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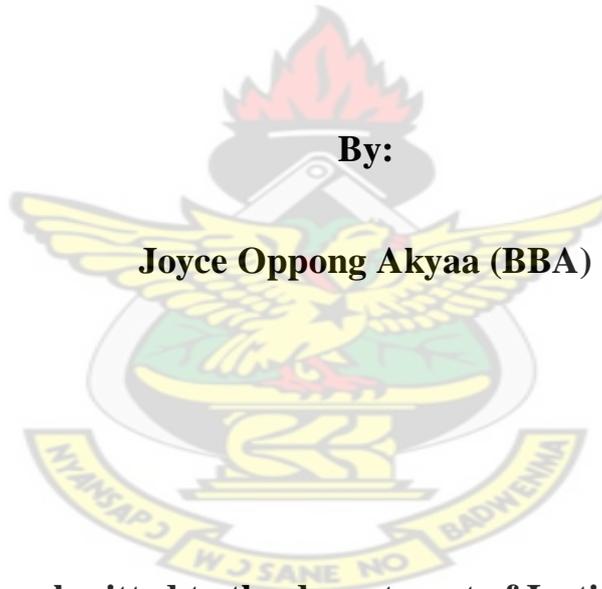
**INSTITUTE OF DISTANCE LEARNING (IDL)**

**ASSESSMENT OF FINANCIAL CONTROL PRACTICES IN  
NEW JUABEN SENIOR HIGH COMMERCIAL SCHOOL-  
KOFORIDUA.**

**KNUST**

**By:**

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**A thesis submitted to the department of Institute of Distance  
Learning, Kwame Nkrumah University of Science and Technology  
in partial fulfillment of the requirements for the degree of Executive  
Master's of Business Administration Institute of Distance Learning.**

**June 2011**

## CERTIFICATION

I do declare that with the exception of special quotation and ideas attributed to specified sources this is entirely my own and has never been presented anywhere.

I therefore take responsibility for any short-comings that may be detected in the work.

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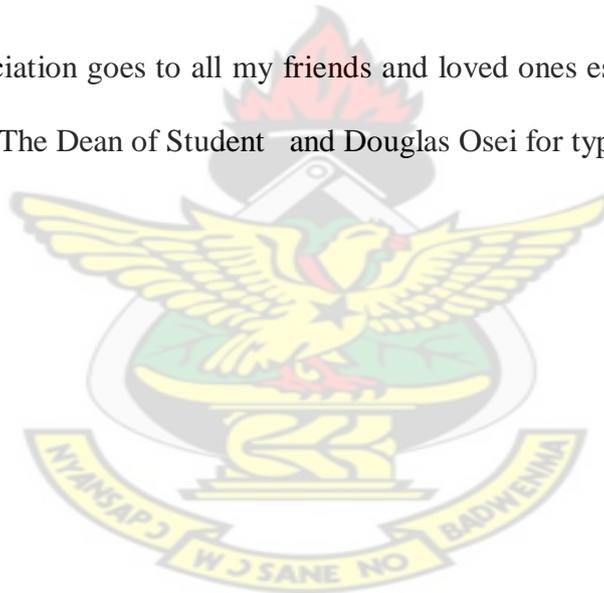


## **ACKNOWLEDGEMENTS:**

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Special appreciation goes to all my friends and loved ones especially Mr.Boafo, Mr. Edward Osei, The Dean of Student and Douglas Osei for typing the whole text.



## DEDICATION

This work is dedicated to my dear husband Mr. Michael Owusu-Acheaw, my sons Yaw Gyebi Owusu-Acheaw, Nana Yeboah Owusu-Acheaw, Kwabena Sefa Owusu-Acheaw, My mother “Maadwoa”, Auntie Mansa Becky and my brothers and sisters for their support and encouragement, which has brought me this far. I fervently pray that they live long to enjoy their blessings.

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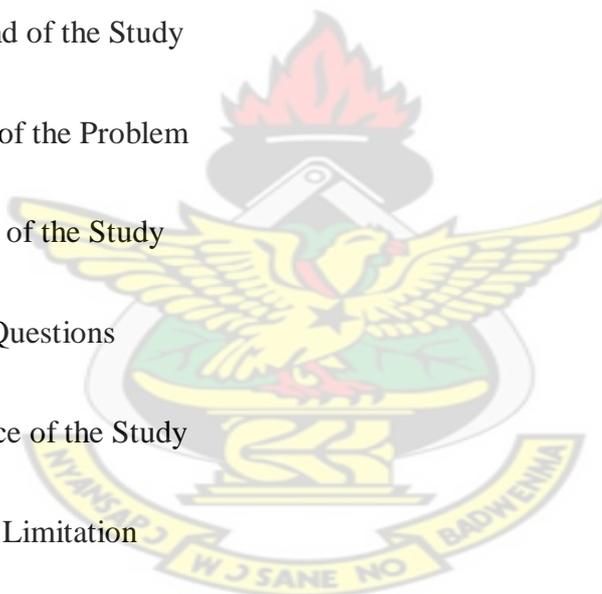


## ABSTRACT

In recent times, there have been recurrent reports on financial irregularities persisted in a lot of Senior High Schools in Ghana simply because of laxity in controls and disregard of financial rules and regulations. Financial control activities are aimed at achieving desired return on investment. Heads of institutions use financial statements such as budget and other financial tools to exercise financial controls in the form of using policies and procedures established by institutions for managing, documenting and reporting of financial transactions. Current hearings from Public Account Committee indicate that there are challenges in our public institutions. The study was undertaken to ascertain the financial control practices in New Juaben Senior High Commercial School. Specifically, it explored the sources and uses of funds in the Senior High School and examined the effectiveness of financial controls in the institution. Four sets of questionnaires were designed. One set went to Headmaster and Assistant Headmasters. The second set of the questionnaires went to the Accounts Officers, another set went to the teachers and finally the other set also went to the student executives. Apart from these, interviews were conducted with the Headmaster and the Bursar. The survey revealed two main sources of funds for the school, the government of Ghana budget line account and internally generated funds. The revenue and expenditure trend for the School shows that expenditure exceeds revenue due to regular changes in price levels. The School has put in place effective control practices such that financial transactions were backed by supporting documents. It is recommended that, there should be periodic in-service training for the account personnel to improve knowledge, skills and abilities.

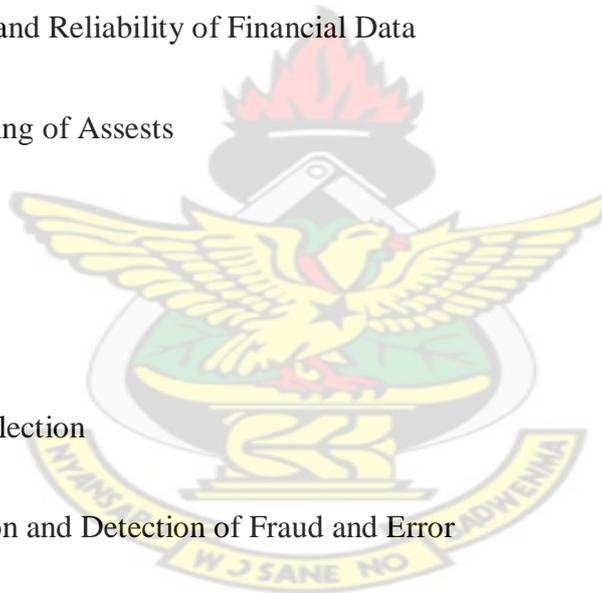
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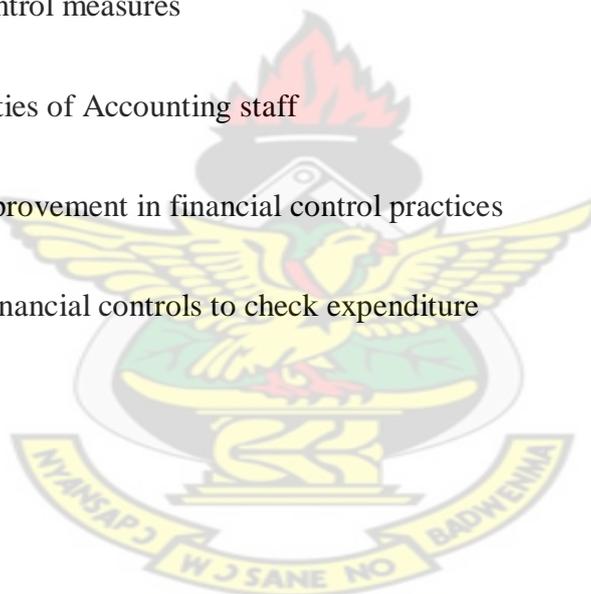


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## LIST OF ABBREVIATION

CIMN- Chartered Institute of Management Accountant

COSOS- Commission on Sponsoring Organisation

FAA – Financial Administration Act

FAI – Financial & Accounting Instruction for Secondary Schools, Training Colleges and Educational Units

GDP- Gross domestic Product

GES – Ghana Education Service

GET – Ghana Education Trust

GETFUND – Ghana Education Trust Fund

GOG – Government of Ghana

HIPC – Highly Indebted Poor countries

IAA – Internal Audit Agency

MDAS – Ministries, Department & Agencies

MMDA'S- Metropolitan , Municipal & District Assemblies

PPA – Public Procurement Act

P. T. A – Parents Teachers Association

SAS – Statement on Auditing Standards

## CHAPTER ONE

### INTRODUCTION

#### 1.1. Background to the study

The evolution of education in Ghana since its beginnings in the nineteenth century involved all levels of education from pre-school, primary, middle (Junior Secondary), Secondary School and teacher training to tertiary.

During the period of 1951-1956, about half a million children were attending primary school. The number of primary schools rose from 3,571 in 1957 to 3,713 and middle schools from 1311 to 1394 in 1959. The government realizing that education was important in national development introduced another policy, the educational Act of 1961. This Act made primary and middle school free and compulsory for all children. In line with this policy, the minister of education stated that any parent who failed to send his or her child to school would be fined. This new directive meant that all children of school – going age should be placed in school.

The government of Ghana has tried in various ways to show its commitment towards the achievement of universal primary education by ensuring that all children of primary school-age enroll and complete by 2015. Governments have the responsibility of providing education for its citizenry. In Ghana, just after independence, the then leader Dr. Kwame Nkrumah who became the leader of Government Business introduced a policy called “Accelerated Development plan. This plan did many things for education. For example, it brought a rapid increase in enrollment in primary schools, emergence teacher training was introduced and a large number of pupil teachers were appointed. Facilities for middle, secondary and technical schools were greatly increased (Anamuah-Mensah, 2007).

Owing to a large expansion of basic education, there was a need to expand secondary education to absorb the large number of middle school leavers. The numbers of middle school pupils have considerably increased from 6000 in 1964 which also affected number of secondary schools. Due to that the government of Ghana established the Ghana Education Trust (GET) in 1960s to take charge of Secondary Schools. The Trust was able to build 24 schools which are known as GET schools scattered all over the country. In recent times community Senior High Schools have been opened throughout Ghana. There are currently about 500 Senior High Schools in Ghana. The government also plans to upgrade one community Senior High Schools in each district in Ghana to a high performing school. This policy emphasizes the importance of quality which the government places to Senior High education. It is worthy to note that since independence, successive governments in Ghana have recognized the indispensable role which education plays in the country's socio-economic development. Accordingly, some measures have been and continue to be taken to expand education at all levels. It is hoped that as the country's economy improves, adequate human and material resources will be mobilized to provide wholesome education toward total development of Ghana. (Anamuah-Mensah, 2007).

Quality can be considered from three perspectives, namely effectiveness in meeting the needs and expectations of stakeholders, efficiency and ethical use of resources, and compliance with applicable professional financial and regulatory standards requirement.

Internal control in public sector governance should, therefore, aim at efficiency in operations, with the ultimate goal of increasing the quality of goods and services for an improved quality of life for the people.

According to Domelevo (2006), today strong financial management in the public sector is not a luxury but a necessity. In an era of increased demand for accountability and transparency in government, the “stakeholders” of the public sector are demanding more effective and efficient use of public resources. Citizen confidence in government and public institutions is sharply affected by the degree to which resources are perceived to be managed.

This requires shaping government policy on fighting corruption and prevention of leakages and waste of public resources. One agency on which responsibility lies as an oversight organization in curbing corruption and promoting internal control in the public sector is the Internal Audit Agency (IAA).

The IAA was established by the Internal Audit Agency Act, 2003 (Act 658) with a mandate to ensure professional internal audit practice in the Ministries, Departments and Agencies (MDAs) and in the Metropolitan, Municipal and District Assemblies (MMDAs).

The fundamental objective of the IAA is to promote accountability and effective performance in the public sector of governance in Ghana. Section 2 Act of 658, in fact, requires the IAA to co-ordinate, facilitate and provide quality assurance for internal audit activities within the MDAs and MMDAs.

Section 3 (2) (e) of the Act also requires the IAA to ensure that the plans, goals and objectives of MDAs and MMDAs are achieved, while section 3 (2) (f) of the Act requires that the IAA ensures that risks are adequately managed in MDAs and MMDAs.

As an agency mandated to ensure that MDAs and MMDAs implement effective quality assurance improvement measures in the public sector such that organizational

programme objectives are achieved with efficiency, effectiveness and economy, the IAA has the responsibility to draw the attention of all MDAs and MMDAs to this mandate, ascertain whether or not the processes put in place by MDAs and MMDAs to improve quality assurance are adequate in design and effective in operation, and make and monitor recommendations for improvement,

It is important that an organization's fiscal and financial policies are implemented in the most effective and efficient manner. It is to this effect that it has become crucial that management of public institutions to institute enough financial controls to ensure that assets of the institutions are safeguarded.

The researcher therefore conducted this research on financial controls and extended it into budgetary controls.

Financial control is defined as the procedures designed to protect assets and ensure that all financial transactions are recorded to prevent and reduce errors and fraud (Block and Geoffrey, 2008).

Improper use of funds deepens poverty around the globe by distorting political, economic and social life, the improper use of funds in many organizations or institutions has reduced this country to a near 'beggar-state'. The need for prudent financial management is not limited to government officials or financial institutions but it applies to all sectors of the economy especially the educational sectors.

(Idrisu and Anang, 2010)

The Auditor often needs to consider whether there are reasonably comprehensive financial management policies and information against which to measure performance. Second cycle schools also have funds that keep the activity of the school going. District and central government revenue primarily funds the school's budget line account. The school's internal account is a cash management system to

handle cash that flows through each school from students, parents and the community.

Of course, management information goes much wider than statutory financial information; eg. unit cost information and product or services quality statistics. These are often a much concern in the management of the business as the traditional financial performance indicators. However, whereas they are probably the greater the complexity of business, the more speedy, relevant, reliable and unambiguous management information is needed for effective planning and control and good information systems can offer a competitive edge.

Three main areas can be distinguished within the financial control concerning the educational entities.

- a) Internal control in the educational institutions which is carried out by the manager of the institution and its chief accountant. The institution manager obliged to define the written control procedures. The chief accountant keeps the accounting books and carries out ex ante and ex post controls of the financial and accounting documents.
- b) Internal audit concerning the educational organizational entities is carried out by the Auditor employed in the local government entity.
- c) External audit which is carried out by the Auditor General Office with regard to subventions, subsidies, financial management and public procurement.

Internal controls are essential to the success of the business operation of colleges and second cycle institutions and other not-for-profit educational institutions. Internal controls assist management in carrying out their financial duties and operating responsibilities. They help to:

- a) Facilitate the preparation of timely and accurate financial reports and information.
- b) Ensure that the institution complies with applicable MMDA's and state laws and regulations.
- c) Foster effective and efficient campus operations
  - 1) To maintain a system of internal control that will provide reasonable assurance that:
    - i. Transactions are executed with the knowledge and authorization of management.
    - ii. Transactions are recorded as necessary to permit the preparation of reliable financial statements and maintain accountability for assets.
    - iii. Access to assets is limited to authorized individuals.
    - iv. Accounting records of assets are compared to existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

In accordance with the Financial Administration Act (2003), the internal financial control includes:

- a) Assuring the obedience to the control procedures and carrying out initial evaluation with regard to purposefulness of contracting financial obligations and making expenditures.
- b) Examining and comparing the actual state with the required state with regard to taking and collecting public financial means, contracting financial obligations and making expenditures from public financial means, granting public procurement orders and returning of public financial means.
- c) Financial management and application of the control procedures.

According to the Financial Administration Act (2003), the internal control includes all the principles and procedures planned and assumed by the management of the entity in order to assure that:

- a) The entity achieves its objectives in an economical, efficient and effective manner.
- b) The entity acts in accordance with the legal regulations, the internal acts and the management guidelines.
- c) Material and data assets of the entity are protected.
- d) Errors and non-conformities are prevented and detected.
- e) Financial and management information is reliable and created in time,

Good financial control relies on good staff, staff needs to have the right skills and support to carry out the responsibilities. It is not known whether the Senior High Schools in the country have the right caliber of staff. This study investigated the financial control practices of New Juaben Senior High Commercial School in the New Juaben Municipality.

### **1.2. Statement of the problem**

Many Senior High Schools are saddled with financial problems. These relates to general reports of misappropriation of funds by heads of Schools, accountants or bursars which is affecting the development of education in Ghana. It is thought that school funds are not being spent for the intended purposes.

School funds totaling One hundred and forty three hundred Ghana Cedis (GH¢ 143.000) were misappropriated during the 2005 financial year. The Internal Audit Unit of the Ghana Education Service also discovered misappropriation of Two thousand Ghana Cedis (GH¢ 2000.00) at one Senior High School. The

misappropriations occurred as a result of breaches of rules and procedures on cash control and the absence of effective supervision in the institutions. (Auditor's Generals Report, 2006).

It is said that proper records are not being kept and good internal accounting controls measures are lacking. Budgets play a crucial role in financial management. For budget to be useful, they must be accurate and complete. This, it appears in some schools to be incomplete and inaccurate. The budgets have not been based on realistic assessment of the activities that are expected to be carried on. (Auditor General's Report, 2007)

There is also a problem of good financial management. This has to do with qualified and skill staff to carry out the responsibilities.

It has also been observed that some institutions made payment without providing the relevant document such as invoices, official receipts, claims forms, store receipts vouchers, local purchase orders, job cards e.t.c to support the respective payment vouchers.

In 2005, the Auditor General's Report indicated that some institution made payment totaling Two Hundred and Sixty Seven Thousand Ghana Cedis. (GH¢ 267,000) without any payment vouchers on supporting relevant document.

Again, there seems to be irregularities in the public procurement of goods and services in the institutions. These irregularities may arise from the failure of the institutions to follow procurement process of obtaining a minimum of three quotations from suppliers and non-utilization of the tender committee for the review of procurement transactions (Auditor General's Report 2006).

Finally, is the infrequent auditing in the institutions, it is believed that internal and external auditors have fail to be regular at the institutions and even when they visit, the internal accounts are not properly examined.

The situation might have been due to the failure of rest holders to promptly account for imprests, lack of effective control over accounting officers and the blatant failure on the part of officers entrusted with the disbursement of funds to obtain document for funds disburse.

However, school authorities argued against these perceptions. They are known to have argued that the real problem is the inadequacy of funds allocated for running the schools.

Judging from the above concerns, perceptions, challenges and assertions, there seems to be ineffective financial practices in public institutions with regards to accounting practices and financial controls. The study was undertaking to ascertain whether there are good accounting practices and effective financial controls in public institutions in Ghana. The researcher used New Juaben Senior High Commercial School as a unit of analysis.

### **1.3. Objectives of the study**

The objectives of the study were to:

1. ascertain the sources and uses of funds in the Senior High School in the New Juaben Municipality.
2. examine the financial controls available for checking or controlling the disbursement of funds.
3. determine the financial management challenges confronting the management of the school.

4. suggest ways of improving the financial control practices in New Juaben SHS

#### **1.4. Research questions**

1. What are sources and uses of funds in the New Juaben Senior High Commercial School?
2. How effective is the financial controls in the New Juaben Senior High Commercial School?
3. What are the weaknesses of financial controls in the New Juaben Senior High Commercial School?
4. What are the financial management challenges facing the management of the School?

#### **1.5 Significance of the study**

- a. The study brought to light financial control practices in the management of New Juaben Senior High School and suggested ways of improving it.
- b. To provide inputs for policy markers
- c. The work is a valuable document for students and researchers who want to conduct any work on Financial Controls in the Senior High Schools.

#### **1.6 Scope and limitation**

The study was limited to New Juaben Senior High Commercial School. It centered on Internal Controls and Financial Management Practices put in place to check fraud, misappropriation of funds and compliance to procurement procedures and financial regulations in the Senior High Commercial School.

## **1.7 Organization of the study**

The study was divided into five chapters. Chapter one comprised background of the study, Statement of the Problem, Objectives of the Study, Research Questions, Significance of the Study. Chapter two dealt with review of related literature. Chapter three also dealt with the various methods which were employed in carrying out the study. Chapter four presented the analysis and discussion of findings. Finally, chapter five also presented summary, conclusion and recommendations of the study.



## CHAPTER TWO

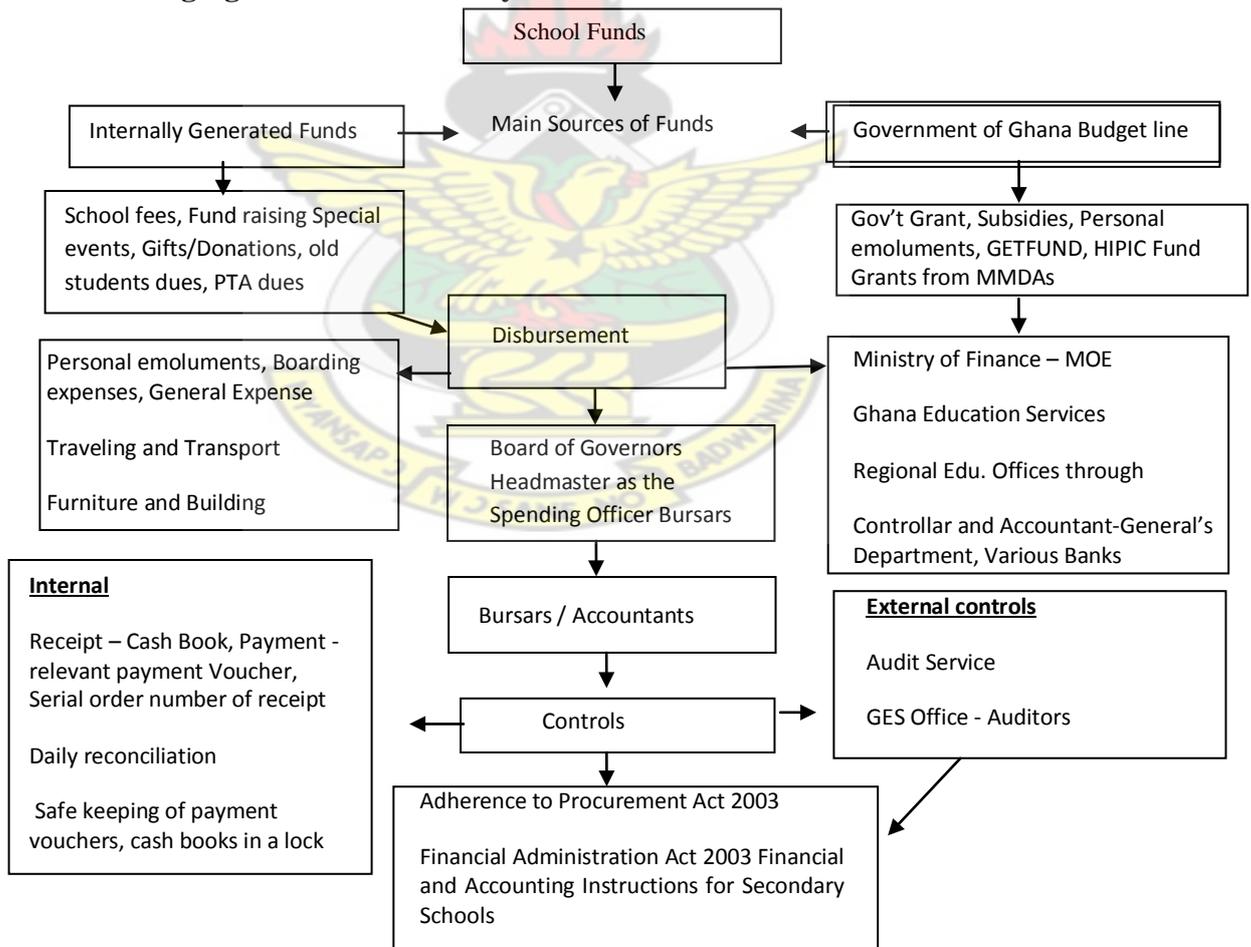
### LITERATURE REVIEW

#### 2.1 Introduction

Internal control has been a major issue in financial management in both private and public organization in the world today. Managers want to prevent fraud, losses, misappropriation of fund and misuse of funds hence, good managers put in place mechanism to arrest the above issues.

### CONCEPTUAL FRAMEWORK

#### 2.2 Managing School Financial Systems



Source: Author's Construct (Concepts read from FAI, FAA 2003, Act 654, FAR 2004, PPA 2003, Act 663 and Auditor General's Report 2005 and 2007) (Figure 1)

According to the Auditor General's Report (2005-2007), the annual estimates of the second cycle institutions covering their recurrent expenditures are incorporated in the estimates of the Regional offices of the Ghana Education Service. Funds for the institutions are released to them from the Regional Education Office on quarterly basis.

It has been specified in the Financial and Accounting Instructions (FAI) for Senior High school and the Financial Administration Act 2003, the main sources of funds in public institution are in the form of Government budget line: government grants, subsidies and personal emoluments, Highly Indebted Poor Countries (HIPC) funds. The other sources of funds which are classified as the internally generated funds are in the forms of school fees, fund raising, gifts or donations.

The government budget line is released base on institution's submission to the Ministry of Finance. They come in the form of detailed estimates of income and expenditure for the ensuing financial year, after the estimates have been approved by the institutions Board of Governors.

As it has been stated in the section 26 of the FAI, draft estimates, supported by Establishment schedules, Justification, Memorandum and the relevant Board of Governors, resolution approving the Estimates shall be submitted in duplicate the Ministry of Education, Accra, with copies to the appropriate Regional Education Office and the Auditor – General, Accra within the time specified by the Ministry.

Again, from figure 1, both internally Generated funds and government funds are disbursed in the form of personal emoluments (staff salaries and Allowances), Travelling and Transport, General expenses (Running and Maintenance of institution

vehicles, Educational visits, Board meetings), Boarding Expenses, Capital Works, Books and Equipment Furniture and Building.

Aside government regulations specified as to how things are done, the Board of Governor in collaboration with the headmasters who is also the spending officer approve income and expenditure.

Disbursement of monies are made through the Ministry of Education to Ghana education Service, Regional Education Office through Controller and Accountant General's Department and then to the various Banks

The controls as shown in figure 1 explain the mechanisms put in place to determine funds for the school. It is done by applying internal control practices such as issuing receipts, cash book, payment, relevant payment voucher, serial order number of receipts, daily reconciliation and safe keeping of payment vouchers and cash books in a lock.

Again, controls are enforced by applying external controls such as Auditors from Audit Service and internal Auditors from Education Office to monitor the operations of the school.

Finally, some of the controls are in a form of adherence to procurement Act 2003, Financial Administration Act 2003 and the Financial and Accounting Instructions for Secondary Schools.

The public accounts of Ghana and all public offices including the central and local government administration, public institutions shall be audited and reported by the Auditor –General. Sub-section [5] of FAI states that, all financial and accounting systems in respect of the accounts provided under subsection (1) shall be subject to

prior approval of the Auditor-General and any change in any such system shall be notified to the Auditor-General and shall be subject to prior approval before implementation.

In accordance with section (6), any head of a public institution or other body subject to auditing by the Auditor-General who fails to comply with subsection (5) is liable to be surcharged with the cost of any loss occasioned by defective or deficient internal control of auditing (ICA Ghana, 2010).

### **2.3 Financial management and control**

Many authors have written a lot on financial controls with regards to financial management. Outside the country, there are vast literatures on the subject. Internally too, there are Authors within the accounting professions who have also contributed so much on financial control and financial management. However, it must be stated that some of the literature pertains to specific country and not Ghana. Only few local authors make some link to certain practices in certain organizations in the country.

Financial control is defined as the procedures designed to protect assets and ensures that all financial transactions are recorded to prevent and reduce errors and fraud. (Block and Geoffrey, 2008).

Again, financial control is to provide an overall guiding framework for a sound and efficient management resource in all institutions. The goal of having a strong system of financial control is to promote the institutions ability to reach its objectives, providing reliable financial data, safeguarding assets and records, evaluating operational efficiency through budget, organizational control and encouraging adherence to prescribed policies and regulations.

- i. An institutions system of financial control has a key role in the management of risks that are significant to the fulfillment of its operational objectives. A sound system of financial control contributes to safeguarding the stakeholders' investment and the institutions assets.
- ii. Financial control facilitates the effectiveness and efficiency of operations helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations.
- iii. Effective financial controls including the maintenance of proper accounting records are an important element of internal control. They help ensure that the institution is not unnecessarily exposed to avoidance financial risks and the financial information used within the business and for publication is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud.

More so, the financial control is being explained by ACCA (2010) as the control function of the financial manager becomes relevant for funding which has been raised. Are the various activities of the organization meeting its objectives? Are assets being used efficiently? To answer these questions, the financial manager may compare data on actual performance with forecast performance. Forecast data will have been prepared in the light of past performance (historical data) modified to reflect expected future changes. Future changes may include the effects of economic development, for example an economic recovery leading to a forecast upturn in revenues.

Walters and Dunn (2001) stated that, obtaining sufficient knowledge of the internal financial controls, both information technology (IT) controls and application controls are needed to facilitate the determination of the audit strategy and the carrying out of

subsequent steps. Control Environment is the attitudes, abilities, awareness and actions of client personnel and particularly management in relation to control. Financial control activities are the policies and procedures that help ensure management directives are carried out. Financial controls are all the policies and procedures adopted by the directors and management of all entity to assist in achieving their objective of ensuring as far as practicable, the orderly and sufficient conduct of its business, including adherence to internal policies, the safe guarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accountancy records and the timely preparation of reliable financial information (Walters and Dunn, 2001).

Control of the financial decisions covering the organization, method, process and internal audit established by the administration in order to ensure that the activities are efficient manner in compliance with the purpose of the administration and determined policies and the legislation, the assets and resources are protected, accounting records are kept in an accurate and complete manner and financial and management information is produced in line and in a reliable manner.

Hence control of the financial decisions and transactions of the public institutions related to the revenue, expenditure, assets and liabilities concerning their compliance with the budget, budget item, available applicable amount, expenditure programme, financing programme of the administration, to central government budget law and other financial legislation provisions and in terms of the utilization of the resources in an effective, economic and efficient manner. (Public Financial Management and Control Ex-ante Financial Control [www.legalisplatform.net](http://www.legalisplatform.net)).

The day to day purpose of firm's financial management is to meet current and future operating needs. It also involves the management of financial resources, including accounting and financial reporting budgeting, collecting accounts receivables, risk management and insurance for the business.

Cash management refers to the investment the organization has in transaction business balances to cover scheduled out flow of the funds during a cash budgeting period and the fund the firm has tied up in precautionary cash balances (Eun and Resnick, 2008)

## **2.4 Public sector accounting**

Public Sector is the totality of all the aspects of the economy under the direct management of the central government through Ministries, Commission, Services, Public Departments and Agencies. The public sector is thus responsible for the management of Government Affairs both at home and abroad. A large number of schools in Ghana including one selected for this study fall under the public sector. Public sector accounting is the "process of accounting for the financial activities of the public sector within the year". Its major objective is to ensure that, value for money is attained through publication and dissemination of unit cost and statistics derived from published final account (Oduro, 2009)

### **2.4.1 Purposes of public sector accounting**

According to Oduro, (2009), professionals have outlined four basic purposes of Public Sector Accounting these include:

- a. It serves as a basis for planning and control
- b. It serves as a basis for decision making

c. It shows sources of government revenues

d. It shows items of government expenditures will be financed.

It can be deduced from the above that, public sector accounting is different from private sector accounting because of the deference between the objectives of the government and those of the private sector. The main objective of a private sector is to trade and make profit while the main function of a public sector is to administer the country and to render various services.

## **2.5 Definition of internal control**

This section gives an exposition of what internal control systems or procedure entail in businesses and the need to receive and evaluate it for organizational efficiency through the application of organizational resources so as to ensure smooth running of various second cycle institutions. In accounting and auditing, internal control is defined as “a process effected by an organization’s structure, work and authority flows, people and management information systems, designed to help the organization’s resources are directed, and measured”. It plays an important role in preventing and detecting fraud and protecting the organization’s resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (Anderson, 2008). The system of internal control is broadly described as “the set of techniques or procedures which an entity’s management establishes and uses to safeguard its assets, provide reliable accounting information,

encourage adherence to management policies and ensure operational efficiency” (Whittington and Pany 2004).

Thus it comprises the whole system of controls, data established by management in order to safeguard assets, promotes efficiency, check the accuracy and reliability of organizational financial data and to encourage adherence to prescribed management policies.

The commission of sponsoring organizations (COSOS) as stated by Whittington and Pany (2004), emphasizes that internal control is a process or a means to an end and nor an end in and of itself. According to COSOS, an internal control is a process, affected by the entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Reliability of financial reporting
- b. Effectiveness and efficiency of operations
- c. Compliance with applicable laws and regulations

CoSos was established to find a common definition for internal control and provide standards for its assessment (Whittington and Pany 2004,) and Rittenberg, (2001) also defined internal control as “a process, effected by an entity board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories”:

- (1) reliability of financial reporting
- (2) compliance with applicable laws and regulations
- (3) effectiveness and efficiency of operations and safeguarding of assets.

It is important to note that safeguarding of assets include controls designed to protect against theft and unauthorized use, acquisition or disposal of assets. The internal control procedures and policies designed to ensure, among other things, that all recorded in the correct time period and valued correctly and that assets are adequately safeguarded. It also must be designed to provide feedback to management on the overall effectiveness of its control procedures.

Internal control is the process designed and effected by those in charge with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to liability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations. Internal control is designed and implemented to address identified business risks that threaten the achievement of any of those objectives.

(ACCA, 2007)

Internal Control is defined as “a process effected by organizational structure, work and authority, flows, people and management information system, designed to help the organization accomplish specific goals or objectives”. It is a means by which an organization's resources are directed, monitored and measured. It places an important role in preventing and detecting fraud and protecting the organization's resources both physical (machinery and property) and intangible (reputation or intellectual property such as trade mark) (Institute of Internal Audit, 2010).

At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational and strategic goals, and compliance with laws and regulations. At the specific transactions level,

internal control refers to the action taken to a specific objective. Internal control procedures reduce process variation leading to more predictable outcomes.

Internal control is an integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's missions, the following general objectives are being achieved.

- a. executing orderly, ethical, economical, efficient and effective operation.
- b. fulfillment accountability obligations.
- c. complying with applicable laws and regulations.
- d. safeguarding resources against loss, misuse and damage.

Internal control is a dynamic integral process that is continuously adapting to the charges an organization is facing. Management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's mission and general objectives (Institute of Internal Audit, 2010).

### **An Integral Process**

Integral control is not one event or circumstance, but a series of actions that permeate an entity's activities. These actions occur throughout an entity's operations on an ongoing basis. They are pervasive and inherent in the way management runs the organization. Internal control is therefore different from the perspective of some observers who view it as something added on to entity's activities or as a necessary burden. The internal control system is intertwined with an entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organization.

Internal control should be built in rather than built on. By building in internal control, it becomes part of and integrated with the basic management process of planning, executing and monitoring.

Built in internal control also has important implications for cost containment. Adding new control procedures that are separate from existing procedures adds costs. By focusing on existing operations and their contribution to effective internal control and by integrating controls into basic operating activities, an organization often can avoid unnecessary procedures and costs (Institute of Internal Audit, 2010).

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It is therefore clear that internal accounting controls can be effective and efficient in the public sector, particularly, the Senior High Institutions if only the Accountants, Account Clerks and all those involved follow proper accounting procedures and policies. Thus keeping and recording reliable financial data, ensuring effectiveness and efficiency of operations.

## **2.6 Accuracy and reliability of financial data**

According to Iddrisu and Anang (2010), accuracy and reliability of financial data means that control measures should be put in place by management to ensure that transaction are recorded completely and accurately. It involves the following:

- (a) Maintain total account, to provide an independent overall control over ledgers to which they relate. This technique brings about completeness and arithmetical accuracy of posting to detailed ledgers.
- (b) Detailed checking of one document or accounting records again by another.

- (c) Holding files, examples, a list of transactions of originating accounting record is maintain and items are detected from the list of files as processing is completed and this result incompleteness in control.
- (d) Authorization of documents for examination and checking by a responsible person before any further processing takes place. This technique ensures the validity of transaction and the accuracy of the records.
- (e) Verifying records with evidence from outside sources such as the regular comparison of the cash book statement.
- (f) And taking out periodic trail balance to check the arithmetical accuracy of the book keeping which provides accuracy in control.

### **2.7 Safeguarding of assets**

Millichamp (2002) states that, allowing assets to be broken, lost or stolen is unacceptable and procedures are always devised to safeguard them. Examples are locks and keys, the keeping of a plant register, regular reviews of debtors balance etc. an aspect of this which is often overlooked is that payment where no benefits have been received as payment for piece work not done, or the setting up of liabilities where no benefit has been received as in fraudulent purchase and subsequent embezzlement of goods by employees, are both examples of failure to safeguard assets.

Hence, safeguarding of assets refers to measures taken by management to protect the resources of the institution against a multitude of possible losses varying from embezzlement to such causes as failure to purchase from the lowest cost supplier and outright theft.

## 2.8 Payments

According to Millichamp (2002), the objective of internal control over cheque and other bank payments is to prevent unauthorized payments being made from bank accounts. A responsible official, unaccounted with the rest of the book keeping systems, should be responsible for the custody and fuse of cheque books. Before cheques are made out, the official should check the orders, and the invoices and stamp 'paid by cheque No...' with date to prevent being paid more than once. Cheques should be signed by two people out of small group of authorized document. The bank reconciliation should be made by independent officials and anomalies investigated.

In accordance with Ghana Education Service's regulations, control over expenditure shall be exercised by the following officers:-

- a. The Head of the institution / unit
- b. The Bursar/Treasurer (or in the case of salaries and Allowances in the Ministry)  
it is the duty of the Head of an institution to authorizes Vouchers for payment. In doing so he shall be held responsible that,
  - i. The payment is in respect of and within the provision for services included in the approved estimates or approved variation thereof.
  - ii. The services specified have been duly performed
  - iii. The prices charge are either according to contract or approved scales, or are fair and reasonable according to the local rates.
  - iv. The computations and casting are arithmetically correct.
  - v. The persons named in the vouchers are those entitled to payment.

- vi. Every payment shall be supported by the original of a voucher, which shall contain full particular of the service for which payment is being made and the item or account to which is to be charged.
- vii. Where applicable, the original invoices and statements shall be attached to a payment voucher. If the original document has been lost, a duplicate shall be obtained which shall be certified by the authorizing officer to ensure that he has taken all possible steps to ensure that no payment has been made on the original document.

## 2.9 Receipts

All cash and cheques should be entered into paying in slips, sent to the bank and entered into the cash book (Millichamp, 2002).

Part five of the financial and accounting instruction for secondary schools stipulates that all amounts received by an institution shall be supported by the issue to the payer of an original counterfoil Receipt.

- a) Temporary receipts and all other forms of receipts are prohibited
- b) Counterfoil Receipts shall be printed in duplicate, bound in book form and serially numbered.
- c) The duplicate of a counterfoil Receipt shall always be a carbon copy of the original, which shall be filled in only with indelible pencil or ink. Double sided carbon shall be used.
- d) If the carbon copy has been correctly inserted into a Receipt Book or if an error has been made in preparing a Receipt, the original and duplicate of the Receipt shall be cancelled by writing across the face the word “cancelled” in bold letters.

- e) When a receipt has been cancelled the original and duplicate shall be preserved in the Receipt Book.
- f) The duplicate of a receipt shall not be removed from the book in which it is bound.
- g) If application is made for a certified copy in receipt the particular shall be entered in typescript on a sheet of paper and endorsed “certified true copy”. On no account shall a further original receipt be issued.
- h) Requisitions for the supply of the Receipt of this part shall be placed with the Government Printer or any other reputable printer.
- i) On arrival, all receipts books shall be carefully checked by the Bursar / Treasurer with the corresponding requisition. The Bursar shall immediately report to the supplier any error either in the numbering or the quantity supplied and shall at the same time return to him under registered cover any books in which errors have been discovered. Failure to carry out this procedure shall result in the Bursar being held liable for any resultant loss in the institution.
- j) The stock of unissued receipt books shall be kept under lock and key by the Bursar. All receipt books shall be separately taken on charge in a stock Register in numbered sequence. The Bursar shall be responsible for ensuring that all details of receipt issued are promptly entered in the stock Register.
- k) Register books required by Accounts Clerks shall be drawn by them in person from the Bursar, all issues shall be signed for and care shall be taken to ensure that issues are made in numerical sequence.
- l) No Bursar or Accounts Clerk shall have more than one receipt book in his possession at any one particular time.

- m) All complete receipt books shall be returned to the Bursar without delay and he shall be responsible for completing the relevant columns in the stock register.
- n) Complete receipt books shall be carefully preserved under lock and key until required for audit purposes. Thereafter it is destroyed under Audit Supervision.
- o) The Bursar shall be responsible for ensuring that there is always an adequate stock of receipt books available.
- p) The stock of unissued receipt books shall be checked quarterly by the Bursar against the balance in the stock register.
- q) Where money is received through the post in the form of cash, cheques, postal orders, money orders or stamps, a Register of money received under cover shall be kept by the Bursar.
- r) The record will be inspected at least weekly by the Head of institution or his deputy who will see that all money received through post has been accounted for in the proper manner.
- s) This instruction does not apply when a receipt is issued immediately and hand to the person who brought the money.

### **2.10 Cash collection**

The objectives of internal control over cash collections is to ensure that all cash which the firm is entitled to is received, accounted for, banked promptly and intact, and entered accurately in the books (Millichamp, 2002).

According to the “Ghana Education Service instructions for Secondary Schools” the Head of an institution shall ensure that adequate provision is made for the safe custody of cash by means of providing a safe for the Bursar. Safes shall be set in concrete or built into an inner wall. Cash in excess of immediate requirement or in

excess of the authorized maximum shall be banked at a station where there is a bank or banked without delay at a station where there is no bank.

### **2.11 Prevention and detection of fraud and error**

The directors are responsible for taking reasonable steps to prevent and detect fraud. They are also responsible for preparing financial statements which give a true and fair view. However, the Auditors must plan and perform their audit procedures and evaluate and report the results thereof, recognizing that fraud or error may materially affect the financial statements. As strong system of internal control will give the Auditors some assurance that fraud and error are not occurring, unless management are colluding to overcome that system. (ACCA, 2007)

### **2.12 Types of internal control**

Millichamp (2002) states the following as the types of internal control for the purposes of auditing: they are the activities which are in the form of policies and procedures structural to achieve organizational objectives.

1). **Organizations:** There must be a well defined organizational structure showing how responsibility and authority are delegated. That is an entity's organizational authority and boundaries of responsibility. This makes it designated areas or to prepare frauds undetected in areas of responsibility.

2). **Segregation of duties:** Millichamp (2002) describes segregation of duties as follows: No one person should be responsible for the recording and processing of a complete transaction. The involvement of several people reduces the risk of intentional manipulation or accidental error and increases the element of checking of work. Article 15 of "Procedures and Principles on Internal Control and Ex-Ante

Financial Control” says that duties of the authorizing officer and accounting officer cannot be given to the same person. Those who carry internal financial control duty in financial services unit shall not be assigned any duty in the process of preparation and implementation of financial decisions and transactions such as preparation of approval document and its attachments, specifications and draft contracts, and accepting goods and services and shall not be chairman or member Tender commission, examination and Admission commission.

3). **Physical:** This concerns physical custody of assets and involves procedures designed to limit access to authorize personnel only. Activities for safeguarding of records may include maintaining control at all times over unissued documents as well as other journals and ledgers and restricting access to computer programs and data files.

4). **Authorization and Approval:** All transactions should require authorization or approval by an appropriate person. The limits to these authorizations should be specified.

5). **Personnel:** All potential employees should be interviewed and their references obtained and confirmed. This is to ensure that only qualified and honest staffs are recruited.

6). **Supervision:** An important aspect of any control system is the existence of supervisory procedures by the organization. This means that all members of staff should be supervised and their work reviewed to ensure that work done is of required standard and procedures being adhered to.

7). **Management:** These controls exercised by management are outside and over and above the day to day of the system. They include overall supervisory controls, review

of management accounts, comparisons with budgets, internal audit and any other special review procedures.

Management has a fundamental responsibility to develop and maintain effective internal control. The proper stewardship of State resources is an essential responsibility of agency managers and staff. State employees must ensure that State programmes operate and State resources are used efficiently and effectively to achieve desired objectives. Programmes must operate and resources must be used constantly with agency mission, in compliance with laws and regulations and management.

Robertson and Louwers (2004) stated that, management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that, significant weakness in the design or operation of internal control that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

Internal control, in the broadest sense, includes the plan of organization, methods and procedures adopted by management to meet its goal. It should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition use or disposition of assets.

Appropriate internal control should be integrated into each system established by organization's management to detect and guide its operations.

Generally, identifying and implementing the specific procedures necessary to ensure effective internal control, and maintaining how to assess the effectiveness of those controls is left to the discretion of the organizations head while the procedures may vary from organization to organization, management should have a clear, organized

strategy with well-defined documentation process that contain an audit trail, verifiable results and specify document retention periods so that someone not connected with the procedures can understand the assessment process.

To ensure senior management involvement, many organizations have established their own senior management board or council, often chaired by the head of the institution, to address management accountability and related issues within the broader context of organization's operations.

Relevant issues for such a council provide management with reasonable assurance that the department's policies and procedures are implemented and consistently followed. The internal control plan consist of all the methods used to safeguard assets, to promote accuracy and reliability of the department's accounting data and records, to ensure compliance with all state laws and regulations, department policies and procedures and to promote the operational efficiency of the department. (Samii, 2004)

### **2.13 Control environment and control procedures**

Millichamp (2002), Rittenberg and Schwieger (2001), Walters and Dunn (2001) do agree that financial control standards are prepared in five areas which correspond to the five main components of the internal control: These five interrelated components are needed for internal controls to be effective:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

### **i). Control environment**

According to Millichamp (2004), the control environment means the overall attitude, awareness and actions of directors and management regarding internal controls and their importance in the entity. The environment encompasses the management style, the corporate culture and values shared by all employees.

Rittenberg and Schwieger (2001) also describe the control environment as the tone of an organization by influencing the control consciousness of its people. As such, it reflects the overall attitude, awareness, and actions of the board of directors, management and others concerning the importance of control and its emphasis in the entity. It is the foundation for all other components of internal control.

The control environment provides the overall descriptions agreed by above named authors, as it is essential that administrators and employees of administration ensure a positive view towards internal control and possess ethical values and an honest management approach. This is done to ensure that duties, authority and responsibilities are assigned to knowledgeable and competent persons through attaching importance to expense and the performance of the personnel is evaluated since control activities are the policies and procedures that management establishes to help ensure that its directives are carried out, meeting with internal and external auditors and evaluating its result of the annually.

### **ii). Risk Assessment**

According to Whittington and Pany (2004), risk assessment is used to describe management's process for identifying and responding to business risks faced by the organization and the results of that process that include all threats to achieving management's objectives. The threats to the organization's objectives are looked at

in the areas of operations, financial reporting, and compliance with laws and regulations.

Risk assessment again describes the process in place to identify weakness in the department's overall financial management processes and the organizational structure and its funding to determine how properly its structure designed to reach its deserved goals and outcomes. (Samii, 2004)

All the Authors do agree that risk assessment is an activity which is performed by taking into account the charges occurred under existing conditions, which cost – effective control are designed to mitigate the risk in order to achieve organizational objectives.

### iii). **Control Activities**

Whittington and Pany (2004) define, control activities as 'policies and procedures that help ensure that management's directives are carried out'. These policies and procedures promote actions that address the risks that face the organization. Types of control activities performed in an organization include:

a. Performance reviews which include reviews of actual performance as compared to budgets, forecasts and prior period performance: relating different sets of data to one another and performing overall reviews of performance.

b. Information processing controls: These are variety of control activities which are performed to check the accuracy, completeness and authorization of transaction.

The two broad categories of information processing control are general control activities apply to all information processing procedures and application control activities also apply only to one particular activity and it helps to ensure that:

i). only authorized payroll transactions are processed.

2. Authorized payroll transactions are processed completely and accurately. The application control activities would affect the reliability of payroll processing. The important aspects of information processing controls is the proper authorization of all types of transactions.

Also, control over information processing is a system of well – designed forms and documents like the accounting department receives copies of internal documents prepared by the sales, credit and other departments to properly record the transactions.

A control of wide applicability is the use of serial numbers on documents. Serial numbers provide control over the numbers of documents issued. Checks, tickets, sales invoices, purchases orders, stock certificates and many other business papers can be controlled in this manner.

c. Physical controls include those that provide physical security over both records and other assets. After that safeguard records include maintaining control at all times over unissued prenumbered documents as well as other journals and ledgers and restricting access to computer programs and data files. Only authorized individuals should be allowed access to the organization's valuable assets.

### **Segregation of Duties**

Segregation of duties is perhaps the most fundamental control activity. The concept underlying segregation of duties is that individuals should not be put in situations in which they could both perpetrate and cover up fraudulent activity by manipulating

the accounting records. Proper segregation of duties requires that at least two employees be involved in processing a transaction, so that one employee provides an independent check on the performance of the other.

The functions authorizing a transaction, recording the transaction and physical custody of assets should be kept separate. Some common examples of segregation of duties in accounting systems include:

- a. The personnel department can add employees and set wage rates but the payroll department must independently process the payroll transaction. The payroll department cannot add employees and the personnel department cannot process payroll checks.
- b. The data processing department processes transactions, but the user departments remains responsible for initiating the transactions and reconciling the data processing reports with the transactions submitted for reporting.
- c. The accounts payable department can authorize payment for vendor invoices only after obtaining a receiving slip from the receiving department that provides independent evidence of receipt of the goods and a purchase order from the purchasing department that authorizes the purchase. (Rittenberg and Schwieger 2001).
- d. According to Whittington and Pany (2004), segregation of duties is a fundamental concept of control, that no one department or person should handle all aspects of transaction from beginning to end. That is no one individual should perform more than one of the functions of authorizing transactions, recording transactions and maintaining custody over assets. The goal is not to prevent an individual to have incompatible duties allowing him or her to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

Again, Robertson and Louwers (2004) also agree to it that, a very important characteristic of effective internal control is an appropriate segregation of functional responsibilities which sometimes called division of duties. Four kinds of functional responsibilities should be performed by different department or at least by different persons on the company's accounting staff.

1. Authorization to execute transactions. This duty belongs to people who have authority and responsibility for initiating the recordkeeping for transactions.
2. Recording transactions. This duty refers to the accounting and recordkeeping function which in most organizations is delegated to a computer system.
3. Custody of assets involved in the transactions. This duty refers to the actual physical possession or effective physical control of property.
4. Periodic reconciliation of existing assets to record accounts. This duty refers to making comparisons at regular intervals and taking appropriate actions with respect to any differences.

Notwithstanding the above explanation of the three Authors, they do agree that the adequate segregation of tasks and functions should be guaranteed as well as periodic rotation of the personnel and that no opposing responsibilities be assigned to it in order to reduce the risk of manipulating the financial information or committing crimes.

Direct physical assets may be controlled the use of safes, locks, fences and guards. Also periodic comparisons should be made between accounting records and the physical assets on hand. Hence, all kinds of preventive, detective and corrective control activities should be determined and applied.

### **Information and Communication**

An organization's accounting information system consist of the methods and records established to record, process, summarize and report an entity's transactions and to maintain accountability for the related assets, liability and equity (Whittington and Pany, 2004).

This refers to the process of identifying, capturing and exchanging information in a timely fashion to the accomplishment of the organizations objectives. Whittington and Pany 2004 agree that, an accounting information system should include:

1. Identify and record all valid transactions
2. Describe on a timely basis the transactions in sufficient detail to permit proper classification of transactions for financial reporting.
3. Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements.
4. Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period.
5. Present properly the transactions and related disclosures in the financial statements.

However, all kinds of information which are required by the administration should be recorded and classified appropriately and should be forwarded in a format and period of time that will allow the concerned persons to fulfill internal control and other responsibilities.

### **Monitoring of Controls**

Monitoring of controls, the last component of internal control is a process to assess "the quality of internal control performance over time." It is important to monitor

internal control to determine whether it is operating as intended and whether any modifications are necessary (Whittington and Pany, 2004).

Again, monitoring is a process that assesses the quality of internal control over time. It involves timely assessment of the design and operation of controls and taking necessary corrective actions. Monitoring can be done through ongoing activities or separated evaluations. Ongoing monitoring procedures are built into the normal recurring activities of an entity. There is a logical loop to an organization's internal controls, which includes:

1. The design of the control environment
2. The identification of organizational risks and the controls to minimize those risks
3. The design and implementation of controls and a communication system.
4. The monitoring of the effectiveness of the control to mitigate risk (Rittenberg and Schwieger 2001).

According to Robertson and Louwers (2004), internal control systems need to be monitored. Management should assess the quality of the control performance on a timely basis. Monitoring includes regular management and supervisory activities and other actions personnel take in performing their duties. Errors, frauds and internal control deficiencies should be reported to help management and to the audit committee of the board of directors. Monitoring helps ensure that the internal control continues to operate effectively. The processes are shown in the following instances:

- i. Operating managers compare internal reports and published financial statements with their knowledge of the business.

- ii. Accounting managers supervise the accuracy and completeness of transaction processing.
- iii. Recorded amounts are periodically compared to actual assets and liabilities that internal Auditors inventory counts, receivables and payables confirmations, and bank reconciliations.
- iv. External Auditors report on control performance and give recommendations for improvement.
- v. Training sessions for management and employees heighten awareness of the importance of control.

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The above monitoring definitions reflects the plan that is established to perform periodic reviews of systems, transactions, processes and programs to ensure proper internal controls are in place to minimize risk of misuse. This plan provides a means for the department to be proactive in identifying weakness rather than reactive.

#### **2.14 Limitations of internal control**

Despite all the strong points of the internal controls discussed above, there are some limitations, which must be kept in view. These include what has been discussed by the following authors. Eun and Resnick, (2008) Meigs et al, (2005) and Millichamp (2002) conclude that an entity's system of internal control is generally designed to provide reasonable assurance that assets are properly safeguarded and that the accounting records are reliable. The concept of reasonable assurance rests on the premise that the cost of establishing control procedures would not exceed their expected benefits. The human element is also an important factor in every system of internal control. A good system can become ineffective as a result of employee fatigue, carelessness or indifference or potential human error caused by stress of

work-load, alcohol, destruction, and mistakes of judgement, cussedness and the misunderstanding of instructions.

Occasionally, two or more individuals may work together to get around prescribed controls or the possibility of circumvention of controls either alone or through collusion with parties outside or inside the entity. Such collusion can significantly impair the effectiveness of a system, because it eliminates the protection anticipated from segregation of duties.

If a supervisor and a cashier collaborate to understate cash receipts, the system internal control may be negated (at least in the short run). The underlisted are also part of inherent limitations in the internal controls such as abuse of responsibility, management override of controls, fraud, cheques in environment making controls inadequate. The size of business may impose limitations on internal control. In small entity, for example, it may be difficult to apply the principles of segregation of duties and independent internal verifications. A sound system of internal control therefore provides reasonable, but not absolute, assurance that an organization will not be hindered in achieving its business objectives or in orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen.

A system of internal control cannot, however, provide protection with certainty against an institutions or organization failing to meet its business objectives or all materials errors, losses, fraud or beaches of laws or regulations.

However effective and strict adherence to internal control procedures should be put in place to facilitate effective and efficient operation by enabling organizations to respond appropriately to significant business, operational financial, compliance and other risks to achieving the company's objectives, which includes the safeguarding

of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed. This also calls the setting up of Internal Audit Units to be manned by Internal Auditors in every organization dependent on its needs to monitor the daily transactions in a broad spectrum as well as evaluating the system of internal control measures so as to cut down the incidence of fraud and improve on efficiency.

SAS 300 quoted from Millichamp (2002), requires that Auditors must always perform some substantive tests of material items as well as relying on internal controls. The inherent limitations of internal controls are the reason. The services of an External Auditors will be needed to check on the work of the Internal Auditor to ensure complete compliance on procedures, rules and regulations.

Management of any entity on their part should be the pivot of implementation of the control procedures revise it from time to time based on the report and recommendations of internal and external auditors to block loopholes that might come up in the course of time as a result of technological advancement in business practices.

### **2.15 Audits and investigation**

An Audit is an investigation or a search for evidence to enable an opinion to be formed on the truth fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness. (Gray and Manson, 2005)

Rittenberg and Schwieger (2001) also defined auditing as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence and communicating the results to interested users”.

The auditing function operates on the assumption that financial statements and financial data are verifiable. There is no necessary long term conflict between auditors and managers of organizations being auditors and managers of organization being audited.

A potential short-term conflict however may exist. Effective internal control structure reduces the probability of fraud or irregularities in an organization. Application of generally accepted accounting principles result in fair presentation of financial statements. When examining financial data for the purpose of expressing an independent opinion thereon, the Auditor acts exclusively in the capacity of an Auditor.

### **2.16 School audit**

A school audit is conducted to ensure adherence to previously submitted budgets. Internal accounts policies and procedures are important to both state and local laws. Other key issues involved in auditing are investigations, audit exemptions, fraud and error and financial supervision. Audit may be integrated into the schools everyday accounting system and as internal Auditor the school account may be audited periodically. However a school may be placed on financial supervision for violating mandates governing internal account and the maintenance of proper documentation of school accounts activities.

**Investigation:** In case, where there are allegations of financial improprieties at a school, the Auditor General's department should be contracted to investigate whether such allegations are true or not.

**Audit Except:** An audit exception is any information and or transaction that is contrary to all established policies, procedures, rules, regulations and laws and may appear in the form of fraud and error.

**Fraud and Error:** Errors can be described as unintentional mistakes.

Errors can occur at any stage in business transactions processing: transaction occurrence, documentation, record, summarizing process and financial statement production. Error can be of any of a multitude of kinds-mathematical or clerical or in the omission or errors in the interpretation of facts (Millichamp 2002).

According to Millichamp (2008), errors can be described as "unintentional mistakes". Errors can occur at any stage in business transaction processing and can take many forms, mathematical or clerical or in the application of accounting principles: there can be mistakes of commission (doing something wrongly), mistakes of omission (leaving something out) or errors in the interpretation of facts.

Fraud is defined specifically in the Fraud Act 2006 as;

- (a) a person is guilty of fraud if he is in breach of any of the Sections listed in subsection (2) (which provide for different ways of committing the offence)
- (b) the sections are – (i) Section 2 (fraud by false representation) which is fraud that involves the use of deception to obtain an insult or illegal financial advantage.
  - (ii) Section 3 (fraud by failing to disclose information)

Fraud by failing to disclose information and fraud by abuse of position cover circumstances where individuals fail to disclose relevant information with the intention to commit a fraud or abuse a position of trust which enables them to commit a fraud.

The difference between fraud and error is, fraud is a deliberate act and may well require specific procedures to detect it. Error should be picked up either the internal control procedures or the Auditors' own procedures. (Millichamp and Taylor, 2008)

However, fraud refers to the intentional misrepresentation of financial information by one or more individuals and many management employees or third parties. Fraud may involve manipulation, falsification or alteration of records or documents, supervision or omission of the effect of transaction from records or document.

### **2.17 Budget and budgetary control**

Any management controls system is only as good as the budgeting it depends on.

The budget is a financial plan for implementing the various decisions that management has made. The budgets for all of the various decisions are expressed in terms of cash inflows and outflows and sales revenues and expenses. These budgets are managed together into single unifying statement of the organization's expectations for future periods (Drury, 2001).

Lucey (2003) defined a budget as "a quantitative statement for a defined period of time, which may include planned revenues, expenses, assets, liabilities and cash flows".

A budget provides a focus for the organization aids the co-ordination of activities and facilitates control. Planning is achieved by means of a fixed master budget,

whereas control is generally exercised through the comparison of actual cost with a flexible budget.

According to the Chartered Institute of Management Accountants (CIMA) as quoted by Lucey (2003), “budgetary is the establishment of budgets relating to the responsibilities of executives of policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action, the objectives of the policy or to provide basics for its revision.

That is budgeting control is the establishment of budget relating to the responsibilities of managers to the requirement of a policy and continuous comparisons of actual or budgeted results, either to secure by individual action or the objectives of that policy or to provide the basis for its revision.

### **2.18 The main uses of budgetary control**

- a. Budgeting control is used to indicate with variance or other measures of performance. The reason why budgets differ from actual results and to establish the magnitude of the difference.
- b. To ensure the objectives of the organization as a whole and within the work frame to define the results which department should achieve and this target should be established not for the budget period but for the budget control period.
- c. To reveal the extent by which actual results has exceeded or fallen short of the budget.
- d. To provide the basis for the revision of the current budgets or for the preparation of the future budget.

- e. To indicate the efficiency to which the various activities of the organization has been co-ordinated.
- f. To establish the basis for the internal audit work.
- g. To provide a system whereby the resources of the organization are used in the most efficient way.

### **2.19 Budget systems used in senior high schools in Ghana**

Financing education may be valued as the provision of money and physical input such as school building, text books, teaching and learning materials and in-service training for education personnel in order to ensure a proper functioning of the education system.

Central Government is the predominant source of funding education in Ghana. It is worthy to note that government spending on education increased substantially about 48% between 1998/1999 and 2000/2001 that is from 67,800 Ghana Cedis to 130, million Cedis. Since 1997, the annual recruitment budget for the education sector has accounted for about 35% of the national recruit budget. The total spending on education in 1999/2000 represents 3.9% of GDP. This amount has been allocated approximately in the proportion of 75-80% for pre-tertiary, 12-15% for tertiary and 5-10% for GES Headquarters and others.

However, the actual amount released has generally been lower than the approved budget estimates. For example, the 2001 per capita releases showed that the percentage shortfall for Senior Secondary School was 57.1%. The primary school pupils received only about 20% of what was budgeted for. The tertiary institution received between 50-60% of their requirement. It is also on record that the allocation

of funds per student by government for the period 1997-2001 has been reducing considerably in terms of the US dollar due to the rapid depreciation of the Cedis and increase in enrollment. For example, while in 1977, the allocation per student amounted to \$1,114.10 that of 2001 was US \$ 566.10.

Government funding has declined significantly in real terms, as cost per student has not kept up with the rate of inflation. (Meeting the challenges of education of the twenty first century: report on the president committee on the review of education reform 2002)

The Accelerated Development plan of the Educational Act of 1961 sought to establish free and compulsory primary education for all children of school-going age. This is further emphasized by Article 25 clause (19) of the 1992. Constitution which provides that basic education which consists of Primary and Junior Secondary School should be free and compulsory and available to all by 2015.

According to the 1992 constitution, secondary education should be progressively free. The concept of education at this level being progressively free is an ideal and the achievement of this constitutional requirement will depend upon improvement in the economy. Compared to the basic level, the secondary level is an area that has been neglected in terms of funding. The contribution of parents/guardians to education delivery at the secondary level has increased from GHS 99.706 million in 1999 to GHS 152,192 million in 2000 and GHS 224,101 million in 2001. (Meeting the challenges of Education in the Twenty First Century: report of the president's committee on Review of Education Reforms in Ghana 2002)

The table1 indicates Government actual spending on education as a percentage of the total GDP has been on the rise since 2006. The table 1 shows that the 2008

figure is about 9.9 percentage points over the Education for all initiative minimum. On the contrary, education expenditure as a share of the total payments as well as the total discretionary payment has been on the decline since 2006.

**Table 1 Summary of Actual Education Expenditure (2006 – 2008)**

	2006	2007	2008
Actual Education Expenditure as a % of GDP	8.3	9.1	9.9
Actual Education Expenditure as a % of Total Payments	22.0	20.9	18.2
Actual Education Expenditure as a % of Total Discretionary Expenditure	30.9	29.3	24.2
Nominal Growth in Actual Education Expenditure	29.4	33.7	36.6
Real Growth in Actual Education Expenditure (Base=FY 2007)	10.8	19.6	17.2

Source: (Anamuah-Mensah, 2007)

The budgeted figures for 2009 and current year show a further decline.

The education sector receives the highest chunk of government budgetary support in Ghana. The discretionary budget for 2010 is GHS 1,266,056.672, about 14 percent increase over the 2009 figure of GHS 1,107,132,235. About 95 percent of government of Ghana (GOG) education budget for 2010 will be channeled to wages and salaries. The trend is not very different for the two provisions years. It could be also be observed from the below figure that the largest proportion of total education expenditure is allocated to primary education. This is followed by tertiary education as though the trend shows a decline between the period 2006 and 2008, with Junior, High School spending almost minimizing the decline, pre-school expenditure forms the smaller proportion.

The table 2 shows allocations and actual spending of funds from the Ghana Education Service for the 2006 to 2009. The figures cover basic education spending for the ten regions of Ghana except for 2006, total expenditure exceeded allocations for the period under review. The total budget overrun for all ten regions were 4.31 percentage in 2007, 49.2 percentage in 2008 and 18.84 percent in 2009.

**Table 2: Trends in regional allocation and expenditures: basic education**

Region	Allocation	Actual	Deviation	Allocation	Actual	Deviation
Ashanti	59,758,179.76	71,308,053.98	19.33	95,551,140.98	86,308,459.63	-9.67
B/A	38,490,142.95	41,066,102.29	6.69	60,709,294.30	52,497,898.73	-13.53
Central		30,361,603.26	34,823,777.35	14.70	42,143,855.10	
Eastern	45,577,066.99	56,180,511.41	23.26	72,615,957.27	65,680,515.17	-9.55

Source: (Anamuah-Mensah, 2007)

## 2.20 Principles of accountability

Accounting in the public sector is on cash basis. This means that revenue is recognized only when cash is received, and expenditure acknowledged when is paid.

The cash basis does not allow the recognition of debtors, nor does it take creditors into consideration. This type of accounting was practiced for a long time until the year 2004.

Currently, in the public sector, it is the stewardship theory that holds. There is no proprietor, and the accounting is for one's stewardship of the organization and resources provided, not profit generated. Thus, the word Accountability is central to accounting in public sector (Norgah, 2008).

By definition accountability is "the obligation on a manager to give answers and explanation concerning his or her actions to those who have the right to require for such answers and explanations". So, accountability should be the hallmark of accounts/bursars and accounts clerks in the whole (Norgah, 2008).

## 2.21 Financial accountability

Financial accountability ensures that a management team should explain how the financial resources of the organization are applied to those who have provided the

resources. The basis foundation of this form of accountability is that financial resources used by the management is either collected from student by way of school fees, Government grants to maintain only few. (Norgah, 2008).

Any use, to which these amounts are put, therefore is expected to be on behalf, or for the benefit of the resource providers. It is expected, therefore, that various forms of arrangements are put in place to ensure that not only central government accounts for all financial resources but also that all organizations within the public sector accounts for the use of financial resources placed at their disposal for any given period.

In every country organizational and procedural matters are established to ensure accountability, especially financial accountability. Financial accountability can only be ensured if there is a system for keeping records of all legal authorization, commitments, agreements, encumbrances, obligations and expenditures.

## **2.22 Financial accountability in Ghana**

Various organization, enactments and procedural arrangements have been put in place to ensure financial accountability. The regulations include the following:

- i. Parliament and its subcommittees on public accounts and finance.
- ii. The Controller and Accountant General's Department.
- iii. The Audit service headed by Auditor-General.
- iv. The Commission on Human Rights and Administration Justice (CHRAJ)
- v. Economic and Organized Crime Office.
- vi. The Constitution of the Republic of Ghana
- vii. The Financial Administration Act, 2004 (Act 654)
- viii. The Financial Administration Regulation 2004 ( LI 1802)

- ix. The Public Procurement Act, 2003 (Act 663)
- x. The Internal Audit Agency Act 2003 ( 658)
- xi. The Audit Service Act 2000 (Act 584)

## **2.23 Revenue Generation and the Money Handling Procedures**

### **i. School Internal Accounts:**

Each school has two sources of fund to spend its educational and extra-curricular activities: School's budget line account and the school's internal accounts (Auditor-General Report 2005 – 2007). Local and State Government Revenues primarily fund the school's budget line accounts. The schools internal account a cash management system to handle the cash that flows through each school from students, parents and community. The sources of this cash vary such student's fees, fund raising activities, special events, lease income and gifts or grants. Good financial management, budgeting and record keeping are necessary for both accounts where there is non-compliance to financial controls, the result is the recurrence of misappropriation and irregularities shown in the institutions financial reports.

### **ii. Money Handling Procedures**

It is suggested that, all school's receipt must be posted to the cash receipt journal immediately including all money deposited with the school's bursar daily. Since it is stated from the Auditor-General's report 2005-2007, that the collection and susceptible to abuse. Excessive cash holdings in the office could result in burglary and the granting of unauthorized advances. Therefore the recommendation is that all

high value disbursements should be made as far as possible with cheques while collection of fees should be restricted to banker's draft.

### **iii. Documentation of School Revenue**

Individuals other than the School's Bursar, Accountant, Account officer, often collect money from students for various purposes. Money collected in any manner must be deposited with the appropriate accounts personnel and a copy of the school's receipt provided to the person making the deposit. The Account Officer who collects money from students prepares records indicating the amount collected. Accounting officers are responsible for keeping the accounting records in accordance with the relevant procedure and standards in a transparent and accessible manner. In cases where school receives a gift of grant, the school should use school's receipt to keep copy of gift or grant proposal and award letter on flat file. The above points can also be achieved through centralizing all receivables, developing a vendor file system, performing internal reviews, developing written procedures for sections performing financial and payroll functions and keeping separate ledgers on all programs operating from the state fund. (Samii, 2004).

Section 30 (1) of part iv of the Financial Administration Act, 2003 (Act 654) (2007), stated in the Auditor-General's report requires among others that adequate records of stores shall be kept to record the acquisition, receipt, control, issue and disposal of store items.

### **iv. Banking of School Revenue**

The Auditor-General's Report (2007) stipulates that, Regulation 8 (1) of the Financial Administration Regulation, 2004 (L.I. 1802) provides that cash holdings should be kept to the absolute minimum consistent with the efficient discharge of

public business. Hence, the assertion is that money must be deposited (at a maximum) once a week. The end of the week is an ideal time to deposit money. It is not a good practice to leave money in the school over the weekend. Money should be deposited in the bank if the school is closed for extended period of time such as holidays or vacation periods.

A deposit slip should be obtained from the bank to indicate the amount deposited and the date of deposit. The amount of money deposited in the bank should equal the amount of money received by the school bursar. All monies collected and deposited in the bank must be recorded in the cash receipt journal.

## **2.24 Roles and responsibilities of financial administration in schools.**

### **i. The Board of Governors**

Financial service units of the administrations shall work as regards to the establishment of internal control system and the implementation and development of standards and shall carry out the ex-ante financial control activity.

In accordance with “Financial and Accounting Instruction for secondary schools”, the head of an institution is responsible through the Board of Governors to the Minister of Education for the financial business of that institution. To see that the rate of expenditure is not proceeding faster than provided in the approval Estimates if it is either to see that expenditure is cut down and kept with the rate provided for in the approved Estimates; or if it is not possible to limit expenditure. To recommend increase in expenditure under particular items by re-allocation from other item; or if the institution has exhausted its power of re-allocation in this respect or if the financial position of the institution permits, either to advice the Board of Governors

to submit an application for Re-allocation or a Supplementary Estimate to the minister.

- i. To consider contracts and make recommendations to the Board of Governors.
- ii. The Board of Governors is there to take recommendations which are made a result of investigation on losses.
- iii. The Board of Governors refers financial matters to the head of institutions to deal with.

Accounting officers shall be responsible for keeping the accounting records in accordance with the relevant procedure and standards, in a transparent and accessible manner. Then it is the mission of the Board of Governors of institutions to ensure that the school educates the children of the school to their fullest potentials as individuals so that they may be productive members of the society. The Board sets broad policies to ensure that schools are properly managed and that sufficient financial controls are in place.

## ii. **The Headmaster**

The headmaster of the school is directly responsible for the conduct of all school financial activities in accordance with roles, policies and procedures.

Authorizing staff to act in the headmasters place does not negate the headmaster's over riding authority and responsibility. Financial control authority belongs to the

Head of the institution, therefore he or she is expected to oversee the activities of the bursar, matron and ensure that school funds are put to efficient use. School Finance Committee must have authority to approve all receipt and expenditures of schools for all internal accounts of the attendance centre.

School finance committee must have the right to review and approve on a monthly basis, receipt and expenditures for all school internal account. School Finance Committee approves all fund raising activities by non-school organization using school facilities. (Financial Administration Regulation, 2004)

Again, the control of the financial decisions and transactions that are subject to financial control the financial committee unit shall be performed by the internal control division of the unit.

According to the “Financial and Accounting instructions for Secondary Schools”. It is the duty of the head of an institution to:-

- a. exercise supervision over the work of the Bursar and other accounting officers.
- b. see that proper accounts, books of account and records relating thereto are kept.
- c. see that proper quarterly and annual accounts are prepared.
- d. see that all Audit Reports and queries are promptly considered and replied to.
- e. see that proper provision is made for the safe custody, banking and investment of cash, and the safe custody of value books property and stores.
- f. see that the Annual Estimates are prepared.
- g. see that income is being collected in accordance with the approved Estimates.
- h. see that debts owed by the institutions are promptly paid and that debts owed to the institution are promptly collected.
- i. see that the ensuing Instructions are implemented.

### **iii. School Bursar /Accountant.**

FAI states that, financial control authority belongs to the head of financial service unit. Letter of opinion and control annotations issued as a result of the control shall be signed by the head of financial services unit. Head of financial services unit may delegate this authority in writing to his deputy or to the head of internal control division of the unit on condition that he clearly defines the limits. In the event that head of financial services unit has become the authorizing officer, duty of ex-ante financial control shall be executed by head of internal control division of the unit.

Taking all of these points into consideration, it is important for the institutions to recognize that, the School Bursar, Accountant or other staff person designate is responsible to the headmaster for receipting all school funds, maintaining accurate financial records and following money handling procedures as stated. (Financial Administration Regulation, 2004, Sect 39 Sub-sect 1 and2)

At the end of each monthly reporting period, it is the responsibility of the bursar or designate to make available the internal accounts records for each student activity. The bursar with the help of the headmaster handles and approves all grants and gifts from both government and non-government sources. The bursar's office must also maintain a database of available sources of funds and all revenues collected.

According to the Financial and Accounting Instruction for secondary schools it "says that in the pursuance of the above tasks, the Head of an Institution shall have the assistance of his Chief technical officer, the Bursar, in financial and accounting matters".

The Bursar shall be responsible for ensuring that there is always an adequate stock of receipt books available.

It is the duty of the Bursar, before passing vouchers for payment:-

- a. To check the particulars outlined in the following: that he will held responsible for the payment is in respect of and within the provision for services included in the approved Estimates or approved variation of thereof.
- b. The services specified have been duly performed.
- c. The prices charged are either according to contract or approved, or are fair and reasonable according to the local rates. Then, the persons around in the vouchers are those entitled to payment.
- d. To reject vouchers which have not fulfilled these conditions.



## **METHODOLOGY**

### **3.1 Introduction:**

This chapter presents the methods used for the study. It covered the research design, population and sample, data collection and data analysis.

### **3.2 Research design:**

This study was an exploratory research. It used descriptive statistics to study in detail the financial control practices in New Juaben Senior High Commercial School.

### **3.3 Population and Sample**

The target population of the study consisted of the Headmaster, Assistant Headmasters, Senior Accountant/Bursar, Account Clerks/Accountants, Teaching Staff and Executives of Student Representatives Council totaling one hundred and twenty (120). Using purposive sampling, forty two (42) respondents were selected with the break down as follows: The Headmaster, (1)

Assistant Headmasters (3) Senior Accountant or the Bursar and other Accountants (6), teachers (25) and student's representative executive members (7)

### **3.4 Sample Size and Sample Technique**

A purposive sampling technique was used to select the Senior Accountant (Bursar) and Accounts Staff, Headmaster, Assistant Headmasters and the SRC executives. For the teachers, a simple random sampling (lottoring) method was used. Under this method a total list of names of the teachers were taken from the school and numbered accordingly.

A calculation of a sample size to get  $\frac{1}{3}$  of the teachers population were done through a simply fraction. Cards were then created for each unit with numbers against the names of the teachers. The cards were put into a basket and the first one was picked up and checked it out with the teachers list and it was within the range of the number of years teachers have taught in school not less than two years and above. The basket was shoke again for the next list. The process continued till last number

was reached. But those numbers that were picked but not fallen within the numbers of years teachers have taught in the school were ignored.

The researcher administered the questionnaire according to the list at hand. The simple random method give an equal chance to any member of the population chosen of being selected.

### **3.5 Sources of Data**

The study used both primary and secondary data. The researcher used interviews and questionnaires as the methods for primary sources of data collection. The Secondary sources of data included Auditor General's report, the School's Accounts records, books, thesis and online databases.

### **3.6 Data Collection**

The interview method was used to further clarify certain information that was in the questionnaire. Again, the interview was employed to cross check certain information from the respondents.

The questionnaires comprised both close-ended and open-ended questions. The open-ended questions enable respondents contributes their views and suggestions, while the close-ended questions allowed respondents to respond to common responses.

The entire data was screened through a process of editing and irrelevant portions were removed. A coding manual system was also developed to facilitate assigning values to the various items in a completed questionnaire scored.

### **3.7 Data Analysis**

For the purpose of explanation and easy clarity of the research work descriptive statistics were used to analyse the data collected. The data was presented by means of simple information by the use of tables and bar charts.

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## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION OF RESULTS

#### 4. Introduction:

This chapter deals with the presentation and analysis of data collected and the interpretation of information gathered by the researcher through questionnaires administered to the various respondents.

Four sets of questionnaires were designed. One set was administered to the Headmaster and Assistant Headmaster, another set to Accounts Office others to SRC executives as well as the Teachers.

#### 4.1 Preparation of budget

One of the tools for managing the finance of an organization is budget. It is normally prepared by persons connected with financial matters. Budget is used to establish the basis for the internal audit work and to provide a system whereby the resources of the school are used in the most efficient way.

**Table 4.1.3: Responsibility for preparation of Budget**

<b>Responsible Officer</b>	<b>Frequency</b>	<b>Percent</b>
<b>Accountant</b>	<b>5</b>	<b>25</b>
<b>Headmaster/Assistants</b>	<b>6</b>	<b>30</b>
<b>Bursar</b>	<b>6</b>	<b>30</b>
<b>Others</b>	<b>3</b>	<b>15</b>
<b>Total</b>	<b>20</b>	<b>100</b>

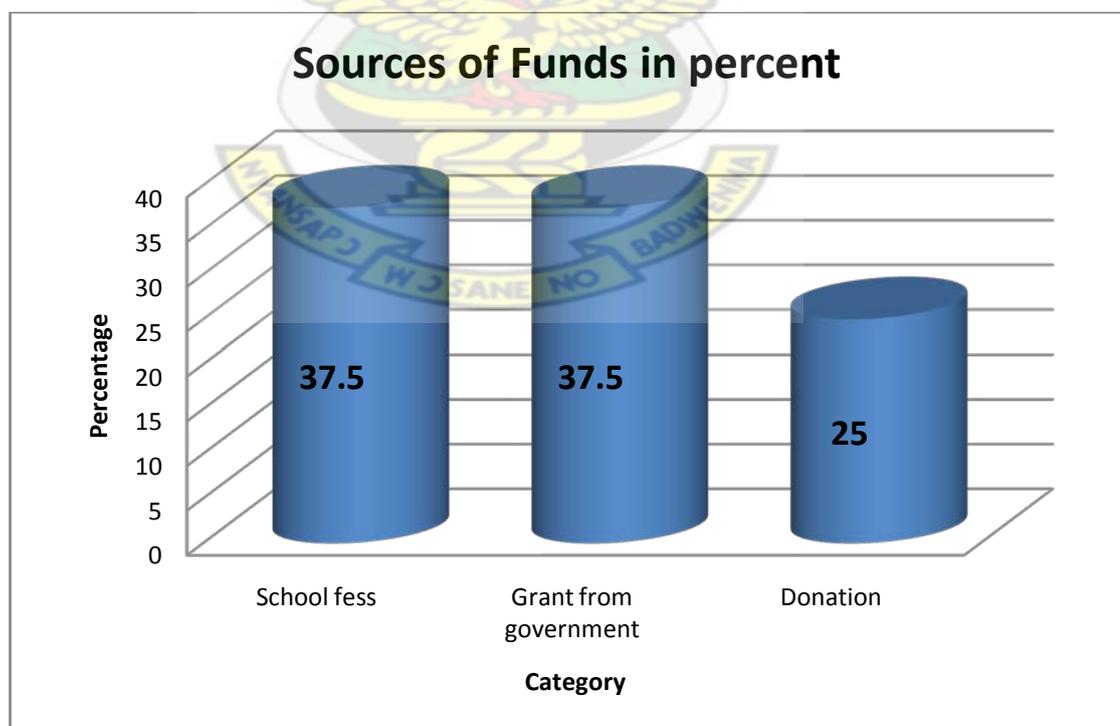
Source: field survey (May, 2011)

When respondents were asked about who is responsible for the preparation of the school budget, Table 1, indicates that out of the twenty (20) responses, five (5) indicated that it is the Accountant, representing (25%). Six (6) responses identified the Headmaster as been responsible, representing (30%), Six (6) responses indicated that it is the Bursar representing (30%) and three (3) responses also indicated as others, representing (15%).

From the table 1, it can be deduced that the School's budget is prepared by the Headmaster, Bursar and the Accountant with little inputs from the teachers and the students. The phenomenon pertains in many Senior High Schools, since staff and students see the preparation of the Budget as not their core responsibility.

#### 4.2 Sources of funds available to school

Graph 1: Sources of Funds



Source: field survey (May, 2011)

The researcher wanted to find out the main sources of funds available in the school. This question was limited to the Headmaster, three (3) Assistant Headmasters, Bursar and Six (6) Accounting Staff. They were asked to select more than one.

Upon further questions, it was revealed that the sources of funds available to Senior High Schools include, GETFUND, PTA Dues, Old Students Dues and other fees charged on the use of School facilities by outsiders like churches. These monies are to be spent on the school's educational and administrative activities. In accounting terms, these sources can be classified as internally generated funds and government budget line account. The School's internally generated accounts is a cash management system put in place to handle the cash flows in the school from students, parents and community while revenue from Government budget line is mostly used for administrative activities. Revenue from School boarding and user fees were spent on administrative activities, service activities, food items.

#### 4.3. Uses of School funds

Data collected from the interview with the Headmaster and the Bursar revealed that monies available in the school are in the form of government of Ghana budget line and internally generated funds which are spent on school's educational and administrative activities. The Headmaster and the Bursar gave detailed uses of funds as

Income / funds	Uses
Government: Government grants Administrative grants Service grants GETFUND/HIPC fund	Personal Emolument: Establishment post, social security fund Travel allowances, Transfer grant, car maintenance allowance, overtime allowance, stationery, postage charges, minor repairs of school sports and cultural

Income/funds	Uses
Internally generated funds School Boarding and user fees	Electricity, postal charges, sanitation, first aid material, advertisement, running cost of official cars, feeding cost, school text/library books, school laboratory and chemicals
Donations and others	Minor repairs of residential building, refreshments, tuition fees or courses and seminars

Government budget line sources are strictly spent according to the intended purposes spelt out in the financial regulations; that in no account should the school spend more than what the school has budgeted for.

#### 4.4 Payment of school fees

From the directives of Ghana education service, all schools in Ghana should be encouraged to pay their fees and other monies to schools through banker draft or money order since it is one of effective measure for the payment of school fees.

**Table 4.4.4: Means by which fees are paid.**

Means of payment	Frequency	Percentage
Through cheque	8	19
Bankers draft/ Money order	25	60
Cash	9	21
<b>Total</b>	<b>42</b>	<b>100</b>

**Source: Field survey (May, 2011)**

When the respondents (Headmaster, Assistants, Bursar, the Accounting Staff, and the SRC executives) were asked by which means are school fees paid, 8 responses from respondents said through cheques representing (19%), 25 responses from respondents representing (60%) said through Bankers draft/money order and 9

responses representing (21%) said through cash. The table indicates that a lot of the students pay their fees through Bankers draft or Money order which is good for better accounting practices.

However, Nine (9) responses from the respondents representing (21%) said some monies are paid by cash. This situation may give room for imbursement and misapportion since, all schools now receives all monies including fees through Bankers draft or Money order.

#### **4.5 Financial controls**

According FAI section 15, stipulates that daily reconciliation of cash with Cash Book balance, monthly balance of cash Book and Bank reconciliation are all forms of ensuring effective controls as the duties of Headmaster and Bursar.

##### **4.5.1: Effective Control Measures**

When respondents were asked whether they have effective financial controls, all the 10 respondents answered in an affirmative.

The total analysis indicated that the School has put in place effective control measures. The researcher went further to ascertain what measures they eventually put in place to warrant its effectiveness. When respondents were asked whether they account for unissued receipts, all the 10, the headmaster, the assistant headmaster and Accounting staff responded in the affirmative.

In addition, when respondents were asked how they check receipts books, all the 10 respondents indicated that it is checked daily and monthly. With further explanations, it was revealed that Receipts printed and received by the School were entered into

the stock registers which are audited. The Headmaster signs before receipts are taken and dated as part of control measures.

From the above analysis, it can be concluded that, the school has put in place effective financial control practices.

#### **4.6 Disbursement of funds**

Monies are disbursed in schools in many ways. These are; provision for the day to day running of the school, stationeries, repairs and maintenance of school facilities, school projects, food items, fuel or vehicle maintenance and practical materials for science or technical.

##### **4.6.1: How funds are disbursed**

When respondents were asked whether monies collected are disbursed efficiently and effectively, the Headmaster, Assistant Headmasters, Bursar and the Accounting Staff responded that monies are disbursed effectively.

The researcher wanted to cross-checked the responses giving by the respondents and therefore asked the students the same question. Out of seven (7) students, 5 representing (72%) confirmed the above responses giving by the respondents while two (2) representing (28%) of the respondents did not agree to the earlier responses.

#### **4.7 Control measures to check mismanagement and embezzlement of funds.**

According to the Auditor General's Report between Dec. 2005 to Dec. 2007, indicate that some Senior High Schools have embezzled funds due to weak internal control system. The aim of the researcher was to find out whether the Administration or Management has put measures in place to check misappropriation of funds by staff.

There was indications that control measures have been put in place to check mismanagement and embezzlement of funds. Some of the control measures include:

- authorization of transactions
- recording of transaction
- cross-checking bank payment against receipts
- issuance of receipts
- made of payments to the school
- periodic audit of accounts

Respondents were further asked the frequency or rate at which those activities were done. Table 4.7.5 presents their responses

**Table 4.7.5 Control measures**

Controls	Respondents	Yes	No	How often	Percent
Authorization and approval of transactions.	10	Yes	-	Weekly	100
Recording of Transaction Issuance of receipt	10	Yes	-	Daily	100
Cross-checking bank Payment against receipt	10	Yes	-	Weekly/ Monthly	100

Source: Field Survey (May, 2011)

From table, it can be seen that Management or Administration has put in place control measures to check misapplication or misappropriation and embezzlement of funds. This is because if bank payments are not cross-checked with receipts weekly, then it becomes very easy for any staff to embezzle any amount of money.

Again, respondents were asked whether there are other measures put in place in line with above. All the respondents affirmed that external and internal Auditors have been engaged to audit the school's account periodically.

#### **4.8 Duties of Accountants**

The effectiveness of any internal control measure depends on the accounting staff. It is the accounting staff who implements internal control measures that have been designed by management.

**Table 4.8.6 : Duties of Accounting Staff**

<b>Duties</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Collection of monies</b>	<b>3</b>	<b>16.7</b>
<b>Issuing of receipt for cash received</b>	<b>6</b>	<b>33.3</b>
<b>Authorized of transaction</b>	<b>3</b>	<b>16.7</b>
<b>Preparing students bill</b>	<b>6</b>	<b>33.3</b>
<b>Total</b>	<b>18</b>	<b>100</b>

Source: Field Survey (May, 2011)

The researcher wanted to find out the duties of the accounting staff. All the eighteen responses representing 100% stated the following as indicated in Table:

- Collection of monies
- Recording of transactions
- Issuing of receipts for cash and money orders received
- Authorization of transaction
- Preparing student bill.

When the respondents responses were cross-checked with the manual for Headmasters and Principals in Senior High and Training Colleges, to ascertain whether duties as stated by the respondents and that of the manual are the same. It was found out that, the Accounting Staff perform the same function as stated in the manual.

#### 4.9 Measures to improve financial controls

**Table 4.9.7: Improvement in Financial Control Practices.**

	Frequency	Percentage
Preparation of financial statement	3	20
Bank reconciliation at regular interval	6	40
Authorization of transaction	6	40
Total	15	100

**Source: Field survey (May, 2011)** (respondents were allowed to select more than one responds from the table)

When respondents were asked to suggest ways by which financial control practices could be improved, all the (10) respondents representing (100%) made the following suggestion as stated in the Table. They are:

- Preparation of financial statement
- Bank reconciliation of regular interval
- Authorization of transaction

Many financial analysts have come to accept that regular Bank reconciliation helps to curb the incidence of fraud and embezzlement of funds. This is because, when

Bank reconciliation is done at regular times, it brings to light monies that have been deposited at the bank and cash at hand.

Further interview revealed that, the schools do follow procurement procedures in relation to goods, services and works.

#### 4.10 Control measures to check expenditure

**Table 4.10.8: Financial Control to check Expenditure.**

Controls	Frequency	Percentage
Serial numbered documents	2	20
Issuance of receipts	2	20
Periodic audit of accounts	3	30
Preparation of budget for internally generated fund	3	30
<b>Total</b>	<b>10</b>	<b>100</b>

**Source: Field survey (May, 2011)**

The researcher wanted to find out what financial control practices are put in place to check expenditure. Table 9 depicts the responses provided by the respondents. They said that, valued books such as receipts well serially numbered and that receipt are issued for all payment made. It is also spelt out in the FAI part v section 1 that all amount received by an institution shall be supported by the issue to the payer of an original counterfoil. It also continue to say that, the record will be inspected at least weekly by the head of the institution or his deputy who will see to it that all money received are accounted for in the proper manner.

#### **4.11 Expenditure exceeds Budgeted**

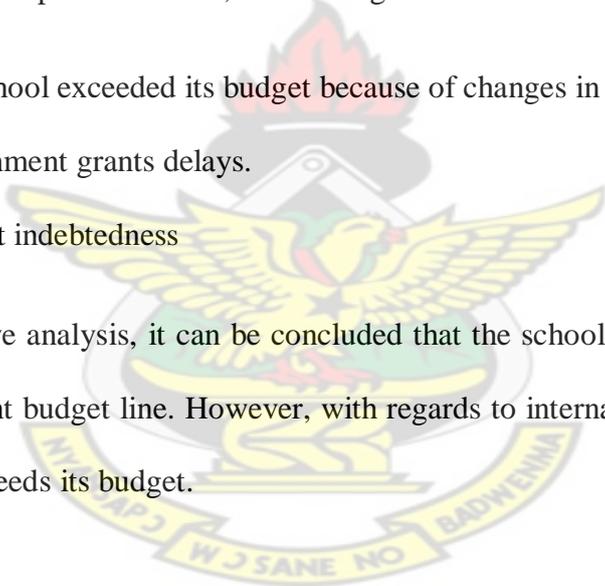
In the 2005-2007, Auditor General's report indicates that, several schools were cited as having exceeded their budget allocation for the year. In each situation the government allocation for schools has to be supported internally generated funds.

It is in line with this that, the researcher wanted to find out whether the schools expenditure exceeds its revenue. It was revealed that sources of fund from government budget line were spent within the budget estimates.

However, it was found out that, the internally generated funds exceeded its budget allocation. When probed further, the flowing reasons were assigned as the cause;

- i. The school exceeded its budget because of changes in price levels.
- ii. Government grants delays.
- iii. Student indebtedness

From the above analysis, it can be concluded that the school is able to spend within the government budget line. However, with regards to internally generated estimates the school exceeds its budget.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5. Introduction**

The chapter presents the summary of the findings from the study, conclusion and recommendations based on the study.

The study sought to examine the financial control practices in New Juaben Senior High Commercial School. It was aimed at assessing whether there were control practices in managing finances in the school.

#### **5.1 Summary of findings**

From the analysis in chapter four, it was realized that, the preparation of budget for the school was by the Headmaster, the Bursar and the accounting staff with little or no input from the teachers and students.

i. On the analysis on the sources of funds available to the school, it was realized that the main sources of funds available to the school was the schools budget line account sources and the schools internally generated funds. Data collected and interview conducted revealed that the various sources of funds were mainly two. The Schools budget line account sources which were made up of grant from Government of Ghana (GoG) and Ghana Education Trust Fund (GETFUND) and School's internally generated funds which include fees from students, donations, PTA dues and other funds from private individuals who use the facilities of the school for instance churches.

ii. The analysis indicates the use of funds in the school as follows; personal emoluments, travel allowance, transfer grants, car maintenance allowance, utilities, feeding cost, minor repairs of residential buildings.

iii. The school collects its school fees through Banker's draft, Money orders and with few cases cash.

iv. Findings on effective control measures revealed that, the school has put in place effective control measures such that financial transactions were backed by supporting documents like cheques, purchase orders and invoices, which were serially numbered. It also came to light that procurement laws are being followed in terms of school purchases. The students also confirmed that receipts issued to them have serial numbers. Also receipts books that are used were accounted for, kept for audit and unused once were kept in locks. It was also revealed that both external Auditors from audit service and internal Auditors from Ghana Education office had been engaged to audit school accounts periodically.

v. The analysis again, indicated that, the schools expenditure usually exceeded the income. This was attributed to perhaps the changes in price levels, inadequate funding and difficulty in collection of fees.

vi. Finally, the researcher sought to know improvement in financial control practices pertaining to the school. It was noticed that, the school adhered to regular Bank reconciliation to deal with any discrepancies. It was further revealed that, there were sub-division of duties in the accounts department. These made it impossible for persons or department to single handedly carry out all transactions. Also the study revealed that, the control of transactions (in terms of adherence to the four steps of authorization, approval, execution and recording) is largely exercised by the various

authorities involved. It was revealed that financial control measures are improved because the following measures have been put in place;

- i. making daily entries in the ledger books,
- ii. sending monies to banks daily and
- Ii.calling for bank statements regularly.

## **5.2 Conclusion**

The research was undertaken with the aim of

- (i) ascertaining the sources and uses of funds to the New Juaben Senior High Commercial School, Koforidua
- (ii) to examine the financial controls available for checking or controlling the disbursement of funds
- (iii) to suggest ways of improving the financial control practices.

At the end of the study, it came to light that, the main sources of funds available to the New Juaben Senior High Commercial School were, the schools budget line account sources and the internally generated funds. It was revealed that, usually the schools expenditure exceeds its revenue/income due to changes in price levels. In terms of financial preparation, it was backed by the rules in preparation of public sector accounting, financial transactions were also backed by supporting documents.

The survey also revealed that, there were effective control practices put in place to prevent misappropriation and embezzlement of funds in the school. Internal and external Auditors from Ghana Education Office and Audit Office respectively visit the school to audit the account periodically.

It was also discovered that, one of the GES measures to curb out fraud or embezzlement of funds to schools was to give directives to Senior High Schools not to allow students pay school fees in cash but rather through Money orders or Bankers draft.

Finally, fraud prevention control measures revealed in the study included: making daily entries in the books of Accounts, sending monies to banks daily and requesting for bank statement regularly.

### **5.3 Recommendations**

No organization as well as school can do well without strong financial controls. The concept of financial controls affects all the assets of a business, all liabilities, the revenue and expenditures and every aspect of operations. One of the objectives of the financial controls is to provide for managers of organizations or institutions the need to observe financial regulations.

Based on the findings and conclusions made, the researcher deemed it necessary to make the following recommendations:

The school should form its own internal audit committee; to check the spending rate of the school in order to make sure that the school spends within its budgeted estimates.

Even though the study indicated that procurements regulations are obeyed, there should be still strict compliances with the provisions of the public procurement Act. This means that, there should be evidence of receipts of every transactions deemed fit.

Again, government should release funds for schools on time in order to prevent increase in prices. This is to enable the school to run its activities efficiently and effectively.

There should be periodic in-service training for the account personnel since training improves knowledge, skills and abilities. Sub-division of duties of account officers should be strengthened. This will ensure that accounting staff follow proper accounting control practices.

In addition to the above, the school should strictly ask parents during PTA meetings and students to pay their school fees using only Bankers draft and Money orders to avoid any cash payment. Headmasters can encourage some of the banks to open an outlet on campuses to ease congestions when school re-opens.

Finally, it was realized that little knowledge was known by the accounting staff on Financial and Accounting instructions for secondary schools, training Colleges and Educational Units. It is recommended that, the school should make copies to the Headmaster, Assistant, the Bursar and the accounting staff in addition to the following recommended text such as Financial Administration Act, 2003 (Act 654) Public Procurement Act, 2003 (Act 663) and Financial Administration Regulation, 2004.

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**APPENDIX I**

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY KUMASI (KNUST)**

**QUESTIONNAIRE FOR TEACHERS**

Dear Respondent,

I am a final year student of KNUST CEMBA programme and am undertaking a study on the financial controls in the New Juaben Senior High Commercial School. As a key stakeholder you have been selected to participate in the survey. I would be very grateful if you could complete this questionnaire by ticking (√) in the space provided where applicable. It is purely an academic purpose and any information given will be treated as confidential. Thank you

1. How long have you served in the school?

Up to 3yrs ( ) 4 to 6yrs ( ) 7 to 10yrs ( ) over 10yrs ( )

2. What is your qualification? Diploma ( ) Degree ( ) Masters ( )

3. Are you a member of any financial committee in the school? Yes ( ) No ( ) if yes list the duties you perform as a member

.....  
.....

4. Are you involved in the collection of money on behalf of the school?

Yes ( ) No ( ) If yes what kind of monies?

.....

5. In your view, what are the controls measures put in place to check misappropriation and embezzlement of school funds.

i. Internal Auditor from Municipal Education Office ( )

ii. External Auditor from Regional and Headquarters ( )

iii. Depositing money into relevant account ( )

6. In your view, are school funds being appropriately used? Yes ( ) No ( )

7. Are you consulted when the school's budget is being prepared?

Yes ( ) No ( )

8. By what means are monies paid to the school? (Please tick as many as applicable) a) Through Cheque ( ) b) Bankers draft ( ) c).

Cash ( )

9. In your opinion, do the students benefits from monies paid?

Yes ( ) No ( )

10. Are you satisfied with the way and manner in which monies collected are being used? Yes ( ) No ( )

Any further comment:

.....

.....

.....

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND  
TECHNOLOGY KUMASI (KNUST)**

**QUESTIONNAIRE FOR ACCOUNT OFFICERS**

Dear Respondent,

I am a final year student of KNUST CEMBA programme and am undertaking a study on the financial controls in the New Juaben Senior High Commercial School. As a key stakeholder you have been selected to participate in the survey. I would be very grateful if you could complete this questionnaire by ticking (✓) in the space provided where applicable. It is purely an academic purpose and any information given will be treated as confidential. Thank you.

1. What is your qualification? DBS ( ) RSA ( ) HND ( )  
First Degree ( ) (please specify)
2. How long have you worked in the school?  
1-5yrs ( ) 6-10yrs ( ) over 10yrs ( )
3. What is your current position? .....
4. What are your main duties? (select as many as applicable )
  - i. Collection of monies ( )
  - ii. Issuing of receipts for cash received ( )
  - iii. Authorization of transactions ( )
  - iv. Preparing students bills ( )

Others please specify

.....

5. Do you receive cash revenues? Yes ( ) No ( )

If yes, how do you treat cash receipts?

- a. Keep in safe ( ) b. Bank the next day ( ) c. Bank the same day ( )

6. How often do you deposit cash receipts at the bank?

- a. Daily ( ) b. Weekly ( ) c. Monthly ( )

7. Do you allow students to make payment directly into the bank?

Yes ( ) No ( )

If no why?

.....  
.....

If yes, how often do they make payment?

- a) Monthly ( ) b) Termly ( ) c) Yearly

8. Who is responsible for the preparing of the budget? ( Please you can select more than one)

- a) Accountant ( ) b) Headmaster ( ) c) Bursar ( )

- b) d) Others ( )

9. Does the school use budgeting as a control activity? Yes ( ) No ( )

If yes, how are budgeting constructed and what follow up actions are taken?

- a) Zero-based type ( ) b) Incremental type ( ) c) others ( )

(Please you can select more than one)

10. Does your school's expenditure exceed income? Yes ( ) No ( )
11. Are your receipts serially numbered? Yes ( ) No ( )
12. By what means are school fees collected? a. Cash ( ) b. Bank draft ( )  
c) money order ( ) d) Postal order ( ) e) Cheque ( ) (please as many as applicable)
13. Do you have any account for the fees collected? Yes ( ) No ( )
14. Who provides school receipts? Government ( ) the school ( ) Others ( )  
(please specify) .....
15. Are procurement procedures followed when buying goods, works and services? Yes ( ) No ( )
16. Does the Head of the institution ensure that procurement provisions are complied with? Yes ( ) No ( )
17. In your opinion, how would you describe the effectiveness of the financial controls in the school? Very Effective ( ) Effective ( ) Not Effective ( )  
Not very effective ( )
18. Do you account for the unused receipts? Yes ( ) No ( )
19. Who exercise controls over expenditure?  
a. The Headmaster ( ) b. The Bursar ( ) c. Any other ( )
20. State how the financial control systems can be improved.  
a. Preparation of financial statement ( )  
b. Bank reconciliation statement at regular intervals ( )  
c. Authorization of transactions ( )

21. Do you immediately report to the supplier any error either in the numbering or the quantity supplied? Yes ( ) No ( )

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND  
TECHNOLOGY KUMASI (KNUST)**

**QUESTIONNAIRE FOR EXECUTIVES OF STUDENT  
REPRESENTATIVES COUNCIL**

Dear Respondent,

I am a final year student of KNUST CEMBA programme and am undertaking a study on the financial controls in the New Juaben Senior High Commercial School. As a key stakeholder you have been selected to participate in the survey. I would be very grateful if you could complete this questionnaire by ticking (✓) in the space provided where applicable. It is purely an academic purpose and any information given will be treated as confidential. Thank you

1. By what means are fees paid to the school?
  - a. Cash ( ) b. Bank draft ( ) c. Cheques ( )
2. Are you always issued with receipt for payments made? Yes ( ) No ( )
3. Are the receipt issued serially numbered? Yes ( ) No ( )  
Don't Know ( )
4. In your view, do the students benefits from monies paid? Yes ( ) No ( )
5. Are you satisfied with the way and manner in which monies collected are being used? Yes ( ) No ( )
6. Are students consulted for the preparation of school budget? Yes ( ) No ( )

Any further comment

.....

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND  
TECHNOLOGY KUMASI (KNUST)**

**QUESTIONNAIRE FOR HEADMASTER/ASSISTANT**

**HEADMASTER**

Dear Respondent,

I am a final year student of KNUST CEMBA programme and am undertaking a study on the financial controls in the New Juaben Senior High Commercial School. As a key stakeholder you have been selected to participate in the survey. I would be very grateful if you could complete this questionnaire by ticking

(√) in the space provided where applicable. It is purely an academic purpose and any information given will be treated as confidential.

Thank you.

1. Please state your qualification: a. First Degree ( ) b. Masters ( )
2. For how long have you been in the school?
  - a. 1-5yrs ( ) b. 6-10yrs ( ) c. 11-15yrs ( ) d. 16yrs above ( )

The duties of the Headmaster are:

- i. Chairing financial committee ( )
- ii. Authorization of document ( )

- iii. Calling for bank reconciliation statement regularly ( )
3. What are the main sources of funds available to the school?
- i. School fees ( ) ii. Grants from government ( ) iii. Donation ( )
4. Does the school faces financial problems? Yes ( ) No ( )
5. Do you receive any grant or gifts for the school? Yes ( ) No ( )
- If yes, name the source(s)
- a. Old Students Association Dues ( ) b. Non-Government organizational ( ) c. Parent-Teacher Association Dues ( )
6. By what means are school fees collected?
- a. Through Bank ( ) b. Cash ( )
7. How are monies collected disbursed?
- i. Provision for the day to day running of the school / stationary ( )
- ii. Repairs ( ) iii. School projects ( ) iv. Food items ( )
- v. Fuel / Vehicle Maintenance ( )
- vi. Practical materials for science/technical ( )
8. What type of expenses take a higher proportion of the amount collected?
- a. Administration activities ( ) b. Food items ( ) c. Fuel/Vehicle maintenance ( )
9. Who supervises the expenditure? Headmaster ( ) Internal auditor ( )
10. What are some of the financial controls implemented to check expenditure?
- i. Serially numbered documents ( )
- ii. Issuance of receipts ( )
- iii. Periodic audit of account s ( )
- iv. Preparation of budget for internally generated funds ( )

11. What control measures exist to check mismanagement and embezzlement of funds?
- i. Authorization of transactions ( )
  - ii. Recording of transaction ( )
  - iii. Cross-checking bank payments against receipts
12. Have you had any cases of misappropriation and embezzlement in the past 3 years? Yes ( ) No ( )
13. Do you prepare budget for the school? Yes ( ) No ( )
14. Are the budget prepared implemented? Yes ( ) No ( )
15. Does expenditure match revenue? Yes ( ) No ( )
- If No, how is the situation remedied?.....  
.....
16. What problems do you face in implementing the budget?.....  
.....
17. Does the school have an active Board of Directors/Governors?  
Yes ( ) No ( )
18. Does the institution have a defined code of ethics? Yes ( ) No ( )
19. Do you have internal Auditors? Yes ( ) No ( )
20. How are the internal auditors recruited?  
a. Through interview ( ) b. By posting ( ) c. Through long service ( )
21. Is it true that Headmasters are liable in financial mismanagement?  
Yes ( ) No ( )
22. Does every payment supported by the original voucher which contains full particulars of the service for which payment is being made? Yes ( ) No ( )
23. How are receipt books checked? a. daily ( ) b. quarterly ( ) c. Monthly ( )

## APPENDIX II

### INTERVIEW QUESTIONS

1. How do you use the sources of funds in the school?
2. What do you do with the unissued receipts?
3. What do you do with the printed receipts?
4. What are the categories of the sources of funds available to the school?
5. How effective are monies disbursed?
6. What other means of improvements could be done to financial control practices?
7. Do the account officials have access to Financial and Accounting Instructions for secondary schools?
8. How do you get information to upgrade your skills?
9. What challenges do you face in the operation of financial control practices?