

## **INTERNAL CONTROL AND FINANCIAL PERFORMANCE OF HOSPITALITY ORGANISATIONS IN RIVERS STATE**

**Eke Gift O.**

Department of Accountancy, Rivers State University, Port Harcourt, Nigeria

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**ABSTRACT:** *In the recent past, a number of organisations across the world failed irrespective of internal controls. This has raised concerns about the relevance and influence of internal control, especially as it affects the financial performance of an organisation. The main objective of this study was to determine the effect of internal control on financial performance of hospitality organisations (HOs) in Rivers State. The survey research design was adopted for this study. The population of the study was made up of all HOs operating in Rivers State. Convenience sampling technique was adopted in selecting twenty HOs that constitute the sample of this study. Data collection was done primarily using structured questionnaire and secondarily through journals, textbooks and the internet. The questionnaire was validated by senior academic and professional colleagues. The reliability index of the instrument was 0.765 obtained using the Cronbach Alpha technique. Data analysis was carried out using descriptive statistics of percentages, means and standard deviations. Linear regression and correlation analysis were used in testing the hypotheses postulated. The investigation found that internal controls to a significant extent influence financial performance of HOs and that a positive relationship exist between internal control and financial performance of HOs in Rivers State. The study concluded that the control environment affects total revenue as such influences the financial performance of HOs, its non-existence or inadequacy may spell doom for an organisation. One of the recommendations made was that management of HOs should regularly upgrade their information and communication framework to enable them cope with the frequent changes in the global environment and as such improve their financial performance.*

**KEYWORDS:** Internal Control, Control Environment, Risk Assessment, Information and Communication, Financial Performance.

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### **INTRODUCTION**

The success of an organisation depends largely on the measures it has put in place to support its operations and facilitate the achievement of its objectives. Such measures may include, but not limited to, having policies and procedures for execution of operations, establishing standards for recruitment and competency development of employees, development of policies which govern the behaviour of organizational members, having security measures to guarantee assets protection, establishing proper procedures for record keeping, defining reporting relationships among organizational members, establishing procedures for authorization of transactions and the limits thereon as well as top management supervision. These measures, together with many others, such as internal auditing, budgeting, performance evaluation, etc., that an organisation may implement in order to achieve its objectives, constitute the internal control system of the organisation.

Many business failures around the world, in the recent past, have been partly attributed to internal control failures. It is common knowledge that the collapse of some companies across

the world, notable among which are Enron Energy Corporation, WorldCom, Tyco (in the US); Maxwell Communications Corporation, the Mirror Group Newspaper (in the UK); as well as NITEL and NAFCON (in Nigeria) was due to internal control failure and by extension corporate governance failure. Few years ago a number of hospitality organisations (HOs), especially hotels, in Rivers State which were known to be performing excellently in financial terms collapsed irrespective of the existence of internal controls (ICs). Hospitality organisations in Rivers State like Hotel Olympia, Port Harcourt International Airport Hotel, Erijoy Hotels and Illusions Night Club, just to mention a few, are no more in existence; some others like Delta Hotels Ltd and Mr. Biggs are merely existing. Internal controls are expected to assist organisations, whether profit making or not, achieve their objectives. However, the collapse of organisations like Enron, WorldCom, NITEL and NAFCON have raised concerns about the relevance and influence of internal control, especially as it affects the financial performance of an organisation. Furthermore, many empirical studies like those carried out by Kinyua (2016), Kibel (2007), Nyakundi, Nyamita & Tinega (2014), Njeri (2014), Ejoh & Ejom (2014), Etengu & Amony (2016), just to mention a few, focus on industrial sectors such as manufacturing, banking, tertiary education, agriculture as well as oil and gas. There appear to be no empirical research, especially in Nigeria and Rivers State in particular, on the effect of internal control on financial performance of HOs. Hence, there is need to investigate the effect, if any, of internal control on the financial performance of HOs in Rivers State and the nature of the relationship between internal control and financial performance of HOs. Thus, the main objective of this study was to determine the effect of internal control on financial performance of HOs in Rivers State.

## LITERATURE REVIEW

### Theoretical Review

The systems and agency theories are considered to be relevant to this study. They are discussed below.

### Systems Theory

The early proponents of the systems theory were Ludwig Von Bertalanffy, a biologist, and Kenneth Boulding, an economist. Von Bertalanffy (1968) initially developed the systems theory in response to the increasing fragmentation and duplication of scientific and technological research and decision making in the first half of the 20th century. The General System Theory (often referred to as GST) is a collection of ideas and principles of several theories of diverse disciplinary backgrounds; it has as its subject matter the formulation and derivation of those principles which are valid for "systems" in general. According to Von Bertalanffy (1968:37), "General system theory is a general science of "wholeness" which up till now was considered a vague, hazy, and semi metaphysical concept".

The major aims (assumptions) of general systems theory as pointed out by Von Bertalanffy (1968:38) are:

- (1) *There is a general tendency towards integration in the various sciences, natural and social.*
- (2) *Such integration seems to be centered in a general theory of systems.*

*(3) Such theory may be an important means for aiming at exact theory in the non-physical fields of science.*

*(4) Developing unifying principles running "vertically" through the universe of the individual sciences, this theory brings us nearer to the goal of the unity of science.*

*(5) This can lead to a much-needed integration in scientific education.*

The systems theory is now generally used and applied in all aspects of life and virtually all disciplines (Ottih, 2003). The general system theory views systems, whether biological, solar, physical or organizational, as a 'whole' even though they are made of various components. This view was supported by Cleland & King (1975), who defined a system as an organized or complex whole; an assemblage or a combination of things or parts forming a complex or unitary whole. Thus, a system is a set of elements or components that are interrelated to one another in such a manner that they form a discernable whole and tend to achieve common objectives. We are interested in the general systems theory to obtain a better understanding of internal control which is a sub-system within a larger system - 'the organisation'.

### **Agency Theory**

Jensen & Meckling (1976) developed the agency theory and in explaining the theory viewed the firm as a nexus of contracts between different stakeholders of the organisation. They pointed out that the owners and executives of an organisation may have differences in opinion with regard to the best interests of the organisation. The objective of agency theory is to determine optimal contract between the principal and the agent. The agent tries to maximize personal gains by satisfying principal's economic objectives and as such the agent's commitment level is a function of perceived reward value for satisfying principal's objectives.

The agency theory is based on the agency relationship. Jensen & Meckling (1976) pointed out that an agency relationship is one in which one or more persons (the principal{s}) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Perhaps the most recognizable form of agency relationship is that of employer and employee. Other examples include state (principal) and ambassador (agent); constituents (principal) and elected representative (agent); organization (principal) and lobbyist (agent); or shareholders (principal) and directors (agent). Thus, the relationship between the principal and the agent based on the contract is a focal point of agency theory. Principal wants to maximize his/her benefits while minimizing reward to the agent at the same time. On the other hand, the agent wants to maximize his/her benefits. The basic assumption of agency theory is that the principal's wealth, per se, would not be maximized because of the following reasons:

- (1) The agent and the principal have different goals;
- (2) The agent and the principal have different access to information; thus, the principal cannot effectively monitor what the agent does and know which information the agent has; and
- (3) The agent and principal have different propensity towards risk.

## Conceptual Review

### Overview of Internal Control

The American Institute of Certified Public Accountants (1949) defined internal control as the plan of the organisation and all coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. This definition also recognizes that a system of internal control extends beyond matters which relate directly to accounting and finance.

A contemporary definition of internal control is that given by the Committee of Sponsoring Organisation of the Treadway Commission (COSO). COSO (1992) defined internal control as a process effected by those charged with governance, management and other employees to provide reasonable assurance regarding the achievement of an entity's objectives in the following areas: efficiency and effectiveness of operations, reliability of financial information or reports, and compliance with legal and regulatory requirements. Arens, Elder & Beasley (2003) argued that a system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals.

The underlying ideas behind the concept 'internal control' as can be deduced from the definitions examined above include:

- Internal controls are established and maintained by management and those charged with governance. This is consistent with the requirement that management is responsible for the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP).
- Everybody in an organization is responsible for ensuring that internal controls work.
- Internal controls provide reasonable but not absolute assurance about the achievement of objectives and that the financial statements are fairly stated. They are developed after considering both costs and benefits of the controls.
- Internal controls do not provide absolute protection in the event of unavoidable incidents or calamities.
- Internal controls cover both the financial and non-financial aspects of an entity's operations.

### Objectives of Internal Control

The ultimate purpose of internal control is to facilitate the achievement of the objectives of an organisation. COSO (1992) opined that internal controls are designed to achieve the following specific objectives:

1. **Efficiency and effectiveness of operations:** As pointed out earlier, to be efficient means the ability to optimize resource utilization, i.e. ensuring that there is a rewarding relationship between resources employed and the results achieved, while to be effective implies attaining the specific objectives set and achieving the intended results. Controls within an organisation are meant to encourage efficient and effective use of resources,

including personnel, to optimise the company's goals (Arens, Elder & Beasley, 2003). An important part of these controls is accurate information for internal decision making. Another important part of effectiveness and efficiency as pointed out by Arens, Elder & Beasley (2003) is safeguarding of assets and records. The physical assets of an organisation can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The same is true of non-physical assets such as accounts receivables, important documents (confidential contracts), and records (general ledger and journals). Thus, internal controls are designed to enable an organisation execute its operations in an orderly, efficient and effective manner.

2. **Reliability of financial reports:** Financial reports communicate information about an entity's resources, obligations and owners' equity. To ensure financial reports contain and communicate valid information to assist users in making informed economic decisions, control measures are necessary. Internal controls ensure that information is fairly presented in accordance with applicable reporting requirements such as generally accepted accounting principles (GAAP), international financial reporting standards (IFRS), etc.
3. **Compliance with applicable laws and regulations:** Organisations are required to comply with many laws and regulations within (and even outside) the jurisdictions they operate. Examples of laws and regulations an entity may be required to comply with include environmental protection laws, civil rights laws, income tax regulations, money laundering regulations, etc. Internal controls are required to identify applicable laws and regulations, prevent non-compliance with such laws and regulations and as such avoid penalties and damages to the organisation arising from non-compliance with relevant laws and regulations.

### **Components and Measurement of Internal Control**

Internal control is made up of five interrelated components which can be used to measure the strength and quality of internal controls in any organisation and in Hos specifically. These components as pointed out by COSO (1992) and cited in Meisser (2000); Millichamp & Tailor (2008); Eke (2015); Arens, Elder & Beasley (2003); BPP Learning Media (2010) and their measurement bases are discussed below:

#### **Control Environment**

The control environment includes the governance and management functions as well as the attitudes, awareness and actions of those charged with governance and management towards internal controls and its importance to the organisation. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is a foundation for all other components of internal control, providing discipline and structure. Thus, the control environment is the atmosphere created by management that shapes the way things are done and how organisational members behave towards the achievement of the organisation's objectives. Factors which are often used to measure the strength and quality of an organisation's control environment include: integrity and ethical values; a commitment to competence; management philosophy and operating style; involvement of the board and audit committee; organisational structure; assignment of authority and responsibility; and human resource policies and procedures.

## **Risk Assessment**

An internal control system should be able to address risks relevant to achieving corporate goals. Business risk is any factor, pressure or force that may prevent an entity from achieving its objectives, operating profitably and surviving. Risk assessment is the identification and analysis of risks relevant to the achievement of corporate objectives, determination of how such risk should be managed and implementation of a process to address such risks (BPP Learning Media, 2010). Factors which may pose risk to an organisation and which serve as bases for the measurement of risk include: incompetent management and staff; legislation; poor strategy and financial structure; political changes; competition; technological changes; accounting pronouncements; natural disaster; etc.

## **Control Activities**

Control activities are policies and procedures that ensure that management directives are carried out. They are on-going actions that organizational members take to ensure proper execution of operations and are particularly designed to support accurate, complete and reliable financial transaction processing. Examples of control activities which also serve as indices for measurement of internal control include: segregation of duties, authorization, supervision, physical controls (security measures), performance reviews, etc.

## **Information and Communication**

Information and communication system is the component of internal control which ensures that the organisation obtains pertinent information and communicates it to interested users. It involves communicating within the organization and with external parties. The information and communication system produce reports, containing operational, financial and compliance related information, that make it possible to run and control the business. The financial aspect of the information system includes procedures for initiating, recording, processing and reporting on the entity's financial operations or transactions. The effectiveness of an entity's (HOs in our case) information and communication system can be measured on the basis of timeliness, use of internet or computer based devices in processing transactions and transfer of information, ease of dissemination of information as well as proper storage and retrieval of processed information.

## **Monitoring**

Monitoring is a process that assesses the quality or effectiveness of internal controls over time. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Devices used in monitoring internal controls and which are also used to measure the quality of the monitoring system include budgeting and budgetary controls, performance evaluation, establishment of standards, internal auditing as well as top management supervision.

## **Financial Performance**

Before we delve into the concept of financial performance especially as it applies to HOs, it is important that we appreciate what 'performance' is. Georgopolis & Tannebaman (1957), as cited in Adebawojo, Enyi & Adebawo (2015), defined performance as the extent to which organisations, viewed as social systems, fulfil their objectives. Thus, performance can be viewed as a composite reflection of how well an organisation attains its objectives.

Stoner (2003) described performance as the ability to operate efficiently, profitably, survive, grow and react to environmental opportunities and threats. Performance is “doing today what will lead to measured valued outcomes tomorrow” (Lebas & Euske, 2002:3). In essence, performance is the result of organizational activities over a given period of time.

Financial performance is the degree to which financial objectives are being or has been accomplished (BPP Learning Media, 2016), that is, the ability of an organisation to achieve its financial targets. Financial objectives include, but are not limited to, shareholder wealth maximisation, profit maximisation, revenue growth, earnings per share growth, restriction on the level of gearing as well as enhanced liquidity or solvency (BPP Learning Media, 2010; Pandey, 2010).

Mishkin (2007), cited in Kinyua (2016), argued that financial performance is a measure of a company’s policies and operations in monetary terms. It is a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

### **Measurement of Financial Performance**

Financial performance is often measured using various variables to determine how well an entity had attained its financial objectives over a period of time. To appreciate how financial performance is measured, it is important to understand what performance measurement is. Performance measurement is the process of quantifying the efficiency and effectiveness of past action (Illmer, 2011). In more concrete terms, performance measurement is the process of measuring how well organizations are managed against their targets and the value they generate for their stakeholders. From a broader perspective, Upadhaya, Munir, & Blount (2014) pointed out that performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organisation, system or component. It can involve studying processes/strategies within organisations, or studying engineering processes/parameters/phenomena, to see whether output are in line with what was intended or should have been achieved.

BPP Learning Media (2016) argued that performance measurement aims to establish how well something or somebody is doing in relation to a plan. The ‘thing’ may be a machine, a factory, a subsidiary or an organisation as a whole while the ‘body’ may be an individual employee, a manager, or a group of people. Relating the definition of BPP Learning Media to the concept of financial performance, financial performance measurement can said to mean the process of determining how well an organisation had attained its financial objectives.

Financial performance measures are typically monetary measures relating to revenues, costs, profits, return on capital, asset values or cash flows (BPP Learning Media, 2016; Pandey, 2010). For the purpose of this study, financial performance of HOs is measured using:

1. **Total Revenue (TR):** This is the sum of all the incomes generated by an organisation from its normal (ordinary) operating activities. Revenue can be generated from sale of manufactured goods or services, sale of inventory of goods purchased for resale or from rent of assets or through royalty. HOs generate revenue through accommodation services, sale of foods and drinks to guests (customers), rent of halls, car hire services, night club services, internet and business center services, cinema ticketing, etc. The more revenue a HO generates, the better it is said to have performed financially.

2. **Profitability (Net Profit):** Hospitality organisations and many profit making organisations utilize accounting profit to measure their performance. Profit can be expressed as either gross profit or net profit. It is the excess of revenue over costs or expenses in a given period of time (usually one year). Our concern in this study is net profit. Net profit is measured as:

$$\text{Net Profit} = \text{Revenue Less Cost of sales (or Direct Costs) Less Operating Expenses (Administration and Distribution Expenses)}$$

A hospitality organisation can be said to have performed well financially if the size of its net profit is large, that is, it makes sufficient revenue to cover its direct costs and operating expenses.

3. **Return on Assets (ROA):** Return on assets is a measure of the operational profitability of an organisation in relation to the total assets it has; it reflects an organisation's ability to deploy its assets profitably (Pandey, 2010; Ezirim, 2004). Thus, ROA is measured as follows:

$$\text{ROA} = \text{Net Profit After Tax Divided by Total Assets.}$$

### Empirical Review

A number of studies have been carried out on internal control (as independent variable) and financial performance (as dependent variable). Some of the studies reviewed are examined below with a view to relating them to the current study, establishing a common ground and identifying differences.

Kinyua (2016) examined the effect of internal control systems on financial performance of companies quoted in the Nairobi securities exchange. The main objective of the study was to determine the effect of internal control systems on financial performance of companies quoted in the Nairobi securities exchange. The study was considered relevant to our investigation because it examined the impact of internal control on financial performance. The study which was a primary data study adopted the descriptive research design and data were collected using structured questionnaire. The study found that internal control has a significant relationship with financial performance and concluded that internal control system is a positive significant predictor of financial performance. The findings of the study, according to the author, suggest that internal control systems especially risk management, corporate governance, control activity, internal control environment and internal audit function are significant areas management of companies should give great attention to in order to improve their financial performance.

Nyakundi, Nyamita & Tinega, (2014) carried out an investigation on the effect of internal control system on financial performance of small and medium scale business enterprises in Kisumu city, Kenya. The major purpose of the study was to assess the relationship between internal control system and return on investment. The study which was a primary data study adopted the cross-sectional survey research design and was conducted on one hundred and seventeen (117) small and medium scale business enterprises in Kisumu city, Kenya. Stratified and simple random sampling techniques were used while data were collected using structured questionnaire and interviews. The result of the analyses revealed a significant change in the financial performance of small and medium scale enterprises which is linked to the existence

of an internal control system. It concluded that internal controls significantly influence the financial performance of Small and Medium scale Enterprises and recommended that proprietors of Small and Medium scale Enterprises should be trained on the significance of internal control.

Kiabel (2007) carried out a study on accounting control practices and financial performance of government-owned companies. The aim of the study was to assess the impact of accounting control practices on the financial performance of government-owned companies with specific reference to Rivers State-owned companies. Correlational research design was adopted for the study and data were obtained using structured questionnaire and through interviews. The study found a weak significant relationship between accounting control practices and financial performance of government-owned companies. This finding, according to the author was largely due to the inadequacy and poor implementation of accounting control practices in most of the firms surveyed. The study, therefore, concluded that accounting control practices contributed very little to financial performance of government-owned companies. The study recommended that government-owned companies should follow proper budgeting procedures to enhance their financial performance.

In another study, Etengu & Amony (2016) examined the role of internal control system on the financial performance of non-governmental organisations in Uganda. The purpose of the study was to establish the effect of control environment, control activities and monitoring on the financial performance of non-governmental organisations in Uganda using International Union for Conservation of Nature as case study. The survey design was adopted for the study and data were obtained using structured questionnaire and interview; hence, the study was a primary data study. The findings of the study revealed a significant relationship between each of the measures of internal control (control environment, control activities and monitoring) and financial performance. The study recommended that control environment, control activities, and monitoring should be enhanced in order to further improve the financial performance of International Union for Conservation of Nature.

Njeri (2014) investigated the effect of internal controls on the financial performance of manufacturing firms in Kenya. The primary objective of the study was to determine the effect of internal control system on financial performance of manufacturing firms in Kenya. Twenty (20) manufacturing firms constituted the sample of the study. The study used primary and secondary data. Primary data were obtained using structured questionnaire while secondary data were obtained from the financial statements of the manufacturing firms surveyed. The study which adopted the multiple regression approach to data analysis found that most of the manufacturing firms surveyed had a strong control environment which impacted positively on the financial performance of the firms. The study concluded that manufacturing firms that had invested on effective internal control systems had improved financial performance as compared to those manufacturing firms that had a weak internal control system. Consequently, it was recommended that the governing body (the board) of manufacturing firms, supported by the audit committee, should ensure that the internal control system is periodically monitored and evaluated.

Using the case study approach, Ejoh & Ejom (2014) carried out a study to determine the impact of internal control activities on financial performance of tertiary institutions in Nigeria. The study which was a primary data study adopted the survey design and data were collected using

questionnaire and interview guide. Percentages, tables, correlation coefficient and z-scores were used in analyzing data. The study revealed that there is regular review of financial transactions by management, strict adherence to budget provisions, and adequate segregation of duties, but that staff are not adequately trained to implement the accounting and financial control system. The study concluded that all activities of the College are initiated by top management and that there is clear separation of roles in the institutions' finance and accounts department and that superior officers in the College supervise regularly work done by their subordinates – all these point to the fact that a system of internal control exist in the institution. The study recommended that management of the institution should organize regular training for staff on control mechanism.

In a study to determine the Effect of internal control on financial performance of micro-finance institutions in Kisumu central constituency of Kenya, Oyoo (2014) used descriptive and correlation research design to investigate the relationship between internal control and financial performance of Micro-Finance institutions in Kenya. The study which was a primary and secondary data study adopted the convenience sampling technique. Data were obtained using semi-structured questionnaire and from audited financial statements of the Micro-Finance institutions studied. The study revealed that there is a positive relationship between internal control and financial performance of Micro-finance Institutions at Pearson correlation coefficient of 0.447. The study concluded that internal control affects financial performance of Micro-finance Institutions by 44.7% and 55.3% by other factors. The study recommended that keen attention should be paid to adopt more efficient management information systems.

## **METHODOLOGY**

### **Research Design**

This study adopted the survey research design. Survey design was appropriate as this study is a primary data research. Survey design enables a researcher to obtain data which describes, explores, and quantifies social phenomena, particularly issues, conditions and problems that are prevalent in the society at a particular point in time (Mugenda & Mugenda, 2012; Cooper & Schindler, 2011). Survey design ensures that data is obtained from dispersed respondents about the concepts being studied; it is an easy, convenient and cost effective method of collecting data required for the study.

### **Population of the Study**

The population of this study was made up of all HOs operating in Rivers State. However our emphasis in this study was on hotels, specifically five-star hotels and as such HOs that do not fall within this category are excluded. Information available at the Rivers State Ministry of Commerce and Industry indicates that there are 62 five-star hotels currently operating in Rivers State.

### **Sample Size Determination and Sampling Procedure**

The sample size for this study was fifty (54) HOs, obtained using the Taro Yamane formula for sample size determination. However, only twenty HOs (five-star hotels) were sampled since

they could conveniently be assessed. This study adopted the random sampling technique in selecting the HOs (hotels) that constituted the sample of this study. Random sampling technique ensures that the sample elements have an equal chance of being included in the sample, thereby eliminating bias. Adopting convenience sampling technique, three copies of the questionnaire were administered on senior personnel selected from the administration, accounting and internal audit units of each of the HOs (five-star hotels) that constituted the sample of this study. In all sixty (60) copies of questionnaire were administered by hand.

### **Methods of Data Collection**

Structured questionnaire was used in collecting primary data on internal control and financial performance of the HOs surveyed while secondary data sources were journals, textbooks and the internet.

### **Validity and Reliability of Research Instrument**

The data collection instruments were validated by senior academic and professional colleagues. The reliability index of the instrument was 0.773 and was obtained using the Cronbach Alpha technique.

### **Data Analysis Techniques**

Data analysis for this study was done using descriptive statistics of percentages, means and standard deviation. The following hypotheses were formulated to determine the influence of internal control on financial performance of HOs.

H<sub>01</sub>: Control environment does not have a significant effect on financial performance of HOs in Rivers State.

H<sub>02</sub>: Risk assessment does not have a significant effect on financial performance of HOs in Rivers State.

H<sub>03</sub>: Information and communication does not have a significant effect on financial performance of HOs in Rivers State.

H<sub>04</sub>: Firm size, government policies/regulations and technology do not have significant effect on the relationship between internal control and financial performance of HOs in Rivers State.

The hypotheses formulated were tested using the linear regression and correlation techniques.

### **Variables and their Measurement**

The variables for this study were internal control and financial performance. Internal control was the independent variable and was measured using the Control Environment (CE), Risk Assessment (RA) and Information and Communication (IC). Financial performance was the dependent variable and was measured using Total Revenue (TR), Profitability (specifically, Net Profit {NP}) and Return on Assets (ROA). The relationship between the independent and dependent variables was believed to be affected by moderating factors such as Firm Size (FS), Government Policies/Regulations (GP/R) and Technology (T). Values were assigned to these variables adopting the five-point Likert Scale of the form strongly agree, agree, disagree, strongly disagree and undecided.

### Model Specification

This study used the linear regression statistic to investigate the effect of internal control on financial performance and the relationship between internal control and financial performance of HOs in Rivers State. The model for this study is of the form:

$$FP = \beta_0 + \beta_1CE + \beta_2RA + \beta_3IC + \beta_4FS + \beta_5GP/R + \beta_6T + \varepsilon$$

Where:

FP = Financial Performance

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$  = Regression coefficients

CE = Control Environment

RA = Risk Assessment

IC = Information and Communication

FS = Firm Size

GP/R = Government policies/Regulations

T = Technology

$\varepsilon$  = Error term

## DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

### Data Presentation

In this section, we present and analyse data obtained for this study using means and standard deviations based on a five-point Likert Scale of the form strongly agree (4), agree (3), disagree (2), strongly disagree (1) and undecided (0). The expected mean is 2 obtained by dividing the sum of the weights of the scale by the total number (i.e.  $4+3+2+1+0 \div 5$ ). The actual mean of each of the responses was compared with the expected mean and a decision made on that basis.

### Descriptive Statistics for Internal Control

Table 4.1 summarises the results obtained in respect of the proxies for internal control. Statements were made to determine the nature and quality of the control environment, risk assessment framework as well as the information and communication sub-system of the HOs surveyed. An overall (average) mean of 3.47 and standard deviation of 0.80 were obtained for control environment, indicating that the HOs surveyed have a strong control environment which is believed to enhance their financial performance. An overall mean and standard deviation of 3.43 and 0.751 respectively were obtained for risk assessment; this indicates that the HOs surveyed have a strong risk assessment framework. The overall mean for information and communication is 3.79 with a standard deviation of 0.239. The means obtained are higher than the expected mean of 2 and as such indicate that the HOs surveyed have internal controls that support their financial performance.

**Table 4.1: Summary of Results for Internal Control (I.C)**

Internal Control Proxies	N	Mean	Standard Deviation
Control environment	48	3.47	0.802
Risk assessment	48	3.43	0.751
Information and communication	48	3.79	0.239

Source: Author's Computation, 2017.

### Descriptive Statistics for Financial Performance

Table 4.2 shows the overall result obtained in respect of financial performance measured in terms of total revenue, profitability and return on assets. Statements were made in respect of the measures of financial performance to assess the financial performance of the HOs surveyed. An overall mean of 3.65 was obtained for total revenue; the overall mean for profitability was 3.76 while that for return on assets was 3.70. Since the means obtained are higher than the expected mean of 2, the HOs surveyed have performed well financially.

**Table 4.2: Summary of Results for Financial Performance (FP)**

Financial Performance Proxies	N	Mean	Standard Deviation
Total revenue	48	3.65	0.479
Profitability (net profit)	48	3.76	0.481
Return on assets	48	3.70	0.520

Source: Author's Computation, 2017.

### Test of Hypotheses

Linear regression and correlation statistical techniques were used in testing the hypotheses stated earlier in this study to determine the effect of the measures of internal control (control environment, risk assessment and information and communication) on the measures of financial performance (total revenue, profitability and return on assets) and hence establish the relationship, if any, between internal control and financial performance. Regression analysis is a statistical process of estimating the relationship between variables; it helps in generating an equation that describes the statistical relationship between variables (Marshall & Rossman, 2006). The coefficient of correlation measures the strength of the relationship or going togetherness of variables (Mac'Odo, 1997).

### Regression Analysis of Internal Control Environment and Total Revenue

$H_{01}$ : Control environment does not have a significant effect on financial performance of HOs in Rivers State.

The result of the test is presented in Table 4.3.

**Table 4.3: Regression Output of Control Environment and Total Revenue**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.603 <sup>a</sup>	.364	.350	.16752

a. Predictors: (Constant), CONTROL ENVIRONMENT (X)

The result shown in Table 4.3 shows that the coefficient of correlation (R) is 0.603 and the coefficient of determination ( $R^2$ ) is 0.364 at 5% level of significance. The correlation coefficient of 60.3% indicates a positive linear relationship and high degree of correlation between control environment and total revenue. The coefficient of determination indicates that 36.4% of increase in total revenue (of HOs) is influenced by the control environment while 63.6% is due to other variables. These results do not support  $H_{O1}$  which states that control environment does not have a significant effect on financial performance of HOs in Rivers State.

The Analysis of Variance (ANOVA) result (shown in the appendix) is a further confirmation of the fitness of the regression model given the significance of the parameters. The computed F is 26.302 which is greater than the critical (table) value of F (4.08), at 5% level of significance and degrees of freedom of 1 and 47; again, the p-value (0.000) is less than the level of significance (0.05). Hence, we conclude that control environment has a significant effect on total revenue.

#### Regression Analysis of Risk Assessment and Profitability (Net Profit)

$H_{O2}$ : Risk assessment does not have a significant effect on financial performance of HOs in Rivers State.

The result of the test is presented in Table 4.4.

**Table 4.4: Regression Output of Risk Assessment and Profitability**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 <sup>a</sup>	.408	.395	.17521

a. Predictors: (Constant), RISK ASSESSMENT (X)

The result shown in Table 4.4 shows that the coefficient of correlation (R) is 0.639 and the coefficient of determination ( $R^2$ ) is 0.408 at 5% level of significance. The correlation coefficient of 63.9% indicates a positive linear relationship and high degree of correlation between risk assessment and profitability. The coefficient of determination, on the other hand, indicates that 40.8% of the increase in profitability of the HOs surveyed is influenced by risk assessment measures implemented by the HOs while 59.2% is due to other variables. These results do not support  $H_{O2}$  which states that risk assessment does not have a significant effect on financial performance of HOs in Rivers State.

The Analysis of Variance (ANOVA) result (shown in the appendix) is a further confirmation of the fitness of the regression model given the significance of the parameters. The computed

F is 31.696 which is greater than the critical (table) value of F (4.08), at 5% level of significance and degrees of freedom of 1 and 47; again, the p-value (0.000) is less than the level of significance (0.05). Hence, we conclude that risk assessment has a significant effect on profitability.

### Regression Analysis of Information and Communication and Return on Assets

H<sub>03</sub>: Information and communication does not have a significant effect on return on assets of HOs in Rivers State.

The result of the test is presented in Table 4.5.

**Table 4.5: Regression Output of Information and Communication and Return on Assets**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.552 <sup>a</sup>	.304	.289	.21651

a. Predictors: (Constant), INFORMATION & COMMUNICATION (X)

The result shown in Table 4.5 shows that the coefficient of correlation (R) is 0.552 and the coefficient of determination (R<sup>2</sup>) is 0.304 at 5% level of significance. The correlation coefficient of 55.2% indicates a positive linear relationship and high degree of correlation between information and communication and return on assets. The coefficient of determination, on the other hand, indicates that 30.4% of the increase in return on assets of the HOs surveyed is influenced by information and communication while 69.6% is due to other variables. These results do not support H<sub>03</sub> which states that information and communication does not have a significant effect on return on assets of HOs in Rivers State.

The Analysis of Variance (ANOVA) result (shown in the appendix) is a further confirmation of the fitness of the regression model given the significance of the parameters. The computed F is 20.114 which is greater than the critical (table) value of F (4.08), at 5% level of significance and degrees of freedom of 1 and 47; again, the p-value (0.000) is less than the level of significance (0.05). Hence, we conclude that information and communication has a significant effect on return on assets.

### Discussion of Findings

The results presented in table 4.1 show that the HOs surveyed have internal controls that support their operations and enhance their financial performance. The mean obtained for control environment is 3.47 which is greater than the expected mean of 2; this implies that the HOs surveyed have strong control environment. The mean obtained for risk assessment (3.43) is greater than the expected mean (2) and is a confirmation that the HOs surveyed are alert to circumstances that may pose threat to their ability to achieve their objectives. The mean for information and communication is also greater than the expected mean indicating that the HOs surveyed have measures that enhance information processing and dissemination. On the overall, the results provide evidence of the existence of relevant controls that support favourable financial performance in HOs in Rivers State.

The results for financial performance presented in table 4.2 indicate that on the overall the HOs surveyed perform well in financial terms. The mean of 3.65 obtained for total revenue is an indication that the HOs surveyed generate sufficient revenue to cover their operational cost. The findings of the study also indicate that the HOs surveyed are profitable and earn sufficient returns on their investment; the means of 3.76 and 3.70 obtained for profitability and return on assets provide further evidence about the favourable financial performance of the HOs surveyed.

The regression results from this study presented in tables 4.3, 4.4 and 4.5 confirm that a strong and positive linear relationship exist between internal control and financial performance in HOs in Rivers State. However, the regression results do not support the null hypotheses, hence, the study could not find a justifiable reason to accept them.

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

The major findings of this study are summarized in this section. Conclusion was made based on the findings and recommendations advanced on the basis of the results of the study and conclusion.

### **Summary**

This study investigated the effect of internal control on financial performance of HOs in Rivers State. The study sought to determine the extent to which the measures of internal control (control environment, risk assessment and information and communication) influence financial performance (total revenue, profitability and return on assets) of HOs in Rivers State. The results of the study indicate that internal controls to a significant extent influence financial performance of HOs. The study found out that there exist a positive relationship between internal control and financial performance of HOs in Rivers State.

## **CONCLUSION**

Based on the findings of the study, we conclude as follows:

1. The control environment affects total revenue as such influences the financial performance of HOs, its non-existence or inadequacy may spell doom for an organisation.
2. Risk assessment influences profitability and by extension the financial performance of HOs and enables a hospitality organisation prevent and overcome avoidable dangers or threats to their operations.
3. Information and communication have a significant effect on return on assets of HOs.
4. The financial performance of hospitality organisations is also influenced by moderating variables such as firm size, government policy/legislation and technology

## RECOMMENDATIONS

The following recommendations are advanced based on the findings and conclusions of this study:

1. Management of HOs should continually imbibe the attitude of designing and maintaining sound control environment as the success of their business depends to a significant extent on the strength of the control environment. This can be done by ensuring that: there is a culture of integrity and ethical behaviour within the organisation, the directors and audit committee meet regularly to appraise the performance of the organisation, competent personnel are engaged and their competence continually improved to make them perform better as well as designing appropriate human resource policies to motivate employees.
2. Management and those charged with governance of HOs should always be alert to all possible circumstances (business risks) that may threaten the entity's ability to achieve its objectives. This can be achieved through regular assessment of the operating environment of the organization to identify threats arising from competition, legislation, technological changes, etc.; the internal audit unit can assist in this regard.
3. The Information and communication framework of organisations operating in the hospitality industry should be regularly upgraded to enable them cope with the frequent changes in the global environment and as such improve their financial performance. HOs can take advantage of emerging trends in information and communication like the internet and social media to enhance their visibility and as such increase their clientele base and their financial performance.
4. HOs should strive towards expanding their operations, adjusting to government policies and technological changes as these factors significantly influence financial performance. Expansion can be achieved through investment in assets.

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**APPENDIX****FURTHER REGRESSION RESULTS**

## 1. Regression Output of Control Environment and Total Revenue.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.738	1	.738	26.302	.000 <sup>a</sup>
	Residual	1.291	46	.028		
	Total	2.029	47			

a. Predictors: (Constant), CONTROL ENVIRONMENT (X)

b. Dependent Variable: TOTAL REVENUE (Y)

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.441	.242		10.096	.000
	CONTROL ENVIRONMENT (X)	.351	.068	.603	5.129	.000

a. Dependent Variable: TOTAL REVENUE (Y)

## 2. Regression Output of Risk Assessment and Profitability.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.973	1	.973	31.696	.000 <sup>a</sup>
	Residual	1.412	46	.031		
	Total	2.385	47			

a. Predictors: (Constant), RISK ASSESSMENT (X)

b. Dependent Variable: PROFITABILITY (Y)

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.870	.167		17.195	.000
	RISK ASSESSMENT (X)	.272	.048	.639	5.630	.000

a. Dependent Variable: PROFITABILITY (Y)

## 3. Regression Output of Information and Communication and Return on Assets.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.943	1	.943	20.114	.000 <sup>a</sup>
	Residual	2.156	46	.047		
	Total	3.099	47			

a. Predictors: (Constant), INFORMATION &amp; COMMUNICATION (X)

b. Dependent Variable: RETURN ON ASSETS (Y)

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.314	.538		2.443	.018
	INFORMATION & COMMUNICATION (X)	.636	.142	.552	4.485	.000

a. Dependent Variable: RETURN ON ASSETS (Y)