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**Internal Control System And Financial Management In An Organizations. A Case Study Of Hotel**

**Continental Iganga.**

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**ABSTRACT**

This study is aimed at assessing the impacts of internal control systems on financial management in an organization. Regression model and person's linear correlation coefficients will be used in the analysis. The findings reveal the following: controlling environment significantly affects financial management in hotel continental Iganga, risk assessment has a significant effect on financial management in hotel continental Iganga, operational control activities have a significant relationship in control system and financial management in Hotel Continental Iganga. This research employed descriptive survey research design to describe financial management in Hotel Continental Iganga, additionally, findings indicates that an improvement in internal control system improves financial management in an organization and ineffective internal control system leads to poor financial management, the findings indicates a significant impact between monitoring & evaluation system and financial management in an organization, the research shows that effective controlling environment increases financial management in Hotel Continental Iganga, an improvement in risk assessment highly increases financial management in an organization, an improvement in operational control activities increases financial management in an organization, improvement in internal control system improves financial management in an organization and infective internal control system leads to poor financial management, and lastly, improving the monitoring & evaluation system increases financial management in an organization. The researcher recommended that; Hotel Continental Iganga, to make sure that both management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control, Hotel Continental Iganga should put in place an effective information system to capture and process data in a meaningful way, the organization should make sure that human resource policies and practices are designed and implemented to facilitate effective internal control, the organization and to make sure that all financial information are recorded accurately and presented clearly. In this case therefore, this research work has brought a new knowledge if taken into account, the organization will move out from issues basing on internal control system basing on the weaknesses found in the operations that may result a negative effect on financial management in terms of managing scarce resources, financial control, accountability, transparency and internal controls in developing countries.

**Key words: internal control system, financial management and organizations**

**Background of the Study**

Internal control systems are typical problems after and accounting in both developed and developing global scandals with fraudulent financial reporting countries (Alex & Kazaara, 2023). (Mattie &

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Cassidy, 2002). Internal control is a system consisting of specific policies and procedures designed to provide management with reliable assurance that the goals and objectives considered important to the entity have been met (Paul et al., 2023). In their view, the rationale for internal control is to promote operations, efficiency and effectiveness, provide reliable financial and administrative information, and protect assets and records (Ramadhan et al., 2023). The International Monitoring Fund (IMF) Working Group (2007) addressed components of internal controls such as control environment, control activities, risk assessment information and communication, and monitoring and evaluation. While internal controls are considered the domain of accountants and auditors. It is actually management that has the primary responsibility for proper controls (Polycarp et al., 2023). The study used contingency theory by Morgan (2007), contingency theory is an organizational theory that states that there is no best way to organize a company, run a company, or make decisions. Instead, the optimal course of action is dependent (dependent) on the internal and external situation. The demand for an internal audit department has grown in most African countries since its inception in the 1930s; however, internal audit procedures are not fully implemented (Moses et al., 2023). For example, in Ethiopia, Less, attention is given to operational audits as well as the application of modern techniques such as flowcharting, statistical sampling and computer auditing. Internal auditors spend to ensure that accounting records are properly

kept and reliable. In addition, most internal audit departments do not have a written audit charter (Innocent et al., 2023). Therefore, the objectives, powers, scope and responsibilities of internal audit are not clearly defined in most organizations and there are no measures in place to ensure that the internal audit department is recognized as acting with the authority and support of top management. In Uganda, remittance companies handle a lot of money, contribute to the livelihood of hundreds of thousands of families and develop the private sector in a country where there is no properly functioning government, therefore the internal auditor is expected to be high and at the same time the safety of employees is not guaranteed (Wegulo et al., 2023). Ugandan remittance companies suffer loss of millions of dollars due to lack of good quality control system in remittance companies and professional internal auditors, therefore most Ugandan organizations do not have effective and independent auditors. The main objective of this research is to find out the role of internal control systems and financial management in the organization and how effective it is and to find out the level of effectiveness of the internal control system in Hotel Continental Iganga (Faith et al., 2023). The aim of this study is to investigate the effect of effective internal control systems on financial management in an organization. Furthermore, this study identified the relationship between the workload of the internal audit and the quality of the internal control system.

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### **Statement of the Problem**

Internal controls in all organizations including Hotels are mandatory practices that are envisaged to contribute to various indicators of the Organization performance (Seth & Ntirandekura, 2022). Despite all the efforts to put in place internal controls, there are continued reports of a wide range of financial fraud practices inside the organization, mismanagement, error of the transactions, thefts, wastage of organization's assets (Faridah et al.,

2023). To this effect, there has been no empirical evidence on how internal controls have influenced the reliability of financial reports, efficiency, and effectiveness of the hotel operations and compliance to laws and regulations surrounding hotels. (Monitoring Report, 2014). In view of this discrepancy, there is need to investigate the relationship between internal control system and organizational financial management to highlight best practices (Lydia et al., 2023).

### **Purpose of the Study**

The purpose of this study is to assess the effect of internal control systems on financial management in Hotel Continental Iganga.

### **Research Objectives**

1. To examine the effect of controlling environment on financial management in Hotel Continental Iganga.
2. To establish the effect of risk assessment on financial management in Hotel Continental Iganga.
3. To assess the effects of information and communication system on financial management in Hotel Continental Iganga.
4. To assess the effect of monitoring & evaluation system on financial management in Hotel Continental Iganga
5. To establish the relationship between operational control activities and financial management in Hotel Continental Iganga.

### **Methodology**

This study used the descriptive survey design specifically the descriptive correlation strategies. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or a group. It deals with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that have universal validity. It also involved a number of 37 workers from hotel continental Iganga, the researcher calculated the sample size which was obtained from the research population using the Slovenes formula that have already taken place and related to present conditions (Kothari, 2004). Further, descriptive surveys were used to discover causal relationships (descriptive correlation) to provide precise quantitative description and to observe behavior (Amin, 2005). The target population mainly constituted the employees and management of Hotel Continental Iganga of a total number of 37 including the management.

### **Sample size table**

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| Category   | Population size | %   | Sample size |
|------------|-----------------|-----|-------------|
| Employees  | 30              | 88  | 26          |
| Management | 7               | 12  | 5           |
| Total      | 37              | 100 | 31          |

Source: Krejcie and Morgan.

The sampling technique to be utilized in this study was the simple random sampling whereby each respondent was given an equal chance of being selected to participate in this study. Still simple random sampling was used to get the specific respondents to be interviewed from each of the workers until the required population will be achieved. The data collection instruments were self-administered questionnaire and interview guide. Both structured and unstructured questionnaires were used to collect data. A structured questionnaire was used as it contains a list of possible alternatives from which respondents can select answer that best suits their situation. Data was analyzed as quantitative data and qualitative data. Quantitative data was analyzed using statistical package for social sciences for source scientists' research software in form of pie chart among others (Nelson et al., 2022).

## RESULTS

**Table 1 Internal control system**

| Items on Internal control system                                                                                                  | Mean        | Interpretation | Rank |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------|----------------|------|
| <b>Control environment</b>                                                                                                        |             |                |      |
| The board of directors understands and exercises oversight responsibility for Internal control                                    | 3.35        | Very Good      | 1    |
| The organization structure is periodically reviewed to ensure its relevance.                                                      | 3.05        | Good           | 2    |
| The organizational structure supports effective internal control                                                                  | 2.78        | Good           | 3    |
| Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control | 2.46        | Poor           | 4    |
| Human resource policies and practices are designed and implemented to facilitate Effective internal control                       | 1.66        | Very poor      | 5    |
| <b>Average mean</b>                                                                                                               | <b>2.66</b> | <b>Good</b>    |      |
| <b>Risk assessment</b>                                                                                                            |             |                |      |
| Risks relevant to the organization financial management have been managed.                                                        | 3.51        | Very Good      | 1    |
| The potential for material misstatement due to fraud and errors for Assessing risk                                                | 3.13        | Good           | 2    |
| The organization identifies and analyzes risks for determining how the risks Should be managed                                    | 2.77        | Good           | 3    |

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|                                                                                                                                         |             |             |   |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|---|
| Actions are taken to address risk to the achievement of financial reporting                                                             | 1.48        | Very poor   | 4 |
| <b>Objectives</b>                                                                                                                       |             |             |   |
| <b>Average mean</b>                                                                                                                     | <b>2.72</b> | <b>Good</b> |   |
| <b>Operational control activities</b>                                                                                                   |             |             |   |
| Approvals, authorizations, verifications, reconciliations and maintenance of Security are observed in the hotel continental Iganga      | 3.38        | Very Good   | 1 |
| Internal audits are always carried out in hotel continental Iganga                                                                      | 3.23        | Good        | 2 |
| Performance reviews are usually carried out to the satisfaction of stakeholder                                                          | 2.71        | Good        | 3 |
| The creation and maintenance of related records are observed in continental                                                             | 2.48        | Poor        | 4 |
| <b>Average mean</b>                                                                                                                     | <b>2.95</b> | <b>Good</b> |   |
| <b>Information and communication</b>                                                                                                    |             |             |   |
| Information used to execute other control components is identified, captured and distributed to guide internal control responsibilities | 3.27        | Very Good   | 1 |
| Matters affecting the achievement of organizations objectives are communicated to stakeholders                                          | 3.21        | Good        | 2 |
| The employees are encouraged to report suspected improprieties to management.                                                           | 2.82        | Good        | 3 |
| There is an effective information system in place to capture and process data in a meaningful way.                                      | 2.18        | Poor        | 4 |
| <b>Average mean</b>                                                                                                                     | <b>2.87</b> | <b>Good</b> |   |
| <b>Monitoring and evaluation system</b>                                                                                                 |             |             |   |
| Internal control deficiencies are identified and communicated in a timely manner to parties responsible or stakeholders                 | 3.10        | Good        | 1 |
| Ongoing or separate evaluations enable management to determine whether Internal control are functioning well                            | 2.93        | Good        | 2 |
| <b>Average mean</b>                                                                                                                     | <b>3.02</b> | <b>Good</b> |   |
| <b>Overall mean</b>                                                                                                                     | <b>2.84</b> |             |   |

Source: PrimaryData,2020

The following mean ranges were used to arrive at the mean of the individual indicators and interpretation

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For the level of Internal Control Systems

| Mean Range | Response Mode     | Interpretation |
|------------|-------------------|----------------|
| 3.26-4.00  | Strongly Agree    | Very Well      |
| 2.51-3.25  | Agree             | Good           |
| 1.76-2.50  | Disagree          | Poor           |
| 1.00-1.75  | Strongly Disagree | Very Poor      |
|            |                   |                |

Results in table 4.2 indicated that internal control system was rated good and this was indicated by the overall mean of 2.84, implying that there is a formalized system intended to provide reasonable assurance that the objectives of Hotel continental Iganga are met. Results further indicated that internal control system differ on different perspectives; for example, control environment, the respondents rated this construct as good and this was indicated by the average mean of 2.66, implying that the internal environment has always been controlled well in Hotel continental Iganga. Still results indicated that the board of directors understands and exercises oversight responsibility for internal control (mean=3.35) (Mark et al., 2023), the organization structure is periodically reviewed to ensure its relevance (mean=3.04), the organizational structure supports effective internal control (mean=2.78), management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control(mean=2.46). However, this construct (training) was rated very poor on only one item (mean=1.66), hence implying that the human resource policies and practices are not designed and implemented to facilitate effective internal control. With respect to risk assessment (Kazaara & Christopher, 2023), this variable was rated good and this was indicated by the average mean of 2.72, hence implying that risks are always assessed well in order to minimize fraud. Risks relevant to the organization financial management have been managed (mean=3.51), the potential for material misstatement due to fraud is explicitly considered in assessing risk (mean=3.13), the organization identifies and analyzes risks for determining how the risks should be managed (mean=2.77), one item was rated very poor which implied that but there has been no actions taken to address risk to the achievement of financial reporting objectives(mean=1.48).

Concerning operational control activities, four items were used to measure this construct and was rated good and this was indicated by the average mean of 2.95, two items were rated as good (mean=3.23 & 2.71 respectively), this implied that internal audits and performance reviews are usually carried out to the satisfaction of stakeholder (Damasus et al., 2023). One item was rated low (mean=2.48) which implied that the creation and maintenance of related records are not observed in Hotel continental Iganga with respect to monitoring and evaluation system, this variable was rated good and this was indicated by the average mean of 3.02, hence implying that the activities taking place in hotel continental Iganga are always monitored and evaluated well. Still results indicated that the internal control deficiencies are identified and communicated in a timely manner to parties responsible stakeholders

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(mean=3.10), and the ongoing or separate evaluations enable management to determine whether internal control are functioning well (mean=2.93).

**Financial management**

Table4.3: Extent of financial management in Hotel continental Iganga

| Indicator                                                                                                                       | M         | Interpretatio | R |
|---------------------------------------------------------------------------------------------------------------------------------|-----------|---------------|---|
| <b>Managing scarce resources</b>                                                                                                |           |               |   |
| Your Hotel usually discloses how resources have been acquired.                                                                  | 2.        | Good          | 1 |
| Financial management is the heart of financial control in your Hotel.                                                           | 2.        | Good          | 2 |
| Your Hotel operate in a competitive environment where funds are increasingly scarce.                                            | 2.        | Good          | 3 |
| The Hotel has made sure that funds and resources are used properly.                                                             | 2.        | Poor          | 4 |
| <b>Average Mean</b>                                                                                                             | <b>2.</b> | <b>Good</b>   |   |
| <b>Financial control</b>                                                                                                        |           |               |   |
| Funds are spent in accordance with the Hotel objectives.                                                                        | 3.        | Very good     | 1 |
| Your Hotel custodian holds the assets and funds in trust and makes sure that they are used in accordance with the constitution. | 3.        | Good          | 2 |
| The information is generally organized standardized formats of financial book keeping and measurement.                          | 2.        | Good          | 3 |
| All stakeholders have the right to know how their funds have been used                                                          | 2.        | Poor          | 4 |
| All financial information is recorded accurately and presented clearly.                                                         | 1.        | Very poor     | 5 |
| <b>Average Mean</b>                                                                                                             | <b>2.</b> | <b>Good</b>   |   |
| <b>Accountability</b>                                                                                                           |           |               |   |
| Inconsistent approaches to financial management have viewed as an indication of manipulation.                                   | 3.        | Very good     | 1 |
| Managers can decide if the Hotel is on target to achieve its objectives Within agreed time scales and budget.                   | 2.        | Good          | 2 |
| Planning is based to the management process and involves looking ahead to prepare for the future.                               | 2.        | Poor          | 3 |
| <b>Average Mean</b>                                                                                                             | <b>2.</b> | <b>Good</b>   |   |
| <b>Transparency</b>                                                                                                             |           |               |   |
| Your Hotel has principles intended to guide behavior and help in the development of policies and procedures.                    | 3.        | Very good     | 1 |
| Workers in the Hotel operate with honesty and propriety.                                                                        | 3.        | Good          | 2 |
| The resource of the organization has to be coordinated to ensure implementation.                                                | 2.        | Good          | 3 |

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|                                                                                                                                   |           |             |   |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|---|
| Your Hotel monitor involves comparing actual performance with plans to Evaluate the effectiveness of plans.                       | 2.        | Poor        | 4 |
| <b>Average Mean</b>                                                                                                               | <b>2.</b> | <b>Good</b> |   |
| <b>Internal controls</b>                                                                                                          |           |             |   |
| Board of trustees has overall responsibility for the Hotel.                                                                       | 3.        | Very good   | 1 |
| Inaccurate records will result in misleading information.                                                                         | 2.        | Good        | 2 |
|                                                                                                                                   | 74        |             |   |
| A system of controls, checks and balances are essential to ensure proper application of procedures during program implementation. | 2.        | Good        | 3 |
| Effective financial control will not be achieved by a partial implementation.                                                     | 2.        | Poor        | 4 |
| <b>Average mean</b>                                                                                                               | <b>2.</b> | <b>Good</b> |   |
| <b>Overall mean</b>                                                                                                               | <b>2.</b> | <b>Good</b> |   |

Source: Primary Data, 2020

The following mean ranges were used to interpret the means: For the level of financial management

| Mean Range | Response Mode     | Interpretation |
|------------|-------------------|----------------|
| 3.26-4.00  | Strongly Agree    | Very Well      |
| 2.51-3.25  | Agree             | Good           |
| 1.76-2.50  | Disagree          | Poor           |
| 1.00-1.75  | Strongly Disagree | Very Poor      |
|            |                   |                |

Results in table 4.3 indicated that financial management was rated good and this was indicated by the overall mean of 2.75, which implies that financial management in the Hotel continental Iganga is done through effective managing of scarce resources, financial control, accountability, transparency and internal control (Racheal et al., 2023).

Managing scarce resources as the first construct on the dependent variable was measured using four items and this was rated good (mean=2.63), this implied that the available resources in Hotel continental Iganga are managed well. The Hotel usually disclose how resources have been acquired (mean=3.51), the central government has provided funds for implementation of policies (mean=2.85), the financial management is the heart of financial control in the organization (mean=2.76), the Organization operate in a competitive environment where funds are increasingly scarce (mean=2.52). Results indicated that the lowest rated item was (mean=1.93), hence implying that to a certain extent the hotel have not made sure that the funds and resources are used properly (Moses et al., 2023).

With respect to financial control, results indicated that this was also rated good and this was indicated by the average mean of 2.71, hence implying that the available financial resources in the hotel are controlled well. Funds

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|  |       |      | Adjusted | R std. Error |
|--|-------|------|----------|--------------|
|  |       |      |          | of           |
|  | 52.4a | .274 | .272     | .41854       |

are spent in accordance with the hotel objectives (mean=3.68), The hotel custodian holds the assets and funds in trust and makes sure that they are used in accordance with the constitution (mean=3.25), the information is generally organized standardized formats of financial book keeping and measurement (mean=2.64), one item was rated poor (mean=2.44) and one item was rated very poor (mean=1.55), this implies that not all stakeholders have the right to know how their funds have been used, and not all financial information is recorded accurately and presented clearly (Alex & Kazaara, 2023).

With respect to accountability, results indicated that this was also rated good and this was indicated by the average mean of 2.79. Inconsistent approaches to financial management have viewed as an indication of manipulation (mean=3.27), managers can decide if the Hotel is on target to achieve its objectives within agreed times scales and budget(mean=2.66), one item was rated poor (mean=2.45), this implied that planning in the organization is not based to the management process and doesn't involve looking ahead to prepare for the future.

Concerning transparency; this construct was rated good and this was indicated by the average mean of 2.87, this implies that there is transparency in carrying out the organization have principles intended to guide behavior and help in the development of policies and procedures (mean=3.30), the workers in the NGO operate with honesty and propriety. (mean=3.18), the resources of the organization are coordinated to ensure implementation (mean=2.57), however the organization monitoring does not involve comparing actual performance with plans to evaluate the effectiveness of plans(mean=2.41) (Christopher et al., 2022).

#### **Effect of control environment on financial management in Hotel continental Iganga**

This section presents the results of the regression model estimated to analyze the effect of control environment on financial management in Hotel continental Iganga.

Table 3: Effects of control environment on financial management in Hotel Continental Iganga.

| ANO             |       |       |     |       |       |                   |
|-----------------|-------|-------|-----|-------|-------|-------------------|
| VA <sup>b</sup> |       |       |     |       |       |                   |
| 1               | Regre | 23.99 | 1   | 23.99 | 136.9 | .000 <sup>a</sup> |
|                 | ssion | 2     |     | 2     | 63    |                   |
|                 | Resid | 63.41 | 362 | .175  |       |                   |
|                 | ual   | 3     |     |       |       |                   |
|                 | Total | 87.40 | 363 |       |       |                   |
|                 |       | 5     |     |       |       |                   |

Coefficients<sup>a</sup>

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|  |            |      |             |              |       |     |          |      |
|--|------------|------|-------------|--------------|-------|-----|----------|------|
|  |            |      |             | Standardized |       |     | Tolerant | VIF  |
|  |            | B    | Rstd. Error | B            | 2     | .0  |          |      |
|  |            | 1.8  |             |              | 4.228 | 00  |          |      |
|  | (Constant) | 15   |             |              |       |     | .59      | .008 |
|  | Control    | .329 | .028        | .524         | 1.703 | .00 |          |      |
|  |            |      |             |              |       |     |          |      |

Regression analysis results in the Model Summary table revealed that control environment accounted for 27.4% on financial management in hotel continental Iganga and this was indicated by r-squared of 0.274 implying that to small extent control environment contribute to financial management hotel continental Iganga (Nelson et al., 2023).

The ANOVA table indicated that control environment significantly affects financial management hotel continental Iganga. And this was indicated by the F-value=136.963 and Sig-value=.000,since the sig. value(0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that control environment highly contributes to financial management hotel continental Iganga. The coefficients table indicated that considering the standard error, control environment significantly influences the financial management in hotel continental Iganga.

**Table 4: Effect of risk assessment on financial management in hotel continental Iganga.**

**Model Summary**

|                    |              |               |      |                 |        |                             |  |
|--------------------|--------------|---------------|------|-----------------|--------|-----------------------------|--|
| 1                  | .193a        |               |      | Adjusted square |        | Rstd. Error of the Estimate |  |
|                    |              |               | .372 |                 |        | .47942                      |  |
| ANOVA <sup>b</sup> |              | Sum of square | DF   | Mean square     | F      | Sig.                        |  |
| Model              |              |               |      |                 |        |                             |  |
| 1                  | Registration | 3.207         | 1    | 3.207           | 13.955 | .000 <sup>a</sup>           |  |

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|  |          |        |     |      |  |  |
|--|----------|--------|-----|------|--|--|
|  | Residual | 82.514 | 359 | .230 |  |  |
|  | Total    | 85.722 | 360 |      |  |  |

**Coefficients**

|  |            |      | Std. Error | Standardized Beta |       |      |      |      |
|--|------------|------|------------|-------------------|-------|------|------|------|
|  | (Constant) | B    | .113       | Beta              | 1     | .    | .    | .    |
|  | Risk       | 2    | .044       | .193              | 9.761 | .000 | .035 | .005 |
|  |            | .239 |            |                   | 3     | .    |      |      |
|  |            | .164 |            |                   | .736  | .000 |      |      |

Regression analysis results in the Model Summary table indicated that the risk assessment accounted for 37.2% on financial management in the hotel and this was indicated by r-squared of 0.372 implying that risk assessment significantly contributes 37.2% on financial management in the hotel. The ANOVA table indicated that risk assessment significantly affects financial management in hotel continental Iganga and this was indicated by the F-value=13.955 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that risk assessment highly affects the financial management hotel continental Iganga. The coefficients table indicated that considering the standard error, risk assessment significantly affects financial management in Hotel continental Iganga.

**Conclusions**

From the findings of the study, the researcher concludes that controlling environment significantly affects financial management in hotel continental Iganga. Consequently, effective controlling environment will increase financial management hotel continental Iganga.

The researcher concludes that risk assessment significantly affects financial management in hotel continental Iganga. Hence, an improvement in risk assessment will increase financial management in Hotel continental Iganga.

The researcher further concludes that there is a significant relationship between information & communication system on financial management in hotel continental Iganga. This implies that improvement in

internal control system will improve financial management among in hotel continental Iganga infective internal control system leads to poor financial management.

### **Recommendation**

The organization should develop a good controlling environment system to monitor, record and track all the finances so that there is effectiveness in internal control system and ensure to cover loop holes in the system to enhance financial management hotel continental Iganga,

The organization should develop an effective risk assessment system which makes risk assessment easy and flexible to boost financial management hotel continental Iganga.

The organization should develop information & communication system that enables them have minimum supplies at all times, this will help them control finances and hence increase on the financial management hotel continental Iganga

The organization should develop an effective monitoring & evaluation system and make sure they always have a monitoring plan that enables them have minimum frauds at all times, this will help them control finances and hence increase on financial management in hotel continental Iganga.

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