

INTERNAL AUDIT PRACTICES AND FINANCIAL MANAGEMENT IN ORGANIZATIONS, A CASE STUDY OF LUMALA HARDWARE LIMITED WAKISO DISTRICT.

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ABSTRACT.

The performance of an internal audit department must function in a manner that is in accordance with applicable professional standards such as Standards for the Professional Practice of Internal Auditing (SSPIA 2000) and the quality of the internal control systems. For the purpose of this research the researcher sought to determine the impact of internal audit practices on financial management in Lumala hardware limited. Internal audit was looked at from the perspective of its functionality, relationship with financial management and impact of its practices on financial management. Internal audit suggests that Independence, scope of audit work, audit reporting, audit programs, management of internal audit department, performance of audit work, audit reviews, objectivity are important Internal Auditing practices from the perception of internal Auditors.

Performance of the audit work and audit reporting significantly influences the risk assessment of the of the quality of internal control system. From the findings, the respondents indicated that 9 (44%) of the respondents strongly disagreed while 05 (32%) of the respondents disagree with the statement. Also 3 (14%) of the respondents agree and 1 (2%) of the respondents strongly agree with the statement. However, 2 (8%) of the respondents we're neutral. This implies that the systems of internal controls are not build and operated in Lumala Hardware Limited The study recommends that should ensure that the auditors are Objective in carrying out their work and ensure efficient use of funds and also keep being updated with the changing technology and as well sharpen their skills. This improved on the financial management systems of Lumala Hardware Limited in Entebbe municipality in Wakiso District.

Key words: internal audit practices, financial management and organizations

Background of the study.

Financial management is an integral part of overall management (Alex & Kazaara, 2023). Financial management may be defined as the area or function in an organization which is concerned with profitability, expenses, cash and credit (Racheal et al., 2023), so that the “organization may have the means to carry out it’s objectives as satisfactorily as possible; the latter often defined as maximizing the value of the firm for stakeholders (Ramadhan et al., 2023). Financial managers are specialized professionals directly reporting to senior management often the financial director. It is generally concerned with short-term working, capital management, focusing on current assets and current liabilities and managing fluctuations in foreign currencies (Paul et al., 2023). It is also involved with long term strategic financial management focused on capital structure management including capital raising, capital budgeting allocation of business units among others. Kassem & Higson (2016) notes that auditors play an important role in combating

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corruption in an organization. Rather than act as deterrents to the management from engaging in different irregularities, the auditors must take extra effort in detecting the various irregularities, thus playing an important role in changing the perception of the management of organizations (Gracious, 2023). ISA 201 developed by the International Auditing and Assurance Standards Board (IAASB) regarding what the audit needs to do. Financial management can also be defined as an integral decision-making process concerned with acquiring financing and managing assets to accomplish some overall goal within a business (Winny et al., 2023). Howard and Upton define financial management as an application of general managerial principals to the area of financial decision making (Faridah et al., 2023). Weston and Brigham defined financial management as an area of financial decision making, harmonizing individual motives and enterprise goals (Winny et al., 2023). The Institute of Internal Auditors (IIA) defines internal audit is an independent objective assurance and consulting activity designed to add value and improve an organizations operation. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. There different types of internal audit which include financial, compliance, operational, construction audits among others (Innocent et al., 2023).

Problem Statement

Internal auditing in organizations served as a simple administrative procedure comprised of mainly checking accuracy of transactions, prepayment verification and control, counting assets and mostly funds management (K. Moses et al., 2023). According to Flint (2018) in recent times a combination of forces has led to a quiet revolution in the profession. Organizations are now moving towards higher level of transparency and hence they must demonstrate accountability in the use of business funds and efficient asset control (Victoria et al., 2023). According to (Normanton 2016p vii) internal audit in organizations has relevant qualifications to influence the better financial management. Internal audit facilitates effective management of the organization. Internal auditors can point out weaknesses of the organization in internal control systems and the management can use this insight better the chances of achieving their goals (Derrick et al., 2023). According to (Masli and Wood 2018) there is also division of work and internal audit ensures optimum utilization of resources (Faridah et al., 2023).

Despite that internal audit has registered positives in the organizations, there are as well challenges associated with internal audit practices which limits the extent to which financial management can be established (Isaac et al., 2023). According to (Minherit and Yismaw 2016) there are high costs of establishing an internal audit in an organization. Internal auditing is unsuitable for small organizations because it's very expensive (N. Moses et al., 2022). Therefore, this opens the horizons of interested researchers to carry out research on the influence of internal audit practices on financial management in Lumala Hardware Limited in Entebbe municipality in Wakiso District.

Objectives of the study.

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1. To assess the impact of risk assessment on financial management in Lumala Hardware Limited in Entebbe municipality in Wakiso District.
2. To examine the impact of control activities on financial management in Lumala Hardware Limited in Entebbe municipality in Wakiso District.
3. To determine the effect of control environment on financial management in Lumala Hardware Limited in Entebbe municipality in Wakiso District.

Methodology

Research design.

The study adopted a descriptive cross sectional research design, which according to Kothari (2004) is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs were accurate in descriptive studies and generalizations of results (Ngechu, 2004). The study involved evaluating the effort of internal audit practices on financial management in LHL. The research used cross sectional design. The research findings were displayed in the table from with figures in percentage form.

Target Population.

The study population for this study was compromised of 30 members that is members of staff and non staff members for example cashier's, cleaners, and security officer was selected to constitute the respondents of the study basing on their rankings.

Sample size.

The study selected 20 members from the target population of 30 members. Members were selected in terms of their rankings as follows; 2 branch manager, 3 supervisor, 10 cooperate customers, 1 security officer, 2 cashiers and 2 cleaners.

Sampling procedure.

Different forms of sampling used to carry out research. Sampling is a process of taking a group of people, objects, or items that's a taken from a larger population for measurement.

Probability sampling.

Probability sampling means that every member of the population has a chance being selected. It is mainly used in quantitative research. If you want to produce results that are representative of the whole population, probability sampling techniques are the most valid choice. It is used by selecting randomly using random selection. Everyone has an equal chance of getting selected

Simple random sampling.

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This is an entirely random method of selecting the sample. It is easy as assigning numbers to individuals and randomly choose from those numbers through an automated process.

It can be used using the lottery system and random number table or using number generating software.

Purposive sampling.

Purposive sampling can also be known as judgment sampling. Involves the researcher using their expertise to select a sample that is most useful to the purposes of the research. It is often used in qualitative research where the population is very small and specific.

Data collection instruments.

Here one explains and presents the research tools that were used in collecting data. These may include questionnaire, interviews, among others.

Questionnaires.

The researcher administered a survey questionnaire to each member of the population. The questionnaire is a tool designed for the collection of quantitative data, and is widely used in construction research as it is a good research instrument for collecting standardized data and making generalizations. Questionnaires can provide quick response but adequate care must be taken when developing questionnaires, to ensure you don't influence the response you receive. The design of your questionnaire should reflect your research aims and objectives.

Data analysis

Data analysis was analyzed using statistical package for social sciences (SPSS Version 20.0) program (Nelson et al., 2022). Quantitative analysis was used as data analysis technique. The data collected would run through various models so as to clearly bring out the effect internal audit practices on financial management of Lumala Hardware limited Log its model was used to analyze the regression equation. The focus of this study is the link between internal audit and financial management of organizations. The study was to measure management through internal audit of organizations.

RESULTS

Table 1: My organization financial management is good and appropriate.

	Frequency	Percentage
Strongly disagree	5	30
Disagree	6	40
Neutral	2	08

Agree	3	10
Strongly agree	4	12
Total	20	100

Source Primary Data, 2021

The result above in table 1 showed that majority of the respondents disagree with the statement that my organization financial management is good and appropriate. The responses indicated that 40% of the respondents disagree and 30% of the respondents strongly disagree. On the other hand, 10% of the respondents agreed with the statement while 12 % strongly agreed with the statement. This there for indicates that financial management in Lumala hardware limited is fairly good.

Risk assessment on financial management.

Risks are assessed in my organization; the results were shown as below in the table.

Table 2: Risk assessment on financial management in Lumala Hardware Limited.

	Frequency	Percent	Valid percent	Cumulative percent
Strongly disagree	08	36	36	36
Disagree	05	24	24	60
Neutral	01	4	4	64
Agree	02	16	16	80
Strongly agree	04	20	20	100
Total	20	100	100	

Source Primary Data, 2021

Table 2 above showed that the majority of the respondents disagreed with the statement.

The response has shown that 08 (36%) of the respondents strongly disagreed and 04 (20%) strongly agreed with the statement while 02 (16%) agreed with the statement, 01 (4%) of the respondents we're neutral. This there for implies that the principle of risk assessment is not assessed in Lumala Hardware Limited (Richard et al., 2022).

Control environment on financial management.

Table 3: The systems of internal control are built and operated in my organization.

	Frequency	Percent	Valid percent	Cumulative percent
Strongly disagree	09	44	44	44

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Disagree	05	32	32	76
Neutral	02	08	08	84
Agree	03	14	14	98
Strongly agree	01	2	2	100
Total	20	100	100	

Source Primary Data, 2021

Table 3 indicated that the majority of the respondents disagreed with the statement that the systems of control are built and operated in my organization. The respondents indicated that 9 (44%) of the respondents strongly disagreed while 05 (32%) of the respondents disagree with the statement. Also 3 (14%) of the respondents agree and 1 (2%) of the respondents strongly agree with the statement. However, 2 (8%) of the respondents we're neutral. This implies that the systems of internal controls are not build and operated in Lumala Hardware Limited (Kazaara & Christopher, 2023).

Control activities on financial management

Table 4: Control activities effect on financial management in the organization.

	Frequency	Percent	Valid percent	Cumulative percent
Strongly disagree	2	6	6	6
Disagree	3	12	12	18
Neutral	1	2	2	20
Agree	5	36	36	56
Strongly agree	9	44	44	100
Total	20	100	100	

Source Primary Data, 2021.

The above table clearly indicated that the majority of respondents agreed with the statement that there is proper control activities and that management directives are carried out. The response showed that 9 (44%) the respondents strongly agreed while 5 (36%) agreed. Also 3 (12%) the respondents disagree with the statement while 2(6%) strongly disagreed. However, 1 (2%) of respondents we're neutral. This implies that there are proper control activities in Lumala Hardware Limited (Richard et al., 2022).

Conclusions.

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The study revealed that there was greater variation in financial management of organizations due to high risks associated with in the organization.

On Control environment, the researcher concluded that there are no control environment principles put in place for an effective financial management.

Recommendations.

The researcher recommends the following after analyzing the findings and general conclusion of the study.

- The principle governing internal audit should be followed and adhered to.
- Internal auditors should be objective in carrying their work and should disclose all material facts know to them
- The company should improve on the level of financial management in place.

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