Assessing The Influence Of Internal Financial Control Systems On The Financial Management Of Effia Nkwanta Regional Hospital, Sekondi

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Abstract—The purpose of the study was to assess the influence of internal financial control systems on the financial management of Effia Nkwanta Regional Hospital (ENRH), Sekondi in the Western Region of Ghana. The design adopted for the study was descriptive survey design. The population was all administrative and finance staff of the hospital. The sample size for the study was 93 made up of 81 administrative staff and 12 finance staff. The lottery method of simple random sampling technique was used to select the respondents. However, the two groups of staff were selected purposively. Questionnaire was the sole data collection instrument. Both descriptive and inferential statistics were used in analysing the data. The findings of the study revealed that the various control systems adopted by the hospital are not effective and it has an indirect effect on the hospital's financial management through staff level of satisfaction. Also, the challenges encountered in the implementation of internal controls at ENRH were lack of staff in the finance unit, too much workload on the part of finance staff, non-following of laid down financial procedures by unit heads, and staff refusing to be control conscious. Based on the findings and conclusions, it was recommended that management should put in place proper structures to monitor the financial management of the hospital to improve productivity and to enable the hospital realise the full benefits of its internal financial control systems.

Keywords—Financial Management, Hospital, and Internal Financial Control System,

Introduction

Generally, internal financial controls (IFCs) may be seen as measures instituted by an organisation in order to ensure that the organisation attains its objectives, goals and missions. According to Dineshkumar and Kogulacumar (2013), IFCs are processes designed and implemented by those charged with management, and other personnel to provide reasonable assurance about the achievement of an organisation's objectives with regard to reliability of the financial reporting, effectiveness of operations and compliance with applicable laws and regulations. However, IFCs only provide meaningful and reasonable but not absolute assurance to a firm's management that the firm's objectives will be achieved. In increasing risk awareness across organisations' operations, most managers have put in place appropriate IFCs, approval procedures and other interventions with the aim of helping to identify and manage risks that could adversely impact the achievement of an organisation's objectives (Yang & Guan, 2014).

Within the Ghanaian health sector, the various regional hospitals are one of the predominant form of health facility with most facilities and equipment, and also have large number of staff (Ghana Health Service, 2017); a factor that has contributed to the urgent need for IFCs in these hospitals for effective financial management. They provide extensive contributions to job generation, teaching and training of doctors and other health practitioners and wealth creation (National Development Planning Commission, 2017). Effia Nkwanta Regional Hospital (ENRH) is the regional hospital of the Western of Region of Ghana. One of the main objectives of ENRH is to support the training of medical doctors by giving opportunity for them to do their horsemanship (ENRH, 2017). The hospital has operated in disregard of recognised IFCs leading to the mass failure and poor financial performance the hospital is currently facing (ENRH, 2017; NDPC, 2017). Most of the financial challenges the hospital is facing is as a result of poor IFC systems put in place which culminate to staff ill satisfaction to the work which in turn leads to low financial performance as a whole.

The discussion so far shows that workload and financial backbone of ENRH requires appropriate and effective IFCs to ensure smooth financial operation and high financial management. The hospital has expressed an impressive need to grow and introduced various expansion mechanisms even with the challenges of low staff satisfaction and poor IFCs (ENRH, 2017). It is this realisation that pushed management of ENRH in 2014 to adopt modern IFCs

in order to improve its financial systems, controls and performance (ENRH, 2017). Even though, the hospital has been practicing its IFCs, there has been no study on the part of the hospital to find out the effects of the hospital's IFCs on the hospital's financial management. Therefore, the study sought to contribute to the existing literature by empirically investigating the effects of IFC system on financial management of ENRH, Sekondi.

Objectives of the Study

The main objective of this study was to investigate the effect of IFC systems on the financial management of ENRH. The specific objectives of the study were to:

1. examine the effectiveness of IFC system in ENRH, Sekondi.

2. determine the effect of IFC system on the financial management of ENRH, Sekondi.

3. Examine the challenges encountered in the implementation of IFCS at ENRH, Sekondi

Significance of the Study

It is hope that findings of the study would advance the understanding of how ENRH, Sekondi can adequately use IFCs to improve the hospital's financial management. Also, findings of the study, if implemented, are also expected to be of immense benefits to the management of the ENRH, Sekondi with regard to IFCs decisions and implementation that foster the attraction and retention of a satisfied and committed workforce. Furthermore, the study will enrich the researcher's knowledge on IFC system, staff satisfaction in the control system, and financial management. The study results will be useful to management, board of governors, and all stakeholders of the ENRH, Sekondi. Specifically, they will use findings from the study to redesign policies aimed at improving on the levels of the hospital's performance.

Delimitation

The study focused on ENRH, Sekondi in the Western Region of Ghana. Furthermore, the study was delimited to variables such as IFC system as an independent variable, staff level of satisfaction in the controls as mediating variable, and the hospital's financial management as the dependent variable. The measurement of the dependent variable was based on asset accumulation efficiency, improved quality service increased innovations and flexibility. The study was further delimited to only administrative and financial staff of the hospital.

Conceptual Framework

The concept of IFCs adopted for the study was made up of three components: control environment, control activity and monitoring of control. These three components adopted are in line with that of Affum (2011) and Saani (2013). In addition, the study

introduced a moderator to see its effects on the hospital's financial management. Many researchers have perceived the problem at hand in different ways. Based on the extensive study of previous research, one can conclude that the various IFCs adopted by the hospital can improve its financial management. As such, employees' level of satisfaction with the various IFCs adopted by the hospital was introduced into the model to see its contribution to the financial management of the hospital. The link between the variables is illustrated in Figure 1.
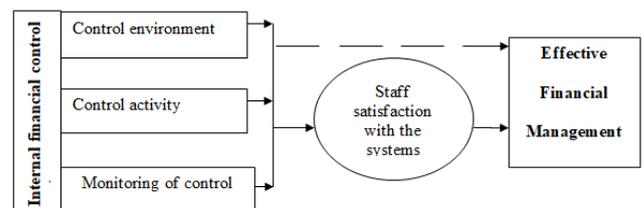

Figure 1: Influence of IFCs on the Hospital's Financial Management

Source: Adapted from Saani, 2013.

The argument of the study is that, the three main components of IFCs when adopted and implemented effectively as expected, are likely to induce employees' satisfaction with the systems used in the hospital. With these control systems in place, employees are likely to feel more satisfied and see themselves as accepted members of the hospital. They will develop the desire to belong and be an important part of the hospital. This will largely strengthen the internal dynamics of the hospital which will then lead to staff satisfaction, and subsequently effective financial management of the hospital.

Research Methods

The study seeks to gather and analyse information on existing IFCs of the hospital, using the descriptive survey design. The target population for the study was all the employees of ENRH. The staff strength of the hospital as at 2016 was 912 (ENRH, 2017). However, the accessible population was administrative and finance staff of the hospital who were 198 and 12 in number respectively. The sample for the study was 93 which comprised of 81 administrative staff and 12 finance staff. These categories of staff were considered because they are more exposed to the IFCs of the hospital and they understand better the dynamics of IFCs adopted by the hospital. The 81 administrative staff were sampled using the lottery method of simple random sampling technique while the census method was used to capture all the financial staff.

Data collection instrument and procedure

Questionnaire was the instrument used. The questionnaire was deemed appropriate for the study because it provides a much quicker means of gathering data from a fairly large literate population. The questionnaire was pre-tested at the Central Regional Hospital, Cape Coast using 35 respondents.

The reliability of the questionnaire was 0.81 which was deemed appropriate.

Data were collected over a period of two months. The data collection was carried out in three stages. Stage I was the collection of list of finance and administrative staff from the human resource division. Stage II was the distribution of the questionnaire and stage III was the retrieving stage. In order not to disturb respondents working time, they were asked to complete the instrument during break time or immediately after working hours. On the whole, out of the 93 respondents visited, 89 provided completed questionnaire; the remaining questionnaires were given back uncompleted. This resulted in 95.6 percent retrieval rate of completed questionnaires.

Data analysis

The study is a descriptive survey in which quantitative analyses were applied using the Statistical Product and Service Solutions (SPSS) Version 16.0 computer application software to analyse the data. Specifically, mean, standard deviation, and multiple regression analysis were used to analyse the data since the distribution was normal and the variables were measured numerically using unilinear scale.

Results and Discussion

The rationale of the first objective of the study was to examine the views of finance and administrative staff of ENRH on the ***effectiveness of the hospital's IFC systems***. The results are depicted in Table 1. The results show that there are adequate controls (preventive, directive or detective) in the financial administration of the hospital (Mean = 3.22, SD = 0.89). Also, there is a management team responsible for setting up control systems within the hospital financial administration system (Mean = 3.13, SD = 0.93). Respondents further indicated that the organisational structure of the hospital is clearly defined (Mean = 3.34, SD = 1.01), and that at the hospital, all important expectations or "policies" have been formalised and communicated to staff (Mean = 2.91, SD = 1.00). In relation to control environment, respondents captured for the study view the hospital IFCS positively (Mean = 3.15, SD = 0.98).

The findings are consistent with the submission of ENRH (2017) which indicate that in ENRH, management attitude show that they have high level of sense of belongingness regarding the ethical business practices which follows the established control procedures of the hospital. This is so because it will serve as the foundation for all other components of internal control, providing discipline and structure in the hospital. According to ENRH (2017), in ensuring effective control environment, the hospital has put certain mechanisms in place which ensures that the institution demonstrates a commitment to integrity and ethical values. Also, the board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control (ENRH, 2017).

The findings further support the assertion that the hospital holds individuals answerable for their control responsibilities in the pursuit of objectives (ENRH, 2017). Such controls are very essential for the survival of every organisation since the core of any business is its people and the environment in which they operate. Therefore, management and other top administrators of the ENRH ensure that their attitudes, values and behaviours provide the control environment for other employees.

Table 1: Respondent's view on the Effectiveness of IFCS of ENRH

Internal financial control systems of the Hospital	Mean	SD
There are adequate controls in its financial administration	3.22	0.89
In the hospital, there is a management team responsible for setting up control systems within the hospital financial administration system	3.13	0.93
The organisational structure of the hospital is clearly defined	3.34	1.01
At the hospital, all important expectations or "policies" have been formalised and communicated to staff	2.91	1.00
Control Environment	*3.15*	*0.98*
There are documented objectives for all key financial activities	2.59	1.13
All staff levels within the hospital are represented in the establishment of the hospital's financial objectives	2.27	1.10
The hospital have establish an overall strategies for managing important risks	3.39	1.10
Staff of the hospital have specific assignments and activities necessary to implement the strategies been identified and communicated to them	2.79	0.91
Risk Assessment	*2.76*	*0.97*
The hospital have provided adequate physical security for cash and other assets subject to theft	3.35	0.86
There are adequate asset listings done by management	3.71	0.87
Managers of the hospital review and approve constantly all financial transactions of the institution	3.56	0.88
There are procedures in place to ensure asset additions, disposal, replacement and transfers for proper accountability	3.38	0.91

Control Activities	*3.50*	*0.90*
As a staff of the hospital, I constantly receive relevant information regarding legislation, regulatory developments, or similar external factors that may affect the hospital	2.64	0.81
At the hospital, key information about the institution's operations are identified and reported regularly	2.18	0.93
At the hospital, patients complaints are taken seriously, investigated, and acted upon	3.38	0.88
Information and Communication	*2.73*	*0.91*
Management of the hospital routinely evaluate the overall effectiveness of the institution's internal financial control systems	2.78	0.91
At the hospital, all staff within the management, teaching and financial divisions have complete access to records	1.21	0.89
The financial unit of the hospital normally prepare annual reports and other returns to management	2.91	0.89
The internal auditor of the hospital visited the various units	2.58	0.91
Monitoring of Controls	*2.37*	*0.93*

Source: Field Data, 2018 Where SD = Standard Deviation (N = 89)

As presented in Table 1, the staff of the hospital further indicated that there are documented and recognised objectives for all the vital financial activities of the hospital (Mean = 2.59, SD = 1.13), and that the hospital have establish an overall strategies for managing important risks (Mean = 3.39, SD = 1.10). Respondents added that staff of the hospital have specific tasks and activities important to execute the strategies and methodologies been distinguished and conveyed to them (Mean = 2.79, SD = 0.91). However, respondents disagreed with the statement that all staff levels within the hospital are represented in the establishment of the hospital's financial objectives (Mean = 2.27, SD = 1.10).

Relatively, the views of the respondents show that the hospital faces an assortment of challenges from external and internal sources that are surveyed (Mean = 2.76, SD = 0.91). This shows that the hospital identifies and analyses its relevant risks in order to achieve its purpose. This forms the basis for ascertaining how the challenges or risks of the hospital should be adapted to or managed. The findings show that the process of identifying and analysing risk in the hospital is an on-going process and is a critical component of an effective internal control system of the hospital. The findings are congruent with the comments of Affum (2011) who posits that managing change in most service sectors such as hospitals requires a constant assessment of risk and the impact on internal controls.

In relation to control activities, respondents strongly agreed that the hospital have provided satisfactory physical security for cash and other assets subject to theft (Mean = 3.35, SD = 0.86), there are sufficient asset listings done by administration (Mean = 3.71, SD = 0.87), and also managers of the hospital review and approve constantly all financial transactions of the institution (Mean = 3.56, SD = 0.88). As contained in Table 4.4, respondents further agreed that there are techniques set up to guarantee resource increases, transfer, substitution and transfers for proper accountability in the hospital (Mean = 3.38, SD = 0.91).

The results show that in the hospital, there are control activities such as rules and processes that help ensure management directives are carried out (Mean = 3.50, SD = 0.90). The policies establish what ought to be done and procedures, systems or strategies that deal with how to adapt and implement to the policies. Controls activities help ensure that necessary actions are taken to address risks in order to achieve the hospital's objectives. Control activities of the hospital include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. The findings corroborate with the submissions of Dineshkumar and Kogulacumar (2013) who posits that organisations must deploy control activities through policies that establish what is expected and procedures that put policies into action. The various policies, procedures and strategies put in place by management of the hospital are to ensure that the hospital have mechanisms for addressing risks to the achievement of it objectives.

Respondents were of the view that staff of the hospital, they constantly receive relevant information regarding legislation, regulatory developments, or similar external factors that may affect the hospital (Mean = 2.64, SD = 0.81). However, vital information about the institution's day to day activities or operations are not identified and reported regularly or as expected (Mean = 2.18, SD = 0.93). Respondents further indicated that at the hospital, patients complaints are taken seriously, investigated, and acted upon (Mean = 3.38, SD = 0.88). The results show that respondents perceive the information and communication of the hospital positively (Mean = 2.73, SD = 0.91). According to Yang and Guan (2014), organisations must put strategies in place to ensure that pertinent information are identified, captured and communicated in a time frame. This will enable management and other staff to carry out their responsibilities as expected.

The last dimension of IFCc considered was monitoring of controls. Respondents were of the view

that management of the hospital routinely evaluate the overall effectiveness of the institution's IFCs (Mean = 2.78, SD = 0.91). However, respondents disagreed strongly that at the hospital, all staff within the management, teaching, and financial divisions have complete access to records (Mean = 1.21, SD = 0.89). Respondents further indicated that the financial unit of the hospital normally prepare annual reports and other returns to management (Mean = 2.91, SD = 0.89), and also the internal auditor of the hospital visited the various outfits within the hospital last year (Mean = 2.58, SD = 0.91).

Generally, the monitoring of controls of the hospital is not perceived positively (Mean = 2.37, SD = 0.93). This means that the activities and procedures designed to assess the effectiveness of IFCs of the hospital in achieving the institution's financial reporting objectives is perceived negative by the respondents. Monitoring and evaluating the activities of the hospital might be on-going or may be separate assessment and it is imperative given the complex and dynamic environments faced by most institutions (Saani, 2013). It looks to guarantee that frameworks are executing as expected. Be that as it may, this is refined through on-going observing exercises, intermittent assessments or a mix of the two. As indicated by Saani (2013), these exercises or activities pervade the whole institution, at all levels and in all capacities.

The findings show that generally, the hospital has put in place certain IFCs provide reasonable assurance regarding the unwavering quality and trustworthiness of data; consistence with strategies, arranges, methods, laws and directions; the protecting of benefits; the financial and effective employments of assets; and the achievement of set up destinations and objectives. The findings are in accordance with the attestations of Dineshkumar and Kogulacumar (2013) who aver that internal control system is a critical component of an organisation's management and a foundation for its safe and sound operations.

The purpose of the second objective was to **examine the effect of IFCS on the hospital's financial management**. The study wanted to find out further whether staff level of satisfaction in the control systems adapted has any incremental effect on the hospital's financial management. The results are presented in Table 2.

Table 2: Influence of IFCs on Financial Management of the Hospital

Variables	Model One		Model Two	
	Beta (Std. Error)	Sig.	Beta (Std. Error)	Sig.
Control environment	0.039 (0.038)	0.261	0.019 (0.039)*	0.028
Risk assessment	0.092 (0.033)*	0.028	0.071 (0.034)*	0.030
Control activities	0.362 (0.023)**	0.000	0.232 (0.025)**	0.000
Information and communication	0.065 (0.024)*	0.048	0.065 (0.026)	0.060
Monitoring of control	0.176 (0.028)**	0.000	0.136 (0.029)**	0.000
Staff satisfaction			0.001 (0.034)*	0.043
Constant	1.194		0.915	
R	0.609		0.759	
R Square	0.555		0.674	
Adjusted R Square	0.546		0.659	

Source: Field data, 2018 **p<0.01; *p<0.05 (Standard errors are in parentheses) (N = 89)

Dependent variable: Financial management

The results in Table 2 shows that all the dimensions of IFC systems, with the exception of control environment, predicted the effectiveness of the hospital's financial management significantly. As depicted in table, control activities was the strongest important component of IFCs of the hospital that contributed significantly in predicting the effectiveness of the hospital's financial management. It accounted for 36.2% in the total variance in the effectiveness of financial management. Monitoring of control was the second explanatory variable that significantly predicted the effectiveness of financial management of the hospital accounting for 17.6 percent in the total variance of financial management. It is however significant to observe that the total contribution of the independent variables to the variance in the dependent variable was 0.555 with an adjusted R^2 of 0.546.

In the second model, staff satisfaction was entered into the equation to serve as a mediating variable. The theory here is that the independent variables do not strongly predict the effectiveness of the hospital's financial management directly, and that they it does so indirectly through staff level of satisfaction in the IFCs adapted by the hospital. When staff level satisfaction was entered into the equation as a mediating variable, the beta coefficients of all the independent variables shrank (See Table 2). It must be pointed out that control environment became statistically significant while information and communication lost its significance statistically. The total contribution (R^2) of the variables when staff level

of satisfaction was introduced to the first model to generate the second model improved from 0.555 to 0.674. In addition, when staff level of satisfaction entered the equation in the second model, the degree of upsurge of the R^2 was almost 18 percent (17.7%).

This finding reinforces Saani's (2013) assertion that staff level of satisfaction in the adapted IFCS is a mediating variable that influences the relationships between other components of internal controls thereby producing an interaction effect. He added that the satisfaction of staff in an institution has the greatest impact on the effectiveness of the financial management of the institution. The outcome of this study suggests that staff level of satisfaction in the hospital's adapted IFCs is an important factor in boosting the effectiveness of the hospital's finances.

The last objective concentrated on examining the *challenges encountered in the implementation of IFCS at ENRH, Sekondi*. An open-ended item was used to collect data on this issue. The following are some of the IFC challenges that are commonly found in the ENRH, Sekondi. The respondents indicated that *the performance of critical financial functions is typically divided among different employees within the finance unit of the hospital. However, due to limited human resources in this unit, it is not uncommon for a single employee within the unit to be solely responsible for completing multiple tasks in a critical process. This situation is creating room for the unit to fail to properly segregate duties which can result in a greater risk of errors in the financial management of the hospital*. The views of the participant is in line with the comments that passing on different people the tasks of authorising dealings, recording transactions, sustaining custody of related assets, and reconciling accounts provides for extra controls (Saani, 2013). Each staff ought to have exact work tasks, preferably defined in writing.

Normally, the executions of any control framework would not be without challenges. The fundamental segment of inward control is making of interior control condition. Management should set up measures to impact individuals to be control conscious. Nonetheless, participants indicated that *this is a major test in this facility. Management of the hospital have done all it requires to create an effective control environment but most of the hospital's personnel are not ready to be control conscious*. The view of the financial officer is in line with the comments of Yang and Guan (2014). According to Yang and Guan, all the dimensions of effective IFCS may be considered in developing a system, however, the success of any such system may be unsatisfied by some challenges. He noted that the major challenges of internal controls include: inappropriate and unreasonable executive compensation arrangements, confusion over who is responsible for internal control, indefinite segregation of duties, personal interest over public interest, compliance with rules and regulations as against principles and values, the issue of substance as against legal form, and rapidly changing business environment.

Conclusions

Generally, administrators and employees within the finance unit of the ENRH have positive assessment on the effectiveness of the hospital's IFCS as a whole. Also, it was realised that staff view on the hospital's IFCS do not influence the financial management of the hospital unswervingly. It does so only if it enhances staff level of satisfaction. If staff are satisfied with the hospital's IFCS, they are likely to be committed to the hospital which will in turn upsurge the financial management of the hospital in the long run. In addition, the IFCS adopted by the hospital must affect all staff at every level of the hospital. Furthermore, the adopted IFCS must provide reasonable assurance, not absolute assurance, to the management and board of directors of the hospital. Lastly, the IFCS adopted by the hospital should be geared towards the achievement of objectives in one or more separate but overlapping categories.

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