. The data was analyzed using statistical package for social scientists (SPSS) computer software version 19.0 to generate cumulative frequencies and percentages. The study found a positive significant effect of internal control system on the financial performance, and concluded that internal control components accounted for high variance in performance. On the extent to which the respondents agreed or disagreed on whether the policy on authorization and approval of transactions in their organization, the findings established that 27.8 percent of the respondents strongly disagreed, 11.1 percent disagreed, 38.9 percent agreed and 22.2 percent strongly agreed that indeed the policy on authorization and approval of transactions in their organization affected the financial management in their organizations.

Kinyua (2016) investigated the relationship between authorization and approval of transactions, internal audit function, risk management, internal control activities, and financial performance. Specifically, the study was guided by the following objectives; to investigate the relationship between internal control environment, internal audit function, risk management, internal control activities, and financial performance. The study adopted descriptive research design using both quantitative and qualitative approach. The target population was 372 senior managers in 62 companies quoted in Nairobi Securities exchange. Survey data was collected by use of a structured questionnaire. It was found that internal control systems had a significant relationship with financial performance. Specifically, the study established that a unit change in the approval and authorization function of internal control increased financial performance by the rate of 0.660.

Kyalo, Kalio and Ngahu (2012) sought to establish the role of fraud prevention on effective financial reporting in the County Government of Nakuru. The study adopted a descriptive approach. The sample size was 106 accountants, finance officers, auditors ,and procurement officers in the County Government of Nakuru. Data was collected by the use of structured questionnaires. The study concluded that fraud prevention influenced effective financial reporting in the county government of Nakuru. This effect is supported by the significant positive relationship observed between fraud policy and effective financial reporting in the county government of Nakuru. Pearson's correlation coefficients revealed a moderate positive relationship between fraud policy and effective financial reporting. However, Kyalo et al (2012) did not involve a population from the hotel industry but county government staffs. In addition, the authors did not highlight how the outlined compliance with authorization practices relate with financial performance. What form a core interest of the current researcher is to investigate how compliance with authorization policy of transactions relate with financial performance among star rated hotels.

Ngari (2017) analyzed the effect of internal controls on financial performance of microfinance institutions in Kenya, focusing on authorization and approval of accounting transactions and internal audit functions as specific objectives. Descriptive statistics were used on a target population of 53 institutions, whereby 21 were sampled for the final data collection. The study found out that authorization and approval of accounting transactions and internal audit functions affect financial performance significantly. It concluded that for enhanced authorization and approval of accounting transactions, microfinance institutions should limit the number of officers authorizing payments and bank accounts signatories.

Empirical studies on the relationship between compliance with authorization policy and organizational performance posted conflicting results. Studies of Goban et al (2015) and Joshi (2020) used descriptive analysis method and found a positive impact on organizational performance whereas Akande (2019), Kang'aru (2016) and Olatunji and Adekola (2017) employed correlational research design to find a negative impact on organizational performance, though for efficiency purposes, organizational performance after economic crises need to be assessed. Other studies (Masinde (2014), Kyalo, Kalio and Ngahu (2012) used mixed method and reported inconclusive results , recommending further interrogation across the sectors.

Majority of the reviewed literature on the relationship between compliance with authorization policy monitoring and financial performance were conducted in manufacturing and banking sectors and reported contradictory results. Some revealed positive results ,while others revealed negative results. Those that revealed positive results applied descriptive and inferential statistics method with correlation analysis to find a positive impact on organizational performance. On the contrary, studies that revealed negative results employed descriptive research design. None of these studies was done post-economic crises period. The current study used correlational research design to assess the relationship between compliance with authorization policy monitoring and financial performance among star rated hotels in Kisumu City, Kenya.

2.4.3 Independence of Auditor and Organizational Performance

Brad, Dobre, Ciobanu and Brasoveanu (2015) analysed the correlation between financial audit and corporate governance of the 156 entities that are listed on the Bucharest Stock of Exchange that had to comply with IFRS approach. Using a simultaneous equation model, positive influence is detected between financial audit, proxy by audit fees, and the type of auditor and negative effect is found between the existence of audit committee, the non- existence of CEO/chair duality and the one tier management system. It should however be noted that Brad et al (2015) did not highlight how factors related with audit independence affect organizational performance. Instead, they focused on corporate governance. In addition, the authors used a population from companies listed in the stock exchange as opposed to hotel firms which forms a key interest of the current researcher.

Bilal et al (2018) examined the influence of internal audit on effective corporate governance in commercial banks listed on Muscat Securities Market (MSM) in Oman. A questionnaire was used to collect data and was distributed to the 100 top senior level officials and internal audit department of the commercial banks. The regression model that was used in this study was five dependent variables: internal audit independence; proficiency and due professional care; nature of work; quality assurance and improvement program; and managing the internal audit activity. The finding of the research establishes a significant positive relationship between internal audit and effective corporate governance. Variables internal audit independence, proficiency and due professional care, and nature of work were significantly associated with corporate governance. For quality assurance and improvement program and managing the internal audit activity, their influence on corporate governance is not statistically significant. However, Bilal et al (2018) did not highlight how audit independence affect organizational performance. Instead, they focused on corporate governance. In addition, Bilala and colleagues used a population from companies listed in the stock exchange as opposed to hotel firms, which forms key interest of the current researcher.

Alabdullah and Ahmed (2020) tested the influence of corporate governance features on the organizational outcomes among 40 public listed organizations comprising 182 accountants in Qatar. The data was used for the organizations that belong to non-financial sector. This was a cross-sectional study based on a quantitative approach whereby data was collected from annual reports. The findings revealed that the size of the audit commission, the board of directors size, and independence have positive influence on organizational outcomes represented by return on assets. In addition, the same positive influence could be found between the size of the audit commission and independence. Moreover, meeting of the board has a significant negative influence on organizational outcomes. Alabdullah and Ahmed (2020), however, have not indicated how audit independence affect organizational performance. Instead, they focused on corporate governance. In addition, the authors used a population from companies listed in the stock exchange as opposed to hotel firms ,which forms a key interest of the current researcher.

Dellai and Omri (2016) examined the factors influencing internal audit effectiveness in the Tunisian context. Data was collected from responses to a questionnaire addressed to chief audit executives of 148 Tunisian organizations. Multiple regression analysis examines the association between the effectiveness of the internal audit function and six principal factors. Results reveal that the effectiveness of internal auditing is influenced by the independence of internal audit, the objectivity of internal auditors, the management support for internal audit, the use of internal audit function as a management training ground, and the sector of organization. Dellai and Omri (2016), however, have not revealed how audit independence affect organizational performance. Instead, they focused on factor determining effectiveness of the internal auditor. Similarly, the authors focused on staff from audit firms: a significant departure from the current study, which focuses on staff from hotel companies to investigate how audit independence affects organizational performance.

Njeru (2013) sought to establish the independence of internal audit and how it relates to corporate governance among commercial banks in Kenya. Data was collected using a structured questionnaire distributed to all the 43 commercial banks in Kenya as at 31/12/2012. It was further analyzed by the use of descriptive statistics aided by SPSS data analysis tool and for each of the commercial bank a level of internal audit independence and a level of corporate governance was determined. The study found out that there was indeed a threat to internal audit independence since the Chief Executive Officer (CEO) had powers in most banks to approve the internal audit budget, determine the compensation of the Chief Audit Executive (CAE) as well as hire and fire the CAE. The study further found out that there was a strong linear relationship between internal audit independence and corporate governance among commercial banks in Kenya.In as much as Njeru (2013) focused on independence of internal audit, the researcher fell short of highlighting how the same affects organizational performance. Similarly, the authors focused on staff from commercial banks. This was a significant departure from the current study which focuses on staff from hotel companies to investigate how audit independence affect financial performance.

Jepkemei (2016) did a study on the effectiveness of the Internal Audit function and the financial management in county governments in Kenya, specifically focusing on the effect of independence of internal audit function on financial management in county government in Kenya, to determine how internal audit charter affects financial management in county government in Kenya, and to establish the relationship between internal audit staff members' technical skills and financial management in county government in Kenya. The study established that the structure of department as well as the competency of staff determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in the county government. At 5% level of significance and 95% level of confidence, audit structure, independence, audit charter, and audit staff members' technical skills are significant in financial management. Jepkemei (2016),however,has not indicated how effectiveness of internal audit affect organizational performance. Instead, the researcher focused on financial management. In addition, the authors used a population from the county government as opposed to hotel firms which forms key interest of the current researcher.

Several studies have been documented on the relationship between independence of auditor and organizational performance. However, these studies have revealed mixed results. The studies of Brad et al (2015), Bilal et al (2018) and Alabdullah and Ahmed (2020) used descriptive research design with correlation and regression methods to report a strong positive relationship with organizational performance. On the contrary, studies of Dellai and Omri (2016), Njeru (2013) and Jepkemei (2016) employed correlational research design to post negative relationships.

Literature on the relationship between independence of auditor and organizational performance post divergent results. Previous studies have revealed that no consensus on the auditor independence-performance relationship. This is because some studies revealed strong positive results while others posted negative results. Those that reported positive results applied inferential statistics with correlation and regression methods while those that revealed negative results used exploratory research design. Therefore, the study sought to determine the relationship between independence of auditor and financial performance of star rated hotels in Kisumu City, Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This section presents information on the study area, research design, target population, sample design, data collection instruments, and data collection procedures. It also looks at data analysis techniques.

3.2 Research Design

A research design provides a framework for the collection and analysis of data (Creswell, 2014). The framework chosen provides a guideline for data collection methods, data analysis methods, and interpretation and presentation of the analysed data (Sileyew, 2019). The study was conducted through correlational research design. According to Creswell (2014), correlation research compares a wide range of variables and their interrelations. It also allows the application of inferential statistics. As such it was suitable for the current study since the current study uses inferential statics to draw generalizations. This approach was deemed suitable for this study, since the study intends to compare the relationship between auditing practices and financial performance.

3.3Study Area

The study was carried out in Kisumu city. Kisumu is one of the 47 Counties in the devolved government of Kenya. The County has a population of 952,645 with a population density of 474.1. Several tourism attraction sites abound including Dunga hill camp, Impala sanctuary, Kit Mikayi, Kiboko Bay and Kisumu Museum. Generally, Kisumu city is dominated by the Luo Community with a few neighboring communities such as the Luhya and the Kisiis and traders from the wider Kenya. With good climate and the average rainfall per year being 1400mm, the County still practices agriculture for subsistence on a larger sense. Kisumu city is the main commercial and administrative center and lies on coordinates 0°6′S 34°45′E at an altitude of 1,131 m (3,711 ft), and is the third largest city in Kenya (KBS, 2019).

3.4 Target Population

The target population for the study was sectional heads in the finance department among 9 star-rated hotels in Kisumu County (Tourism Regulatory Authority, 2022). These sectional heads formed the unit of analysis in the study. The star rated hotels included one 4-star hotel, five 3-

star hotels, two 2-star hotels and one 1-star hotel. The target population was therefore 144 sectional heads from the star rated hotels in the City of whom 10% (14) was excluded for purposes of pilot study. The sectional heads were targeted because they are charged with implementing most of the internal control systems like approvals, assignment of duties, overseeing delivery of resources, generation of invoices, storage of goods and consumables, cash payment and receipt, among others. They were therefore considered to be well placed to explain how monitoring practices by the audit has been enhancing financial performance among the hotel organizations.

3.5 Sample Size

A sample is a smaller group or sub-group obtained from the target population (Creswell, 2014).. Given that the population of this study was small, the researcher used census method to include the entire population as respondents. However, the researcher excluded 10% (14 officers) of the respondents for purposes of piloting (Nanjundeswaraswamy& Divakar, 2021), hence leaving 130 respondents as the sample size.

3.6 Data Collection Methods

3.6.1 Data Types and Sources

The study relied on primary data only; this was data collected directly from the sectional heads via questionnaire method. The study sought to measure the predisposition or perception of the sectional heads regarding auditing practices that might be influencing financial performance among star rated hotels, an approach which enables “generalization” of findings (Taherdoost, 2021: pp. 12). To ensure reliability and validity of the questionnaire, a pilot test was done using randomly selected 14 sectional heads from the hotels (equivalent to 10% of the target population) who were thereafter excluded from the final data collection exercise. The time of completion was recorded and how well the questions were understood and answered was also ascertained. The pilot test was necessary for testing and improving the study questionnaire.

3.6.2 Data Collection Procedures

The researcher obtained an introductory letter from the School of Business and Economics,Office of the Dean,Maseno University. This document was presented to the management of each star rated hotel to enable data collection from the selected hotels. The questionnaires were then left during the first visit, then during the second visit, copies of the questionnaire were scrutinized for completeness and all corrections made before a final round was made for collection of the questionnaires.

3.6.3 Data Collection Instrument

Questionnaire was developed for the purpose of data collection. The questionnaire was divided into five sections. Section I dealt with demographic characteristics of respondents. Section II assessed internal control monitoring practices and organizational performance; Section III focused on compliance with authorization and approval, section IV covered independence of the auditor, while section V focused on the level of financial performance. The advantage of using questionnaire was that it enabled each respondent to be asked to respond to the same set of questions, thus providing an efficient way of collecting responses from a large sample prior to quantitative analysis. Questionnaire also reduced time and cost associated with data collection exercise. The questionnaire was scored on a five point Likert scale as: Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1).

3.6.4 Reliability Tests

Reliability is a form of threat whose effects a researcher must strive to minimize (Creswell, 2014). Pre-testing of the tools was undertaken to test whether the questions were clear and easily understood. Reliability of the data was assessed by evaluating the internal consistency of the data using Cronbach's coefficients threshold of >.70. The results are presented in Table 3.1.

Table 3.1: Reliability Statistics after the pre-test

Constructs	Cronbach's Alpha	N of Items
Internal control monitoring	.812	24
Compliance with Authorization and Approval	.741	22
Independence of the Auditor	.738	12
Financial Performance	.794	15

The results in Table 3.1 indicate that all the items included in each study construct were reliable in measuring the construct given that Cronbach's coefficients ranged between .738 and .812 for the three three independent variables and the dependent variable of the study.

3.6.5 Validity Tests

Mugenda and Mugenda (2003)notes that validity is the degree to which the results obtained from the analysis of the data actually represent the phenomenon under study. The validity of research instruments was realised by scrutinizing the questionnaire items during their construction. Questions were discussed with the supervisor and further adjusted made according to corrections from independent lecturers from the school of Business studies, Maseno University. These experts examined the instruments to assess the relevance of the questions to the objectives of the study. This helped in improving both content and face validity of the instrument.

3.7 Data Analysis Procedures

The process of data analysis involved editing, coding and data entry into a computerized system for onward analysis. Data was analysed using descriptive and inferential statistics with the aid of SPSS version 22, and presented in frequency tables. Regression analysis was used to investigate the relationship between auditing practices and financial performance. Regression analysis is the most widely applied data analysis technique for measuring linear relationships between two or more variables (Subedi, 2016). By using this analysis, the researcher was able to discover which independent variables most influence financial performance among the star rated hotels. In addition, regression analysis also helped to find the variable that was most significant in influencing financial performance.

The regression model used is as shown below:

$$Y_0 = \beta_0+\beta_1X_{1+}\beta_2X_2+ \beta_3X_3 +\varepsilon$$

Where;

Y_0 = Financiall performance (Dependent variable)

B_1, β_2 & β_3= Coefficient of the Independent Variables

X_1 = Internal control monitoring

X_2 = Compliance with Authorization and Approval

X_3= Independence of the Auditor

β_0 = Constant financial performance (fixed items on the Y)

ε = Error or stochastic term representing factors that affect Y not included in the study.

3.8 Ethical Considerations

Ethics is defined as use of moral ideologies in designing, conducting and writing research outcomes, with the essential moral standards focusing on the right and the wrong. In social research, ethics involves protection and respect for respondents taking part in the study (British Psychological Society, 2010). Transparency, openness privacy and honesty formed the guiding principle during this research. In this study the ethical issues entailed respecting the respondents' individual rights in the data collection. The respondents were also selected on the basis of their willingness and interest to participate in the study. Once they were briefed on what it entails, the researcher ensured that the respondents felt comfortable and had ample time to participate in the study.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Questionnaire Response Rate

This study sought to establish the relationship between audit practices and financial performance among star rated hotels. To achieve the study objectives, 130copies of the study questionnaire were distributed to sectional heads in9 star rated hotels in Kisumu of which 119 were satisfactorily filled up. This represents 91.5 % response rate. This number of returned questionnaires was accepted by the study since the researcher was unable to gather additional complete questionnaires even after making several visits to the targeted hotels.

4.2 Demographic Information of the Respondents

Respondents' demographic profile was analysed and presented in frequencies as well as percentages as presented in Table 4.1. The results indicate that majority of the respondents were males (52.1%) and that the sample mainly consisted of respondent aged 31 - 40 years (35.3%) followed by those in the age bracket of 41-50 years at 32.8%. The sample also consisted mainly of respondents who had attained diploma level of education (55.5%) and undergraduate level of education (26.9%). These findings tend to imply that majority of the sectional heads in star rated hotels in the study area have sufficient level of education as well as adequate experience (of 6 – 10 years) in the sector.

Table 4.1: Demographic Profile of the Respondents

Demographic Characteristics		Frequency	Percent
Gender	Male	62	52.1
	Female	57	47.9
	Total	**119**	**100.0**
Age	Below 30 Years	00	00
	31 - 40 Years	42	35.3
	41 - 50 Years	39	32.8
	51 and Above Years	38	31.9
	Total	**119**	**100.0**
Level of Education	Secondary	00	00
	Certificate	10	8.4
	Diploma	66	55.5
	Undergraduate	32	26.9
	postgraduate	11	9.2
	Total	**119**	**100.0**
No of years in the Hotel	1 – 5 Years	31	26.1
	6 - 10 Years	58	48.7
	Above 10 Years	30	25.2
	Total	**119**	**100.0**

4.3 Audit Practices and Financial Performance of Star-rated Hotels

This study set out to investigate the influence of audit practices on financial performance of star rated hotels. Specifically, the study sought to test the following three specific research hypotheses:

i. **$H0_1$**: Internal control monitoring has no significant relationship with financial performance among star rated hotels in Kisumu County, Kenya
ii. **$H0_2$**: Compliance with authorization monitoring has no significant relationship with financial performance among star rated hotels in Kisumu County, Kenya
iii. **$H0_3$**: Independence of auditor has no significant relationship with financialperformance among star rated hotels in Kisumu County, Kenya.

4.3.1 Internal Control Monitoring and Financial Performance of Star-rated Hotels

The first objective of this study focused on determining the influence of internal control monitoring on financial performance of star rated hotels in Kisumu County. In this regard, a questionnaire was developed and administered on the sampled respondents whereby they were requested to state the levels of their agreement on how particular internal control practices have influenced financial performance in their hotels as:5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree. Table 4.2 summarises the obtained results.

Table 4.2: Internal Control Monitoring on Financial Performance

Internal control monitoring practices	Mean	SD	N
Monitoring Financial Reporting	3.11	.647	119
Financial Governance Control	3.20	.493	119
Segregation of Duties	2.75	.456	119
Overall Mean	3.02	.532	119

Table 4.2 illustrates that the sampled sectional heads of the star rated hotels neither agreed nor disagreed that monitoring of internal control practices (M=3.02; SD=.532) have influenced financial performance in their organizations. The overall mean as computed in the analysis of responses is 3.02 which, based on the questionnaire Likert scale, denotes ‘Neither Agree nor Disagree”. This seems to imply that while these practices have influenced financial performance in some hotels, such practices have not done the same in other hotels in the study area. Specifically, monitoring of financial reporting (M=3.11; SD=.647); financial governance control (M=3.20; SD=.493), and segregation of duties (M=2.75; SD=.456) have influenced financial

performance in some hotel enterprises while they have not done so in other hotels. The notion, as it appears from these results, that internal control monitoring influences financial performance differently among the hotels suggests that stewards in each hotel do not put in place strict control measures for purposes of attaining overall enterprise objective: financial performance. This seems to contrast the aspirations of the Stewardship theory which views managers as stewards intrinsically motivated to work for the organization to accomplish the tasks and responsibilities with which they have been entrusted (Segal and Lehrer, 2012).Indeed a number of previous studies have also showed conflicting results in regards to how internal controls influence organizational outcomes. For instance, a study done in Indonesia by Rentor et al (2017) which analyzed the effectiveness of separation of tasks on financial performance in the banking sector revelead that this did not satisfy performance expectations of a number of enterprises. On the other hand, a study done among selected manufacturing firms in Nigeria by Uwaoma and Ordu (2015) showed that effective internal controls enhance financial management of organizations. These findings should therefore be understood within the ambit of the Stewardship theory that sees the manager (the steward) at the focal point of ensuring that internal controls such as segregation of duties and financial governance are effectively implemented for purposes of enhancing the achievement of organizational goals such as financial performance. The researcher also performed a correlation analysis between components of internal control monitoring and financial performance of star rated hotels in the study area. Table 4.3 presents result of Pearson's correlations between internal control monitoring and financial performance of star rated hotels.

Table 4.3: Correlations between Internal Control Monitoring and Financial Performance of Star rated Hotels

		Financial Performance of Star rated Hotels	Internal Control Monitoring
Financial Performance of Star Rated Hotels	Pearson Correlation	1	.146**
	Sig. (2-tailed)		.001
	N	119	119
Internal Control Monitoring	Pearson Correlation	.146**	1
	Sig. (2-tailed)	.001	
	N	119	119

****. Correlation is significant at the 0.001 level (2-tailed).**

Source: Research Data (2022)

Table 4.3 illustrates Pearson correlation between internal control monitoring and financial performance of the star rated hotels is .146**, *p*<0.05 which is positive. It shows that there is a positive relationship between internal control monitoring and financial performance of the star rated hotels. The correlation is significant at 0.001 level (2-tailed) p<0.05. Thus there exists adequate evidence to support the fact that is a significant relationship between internal control monitoring and financial performance of the star rated hotels. The null hypothesis that internal control monitoring has no significant effect on financial performance of the star rated hotels in Kisumu County was therefore rejected.

Findings in Table 4.3 illustrates the significance of internal control monitoring in financial performance of star rated hotels. The significance of internal control measures towards enhancing financial performance has also been articulated in previous studies such as Uwaoma and Ordu (2015) in Nigeria andKabue (2015) in Kenya.

For the purposes of highlighting on how monitoring of internal control influence financial performance of star rated hotels, the study carried out regression analysis. This was based upon the model defined as:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where

Y – Financial Performance of star rated hotels (Dependent variable)

β_0 – Constant financial performance of the hotels when internal control monitoring is held constant

β_1 - Change in financial performance of the hotels attributed to internal control monitoring

e - error term

X – Coefficient of internal control monitoring (Independent or Predictor Variable)

Summary of the regression analysis is presented in Table 4.4.

Table 4.4: Regression model summary

R	R Square	Adjusted R^2	Std. Error
727[a]	.529	.524	3.242

Table 4.4 illustrates that the calculated R^2 is 0.529. This implies that internal control monitoring explains 52.9% variations in financial performance of star rated hotels in the study area. To understand how unit changes in internal control monitoring relates with financial performance of the hotels, further analysis to obtain beta coefficients were carried out as presented in Table 4.5

Table 4.5: Coefficients for Internal Control Monitoring and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	.637	1.111		.573	.007
Internal control monitoring	.936	.102	.146	9.1765	.000

Table 4.5 shows that a unit change in internal control monitoring leads to .936 change in financial performance of the hotels. This change is significant ($p<0.05$). If this statistics is substituted in the model,

$Y = \beta_0 + \beta_1 X_1 + e$

Then

$Y = 0.637 + .936 (X)$: where X = internal control monitoring.

Results in Tables 4.3 and 4.5 illustrates that internal control monitoring has significant relationship with financial performance among the star rated hotels in the study area. A number of studies done in different contexts have also revealed that internal control measures have significant relationships with firm outcomes such as financial performance or organizational performance, among others. For instance, a study done in Nigeria by Simon (2021) and which investigated how administrative internal control relates with performance in the telecommunication sector showed that internal control measures such as internal control environment and risk assessment are significant predictors of performance. Similarly, Munene (2017), in a study done in Kenya, revealed the existence of a significant relationship between internal control system and financial management in a state jurisdiction. It should therefore be deduced that internal control monitoring within the context of star rated hotels significantly influence financial performance.

4.3.2 Compliance with Authorization & Approval Procedures and Financial Performance

The second objective of this study assessed how compliance with authorization and approval for transactions influence financial performance of star rated hotels in Kisumu County. To achieve this objective, the study presented to the sampled sectional heads particular practices related to compliance with authorization and approval to which they (the respondents) were requested to respond as: 5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree. Table 4.6 presents the summarised results.

Table 4.6: Compliance with Authorization & Approval Procedures

Compliance with Authorization and Approval for Transactions	Mean	SD	N
Compliance with Transaction Approval	2.93	.695	119
Compliance with Authorization of Transactions	3.75	.362	119
Compliance with Asset Custody	4.04	.450	119
Overall Mean	3.57	.502	119

Results presented in Table 4.6 illustrates that the sampled respondents agreed that audit practices related to compliance with authorization & approval procedures (M=3.57; SD=0.502) have influenced financial performance among the star rated hotels in the study area. Specifically, the respondents agreed that compliance with asset custody (M=4.04; SD=.450) and compliance with authorization of transactions (M=3.75; SD=0.450) procedures have had influence on financial performance among star rated hotels in the study area. However, the sampled sectional heads neither agreed nor disagreed that compliance with transaction approval procedures (M=2.93; SD=0.695) have influenced financial performance in their organizations. This tends to suggest that whereas compliance with transaction approval might have influenced financial performance in some hotels, such practices might have as well failed to influence financial performance in other hotels within the study area. Put into other perspectives, a number of previous studies such as Ngari (2017) in Kenya and Akande (2019) in Nigeria also highlighted the fact that authorization and approval would only be effective if a limited number of officers are accredited with the task as opposed to a large number of officers. The onus of ensuring that compliance with authorization and approval work for the benefit of the specific hotel enterprise therefore lies with the steward who must align their behaviors with the objectives of their principals as stipulated by the Stewardship Theory (Franco-Santos et al, 2017).

The researcher was also able to correlate the mean of components of compliance with authorization & approval procedures and those of financial performance of the hotels. Table 4.7 presents result of Pearson's correlations between compliance & approval procedures and financial performance of star rated hotels.

Table 4.7: Correlations between compliance with Authorization &Approval Procedures and Financial Performance of star rated hotels

		Performance of star rated hotels	Authorization &Approval Procedures
Financial Performance of star rated hotels	Pearson Correlation	1	.644**
	Sig. (2-tailed)		.001
	N	119	119
Authorization &Approval Procedures	Pearson Correlation	.644**	1
	Sig. (2-tailed)	.001	
	N	119	119

****. Correlation is significant at the 0.001 level (2-tailed).**
Source: Research Data (2023)

Table 4.7 illustrates Pearson correlation between compliance with authorization and financial performance of star rated hotels is .644**, $p<0.05$ which is positive. It shows that there is a positive relationship between compliance with authorization and approval procedures and financial performance of star rated hotels.The correlation is significant at 0.001 level (2-tailed) p<0.05. The hypothesis that "Compliance with authorization and approval practice has no significant influence on financial performance of star rated hotels" is therefore rejected.

For the purposes of highlighting on how compliance with authorization & approval predicts financial performance of star rated hotels, the researcher carried out regression analysis. This was based upon the model defined as:

$Y = \beta_0 + \beta_2 X_2 + \varepsilon$

Where

Y – Financial Performance of Star rated hotels (Dependent variable)

β_0– Constant financial performance of star rated hotels when compliance with authorization & approval is held constant

β_2 - Change in financial performance of star rated hotels attributed to compliance with authorization and approval procedure

e - error term

X – Coefficient of compliance with authorization and approval procedure (Independent or Predictor Variable)

Table 4.8 presents summary of regression results.

Table 4.8: Regression model summary

R	R Square	Adjusted R^2	Std. Error
.858[a]	.736	.732	2.724

Table 4.8 illustrates that the calculated R^2 is 0.736. This implies that compliance with authorization & approval explains 73.6% variations in financial performance of star rated hotels. The strength in the contribution of authorization and approval compliance towards financial performance among the hotels is shown by the small value of adjustment in the R^2 (0.004). To understand how unit changes in compliance with authorization & approval relates with financial performance of star rated hotels, additional analyses to obtain beta coefficients were carried out as presented in Table 4.9.

Table 4.9: Coefficients for compliance with authorization & approval and Performance of star rated hotels

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.482	.219		2.2009	.005
Compliance with authorization & Compliance	1.188	.198	.644	6.0000	.000

Table 4.9 illustrates that a unit change in compliance with authorization & approval procedures leads to 1.188 change in financial performance among the star rated hotels. This change is significant ($p<0.05$). If this statistics is substituted in the model,

$Y = \beta_0 + \beta_2 X_2 + e$

Then

Y= 0.482 + 1.188 X: where X = performance of star rated hotels.

With 73.6% of variations in financial performance of star rated hotels being explained by compliance with authorization & approval procedures or policies, it would be justified to argue that authorization & approval compliance can significantly help in ensuring success of these enterprises. Earlier studies have also articulated the significance of ensuring that all transactions are properly authorized and approved by responsible officials before the organization is financially committed (Alemu, 2020). A previous study by Umar &Dikko (2018) was also in agreement that authorization should be clearly specified in writing and the limit of authority or responsibility clearly defined. Similarly, Simon (2020) also established in a study that authorization & approval is significant in mitigating risks such as inappropriate transactions hence serve as fraud deterrents. Compliance with authorization and approval has also been shown to have significant relationship with performance within the Kenyan context. For instance, Ngari (2017) concluded in a study done among microfinance institutions that authorization and approval of accounting transactions affect financial performance significantly. Equally, Kinyua (2016) established that approval and authorization function significantly enhances financial performance among firms listed at the Nairobi Securities exchange.Likewise to these earlier studies, it can be deduced that compliance with authorization & approval procedures or policies by hotel enterprises has been influential in improving financial performance among star rated hotels operating in Kisumu City, Kenya.

4.3.3 Independence of the Auditor

The third objective of this study analysed the influence of independence of the auditor on financial performance of star rated hotels in Kisumu City. To this end, a questionnaire was administered to the sampled respondents whereby they were requested to state the levels of their agreement regarding particular practices related to independence of the auditor as: 5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree. Table 4.10 presents the summarised results.

Table 4.10: Independence of the Auditor and Financial Performance

Independence of the Auditor	Mean	SD	N
Independence from Management	2.55	.436	119
Competencies of Audit Staff	3.07	.572	119
Overall Mean	2.81	.504	119

Table 4.10 illustrates that the sampled sectional heads neither agreed nor disagreed that independence of the auditor (M=2.81; SD=0.504) as an audit practice has influenced financial performance among star rated hotels in the study area. This would imply that as a practice, independence of the auditor has only been influential in specific contexts or hotels and not the entire sector. Independence from the management (M=2.55; SD=0.436) and competencies of the audit staff (M=3.07; SD=0.572) have not had universal influence on financial performance among all the star rated hotels in the study area, but have been influential in some of them. These findings seem to illustrate the fact in some hotel enterprises, independence of the auditor has flourished in eliciting financial performance while this has not been the case in others. This observation concurs with a study done in Kenya by Njeru (2013) which also highlighted the fact in some enterprises within the banking sector in Kenya, the CEO wields enormous powers to dictate the budget of the audit department and even fire and hire an auditor. Dellai and Omri (2016) also found in a study done in different Tunisian organizations that lack of management support is a hindrance to the effectiveness of the auditor in enhancing financial performance. It therefore appears that a number of star rated hotel enterprises where auditing practices are not influencing financial performance have not been supportive enough towards the audit department and its activities. The role to ensure that adequate support is accorded to the auditing practices lies with the steward who must deploy his/her managerial acumen to ensure that pro-organizational and collectivistic behaviors prevail in the organization for the attainment of the desired enterprise goals: a fact emphasized by the Stewardship Theory (Segal & Lehrer, 2012).

Further ,additional analyses were done to determine the direction of the relationship between independence of the auditor and financial performance of star rated hotels through correlations. Table 4.11 presents results of Pearson's correlations between independence of the auditor and financial performance of star rated hotels.

Table 4.11: Correlations between Independence of the Auditor and Financial Performance of star rated hotels

		Performance of star rated hotels	Independence of the Auditor
Financial Performance of star rated hotels	Pearson Correlation	1	.121**
	Sig. (2-tailed)		.001
	N	119	119
Independence of the Auditor	Pearson Correlation	.121**	1
	Sig. (2-tailed)	.001	
	N	119	119

****. Correlation is significant at the 0.001 level (2-tailed).**

Source: Research Data (2023)

Table 4.11 illustrates Pearson correlation between independence of the auditor and financial performance of star rated hotels is .121**, $p<0.05$ which is positive. It shows that there is a positive relationship between independence of the auditor and financial performance of star rated hotels. The correlation is significant at 0.001 level (2-tailed) $p<0.05$. The hypothesis that "Independence of the Auditor has no significant influence on financial performance of star rated hotels" is therefore rejected.

For the purposes of highlighting on how independence of the auditor predicts financial performance of star rated hotels, the researcher carried out regression analysis. This was based upon the model defined as:

$Y = \beta_0 + \beta_3 X_3 + e$

Where

Y – Financial Performance of Star rated hotels (Dependent variable)

β_0 – Constant financial performance of star rated hotels when independence of the auditor is held constant

β_3 - Change in financial performance of star rated hotels attributed to independence of the auditor

e - error term

X_3 – Coefficient of independence of the auditor (Independent or Predictor Variable)

Table 4.12 presents a summary of regression results.

Table 4.12: Regression model summary

R	R Square	Adjusted R^2	Std. Error
.237[a]	.0561	.0559	5.269

Table 4.12 illustrates that the calculated R^2 is 0.0561. This implies independence of the auditor explains 5.61% variations in financial performance of star rated hotels. To understand how unit changes in independence of the auditor relates with financial performance of star rated hotels, additional analyses to obtain beta coefficients were carried out as presented in Table 4.13.

Table 4.13: Coefficients for Independence of the Auditor and Financial Performance of star rated hotels

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.102	.219		.4658	.005
Independence of the Auditor	.088	.134	.121	.6567	.000

Table 4.13 illustrates that a unit change in the independence of the auditor leads to .088 (8.8%) change in financial performance among the star rated hotels. This change is significant ($p<0.05$). If this statistics is substituted in the model,

$Y = \beta_0 + \beta_3 X_3 + \varepsilon$

Then

Y= 0.102 + .088 (X): where X = performance of star rated hotels.

This study reveals that the independence of the auditor has a significant relationship with financial performance among the star rated hotels. This finding concurs with results revealed in a number of previous studies done in different contexts across the globe. In a study done in Oman, Bilal et al (2018) revealed that significant positive relationships exist between internal audit and effective corporate governance, with independence of the auditor being singled out as being one of the most significant determinants in the nexus. In Qatar, Alabdullah and Ahmed (2020) also found a positive relationship between independence of the auditor and organizational outcomes represented by return on assets. In Kenya, Jepkemei (2016) also found that audit independence is significant in financial management among devolved governments in the country. However, a number of these previous studies (Alabdullah& Ahmed, 2020; Bilal et al, 2018; Dellai and Omri, 2016; Njeru, 2013) have recommended that the organizational managers should be adequately supportive towards the audit department for purposes of enhancing its role of ensuring optimal financial performance. The ball therefore rests with the steward of the enterprise: the management. The Stewardship Theory agitates that the interest of the steward should align with that of the firm – and that is optimal financial performance (Keay, 2017). Perhaps the stewards in some sampled star rated hotels have not shown pro-organizational and collectivistic behaviors capable of enabling the auditing practices to flourish and consequently enhance financial performance of the enterprise. This could probably be the reason behind performance decline among enterprises in the hotel industry in the study area.

4.3.4 Financial Performance of Star-Rated Hotels

The last part of the study questionnaire assessed the dependent variable: financial performance of star rated hotels in Kisumu County, Kenya. To this end, the researcher developed and administered an instrument with a 5 point likert scale containing performance indicators to which the sampled sectional heads were requested to respond to as::5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree,based on their opinion on how they (performance indicators) are fairing in their hotel organizations. Table 4.14 presents the results.

Table 4.14: Financial Performance of Star-rated Hotels

Financial Performance	Mean	SD	N
Hotel Sales	3.395	.333	119
Reduction in Losses	3.126	.276	119
Overall Mean	3.261	.305	119

Results presented in Table 4.14 illustrates that the sampled sectional heads neither agreed nor disagreed that financial performance in terms of sales and reduction in losses (M=3.261; SD=.305) has improved among the star rated hotels. This finding tends to suggest that auditing practices are effective in influencing financial performance in some hotels while in others, they are not. Specifically, the respondents neither agreed nor disagreed that hotel sales (M=3.395; SD=0.333) and reduction in losses (M=3.126; SD=0.276) have improved ,owing to audit practices in place among the star rated hotels.

4.3.5 Relationship between Audit Practices and Financial Performance of Star Rated Hotels

To analyze how audit practices relate with financial performance of star rated hotels, an overall descriptive analysis was run to gain the views of the sampled sectional heads. Table 4.15 presents the results of the descriptive analysis.

Table 4.15: Descriptive analyses of Audit Practices and Financial Performance of Star-rated Hotels

	N	Minimum	Maximum	Mean	SD
Financial Performance of Star-rated Hotels	119	1.00	5.00	3.26	.305
Internal control monitoring	119	1.00	5.00	3.02	.532
Compliance with Autorization& Approval	119	1.00	5.00	3.57	.502
Independence of the Auditor	119	1.00	5.00	2.81	.504
Valid N (list wise)	119				

Table 4.15 indicates that internal control monitoring practices (M=3.02; SD=.532) have influenced financial performance in some star rated hotels and not others, that compliance with authorization & approval (M=3.57; SD=0.502) is effective in influencing financial performance of star rated hotels in the study area, while independence of the auditor (M=2.81; SD=.504) has have influenced financial performance in some star rated hotels and not others; and that financial performance (M=3.26; SD=.305) has improved in some hotels while the same has not happened in others. These findings tend to imply that audit practices investigated have influenced financial performance of star rated hotels differently, improving performance in some while not in others.

4.3.6 Model Summary

The study further conducted multiple regression analysis for purposes of determining the nature and direction of the relationship that exists between audit practices (internal control monitoring, compliance with authorization & approval, and independence of the auditor) and dependent variable (financial performance) of star rated hotels in Kisumu County. First, an assessment was done to check how well the model ($Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e$) predicted the relationships between the dependent and independent variables. This was carried out using analysis of variance (ANOVA). Table 4.16 presents the ANOVA.

Table 4.16: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	78.576	3	26.195	69.298	.000[b]
	Residual	43.857	116	.378		
	Total	112.433	119			

a. Dependent Variable: Financial Performance of Star-rated Hotels
b. Predictors: (Constant), internal control monitoring, compliance with authorization & approval, independence of the auditor

Table 4.16 illustrates that audit practices under study are significant predictors of financial performance of star rated hotels in the study area {$F_{(1, 119)}$ =69.298, P<0.05}. The significance value in this case is 0.000, which is less than 0.05 (P<0.05). Thus, internal control monitoring, compliance with authorization & approval, and independence of the auditor are significant in explaining the variation in financial performance of star rated hotels in Kisumu County. The relative importance of each coefficient of audit practices in predicting financial performance of star rated hotels is presented in Table 4.17.

Table 4.17: Model of prediction using Multiple Regressions

					Change Statistics				
Model	R	R^2	Adjusted R^2	Std. Error	R^2 Change	F Change	df1	df2	Sig. F Change
1	.876[a]	.767	.763	.36610	.767	69.298	3	115	.000

a. Predictors: (Constant), Internal control monitoring, compliance with authorization & approval, and independence of the auditor

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.407	.173		.4046	.000
	Internal control monitoring	.936	.102	.146	9.1765	.000
	Compliance with authorization & approval	1.188	.198	.644	6.0000	.000
	Independence of the Auditor	.088	.134	.121	.6567	.000

a. Dependent Variable: Financial Performance of Star-rated hotels

Findings from the model in Table 4.18 present the actual influence of the coefficients of the independent variable (audit practices) on the dependent variable (financial performance of star rated hotels) in Kisumu County. The unstandardized beta for internal control monitoring is .936. This implies that internal control monitoring causes .936 unit improvement in financial performance among star rated hotels. Similarly, the unstandardized beta for compliance with authorization & approval is 1.188. This also implies that improvement in compliance with authorization & approval can contribute 1.188 unit improvements in financial performance among star rated hotels in the study area. Equally, the unstandardized beta for independence of the auditor is .088. This implies that improvement in independence of the auditor can contribute .088 unit improvements in financial performance among star rated hotels.

The regression equation $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$, with the constant ($\beta_0$) being 0.407, the coefficient can be plugged into the formula to predict financial performance of star rated hotels as:

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

$$Y = 2.218 + .936\ X_1 + 1.188\ X_2 + .088\ X_3$$

Considering the value of obtained R^2 (.767), it can be deduced that 76.7% change in financial performance of star rated hotels under the current study is attributed to audit practices. The remaining 23.3% of change in financial performance of star rated hotels in the research area might be attributable to other factors beyond this study. Financial performance among enterprises in the hotel sector therefore seems to be largely influenced by auditing practices. A conducive working environment which proactively enables the audit function to thrive is therefore significant for the realization of desired financial performance. The role of the steward in setting up a favourable space for auditing practices to work for the firm can therefore not be gainsaid (Waldkirch& Nordqvist, 2016). This is the cardinal call of the Stewardship Theory advanced by Donaldson and Davis (1991). The managers (including the auditor) are therefore called upon to align their behaviors with the objectives of their principals: the enterprise (Franco-Santos et al, 2017).

The significance of auditing practices towards various dimensions of organizational outcomes, including financial performance, has been revealed in numerous previous studies done in different contexts across the world. Researchers (Al-Shaheen& Bai, 2020; Mensah et al, 2020) have concluded that financial scandals such as witnessed in Enron and WorldCom in the United States and other countries could have been avoided were auditing practices allowed to thrive among such organizations. Previous studies (Bilal et al, 2018; Joshi, 2020; Munene, 2017; Rentor et al, 2017) have shown that audit monitoring practices such as internal control monitoring, compliance with authorization monitoring, and independence of the auditor are critical in ensuring that financial risks are adequately managed, and operational procedures effectively adhered to. Earlier studies byMunene (2017), Kinyua (2016),Jepkemei (2016) and Ngari (2017) done in various sectors across Kenya have concurred with the results revealed in this study that auditing practices such as internal control monitoring, compliance with authorization and approval monitoring, and independence of the auditor are significant predictors of different organizational outcomes indicators including financial performance. It could therefore be argued that declining financial performance indicators such as revenue per available room (RevPAR) and the average daily rate (ADR) among others in the industry could be attributed to inadequate space provided for auditing practices in some hotel enterprises in the study area.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings of the study, conclusion, and recommendations. The study also suggests new areas and contexts where further research needs to be conducted based on the findings.

5.2 Summary of the findings

The general objective of this study was to assess the influence of audit practices on financial performance of star rated hotels in Kisumu County, Kenya. The elements of audit practice focused upon include internal control monitoring, compliance with authorization & approval procedures, and independence of the auditor. The following is the summary of findings.

5.2.1 Internal Control Monitoring and Financial Performance of Star rated Hotels

The study found that that internal control monitoring practices (M=3.02; SD=.532) have influenced financial performance in some star rated hotels and not others (Table 4.3). The study also established that the correlation between internal control monitoring andfinancial performance of star rated hotels is positive and significant (Table 4.4). The study further obtained enough evidence to reject the hypothesis that internal control monitoring has no significant effect on financial performance of star rated hotels in Kisumu County.

It was additionally found that internal control monitoring has the potential to explain an estimated 52.9% variations in financial performance of star rated hotels (Table 4.5). Findings also showed that a possible unit change in internal control monitoring leads to .936 change in financial performance of star rated hotels (Table 4.6).

5.2.2 Compliance with Authorization & Approval and Financial Performance of Star rated Hotels

The study found that compliance with authorization & approval (M=3.57; SD=0.502) is effective in influencing financial performance of star rated hotels in the study area (Table 4.7). It was also found that the correlation between compliance with authorization & approval and financial performance of star rated hotels is positive and significant. The study therefore found adequate evidence to reject the hypothesis that compliance with authorization & approval has no significant effect on financial performance of star rated hotels (Table 4.8).

The study also established that compliance with authorization & approval procedures has the potential to explain 73.6% variations in financial performance of star rated hotels (Table 4.9). Findings additionally showed that a possible unit change in compliance with authorization & approval requirements leads to 1.188 change in financial performance of star rated hotels (Table 4.10).

5.2.3 Independence of the Auditor and Financial Performance of Star rated Hotels

The study found that independence of the auditor (M=2.81; SD=.504) influenced financial performance in some star rated hotels and not in others (Table 4.11). It was also found that the correlation between independence of the auditor and financial performance of star rated hotels is positive and significant. Thereby rejecting the hypothesis that independence of the auditor has no significant effect on financial performance of star rated hotels in the study area (Table 4.12).

The study also established that independence of the auditor has the potential to explain 5.61% % variations in financial performance of star rated hotels (Table 4.13). Findings further showed that a possible unit change in independence of the auditor might lead to .088 change in financial performance among the star rated hotels in the study area (Table 4.14).

5.3 Conclusions

Based on the findings obtained in the study, the researcher makes a number of conclusions. First, it is concluded that internal control monitoring is effective in influencing financial performance in some star rated hotels and not others in Kisumu County. Similarly, internal control monitoring has a significant relationship with financial performance of star rated hotels. It is additionally concluded that internal control monitoring can explain variations in financial performance among star rated hotels in the study area.

The study additionally concludes that compliance with authorization & approval policies is effective in influencing financial performance of star rated hotels in the study area. It is also concluded that compliance with authorization & approval policies has significant relationship with financial performance of star rated hotels in the study area. The study additionally concludes that compliance with authorization & approval can explain high variations in financial performance among star rated hotels.

Finally, the study also concludes that independence of the auditor is effective in influencing financial performance in some star rated hotels and not others in Kisumu County. Independence of the auditor has a significant relationship with financial performance of star rated hotels. It is additionally concluded that independence of the auditor can explain variations in financial performance among star rated hotels in the study area.

5.4 Recommendations

5.4.1 Recommendations for Improvement

Having come up with several conclusions, the study brought forward a number of recommendations for improving auditing practices and, consequently, financial performance of star rated hotels. First, it should be noted that the study has found that internal control monitoring has had influence in some star rated hotels but not others. It is therefore recommended that star rated hotels should always benchmark with their counterparts which have put in place effective internal control measures to gain from such a vital governance practice.

Similarly, it is on record that this study found that compliance with authorization & approval procedures has a significant and highest influence on financial performance among star rated hotels in the study area. It is therefore recommended that compliance with authorization & approval procedures should be tailored to specific operational contexts of each of the hotel enterprise.

In addition, results have shown that independence of the auditor has had influence in some star rated hotels but not others. It is therefore recommended that star rated hotels should put in place measures that ensures that the auditor (both internal and external) is given sufficient autonomy and budgetary strength to enable adequate effective performance of monitoring business activities of the enterprise.

5.4.2 Suggestions for Further Research

This study, having drawn conclusions and recommendations, provides some suggestions of a particular area where further research should be done. It is indicated in the results that internal control monitoring has a significant influence on financial performance of some star rated hotels and not in others. For further research, it is recommended that a study should be done on the influence of benchmarking-based internal control practices on financial performance of star rated hotels in Kisumu County, Kenya.

Additionally, the study found that compliance with authorization & approval procedures or policies has a significant influence on financial performance of star rated hotels. It is therefore recommended that a study be done on the influence of compliance with authorization & approval on the reduction of operational losses among star rated hotels in Kisumu County, Kenya

Finally, the study also found that independence of the auditor has a significant influence on financial performance of some star rated hotels and not in others. It is therefore recommended that a study should be done on the influence of the factors militating audit independence on financial performance of star rated hotels in Kisumu County, Kenya.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

ELIZABETH KIMEU
MASENO UNIVERSITY
PRIVATE BAG
MASENO

JULY, 2023
Dear Sir/Madam,

RE: AUTHORITY TO CONDUCT RESEARCH

I am a student at Maseno University undertaking a Degree of Master of Finance. I would wish to conduct my research on '**RELATIONSHIP BETWEEN AUDITING PRACTICES AND ORGANIZATIONAL PERFORMANCE OF STAR RATED HOTELS IN KISUMU, KENYA'**. Data obtained from the respondents will be kept confidential, and will only be used for this academic research. Kindly accord me necessary support so as I get data that will enable me complete my course. Thank you in advance.

Yours faithfully,

ELIZABETH KIMEU

APPENDIX II: STUDY QUESTIONNAIRE

SECTION A: DEMOGRAPHIC DISTRIBUTION OF RESPONDENTS (*please tick as appropriate*)

Respondents Profile:

1 Gender: ______________________________

2 Age

- Below 30 years old [ ] 31-40 years old [ ]
- 41-50 years old [ ] 51years old and above [ ]

3 Level of education

- Secondary [ ] Certificate [ ]
- Diploma [ ] Undergraduate [ ] Postgraduate[ ]

4 Number of years of working in the Hotel organization

- 0- 1 year [ ]; 1-5 years [ ]
- 6- 10 years [ ]; Above 10 years [ ]

<u>Section II: Internal Control Monitoring</u>

Please indicate the extent to which you agree with the following statements by using a scale of **1 to 5 where 1= strongly disagree and 5 = strongly agree**.

No	Internal Control Monitoring	1	2	3	4	5
	Monitoring of Financial Reporting					
1	Cash flow statements are shared with all departments					
2	No errors are often found in accounts receivable statements in all departments					
3	Asset register is consistently and periodically updated					
4	Montlhy financial reports give a true and fair position of state of the financial status of the hotel					
5	Quarterly financial reports completed in time and often give a true and fair position of the hotel					
6	Bank reconciliation is often timely and accurately done					
7	No errors are often found in accounts payable statements in all departments					
8	Final year financial statements often truly reflects statements generated from each department					
9	Final year financial statements are always confirmed first by the departments generating the estimates before releasing the same					
10	Financial statements are produced in time with minimum delays					

	Financial Governance Control					
11	There are clear and well-spelt out policies in relation to financial management and accounting procedures					
12	Each officer involved in approval of payments has approval threshold.					
13	There is a director of finance with clearly spelt-out roles					
14	Each department adhere to its set annual budget					
15	The hotel has clear procedure of tracking departmental budgets					
16	There is a well-set out credit policy which is often adhered to					
17	All payment vouchers are often accompanied by support documents					
18	Officers involved in the accounting process always reject payment documents with errors					
19	Reference numbers of all support documents are always captured on the payment vouchers					
20	Signature specimens of all accounting are shared with all the corresponding officers in each department/financial institutions					
21	Only accounting officers in each department are allowed to order expenditure					
	Segregation of Duties					
22	Officers initiating a transaction are different from those approving the same transaction					
23	Officers initiating a transaction are different from those charged with undertaking the transaction					
24	Officers initiating a transaction are different from those reviewing the transaction processes					

<u>Section III: Compliance with Authorization and Approval for Transactions</u>

Please indicate the extent to which you agree with the following statements by using a scale of **1 to 5 where 1= strongly disagree and 5 = strongly agree**

No	**Compliance with Authorization and Approval for Transactions**	**1**	**2**	**3**	**4**	**5**
	Compliance with Transactions Approval					
1	All purchase orders often bear an approval of a designated officer in each department					
2	All expenses are in line with the departmental budget					
3	All officers bestowed with approval duties are separated from authorising the same transactions					
4	There few officers charged with performing approval					
5	All goods for sale often bear an approval signature of a designated					

	officer					
6	Departmental managers are the only officers who approve changes in payments/receipts					
7	All departmental approvals are bestowed to one senior most staff					
8	Signatures of approvers in all departments are recognizable across board					
9	Cash payments are only made after approvals by responsible officer					
	Compliance with Authorization of Transactions					
10	Authority to purchase an asset is often generated from the department in need of the asset					
12	All expenditures are approved before spending.					
13	Only the general manager is charged with approving credit					
14	Only the general manager is charged with approving customer refunds and discounts					
15	Only the stores manager is charged with approving stores issues to user departments					
16	Revenue transactions are duly kept and not deleted					
17	Authority to purchase an asset in the department is often signed by the HoD					
18	All items purchased must bear the signatures of the officer authorizing and approving the purchase					
19	All authorizations must bear company rubber stamps					
20	All authorizations of transcations are approved by the department requesting the goods					
	Compliance with Asset Custody					
21	Custody of evidence of cash payments (receipts/ vouchers) are kept by responsible officer in the department ordering for the payment					
22	Custody of a purchased asset is often bestowed upon the department in need of the asset					

Section IV: Independence of the Auditor

Please indicate the extent to which you agree with the following statements by using a scale of **1 to 5 where 1= strongly disagree and 5 = strongly agree**

No	**Independence of Auditor**	**1**	**2**	**3**	**4**	**5**
	Independence from Management					
1	The audit department are always free to access departmental records without seeking the authority from directors					
2	The auditor is allowed to audit all the processes					

3	The auditor does not get pressure from management on the findings to include in the reports					
4	The audit committee routinely peruses departmental files without getting permission from the directors					
5	Sitting of the audit committee is never sanctioned by management					
6	Writing of audit statements are not supervised by senior managers					
7	Reports generated by audit team is often shared in every department					
8	The internal audit department has a sufficient budget allocation					
	Competencies of the Audit Staff					
9	The audit team has qualified personnel who are able to reveal errors in departmental operations frequently					
10	The audit department is always sufficiently financed by the organization budgetary allocation					
11	Audit often exercises proficiency and due professional diligence in handling departmental issues					
12	Clarity of audit charter in the organization to every department makes auditor's work more sufficient					

<u>Section V: FINANCIAL PERFORMANCE</u>

Please indicate the extent to which you agree with the following estimates or statements by using a scale of **1 to 5 where 1= strongly disagree and 5 = strongly agree**

No	**Financial Performance**	**1**	**2**	**3**	**4**	**5**
	Hotel Sales					
1	Gross sales have been declining by 23% in the past five years					
2	Net sales have been decreasing by 23% in the last five years					
3	Gross profit has been stagnating over the last five years					
4	Net profit margin has steadly been declining by 23% in the last five years					
5	Returns on stores and supplies have been declining by 23% during last 5 years					
6	Bed occupancy rate has been declining by 23% during last five years					
7	Conference bookings has been decreasing by around 23% during last five yeas					
8	Food sales has been reducing by during last five years					
	Reduction in Losses					
9	Gross losses have been reducing by 23% in the last five years					
10	Cost of sales has been increasing by 23% in the last five yeas					
11	Net losses have drastically reduced in the last five years					

12	Operating losses have increased over the past five years					
13	Losses before taxes have been increasing in the last five years					
14	Bed bookings have been on the decline the las thre years					
15	Average daily rates have been on the decline in the last three years					

The end

APPENDIX III: STAR RATED HOTELS IN KISUMU

			Rooms	Bed capacity	Star Rating
1	Acacia Premier Hotel	Kisumu	92	97	****
2	The Vic Hotel	Kisumu	106	122	***
3	Kisumu Hotel	Kisumu	86	120	***
4	Imperial Hotel	Kisumu	78	90	***
5	Sovereign Hotel	Kisumu	32	64	***
6	Jambo Impala Eco-lodge	Kisumu	12	24	***
7	Sunset Hotel	Kisumu	50	100	**
8	Le Savanna Country Lodge & Hotel	Kisumu	39	78	**
9	Dewchurch Drive Hotel	Kisumu	13	16	*