

**Kwame Nkrumah University of Science and Technology, Kumasi**

**Institute Of Distance Learning**

**INTERNAL CONTROL AS A TOOL FOR FINANCIAL MANAGEMENT IN THE  
PUBLIC SECTOR: A CASE STUDY OF GES, ADAKLU-ANYIGBE DISTRICT**

**KNUST**

**BY**



**Dagbah Godwin**

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**JUNE 2011**

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**A Thesis Submitted to the Institute of Distance Learning, Kwame Nkrumah University of  
Science and Technology, Kumasi, in partial fulfillment of the requirements for the  
Degree of Commonwealth Executive Masters In Business Administration**

**JUNE 2011**

## CERTIFICATION

I, Godwin Dagbah, do hereby declare that the CEMBA thesis is entirely my own and that it is the representation of the study carried out under the supervision of Mr. D. R. Y. Krah of the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology, Kumasi, Ghana. I further declare that to the best of my knowledge, this work contains no material previously published by any other person or material presented for the award of any other degree of the University, except where works of other researchers has been cited and due acknowledgement made.

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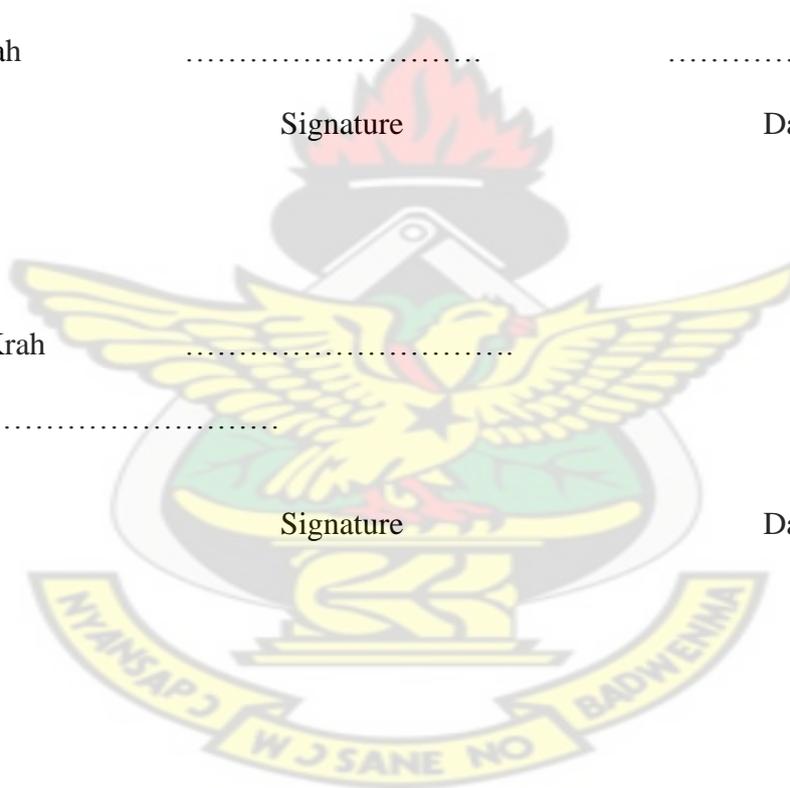
Head of Department

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Signature

Date



## DEDICATION

This thesis is dedicated to my lovely wife, Stella and my two study mates on the programme;  
Dickson and Joshua.

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## ABSTRACT

The research attempts to examine internal control as a tool for financial management in the public sector: a case study of GES Adaklu-Anyigbe District. The main objective of the study was to examine the reasons accounting for the persistence of financial improprieties or inaccuracies or irregularities in the public sector even though adequate measures have been put in place to forestall this. The sample size is made up of 33 respondents: 15 GES District Directorate staff and 18 Adaklu-Anyigbe District Assembly staff; consisting of three categories of staff namely, Management, Accounting/Treasury Department and Internal Audit Unit of both entities. The non-probability (purposive and quota sampling) were used for the study. The research conducted established that the improprieties, inaccuracies and irregularities persist in the public sector due to weaknesses or lapses or laxities in the internal control systems of most public sector organizations. It was also revealed that most often the appropriate sanctions are not applied to those found culpable to serve as a deterrent to others to desist from such acts. The study recommended that the internal audit units in the public sector should be strengthened and well resourced; and more qualified personnel appointed to enhance the effectiveness and efficiency of the internal control systems to ensure attainment of the entity's objectives. Also appropriate sanctions should be applied whenever need be without reservation.

## ACKNOWLEDGEMENT

I owe a great deal of gratitude to many individuals who have contributed in diverse ways in making the dream of pursuing the Commonwealth Executive Masters in Business Administration (CEMBA) programme in Accounting and Finance a reality.

I express my heartfelt gratitude to my selfless and dedicated supervisor Mr. D. R. Y. Krah, a Lecturer at the Institute of Professional Studies (IPS), Legon, Accra; and a part-time Lecturer in Accounting and Finance, Institute of Distance Learning (IDL), Kwame Nkrumah University of Science and Technology (KNUST), Kumasi, for supervising my Thesis.

I also appreciate the assistance given me by Mr. Stanley Dzidzeme for helping me with the data entry and classification after the data has been collected from the field to facilitate interpretation and analysis.

I am grateful to Miss Gifty Sugo-Dotsey for doing the typesetting of the manuscript into a form that you are seeing today; I say more grease to your elbows and may God richly bless you for your dedication and commitment.

Furthermore, I wish to express my greatest gratitude to the Coordinator of the IDL, KNUST, Ho Polytechnic Centre, Mr. Ben Q. Honyenuga and all the other facilitators of the programme for their support and pieces of advice.

Also I acknowledge with high sense of respect, my colleagues on the programme at the Ho Polytechnic Centre, for the privilege of studying together with them. May the good Lord bless you and reward all your efforts.

Finally, I wish to thank my wife, Stella Alorbu for all the support given me throughout the period of my study on the programme. Thank you so much for being there for me during the difficult times.

Godwin Dagbah

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May 2011

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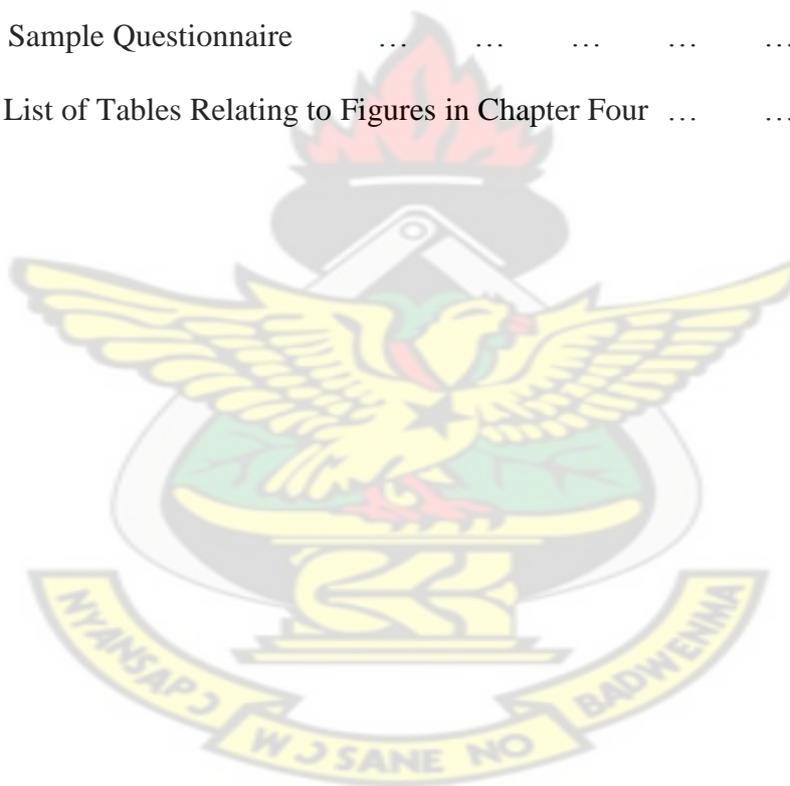
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## ABBREVIATIONS/ACRONYMS

AICPA	-	American Institute of Certified Public Accountants
ARIC	-	Audit Review Implementation Committee
BOD	-	Board of Directors
CEO	-	Chief Executive Officer
CFO	-	Chief Financial Officer
GAAP	-	Generally Accepted Accounting Principles
GES	-	Ghana Education Service
GNAS	-	Ghana National Auditing Standards
http	-	hyper text transfer protocol
ICA	-	Institute of Chartered Accountants
IFAC	-	International Federation of Accountants
IIA	-	Institute of Internal Auditors
INTOSAI	-	International Organization of Supreme Audit Institutions
IRS	-	Internal Revenue Service
KPMG	-	Klynveld Peat Marwick Goerdeler
KSU	-	Kansas State University
MDAs	-	Ministries, Departments and Agencies
MMDAs	-	Metropolitan, Municipal and District Assemblies
PAC	-	Public Accounts Committee
SAS	-	Statement of Auditing Standards
UC	-	University of California
www	-	world wide web

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Financial resource is seen as an imperative resource to many institutions and establishments which must be effectively and efficiently managed to bring about the needed change and results from the activity for which the funds have been made available. It is considered as the lifeblood of any establishment and its availability ensures growth and survival of the establishment as well as the carriage of the mandate of the establishment. However, sometimes this important resource is mismanaged and misappropriated by those put in charge to ensure proper and efficient management of the resources to the detriment of the activity for which the resources have been made available.

There have been several instances throughout the world in which financial resources have been mismanaged or misappropriated through fraudulent practices leading to collapse of several one time flamboyant businesses. Some of the cases in point worth examining in order to know how these crimes are perpetuated are:

In 1995, Barings Bank, the oldest merchant bank in London, suddenly collapsed-the results of \$1.3 billion in trading losses incurred by Nick Leeson, a derivatives trader in the bank's Singapore office. Although the popular press focused attention on the trader, Nick Leeson, initially, it was later found out that the culprits in Barings' downfall were company executives, including those at the very top of the organization that did not understand or overlooked the most basic rule of internal control which states: "a company employee that has the authority to spend company funds should never have the authority over the accounting entries that reflect such disbursements"; emphasized, Schroy (2010). Nick Leeson the 'rogue trader' in question was convicted and went to jail for his part in Barings' downfall. According to Schroy, Nick

was able to commit this fraud because higher management had given him authority not only to authorize trades, but also to control the accounting entries that registered these trades. He also had the authority to deal with the Singapore Clearing House on the settlement of these trades and margin requirements.

For a similar instance of lax internal controls, we have the Jerome Kerviel incident:

Jerome Kerviel, a French trader with Societe Generale, was charged in a January 2008 trading loss incident of approximately €4.9 billion. Societe Generale characterized Kerviel as a 'rogue trader' and claimed that Kerviel worked those trades alone, and without its authorization. Kerviel in turn, told investigators that such practices were widespread and that getting a profit makes the hierarchy turn a blind eye.

Schroy (2010), argued that in the incidents cited, in fact, there was a massive failure of internal controls, suggesting the degree to which major institutions across the globe are mismanaged; and as such proprietary trading was involved and speculative profits created a permissive environment in which executives ignored elementary principles of internal control.

Besides, in Ghana there have been several instances or revelations of ineffective internal controls, especially in the public sector. Thus the Auditor General's report on the public accounts dating back to the time of independence to date; and more specifically between the periods 31<sup>st</sup> December, 2006-2008 revealed some serious shortcomings which need to be addressed to ensure prudent management of resources. The findings were as follows: unacquainted payments, unrepresented payment vouchers and misappropriation of revenues and other receipts. Others are contract irregularities, poor debt management and huge debt stock. The rest are procurement without entity tender committee approval, illegal payment and/or drawing of salary as well as bank lodgments not reflecting in bank statements; just to cite a few

to drive home a point on the need to examine and/or strengthen the internal control systems of the public sector organizations in Ghana. The instances cited clearly show that there are a lot of internal control weaknesses in the public sector in Ghana.

Added to the issues of internal control weaknesses identified in the Auditor General's report, the startling revelations at the Public Accounts Committee-PAC (2008) sittings at the Parliament House of Ghana also alleged that an official at the Ministry of Transportation have diverted a withholding tax meant for Internal Revenue Service into a business account registered in his name for personal use. It was also alleged that there is no internal auditor at the then Ministry of Tourism and Diaspora Relations at the time.

Recently, at the Public Accounts Committee (May 2011) sittings at the Parliament House of Ghana, where the audited accounts of public second cycle institutions were considered, it came to light that an Accountant at Presbyterian Senior High (PRESEC), Legon has embezzled or misappropriated funds belonging to the school as follows: 2005, Two Billion Cedis (¢2 billion) or Two Hundred Thousand Ghana Cedis (GH¢ 200,000.00); 2006:- Sixteen Thousand Ghana Cedis (16,000.00), and again in the same 2006 another Thirty-Three Thousand Ghana Cedis (33,000.00). 'Where are the internal controls and the internal checks before one individual could misappropriate public funds of that magnitude concurrently undetected? ; remarked the Chairman of the committee'. This clearly shows that there is laxity in the management of financial resources in the public sector. Thus the internal control systems are weak and the systems and structures are not operating properly.

It is in this vain that mechanisms such as the internal control systems are not only put in place but also strengthen and closely monitored to check and avert the inaccuracies to ensure efficiency and proper utilization of resources for the achievement of performance goals.

## **1.2 Statement of the Problem**

Efforts have been made over the years to curtail and/or eliminate the financial improprieties and inaccuracies in the public sector in Ghana. The recent one being the establishment of the Internal Audit Agency through the passage of the Internal Audit Agency Act 2003 (Act 658); which requires all MDAs in Ghana to create Internal Audit Unit in their establishments in order to strengthen internal controls so as to check or avert the inaccuracies in financial management in the public sector.

However, in spite of the several interventions over the years and the existence of the Internal Audit Unit in the public sector organizations in Ghana it appears the financial improprieties and inaccuracies continue to persist and this needs to be investigated to find out the reasons accounting for these shortcomings.

It is therefore incumbent upon every establishment, irrespective of its size or sector to ensure effective and efficient utilization of resources allocated to it for ultimate execution of the task and the activities being undertaken in an efficient manner. Arens et al (2006a) postulates that internal control system consists of policies and procedures designed to provide management with reasonable assurance that the entity achieves its goals and objectives. As such internal control is deemed to be an important feature in the administration and management of financial resources.

Besides, it is an undeniable fact that education occupies a very important position in the scheme of things of any nation. This is due to the fact that it is through this process that the development of the human capital necessary to steer the affairs of the nation in bringing about the socio-economic development is realized. As a result any resources allocated, be it financial

or otherwise, to the sector to ensure the realization of this ultimate goal must be effectively and efficiently utilized to derive the maximum benefit.

### **1.3 Objectives of the Study**

The general objective of the study is to find out the reasons accounting for the persistence of financial irregularities in the public sector.

The specific objectives of the study attempts to:

1. Identify specific internal controls instituted by GES, Adaklu-Anyigbe District over the years and the extent of compliance with COSO integrated framework of internal control;
2. Find out the unit responsible for ensuring that internal controls in GES, Adaklu-Anyigbe District are established;
3. Ascertain the effectiveness and efficiency of internal control systems in the GES, Adaklu-Anyigbe District;
4. Assess the role of internal control systems in the management of financial resources allocated to the GES, Adaklu-Anyigbe District; and
5. Examine the lapses or weaknesses in the internal control systems in the GES, Adaklu Anyigbe District.

### **1.4 Research Questions**

The main research question is ‘what are the reasons accounting for the persistence of financial irregularities in the public sector’?

1. What are the specific internal controls instituted and do the internal controls in GES,

Adaklu-Anyigbe District complies with the COSO integrated framework?

2. Who are responsible for establishing internal controls in the GES, Adaklu-Anyigbe?
3. What factors are responsible for effective and efficient internal controls in the GES, Adaklu-Anyigbe District?
4. What needs to be done to establish workable internal control systems to ensure efficient financial management in the GES, Adaklu-Anyigbe District?
5. What reasons account for lapses or weaknesses in internal controls in the GES, Adaklu-Anyigbe District?

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### **1.5 Significance of the Study**

This study would outline the importance of applying internal controls to the management of funds in the educational sector. The suggestions and recommendations for the use of internal controls would ensure effectiveness and improve efficiency in managing financial resources. Secondly, the research report would be made available to the management and staff of GES to serve as a reference material on the establishing and applying internal controls to improve financial management. The research findings would also serve as a contribution to knowledge on the benefits of establishing and complying with internal controls in managing financial resources. Finally, the study would serve as a guideline for entities on how to formulate, develop, implement, monitor and evaluate effective and efficient internal control systems to ensure attainment of their objectives.

### **1.6 Overview of Research Methodology**

This section of the study deals with the method employed in gathering information, description of the sample population, sampling techniques and instruments used in gathering the relevant data from the various sources. The study was carried out through the use of primary and secondary data.

#### **(a) Data Gathering Procedure**

The study was carried out through the administering of questionnaire; both open and closed ended questions. Information was also gathered through the conduct of personal interviews of the respondents in order to ascertain first-hand information on the existence of internal control systems in the Ghana Education Service. Adaklu-Anyigbe District is the study area. The sample population consists of Senior Management in the District Assembly and GES, Internal Auditors and Accountants in the GES as well as the Treasury Department and Internal Audit Unit of the District Assembly. The main type of sampling procedure used was non-probability sampling; as such purposive and quota sampling techniques were adopted in carrying out the study.

#### **(b) Analysis of Data Collected**

The data collected were analyzed through the use of qualitative and quantitative techniques by the use of statistical tools. Such in-depth analysis however, was done along standards outlined by authorities in the field so as to arrive at useful recommendations and conclusions to be provided to the stakeholders in the Ghana Education Service.

### **1.7 Scope and Limitations of the Study**

Internal control systems usually apply in three broad areas of an entity; comprising management, operations and finance. The scope of this study is however concentrated on only the financial aspect.

This study is not without limitations.

The main limitation of this study is the inability to cover a wider area; which will inadvertently be impracticable to embark on due to time and cost constraints. Also internal controls apply in

three broad areas, namely managerial, operational and financial aspects of an entity. However, the study is limited to the financial aspect only since undertaking a study in these broad areas at a time will involve so much work and effort. These limitations notwithstanding, the findings of this study are expected to spur on the management and staff of GES to view the establishment, application and compliance with internal control systems as essential in ensuring effective and efficient management of financial resources allocated to them.

### **1.8 Chapter Organization of the Study**

This work is organized into five main chapters.

The chapter one consists of the introduction which deals with the background to the study, statement of the problem, research objectives, research questions, significance of the study, overview of research methodology, significance of the study, scope and limitations of the study and chapter organization of the study.

Chapter two, deals with the review of literature and the theoretical framework on which the study is based.

Chapter three, deals with the methodology which include methods of data collection and data analysis.

Chapter four focuses on presentation of the results and discussion.

Chapter five is concerned with summary, recommendations and conclusions.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter deals with review of literature which is most relevant to the study; and outlines the theoretical and conceptual framework upon which the study is based. The review looks at the concept and nature of internal control systems; definitions of internal controls, the components and structure of internal controls as developed by COSO, types of controls and control activities as well as reliability of financial reporting.

It also examines the effectiveness and efficiency of internal controls, design of internal controls, internal control systems and the public sector, compliance with laws and regulations, roles and responsibilities in internal controls and the limitations of internal controls. The review then concludes that the design, development and operation of an effective and efficient internal control system in spite of inherent limitations, will enhance performance of public sector organizations in general, and more especially GES, Adaklu-Anyigbe to ensure maximum achievement of stated goals and objectives.

#### 2.2 Definition and Nature of Internal Control Systems

Internal control means different things to different people. This causes confusion among business people, legislators, regulators and others. Resulting miscommunication and different expectations cause problems within an entity. The problems are compounded when the term, if not clearly defined, is written into law, regulation or rule (COSO, 1992).

This notwithstanding, there have been many definitions of the concept as it affects the various constituencies (stakeholders) of an entity in various ways at different levels of aggregation. In

1992 the Committee of Sponsoring Organizations (COSO) of the Treadway Commission developed an internal control – integrated framework, a widely used framework in the United States; and adopted by many other countries. Internal control is broadly defined as a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting; and compliance with laws and regulations (COSO 1992).

The first category addresses an entity’s basic business objectives, including performance and profitability goals and safeguarding of resources. The second relates to the preparation of reliable published financial statements. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow for a directed focus to meet the separate needs; emphasized (COSO 1992).

The COSO definition relates to the aggregate control system of the organization, which is composed of many individual control procedures. The discrete control procedures, or controls in the opinion of the Securities and Exchange Commission – SEC (2007) refers to a specific set of policies, procedures, and activities designed to meet an objective. Controls it noted may exist within a designated function or activity in a process; and controls’ impact may be entity wide or specific to an account balance, class of transactions or application controls. Controls within a process it, noted, may consist of financial reporting controls and operational controls (i.e. those designed to achieve operational objectives). COSO points out that, internal control is a process, or a means to an end, and not an end in itself. To COSO, the process is affected by individuals, not merely policy manuals, documents and forms. As regards the phrase

reasonable assurance, COSO stipulates that internal control cannot realistically provide absolute assurance that an entity's objectives will be achieved. Reasonable assurance recognizes that the cost of an entity's internal control should not exceed the benefit expected to be derived.

According to Schroy (2010), in accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. He further points out that it is a means by which an organizations resources are directed, monitored, and measured; and plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (for instance, machinery and property) and intangible (reputation or intellectual property such as trade mark). This definition is similar to the one given by COSO. This is evident in the ingredients outlined by the two definitions.

As stated by INTOSAI (2001) 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 mission, the following general objectives are being achieved:

- Executing orderly, ethical, economical, efficient and effective operations;
- Fulfilling accountability obligations;
- Complying with applicable laws and regulations;
- Safeguarding resources against loss, misuse and damage.

They further postulates that internal control is a dynamic integral process that is continuously adapting to the changes an entity is facing. In their view 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. Also, INTOSAI asserted that internal control is not one time 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.

In their opinion, internal control is therefore different from the perspective of some observers who view it as something added on to an entity's activities or as a necessary burden but is rather 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 (INTOSAI 2001) - International Organization of Supreme Audit Institutions. They further indicated that by building in internal control, it becomes part of and integrated with the basic management processes of planning, executing and monitoring, thus are pervasive and inherent in the way management runs the organization.

To KPMG (1999), internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a company that taken together:

- Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives;
- Ensure the quality of internal and external reporting; and
- Ensure compliance with applicable laws and regulations, as well as internal policies with respect to the conduct of business.

KPMG (1999) points out that entities are struggling to improve not only their business

operations but also their internal processes and procedures recognizing the increasing importance of establishing the best controls to strengthen their activities towards attainment of set goals and objectives.

In the opinion of KPMG (1999), the board however does not have the sole responsibility for a company's system of internal control. But ultimately responsibility for the internal control system rests with the Board, however all employees have some accountability towards the board's policies on risk and control. As such, the operation and monitoring of the system of internal control should be undertaken by all who collectively possess the necessary skills, technical knowledge, objectivity, and understanding of the entity and the industries and markets in which it operates.

Also, in the view of University of California (UC) (2010), internal control refers to a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

The UC (2010) points out that several key points are deduced from this definition as follows:

- People at every level of an organization affect internal control
- Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives.
- Internal control can provide only reasonable assurance not absolute assurance regarding the achievement of an organization's objectives.

In the view of University of California – UC (2010), their system of internal control is developed based upon the guidelines as recommended by COSO of the Treadway Commission; this can be deduced from their definition cited above. The UC stated that this organizational approach provides the University with a common, accepted and recommended reference point to assess the quality of its internal control systems. As such it provides an additional reference tool for all employees to identify and assess operating controls, financial reporting, and legal/regulatory compliance processes and to take action to strengthen controls where needed. Thus in the words of the University by developing effective systems of internal control, we can contribute to enhancing the University's ability to meet its objectives and reducing the potential liability from fines and penalties that could be imposed for violations.

SAS 300 (1995) defines internal control system as comprising of the control environment and control procedures which includes all the policies and procedures adopted by the directors and management of an entity to assist in their objective of achieving, as far as practicable, the orderly and efficient conduct of the business, including adherent to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

The control environment as stated by SAS 300 (1995) refers to the overall attitude, awareness and actions of management regarding internal controls and their importance which encompasses management style, corporate culture, values, philosophy and operating style, the organizational structure, personnel policies and procedures. SAS further points out that the control environment is a key part of the overall corporate governance framework of the organization and provide a background to detailed control procedures; which does not of itself,

of course, ensure the effectiveness of the internal control systems as a whole.

According to SAS 300 (1995), control procedures on the other hand are those controls established to achieve the entity's specific objectives. These objectives in an accounting context include proper authorization, timely and accurate recording of transactions in the correct period, safeguarding the assets and ensuring the existence of assets recorded. They are particular procedures used to prevent, detect and correct errors.

As stated above it is noted that internal control is an ongoing process, a means to an end and not an end in itself, an integrated approach and above all it should be seen as a company-wide philosophy which must be embraced by all within the organization to ensure optimal delivery.

Besides, the Institute of Internal Auditors (IIA) – UK (1995), defines internal controls as; “all means designed to promote, govern and check upon various activities for the purpose of seeking that enterprise objectives are met”. As such for internal and external audit purposes internal controls and/or the internal control systems are much broader than the accounting systems alone.

More so, as stated by IIA (1995) and remarked by IFAC (2003); internal controls must be incorporated largely with internal audit activities to enhance authenticity and reliability of financial reporting. In the words of IFAC (2003), internal auditing is an appraisal activity established within an entity as a service to the entity; and its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems. Again, the IIA (1995) argued further that the internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined

approach to evaluate and improve the effectiveness of risk management, control and governance processes.

In the same vein, Millichamp (2000); and Ricchuite (2001) remarked that internal control system is very important in an organization as it permeates the organization in entirety; and serves as a two way communication system. It is equally designed to meet the needs of the entity and the public sector entities in Ghana are no exceptions. It as well provides a means to meet stewardship or agency responsibilities. As such, the public sector institutional and organizational structure must provide a conduit for planning, coordinating and controlling operations.

Furthermore, in the words of Arens et al (2006a), the control measures cannot be effective and efficient without management and employees commitment to integrity and competency. In their opinion, there must be conscious efforts towards management of human resource policies in order to ensure that competent people are employed to handle various control activities within the organization. They again pointed out that since internal control is designed by management and subsequently it is the people who operates the internal control system of the organization, management typically has three broad objectives in designing an effective internal control system as; reliability of financial reporting, efficiency and effectiveness of operations and compliance with laws and regulations. It thus stands to reason that internal control does not function in a vacuum; it must operate within a certain context, follow certain laid down procedures and be consistent with applicable laws and regulations.

Consequently, the Ghana National Auditing Standards and the Internal Audit Agency Act 2003 (Act 658) defines internal control system as comprising the control environment and control

procedures and the plans of an organization and all the methods and procedures adopted by management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the prevention and detection of fraud and, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information. In their opinion the system of internal control extends beyond those matters which relate directly to the functions of the accounting system. As such controls generally apply to the environment in which internal controls are carried out and that organizations do not exist in isolation they operate in an environment which influences their operations; that there are external and internal factors inherent in the environment that inhibit the entity's operations. External factors such as legal, political, economic, socio-cultural, technological and ecological influence the entity's operations. Also internal factors in the form of management leadership style and organizational structure of the entity affect its operation.

In this regard internal control systems do not involve the control activities only but also the environment in which the activities are carried out so the preparation of the financial statements must be in accordance with accounting and auditing standards. It is essential to ensure that the control environment is enhanced with free flow of information and communication at all levels of the organization to ensure that each member of the organization is aware of the development at each level of the entity and to determine as quick and practicable as possible who is directly responsible for any act or omissions.

Finally, internal control in the view of the researcher is an interdependent, interrelated and integrated system designed and established by an entity's management in carrying out its activities to safeguard assets, ensure reliability of financial reporting and compliance with laws and regulations, towards the attainment of the overall goals and objectives of the entity.

From the discussions above it can be deduced that internal control is an essential tool for ensuring proper and efficient utilization of resources, and that its application and operation affect the entire organization so when properly designed, implemented and monitored would ensure attainment of organizational objectives.

### 2.3 Components and Structure of Internal Controls

The COSO (1992); integrated framework identified and outlines five interrelated components of internal controls that must be integrated within the management process in carrying out the entity's activities.

This work by COSO (1992), has been quoted and corroborated by various other authorities such as KPMG (1999), INTOSAI (2001), IIA (2003), AICPA (2009), Ratcliffe & Landes (2009) as well as University of California- CU (2010) and Kansas State University – KSU (2011); just to cite a few has given the affirmation that the integrated framework is a well rounded framework to have evolved and has been widely adopted and in use the world over.

The five components are control environment, risk assessment, control activities, information and communication and monitoring.

- **Control Environment:** The work of COSO and others as cited above found that the control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. To them an effective control environment is an environment where competent people understand their responsibilities, the limits to their authority and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization's policies and procedures and its ethical and behavioral standards. The control environment

encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective control. The control environment as they noted is greatly influenced by the extent to which individuals recognize that they will be held accountable.

- **Risk Assessment:** They further found that every entity faces a variety of risks from external and internal sources that must be assessed. In their opinion the central theme of internal control is: to identify risks to the achievement of an organization's objectives and to do what is necessary to manage those risks. However, in their view a precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment, therefore is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change mechanisms are needed to identify and deal with the special risks associated with change (COSO 1992).

Risk assessment however, in the context of financial reporting is generally associated with the company's ability to record, process, summarize and report financial data. More simply, it can be described as identifying types of potential misstatements and designing controls to prevent or promptly detect those misstatements.

- **Control Activities:** To COSO and the corroborators as cited, control activities are the policies and procedures that help ensure management directives are carried out; and when carried out properly and in a timely manner, manage or reduce risks hence ensuring that necessary actions are taken to address risks towards the achievement of the entity's objectives. They further argued that control activities occur throughout the organization, at all levels and in all functions; and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating

performance, security of assets, segregation of duties and controls over information systems.

- **Information and Communication:** - In their work, they postulate that information and communication is essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Thus pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. In their opinion information system produce reports, containing operation, financial and compliance related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision making and external reporting.
- **Monitoring:** In their work, COSO and the corroborators put forward that monitoring is the assessment of internal control performance overtime and is accomplished by ongoing monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews and internal audits. Thus, internal control systems need to be monitored – a process that assesses the quality of the system's performance overtime. In the words of COSO and the corroborators as cited above; the purpose of monitoring is to determine whether internal control is adequately designed, properly executed and effective; and that it is adequately designed and properly executed if all five internal control components are present and functioning as designed.

According to COSO and the corroborators, there is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions; and that the entity's operating activities exists for fundamental business reasons. They further

argued that internal control is most effective when controls are build into the entity's infrastructure and are part of the essence of the enterprise since "built in" controls support quality and empowerment of initiatives, avoid unnecessary costs and enable quick response to changing conditions.

## 2.4 Types of Internal Control and Control Activities

According to COSO (1992), SAS 300 (1995) as well as the IIA (2003); there are three key types of controls that any auditor should consider; namely preventive controls, detective controls and corrective controls.

### 2.4.1 Types of Controls

- **Preventive Controls:** - COSO (1992), SAS 300 (1995) and the IIA (2003) found that these are the controls that prevent risks from occurring. For instance authorization controls should prevent fraudulent or erroneous transactions from taking place. In their opinion other preventive controls include segregation of duties, recruiting and training the right caliber of staff and having an effective control culture.
- **Detective Controls:** In their view detective controls are controls that detect if any problems have occurred; and are designed to pick up errors that have not been prevented. These could be exceptions reports that reveal that controls have been circumvented for example, large amounts paid without being authorized. Other examples could include reconciliations, supervision and internal checks.
- **Corrective Controls:** They further postulate that corrective controls are the controls that address any problems that have occurred; hence where problems are identified; the controls ensure that they are properly rectified. Examples include follow up procedures and management action.

In the opinion of COSO (1992), SAS 300 (1995) and the IIA (2003); the most powerful type of control is preventive and that it is more effective to have a control that stops problems from occurring rather than to detect or correct them; once they have occurred. As such there is always a possibility that it will be too late to sort out the problem.

#### 2.4.2 Control Activities

According to COSO (1992); cited by Ratcliffe and Landes (2009), internal control activities are designed to provide reasonable assurance that particular objectives are achieved and/or specific activities are undertaken, or related progress understood. In their opinion, internal controls may be categorized in terms of: (a) the objective they pertain to; and (b) the nature of the control activity itself.

##### (a) Objective Categorization

In their view, control objectives fall under the following categories:

- **Existence (validity):** Only valid or authorized transactions are processed (i.e.; no invalid transactions).
- **Occurrence (cut off):** Transactions occurred during the correct period or were processed timely.
- **Completeness:** All transactions are processed and that there should be no omissions.
- **Valuation:** Transactions are calculated using an appropriate methodology or are computationally accurate.
- **Rights and Obligations:** Assets represent the rights of the entity, and liabilities its obligations, as of a given date.
- **Presentation and Disclosure (classification):** Components of financial statements (or other reports) are properly classified (by type or account) and described.

- **Reasonableness:** Transactions or results appear reasonable relative to other data or trends.

**(b) Activity Categorization**

They further stated that control activities may also be explained by the type or nature of activity which include:

- **Organization:** A well defined organizational structure showing how responsibility and authority are structured.
- **Segregation of Duties:** Separating authorization, custody and record keeping roles to avoid fraud or error.
- **Physical safeguards and controls:** Keeping custody of assets and records, and making sure that access to assets and records is only permitted to authorized persons.
- **Authorization and Approval:** All transactions require authorization and approval by a responsible person and limits on authorizations should be set down in writing.
- **Arithmetical Accounting and Documentation:** Checking the arithmetical accuracy of records such as control accounts and reconciliations as well as maintaining documentation to substantiate transactions.
- **Personnel:** Proper functioning of the system depends on employment of competent and well motivated personnel who possess the requisite skills and know how.
- **Supervision:** There must be in existence a good supervisory procedures and constant review of ongoing operational activities by management to make the system work.
- **Top-Level Reviews:** There must be regular management review of reports; comparing actual performance to goals, and established objectives as well as other key performance indicators (KPIs).

## 2.5 Reliability of Financial Reporting

The term reliability, as used with financial reporting objectives, involves the preparation of financial statements that are fairly presented in conformity with the applicable financial reporting framework such as generally accepted accounting principles (GAAP); used by management (COSO, 1992; IIA, 2006; AICPA, 2009; and Ratcliffe and Landes, 2009).

Therefore, a system of internal control over financial reporting includes the design and implementation of those policies and procedures deemed necessary by management to provide reasonable assurance that the entity's financial statements are fairly presented in accordance with the basis of accounting chosen by management (COSO 1992; Ratcliffe and Landes 2009).

According to them, controls are those specific policies and procedures designed and implemented to prevent or detect and correct misstatements that, if not prevented or corrected, would cause the financial statements not to be fairly presented.

Ratcliffe and Landes (2009); postulates that fair presentation refers to among other things the following:

- The accounting principles selected and applied have general acceptance.
- The accounting principles are appropriate in the circumstances.
- The financial statements are informative of matters that may affect their use, understanding, and interpretation.
- The information presented is classified and summarized in a reasonable manner (i.e. it is neither too detailed nor too condensed).
- The financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows within a range of acceptable limits (i.e. limits that are reasonable and practical to attain in financial statements).

As such the critical assessment of assertions in the financial statements prepared by management is an efficient measure of internal control systems but not an end in itself.

Therefore, management of any public sector organization such as GES, Adaklu-Anyigbe, has both legal and professional responsibility to ensure that information contained in the financial statement is fairly presented in accordance with financial reporting standards; hence the objective of internal control over financial reporting is a responsibility of management of an entity.

However, internal control over financial reporting according to Lander (2004) is a process designed by the supervisory section of an entity's principal executives and principal financial officers and implemented by the entity's board of directors, management and the personnel to provide reasonable assurance for reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP.

It is therefore essential to note that there are clear rules and procedures to comply with in the preparation of financial statements of an entity so as to meet acceptable standards. As such for financial statements to be reliable there must be effective internal controls over financial reporting as regards recording of transactions, responsibility, approval and authority for the preparation of the entity's financial statements.

Besides, according to Ghana National Auditing Standards, section 8; an accounting system supplemented by effective internal controls can provide management with reasonable assurance that assets are safeguarded from unauthorized use or disposition and those financial records are reliable to permit the presentation of good financial information.

In the same vein, Miliichamp (2000c) put forward the following key measures to be adhered to by an entity to ensure effective and reliable financial reporting:

- An appropriate and integrated system of accounts and records;
- Financial supervision and control by management including budgetary control;
- Management accounting reports and interim accounts safeguarding;
- Instituting training and allocating specific duties to staff, which are capable of fulfilling their responsibilities and deliver quality.

Therefore, it is essential that organizations establish an effective and efficient internal control system in order to achieve the goals of good financial reporting. However, to ensure effective and efficient financial reports, management must make sure that accounting standards and procedures are complied with in the recording of transactions, as well as preparation and presentation of financial statements in accordance with specified standards.

## **2.6 Effectiveness and Efficiency of Internal Control**

Controls within an entity are effort meant to ensure effective and efficient use of resources to maximize the goals of the entity. Besides, control measures in most public sector organizations seem not to be effective and efficient. As such widely reported internal control weaknesses exist in most public sector organizations in Ghana, hence resulting in misuse, mismanagement, misstatement and misappropriation of financial resources allocated to them. However, to ensure effectiveness and efficiency of internal controls in public sector organizations in Ghana call for the establishment of an internal audit unit within every public sector organization in Ghana by the passage of the Internal Audit Agency Act 2003 (Act 658); to strengthen and ensure accuracy as well as reduce the inaccuracies.

Besides, according to COSO (1992); and cited by Chambers (2009), effective and efficient internal control gives reasonable assurance, though not a guarantee, that all business objectives will be achieved; it extends much beyond the aim of ensuring that financial reports are reliable, and includes the efficient achievement of operational objectives and ensuring that laws, regulations, policies, and contractual obligations are complied with. They further argued that more effective and efficient internal control does not necessarily cost more; aside from reducing costly risks of avoidable losses and business failures, it is often no more costly to organize business activities in a manner that optimize control, and as such better internal controls would enable an entity to engage safely in more profitable activities that would be too risky for a competitor without those controls.

COSO (1992), and cited by Chambers (2011); point out that there are certain general hallmarks that ensure effective and efficient system of internal control that controls:

- Are designed to meet objectives which are clear;
- Have regards to competitive issues;
- Enable and ensure that performance is measured;
- Result in unsatisfactory performance being rectified;
- Ensure that activities are completed in a timely manner;
- Are cost effective;
- Are placed as early in the process as is practical, so that thereafter there is no control;
- Are “preventive” rather than merely “permissive”;
- Have no more movements, or steps than are necessary.

In the opinion of COSO and Chambers, although similar requirements exist in many countries, the principal driver for implementing effective and efficient internal controls system should be the enlightened self interest of the entity.

Therefore, there are a host of essential key elements that must be viewed to be functioning effectively and efficiently before internal control system in any public sector organization in Ghana can attain its stated goals and objectives.

## **2.7 Design of Internal Controls**

The designed and development of any entity's strategies, policies and procedures are normally done by management in conjunction with the board of directors of the entity. As required by law and regulations governing the public sector organizations in Ghana, management is entrusted with the responsibility to over see the internal control systems in the organization. Therefore, the design of internal control system is a management responsibility so as to ensure effective operation and protection of resources allocated to the entity. Management as a body also has the utmost responsibility to test and assess the effectiveness and efficiency of the internal controls as well as safeguarding the assets of the entity. Besides, to ensure efficiency in the utilization of resources, internal control system must be designed in such a manner to prevent, detect fraud and error in the recording of transactions in the accounting records.

According to the Sarbanes – Oxley Act (2002), as cited by Leitch (2003); corporate governance regulations requested that directors are responsible for “designing” internal controls; and that the CEO and CFO must certify, among other things, that they have designed the internal controls to achieve various objectives of the entity. There is also a need to be able to report on any significant changes to internal controls or other factors that could significantly affect internal controls (Leitch 2003).

In other words, Arens et al (2006e) state that as part of design assessments, management must evaluate information about how significant transactions are initiated, authorized, recorded,

processed and reported to identify points in the flow of transactions where material misstatements due to error or fraud could occur. As such, management must determine whether existing controls are effective and efficient so as to safeguard against any internal control weaknesses or lapses in the accounting system.

However, the COSO internal control integrated framework outlines five essential components of design characteristics which must be present in any internal control system:

- The control environment: Values and culture, tone at the top; policies, organizational structure.
- Risk Assessment: Identification, measurement and responses to threats.
- Control Activities: Procedures followed for a control purpose.
- Information and communication: Reliability, timeliness, clarity, usefulness.
- Monitoring: Review of internal control arrangements.

Consequently, Ricchute (2001d); states that to obtain accurate and reliable accounting data, transactions must be recorded promptly in the accounting periods and in dollar amounts actually executed, and classified properly in subsidiary and control accounts, exhibited and facilitated by the design.

Besides, the argument continues that those control measures in most public sector organizations in Ghana appear not to be working and/or reflect the true operations of the entities, hence the internal control weaknesses frequently reported in the Auditor General's report has become an annual ritual.

## **2.8 Internal Control System and the Public Sector**

As stated earlier, internal control system forms an integral component of an entity's efforts to attaining its goals and objectives. The public sector unlike the private sector consist of non-profit making organizations aimed at providing and satisfying the social needs – education, health, welfare, etc; of the populace.

In that vain, the activities of the public officials are curtailed by laws and regulations; thus no action can be taken and/or no activity carried out in an absurd manner without recourse to the rules and regulations. It can however be contended that, on several occasions these laws and regulations are flouted with impunity; hence the need to examine the operational efficiency of these public sector entities in Ghana so as to design innovative ways of ensuring workable internal control structures.

Besides, the Internal Audit Agency Act 2003 (Act 658) requires that every public establishment such as Ministries, Department Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) have an established and workable Internal Audit Unit to constitute part of their operations; so as to check and/or avert the inaccuracies, mismanagement, misappropriations and the misstatements as well as to prevent fraud and errors from occurring; to ensure effective and efficient use of resources allocated for their core functions. But in spite of this requirement the situation seems to persist and has become something like a social canker bedeviling the public sector in Ghana (Public Accounts Committee of Parliament, 2008).

## **2.9 Compliance with Laws and Regulations**

It is a well known fact that society cannot exist in a vacuum likewise an organization can also

not exist in isolation. As such every institution or establishment throughout the world is guided by a set of laws, rules and regulations to streamline their operations so as to ensure sanity and effectiveness.

According to section 404 of the Securities and Exchange Commission Act of the USA and stated in Arens et al (2006d) all public companies are required to issue a report about the operating effectiveness of their internal control; and follow specific laws and regulations in their operations to ensure efficient control over the use of resources.

Similarly, in Ghana there are laws and regulations prescribing the ways in which public sector organizations as those in the private sector should operate so as to enforce compliance and ensure effectiveness of their operations. Some of these are the Ghana National Auditing Standards, the Internal Audit Agency Act 2003 (Act 658), among others are meant to ensure effectiveness and bring sanity to the operations of organizations in Ghana.

For instance, in Ghana, the Financial Administration Act and the other regulations relating to the public sector such as the 1992 Constitution, Audit Service Act, 2000 and Financial Administration Regulations; provides that at the expiration of an accounting year, entities prepare accounts up to date and submit for audit purposes. It is required of the auditor to attest to and issue a report on the financial statement as well as management's assessment of internal controls. Thus to express an opinion on internal controls, the auditor must obtain an understanding of and perform test of controls related to all significant account balances, classes of transactions, disclosures and related assertions in the financial statement.

Also, the Internal Audit Agency Act requires that every public sector organization in Ghana

should institute an internal audit unit within the MDAs and MMDAs to strengthen the internal controls and prevent fraud and error, and check inaccuracies. But the question still remain are these laws and regulations being complied with if the Auditor General's report as stated earlier on public accounts is anything to go by?

## **2.10 Roles and responsibilities in Internal Controls**

According to the COSO Integrated Framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to affect control. It further stated that all personnel should be responsible for communicating upward problems in operations, non-compliance with code of conduct, or other policy violations or illegal actions.

Besides, in the words of COSO (1992), each major entity in corporate governance has a particular role to play as follows:

**Management:** It is asserted that the Chief Executive Officer (CEO) – the top manager, of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the CEO sets the “tone at the top” that affects integrity and ethics and other factors of a positive control environment. In the opinion of COSO, the CEO fulfills this duty in providing leadership and direction to senior managers and reviewing the way they are controlling the business or the entity as a whole. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the Unit's functions.

**Board of Directors:** COSO (1992) asserted that management is accountable to the board of directors (BOD), which provides governance, guidance and oversight. It further argued that

effective board members are objective, capable and inquisitive; and have knowledge of the entity's activities and environment and commit the time necessary to fulfill their responsibilities.

In COSO's view management may be in a position to override and ignore or stifle communications from subordinates enabling a dishonest management which intentionally misrepresent results to cover its tract. It asserted that, a strong, active BOD particularly when coupled with effective upward communication channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

**Auditors:** To COSO, both internal and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control.

From the above discussion, it is established clearly that everyone within the organization has a role to play in ensuring effective and efficient internal controls in order to achieve the optimal objective of the entity.

### **2.11 Limitations of Internal Controls**

According to COSO (1992) and cited in INTOSAI (2001); an internal control system, no matter how well conceived, designed and operated, can provide only reasonable – not absolute – assurance to management and the board regarding achievement of an entity's objectives. They postulate that the likelihood of achievement is affected by limitations.

These include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people and also management has the ability to override the system.

Another limiting factor is that the design of an internal control system must reflect the fact that there are resource constraints, and benefits of controls must be considered relative to their cost.

Furthermore, whether an organization achieves operation and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation which may either facilitate or inhibit activities of the organization. These factors in their view are outside the scope of internal control; therefore, effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives, but cannot guarantee their achievements.

Besides, organizational changes and management attitude can also have a profound impact on the effectiveness of internal control and the personnel operating the system. As such management needs to continually review and update controls, communicate changes to personnel, and set example by adhering to those controls.

More so, there is no such thing as a perfect control; and staff size limitations may obstruct efforts to properly segregate duties, which may require the implementation of compensating controls to ensure that objectives are achieved. Thus, limitations inherent in any system are the element of human error, misunderstanding, and fatigue and stress (COSO 1992; INTOSAI 2001).

Notwithstanding the inherent limitations, when the internal control is designed and operated in an effective and efficient manner, it will enhance the performance of public sector organizations in general; and more specifically, GES, Adaklu-Anyigbe and ensure optimal attainment of goals and objectives.

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## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The issues dealt with under the methodology of the study are: the description of the study area, the research design, study population, sampling procedures, sampling techniques, sources and instruments of data collection, fieldwork, presentation and analysis of data.

#### 3.2 Background of the Case Study Organizations

Adaklu-Anyigbe District is the study area of this research. The district is one of the newly created districts in the country. It was carved out of the former Ho District, now Ho Municipal. As enshrined in the 1992 constitution of the Republic of Ghana; article 240 clause one (1) established the District Assemblies as part of Ghana's New Local Government Structure. As such the Adaklu-Anyigbe District was created by an Act of Parliament; Local Government Act: 1993 (Act 462); Legislative Instrument (LI. 1741) on 18<sup>th</sup> August 2005; to bring to the fore the quest of the Government to ensure equity in development across the country. The vision of the Adaklu-Anyigbe District is that "it exists to ensure a peaceful and industrialized district; a compact, cost effective, sensitive and well motivated, performance oriented organization, delivering value for money services and contributing to community development of the district". The mission statement that guides its operations as a District Assembly is that 'it exists to ensure that lives of the citizenry in the District improved through harnessing of both human and material resources, thereby creating an enabling environment for networking and collaborating with Local and Foreign Development Partners for total upliftment of the district'. (Annual Performance Report, Adaklu-Anyigbe District Assembly, 2010).

The District Assembly is made up of 22 decentralized departments and agencies of which the District Education Directorate is one. However, according to the 1992 Fourth Republican Constitution of Ghana, the New Local Government System Act 1993 (Act 462), National Development Planning Commission Act. (Act 476) and the Development Planning System Act. 1994 (Act. 480), the District Assembly is the highest Political and Administrative Authority as well as highest policy making body in the district. As such most of the funds allocated to the decentralized departments and agencies; and the subsequent expenditure on any activities to be undertaken by these departments and agencies must be approved and authorized by the District Assembly hence its inclusion in the study.

### **3.3 The Research Design**

A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme or program of the research which includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data (Kerlinger 1986); cited by (Kumar 2005).

In their opinion a cross-sectional study is extremely simple in design- you decide what you want to find out, identify the study population, select a sample (if you need to) and contact your respondents to find out the required information.

### **3.4 The Study Population**

The study population is made up of both the staff at the Adaklu-Anyigbe District Assembly and the Ghana Education Service District Directorate, Adaklu-Anyigbe. The District Assembly is made up of a total staff strength of 33, whiles GES, Adaklu-Anyigbe, is made up of staff strength of about 52 out of supposed establish post of 62. However, it is not the entire

populations of both the District Assembly and the GES District Directorate are needed for the study. The population which is most relevant to the study comprises three categories of staff at both the District Assembly and the GES District Directorate; namely Accounting and/or Treasury Department, Internal Audit and Management.

### **3.5 Sampling Procedure and Techniques**

For the research findings to have a strong internal validity, the sample size excluded staff whose views on the topic under study might not be useful. As a result non-probability sampling procedure was employed. According to (Patton, 2002) and cited in Saunders et al (2007), non-probability sampling refers to a process whereby, the selected sample is not representative of the population because the units in the population are not given equal chances of being included in the sample. In the words of Kumar (2005); non-probability sampling designs are used when the number of elements in a population are either unknown or cannot be individually identified and/or the selection of elements is dependent upon other considerations. Thus in their opinion, it is the selection of sampling techniques in which the chance or probability of each case being selected is not known.

These sample population was therefore limited to three categories of staff: the Accounting staff, Internal Audit staff and Management.

The researcher used the quota and purposive or judgmental sampling techniques. The quota sampling was used because the researcher wants to ensure that the different characteristics of the elements or units selected are represented in the sample in the same proportion as in the population. In addition, purposive or judgmental sampling was used because the researcher thinks that those selected are the key individuals who can provide the required information for the study.

## Sampling Schedule

No.	Category of Staff	GES-Dist. Directorate		District Assembly	
		Sample size	%	Sample size	%
1	Accounting	5	34	5	28
2	Internal Audit	2	13	1	6
3	Management	8	53	12	66
4	<b>Total</b>	<b>15</b>	<b>100</b>	<b>18</b>	<b>100</b>

In the words of Kumar (2005), sampling is the process of selecting a few from a bigger group to become the basis for estimating or predicting the prevalence of an unknown piece of information, situation or outcome regarding the bigger group. Thus a sample is a subgroup of the population you are interested in. In other words, sampling is the process of examining a representative number of units or elements out of a whole population.

However, there are two main types of sampling techniques, namely; probability sampling and non-probability sampling. In probability sampling each and every unit within the population had an equal chance of being selected.

The various types of probability sampling include; simple random sampling, stratified sampling, systematic sampling and cluster sampling. This study however employed the non-probability sampling technique in which quota and purposive sampling were adopted in carrying out the study. In quota sampling the items or units or elements are selected so that the different characteristics are represented in the sample in the same proportion as in the population. Quota sampling is therefore based on knowledge of the major characteristics of the population to be sampled as well as the characteristics that are most relevant to the study. On

the other hand, purposive sampling is the process of selecting the sample based on the researcher's judgment that those chosen are the key individuals who can provide the required information for the study.

### **3.6 Sources and Instruments of Data Collection.**

Data for the study was collected from both secondary and primary sources while data collection instruments such as questionnaire and interviews were also used.

*Secondary Data:* Relevant literature on internal control as a tool for financial management in the public sector was reviewed. Materials relevant for the review were drawn from sources such as books, journals, articles, reports and publications, and the internet.

*Primary data:* Questionnaire was the main instrument employed in gathering primary data. The researcher adopted closed-ended and open-ended questions in soliciting information from the respondents to facilitate analysis of data. Open-ended questions gave opportunity to respondents to freely express their opinions and ideas on the topic under study.

*Interviewing:* It is the process of collecting data through direct interaction between the researcher and the respondent, from whom the information is being sought. In this regard, personal interviews were conducted with respondents, especially management, who were tasked with the responsibility of designing, implementing, maintaining and monitoring the internal control system in the public institutions such as the Ghana Education Service, Adaklu-Anyigbe District.

### **3.7 The Fieldwork**

The fieldwork took about one and half month to accomplish. After the design of the questionnaire, test run was conducted; and problems or difficulties identified during the test run were used to fine tune the final questionnaire administered. The questionnaires were administered solely by the researcher without engaging the services of research assistants. The

researcher did this due to financial constraints, because using research assistant calls for extra financial commitment as the assistant needs to be paid a token for his/her services.

### **3.8 Data Analysis and Presentation**

The data collected and collated from various sources using various data collection instruments were analyzed from both quantitative and qualitative point of view. Statistical tools such as frequency distribution tables, bar and pie charts were used in analyzing the questionnaire while the responses from interviews were presented in qualitative form.



## CHAPTER FOUR

### PRESENTATION AND ANALYSIS OF DATA

#### 4.1 Introduction

This section of the study deals with the presentation and analysis of data and the discussion of the findings based on the research questions, both main and specific deduced from the statement of the problem.

#### 4.2 Biographic Data of Respondents

Table 4.1 Gender of Respondents

GES – DISTRICT DIRECTORATE			DISTRICT ASSEMBLY	
Gender	Frequency	Percent	Frequency	Percent
Male	11	73.3	17	94.4
Female	4	26.7	1	5.6
<b>Total</b>	<b>15</b>	<b>100</b>	<b>18</b>	<b>100</b>

Source: Field Data, May 2011

Gender of respondents: The sample size of the study is 33 of which 45.5% (15) constituted GES District Directorate while 54.5% (18) represented District Assembly, Adaklu Anyigbe. Out of which 15 respondents interviewed; 73.4% percent (11) were males and 26.7% represented females (4) from the GES District Directorate. The table also indicated that 94.4% (17) of the respondents were males whilst 5.6% (1) representing females from the District Assembly; as shown in Table 4.1 above.

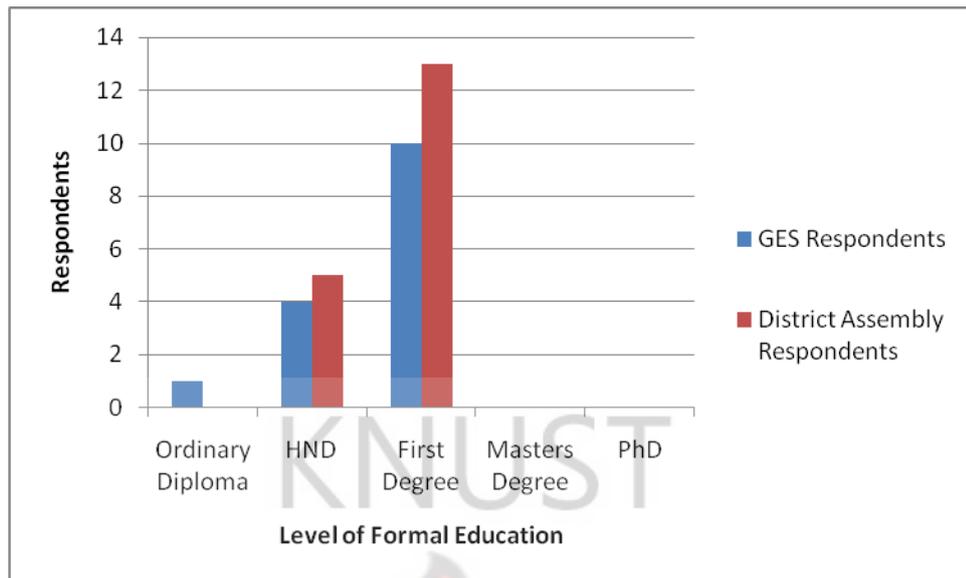
Table 4.2 Age Group of Respondents

GES, DISTRICT DIRECTORATE			DISTRICT ASSEMBLY	
Age Group	Frequency	Percent	Frequency	percent
21 – 30	0	0.0	1	5.6
31 – 40	3	20.00	6	33.3
41 – 50	7	46.7	8	44.4
51 and above	5	33.3	3	16.7
Total	15	100	18	100

Source: Field Data, May 2011

Age Group of Respondents: On the classification of age group, it was realized that 46.7% and 44.4% of the respondents constituted majority of staff in the 41 – 50 age group bracket in both GES and the District Assembly. The table also reveals that 33.3% and 16.7% respectively represented the staffs that are above 51 years in both GES and the District Assembly whilst those who are between 31 – 40 age groups constituted 20% and 33.3% respectively; as per Table 4.2 above

Figure 4.1 Multiple Bar Charts on the level of Formal Education of Respondents



Source: Field Data, May 2011

Level of Formal Education: From the figure 4.1 above, with respect to level of education, 1<sup>st</sup> degree holders constituted the majority for both the GES and the District Assembly, with that of GES representing 66.6% while that of District Assembly 72.2%. The figure reveals that HND holders represented 26.7% and 27.8% respectively in both GES and the District Assembly. From the figure the two institutions did not have personnel with Masters Degree let alone a PhD (x x; refer to Figure 4.1 above). Also refer to Table 1 at Appendix B.

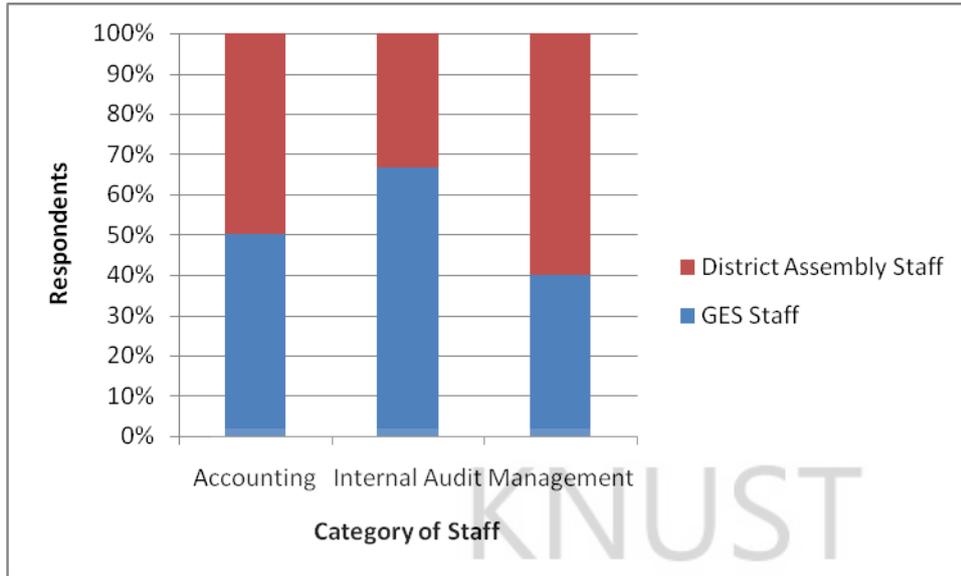
Table 4.3 Length of Service of Respondents

Length of service (yrs)	GES District Directorate		District Assembly	
	Frequency	Percent	Frequency	percent
1 – 5	0	0.0	4	22.2
6 – 10	0	0.0	7	38.9
11 – 15	8	53.3	0	0.0
16 – 20	0	0.0	4	22.2
Above 20	7	46.7	3	16.7
Total	15	100	18	100

Source: Field Data, May 2011

Length of Service of Respondents: With regard to the length of service within GES, 53.3% of the respondents have been in the service for about 15 years and those who have served above 20 years represented 46.7%. It became obvious from the table that at the District Assembly, those who served from 1 year to 10 years represented 38.9%, 22.2% represented staff who served 1 to 5 years and 16 to 20 years respectively, whilst those who served above 20 years constituted 16.7%

Figure 4.2 Percentage Components Bar Chart on Staff Categorization of Respondents.



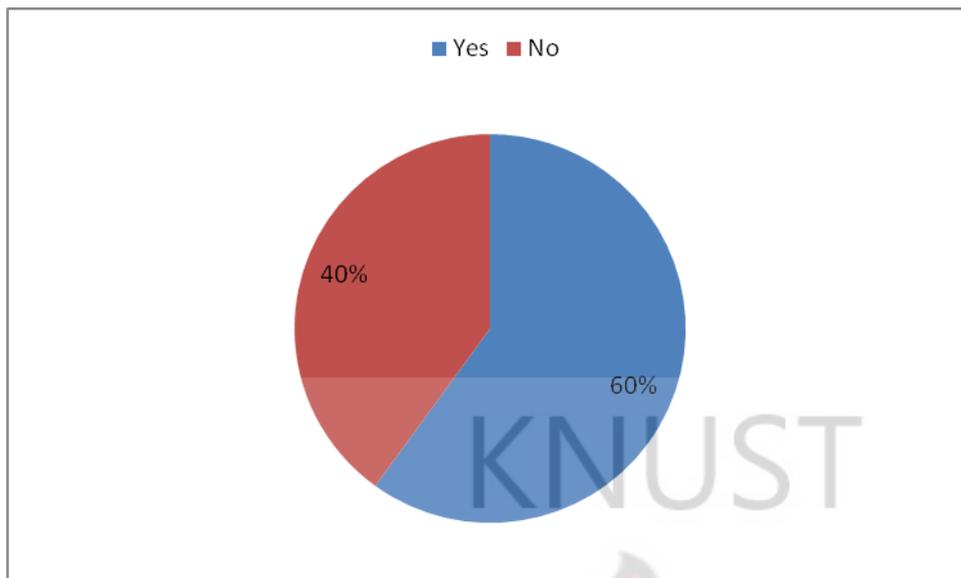
Source: Field Data, May 201

Staff Categorization of Respondents: The figure above indicates that in terms of staff categorization, 50% of the respondents in both GES and District Assembly constituted Accounting staff. For Internal Audit, GES represented 66.7% whilst District Assembly constituted 33.3%. The figure further reveals that 60% and 40% of the staff respectively are in the area of management in both the District Assembly and GES. Refer to Table 2 at Appendix B.

### 4.3 Appreciation of COSO Integrated Framework

The COSO integrated framework was the work done by the Treadway Commission after some corporate failures in the US which recorded some huge losses and the collapse of some major companies as a result of lax internal controls which calls for corporate reforms. The Treadway Commission was established to develop a framework of internal controls which would help strengthened financial management and protect the interest of investors. Since 1992 when the Commission completed and submitted its report the framework has become widely accepted and in use in the US and other countries in the world.

Figure 4.3: Pie Chart on the Level of Awareness by Respondents on COSO Integrated Framework



Source: Field Data, May 2011

On the level of awareness by the respondents on COSO integrated framework of internal control, out of 15 respondents, 9 respondents representing 216<sup>0</sup> (60%) indicate an awareness of the COSO integrated framework, whilst 6 representing 144<sup>0</sup> (40%) had no knowledge of the COSO integrated framework. Refer to Table 3 at Appendix B.

#### 4.4 The Meaning of Internal Control

The researcher attempt to find out from the respondents what they understand internal control to mean and the result is presented below.

Table 4.4 Respondents' View on the Meaning of Internal Control System

Meaning of internal control	Frequency	Percent
A whole system of control for safeguarding the assets of the organization and prevention and detection of fraud and error	12	80.0
Established processes, procedures, rules and regulations by management	2	13.2
Ensure smooth running of an entity to achieve objectives	1	6.7
Total	15	100

Source: Field Data, May 2011

It is obvious from the Table 4.4 above that majority of the respondents in GES (80.0%) indicated that internal control system refers to a whole system of control for safeguarding the assets prevention and detection of fraud and error of an entity. 13.3% are of the opinion that it involves established processes, procedures, rules and regulations by management; whilst 6.7% of the staff held the view that it ensures the smooth running of an organization so as to achieve objectives. This clearly indicates that all the respondents have knowledge of what they understand internal control to mean.

#### 4.5 Internal Controls Instituted by GES, Adaklu-Anyigbe over the Years

Table 4.5 Respondents' View on Established Internal Controls in GES over the years.

Controls
Segregation of duties
Proper authorization and approval
Physical safeguards and control
Proper documentation
Arithmetical Accounting and Accuracy

Source: Field Data, May 2011

With regard to the view on the established internal controls in the GES, all the 15 respondents stated the controls in Table 4.5 above as those established in the GES over the years.

#### 4.6 Responsibility of Establishing Internal Controls in GES, Adaklu-Anyigbe

Table 4.6 Respondents' View on the Entity Responsible for Establishing Internal Control systems.

Entity	Frequency	Percent
Management	13	86.7
Government	2	13.3
Specialized Agency	0	0.0
Others	0	0.0
Total	15	100

Source: Field Data, May 2011

With respect to the entity responsible for establishing internal control system, 86.7% of the respondents revealed that it is the sole responsibility of management in establishing internal controls, whilst 13.3% were of the view that government has responsibility. Also respondents stated that there is no specialized agency mandated to establish internal controls.

Table 4.7 Respondents' Opinion on the Working Document for Internal Auditors

Working document	Frequency	Percent
Procedural Manual	12	80.0
Activity Manual	0	0.00
Others	3	20.00
Total	15	100

Source: Field Data, May 2011

With respect to the working documents for internal auditors, 80% of the respondents indicated that procedural manual is what internal auditors use to effectively and efficiently carry out their obligations, whilst 20% of the respondents stated that other documents such as the Internal Audit Agency Act is also used to perform their operations.

#### **4.7 Effectiveness and Efficiency of Internal Controls**

To ensure effectiveness and efficiency of internal controls certain processes and procedures have to be in place in an entity. However, they are not just put in place but must be seen to be working in every facet of the entity.

#### 4.7.1 Ingredients in the Design of Internal Controls

To be effective and efficient there are certain ingredients as prescribed by COSO (1992) that are expected to be present in the design of internal controls; and this the researcher sought the view of respondents on.

Table 4.8 Respondents' Extent of Agreement on the Ingredients that ensure Effective and Efficient Internal Controls.

Ingredients of controls	SA	%	A	%	U	%	D	%	SD	%	T
Are designed to meet objectives which are clear.	13	86.7	2	13.3	0	0.0	0	0.0	0	0.0	100
Have regards to competitive issues.	1	6.7	10	66.7	3	20.0	1	6.7	0	0.0	100
Enable and ensure that performance is measured.	6	40.0	7	46.7	1	6.7	1	6.7	0	0.0	100
Result of unsatisfactory performance being rectified.	3	20.0	10	66.7	2	13.3	0	0.0	0	0.0	100
Ensures that activities are completed in a timely manner.	10	66.7	5	33.3	0	0.0	0	0.0	0	0.0	100
Are cost efficient	10	66.7	5	33.3	0	0.0	0	0.0	0	0.0	100
Are 'preventive' rather than merely 'permissive'.	10	66.7	4	26.7	1	6.6	0	0.0	0	0.0	100
Are placed as early in the process as is practicable, so that thereafter there is no control.	0	0.0	3	20.0	2	13.3	9	60.0	1	6.7	100
Have no movements or steps than are necessary.	0	0.0	2	13.3	2	13.3	8	53.4	3	20.0	100
Are the enlightened self interests of the entity.	8	53.3	6	40.0	0	0.0	1	6.7	0	0.0	100

Source: Field Data, May 2011

NB: SA = Strongly Agree A = Agree

U = Undecided

D = Disagree

SD = Strongly Disagree T = Total

On the extent of agreement on the ingredients that ensure effective and efficient internal controls by respondents 78% of respondents strongly agreed that when the above are designed into internal controls it would ensure effectiveness and efficiency whilst 22% agreed as contained in Table 4.8 above.

#### 4.7.2 Lodgment of Funds to Bank

Table 4.9 Respondents' view on how often Funds are sent to Bank

Activity	Frequency	Percent
Daily	15	100
Weekly	0	0.0
Monthly	0	0.0
Total	15	100

Source: Field Data, May 2011

From Table 4.9 above, out of the 15 respondents, 100% thus all the respondents indicated that most often funds for the organization are sent to bank for safe keeping on daily basis.

#### 4.7.3 Documents Accompanying Transactions

Respondents' opinion on Documents that Accompany Transactions

Out of the 15 respondents, all the respondents indicated that documents such as receipts, invoices, payment vouchers and request forms are usually needed to accompany transactions.

#### 4.7.4 Proper Authorization before Payment is Effected

Table 4.10 Respondents' View on Proper Authorization before Payment is Effected.

Extent of Agreement	Frequency	Percent
Strongly Agree	15	100
Agree	0	0.0
Undecided	0	0.0
Disagree	0	0.0
Strongly Disagree	0	0.0
Total	15	100

Source: Field Data, May 2011

With respect to proper authorization before payment is effected, 100% of the respondents indicated that they strongly agreed on the issue as indicated in Table 4.10 above.

#### 4.7.5 Existence of Fixed Assets Register

Table 4.11 Respondents' Opinion on Fixed Asset Register in their Organization

Response	Frequency	Percent
Yes	15	100
No	0	0.0
Total	15	100

Source: Field Data, May 2011

Out of the 15 respondents interviewed on the issue of existence of fixed asset register in an organization, 100% of the respondents are of the opinion that there has to exist a fixed asset

register to record all fixed assets procured. Respondents further revealed that this would have to be updated as and when new assets are purchased and/or disposed off.

#### 4.7.6 Reconciliation of Accounts Balances with the Bank

Table 4.12 Respondents' Opinion on how often an Organization Reconciles it's Accounts Balances with the Bank.

Activity	Frequency	Percent
Daily	1	6.7
Weekly	0	0.0
Monthly	14	93.3
Total	15	100

Source: Field Data, May 2011

One of the basic principles of funds management in an organization is the reconciliation of its accounts balances with that of its bankers and Table 4.12 above clearly portrays this as 93.3% of the respondents revealed that it has to be done on monthly basis whilst 6.7% indicated that it must be done on daily basis.

#### 4.7.7 Establishing Workable Internal Control System

Table 4.13 Respondents' Opinion on the Extent of their Agreement on the Control Activities that constitute Workable Internal Control System to be established to ensure efficient Financial Management.

Control Activities	SA	%	A	%	U	%	D	%	SD	%	T
Existence (validity): Only valid or authorized transactions are processed (i.e. no invalid transactions).	13	86.7	2	13.3	0	0.0	0	0.0	0	0.0	100
Occurrence (cut off): Transactions occurred during the correct period or are processed timely.	9	6.0	6	40.0	0	0.0	0	0.0	0	0.0	100
Completeness: All transactions are processed and that there should be no omissions.	8	53.3	6	40.0	1	6.7	0	0.0	0	0.0	100
Valuation: Transactions are calculated using an appropriate methodology or are computationally accurate.	7	46.7	8	53.3	0	0.0	0	0.0	0	0.0	100
Rights and obligations: Assets represent the rights of the entity and liabilities obligations as of a given date.	9	60.0	5	33.3	1	6.7	0	0.0	0	0.0	100
Presentation and Disclosure (classification): Components of financial statements (or other reports) are properly classified (by type or account) and described.	10	66.7	5	53.3	0	0.0	0	0.0	0	0.0	100
Reasonableness: Transactions or results appear reasonable relative to other data or trends.	4	26.7	10	66.6	1	6.7	0	0.0	0	0.0	100
Organization: A well defined organizational structure showing how responsibility and authority are structured.	13	86.7	2	13.3	0	0.0	0	0.0	0	0.0	100
Segregation of Duties: Separating authorization, custody and record keeping roles to avoid fraud or error.	14	93.3	0	0.0	1	6.7	0	0.0	0	0.0	100

Physical safeguards and controls: Keeping custody of assets and records, and making sure that access to assets and records is only permitted to authorized persons.	13	86.7	1	6.7	1	6.6	0	0.0	0	0.0	100
Authorization and approval: All transactions require authorization and approval by a responsible person and limits on authorization should be set down in writing.	13	86.7	1	6.7	1	6.6	0	0.0	0	0.0	100
Arithmetical Accounting and Documentation: Checking the arithmetical accuracy of records and maintaining documentation to substantiate transaction.	13	86.7	2	13.3	0	0.0	0	0.0	0	0.0	100
Personnel: There must be competent and well motivated personnel who possess the requisite skills and know how to make the system function.	5	33.3	9	66.0	1	6.7	0	0.0	0	0.0	100
Supervision: There must be in existence a good supervisory and monitoring procedures and constant review of on-going operational activities by management to make the system work.	4	26.7	11	73.3	0	0.0	0	0.0	0	0.0	100
Top Level Review: There must be regular review of reports; comparing actual performance to goals, and established objectives as well as other key performance indicators (KPIs)	11	73.3	2	13.3	2	13.4	0	0.00	0	0.00	100

Source: Field Data, May 2011

NB: SA = Strongly Agree

A = Agree

U = Undecided

D=

Disagree

SD = Strongly Disagree

T = Total.

On the issue of respondents extent of agreement on the control activities that constitute a workable internal control system to be established to ensure efficient financial management,

74% of respondents strongly agreed that the above control activities when established ensures efficient financial management, whilst 25% of the respondents agreed to it as indicated in Table 4.13 above.

#### 4.8 Lapses or Weaknesses in Internal Controls

Table 4.14 Respondents view on Audit Query of the Organization

Response	Frequency	Percent
Yes	13	86.7
No	0	0.0
Non response	2	13.3
Total	15	100

Source: Field Data, May 2011

Out of the 15 respondents interviewed on whether audit queries have been issued to their organization, 13 respondents representing 86.7% revealed that there has been audit queries served on their financial statements or practices as a result of certain supporting documents not in place, non-compliance with laws and regulations governing financial accounting, certain procurement not being taken through competitive bidding, non-payment of withholding tax on time and non-retirement of imprest on time. 13.3% represents non-response on the issue of audit queries over the last five years as indicated in Table 4.14 above.

#### 4.9 Views of Respondents from the Adaklu-Anyigbe District Assembly

As indicated in chapter three, some information from the District Assembly is needed to establish some thoughts on the issue of Internal Control as a tool for financial management,

since the decentralized departments such as the GES are under the Assembly. As such funds allocated to them (GES) to undertake certain activities has to be approved and released from the District Assembly. Their views are presented as under:

#### 4.9.1 Authority that Approves Funds to Decentralized Departments

Table 4.15 Respondents' opinion on the Authority that approves Funds to Decentralized Departments.

Authority	Frequency	Percent
District Chief Executive	11	51.1
Treasury/Finance Officer	1	5.6
District Coordinating Director	6	33.3
Total	18	100

Source: Field Data, May 2011

Out of the 18 respondents 11 representing 51.5% are of the opinion that it is the District Chief Executive who approves funds, 6 constituting 33.3% say it is the District Coordinating Director whilst 1 being 5.6% of the respondents is of the opinion that it is the Treasury/Finance Officer as indicated in Table 4.15 above.

#### 4.9.2 Basis for Release of Funds

Table 4.16 Respondents' view on the basis upon which funds are released.

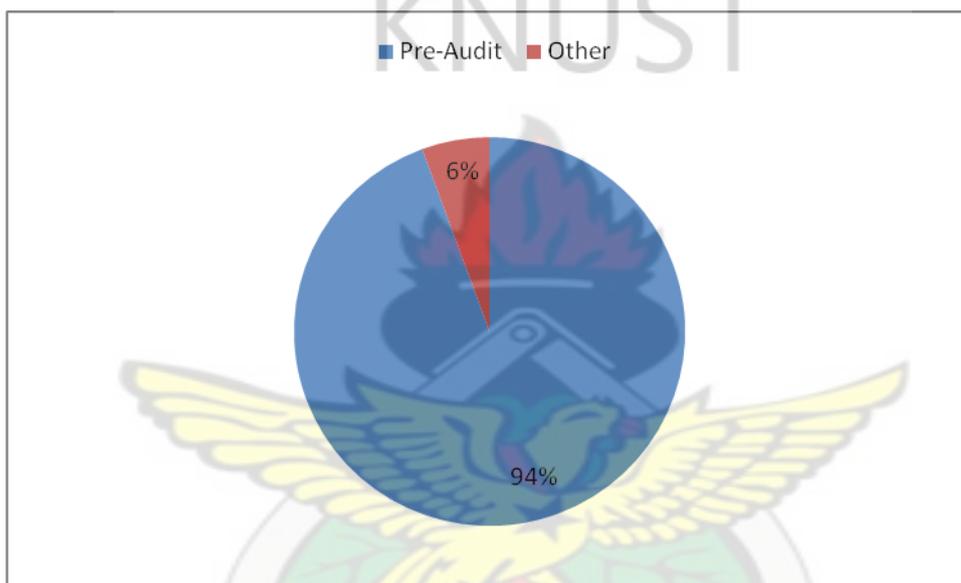
Basis for Release of Funds	Frequency	Percent
Budget estimates	17	94.4
Activity plan	1	5.6
Others	0	0.0
Total	18	100

Source Field Data, May 2011

With regard to the basis upon which funds are released to decentralized departments such as the GES, 17 representing 94.4% of respondents say budget estimates, whilst 1 representing 5.6% states activity plan, as contained in Table 4.16 above.

#### 4.9.3 Checking Arithmetical and Accounting Accuracy

Figure 4.4 Mechanisms put in place to check Arithmetical and Accounting Accuracy in view of Respondents



Source: Field Data, May 2011

Out of the 18 respondents, 17 representing 94% (320°) stated that pre-audit is used to check arithmetical and accounting accuracy; whilst 1, representing 6% (40°) observed that there are other mechanisms. Refer to Table 4 at Appendix B.

#### 4.9.4 Rejection of Requests

Table 4.17 Respondents' View as to whether Requests may be rejected

Response	Frequency	Percent
Yes	17	94.4
No	1	5.6
Total	18	100

Source: Field Data, May 2011

As regards the respondents' view as to whether request for funds may be rejected, 17 representing 94.4% say yes whilst 1 representing 5.6% says no. To those who say yes, they stated that the grounds upon which request may be rejected are: when the request exceeds the funds available or when the request is not captured in the budget and when funds are not available, as indicated in Table 4.17 above.

#### 4.9.5 Monitoring of Activities for which Funds are released

Table 4.18 Respondents' view as to whether activity for which Funds Disbursed are Monitored.

Response	Frequency	Percent
Yes	18	100
No	0	0.0
Total	18	100

Source: Field Data, May 2011

Out of the 18 respondents, all the respondents, presenting 100% say the activity is monitored as indicated in Table 4.18 above. They further indicated that this is done by demanding activity report and returns on the activity performed.

#### 4.9.6 Cross Checking Judicious use of Funds

Table 4.19 Respondents' view on Cross Checking whether Funds Disbursed are used for the specific Activity for which it was released.

Response	Frequency	Percent
Yes	16	88.8
No	2	11.2
Total	18	100

Source: Field Data, May 2011

Of the 18 respondents; 16 representing 88.8% say yes whilst 2, representing 11.2% say no. Those who say yes further pointed out that sometimes anomalies are identified where the funds are vied for other activities which are not in the original plan or some activities are collapsed in favour of others as contained in Table 4.19 above.

#### 4.9.7 Actions taken when Irregularities are identified

Table 4.20 Respondents' view on whether Actions are taken when Irregularities or Inaccuracies are identified.

Response	Frequency	Percent
Yes	17	94.4
No	1	5.6
Total	18	100

Source: Field Data, May 2011

Out of the 18 respondents, 17 representing 94.4% are of the opinion that when irregularities occur actions are taken whilst 1 representing 5.6% say no. Those who say yes further pointed out that appropriate sanctions such as making those found culpable to pay back the amount involved among others are applied.

#### **4.10 Discussion of Findings**

The main research question is: what are the reasons accounting for the persistence of financial irregularities in the public sector? The specific research questions are: what are the specific internal controls instituted and do the internal controls in GES, Adaklu-Anyigbe District complies with the COSO integrated framework? Who are responsible for establishing internal controls in GES, Adaklu-Anyigbe District? What factors are responsible for effective and efficient internal control in GES, Adaklu-Anyigbe District? What needs to be done to establish workable internal control systems to ensure efficient financial management in GES, Adaklu-Anyigbe District? What reasons account for lapses or weaknesses in internal controls in GES, Adaklu-Anyigbe District?

The research questions serve as a guide for the discussion of the findings of the study. As regards the specific internal controls instituted and whether they are consistent with the COSO integrated framework, it was realized that the controls are consistent with the COSO framework and some of the controls include; segregation of duties, proper authorization and approval, physical safeguards and controls, proper documentation and arithmetical accounting and accuracy.

##### **4.10.1 Understanding the Meaning of Internal Controls**

It was evidently clear that most of the respondents have knowledge about the meaning of internal control as 80% of them stated what they understand internal control to mean.

#### **4.10.2 Appreciation of COSO Integrated Framework**

On the issue of the respondents' awareness of COSO integrated framework and whether those established in the GES are consistent with the COSO framework; it was found out that 60% of the respondents are aware and revealed that those established in the GES are consistent with the COSO framework and 40% stated that they are not aware.

#### **4.10.3 Responsibility of Establishing Internal Controls**

As regards the one who is responsible for establishing internal controls in an entity such as the GES, it was found out that 86.7% of the respondents stated that it is management.

#### **4.10.4 Ensuring Effectiveness and Efficiency of Internal Controls**

On the issue of factors that ensure effective and efficient internal controls in the GES, Adaklu-Anyigbe, 78% of respondents agreed that this will apply when controls:

- Are designed to meet objectives which are clear.
- Have regards to competitive issues.
- Enable and ensure that performance is measured.
- Results of unsatisfactory performance are rectified.
- Ensures that activities are completed in a timely manner.
- Are cost efficient.
- Are 'preventive' rather than merely 'permissive'.
- Are placed as early in the process as is practicable.
- Are the enlightened self interests of the entity.

The finding above is in line with the work of COSO (1992); and cited by Chambers (2011); which states that there are certain general hallmarks or ingredients that must be inculcated into the design of internal controls so as to ensure effective and efficient system of internal controls.

Also, it was found out that 80% of the respondents stated that working document of Internal Auditors such as procedural manual must be adhered to and 20% believe that the applicable laws such as the Internal Audit Agency Act among others must be complied with to ensure effectiveness and efficiency of internal controls.

Furthermore, it was found out that 100% of respondents revealed that to ensure effectiveness and efficiency of internal controls, funds of the entity must be sent to the bank daily. They also believe that proper supporting documents such as receipts, invoices, payment vouchers and request forms must always accompany transactions as well as adhering to proper authorization and approval to ensure effectiveness and efficiency.

In addition it was found out that 100% of respondent believe that to ensure effectiveness and efficiency in managing resources, there must exist fixed asset register, and this must be updated regularly as and when new assets are purchased or disposed off.

More so, it was again found out that 93.3% of respondents remarked that the entity must reconcile its accounts balances with the bank monthly to ensure effectiveness and efficiency of resources.

On the other hand, some views were also collected and collated from the Adaklu-Anyigbe District Assembly on measures to ensure effectiveness and efficiency of internal controls in managing resources such as finance as they are directly involved in the approval and release of funds to the decentralized departments such as GES to undertake their activities. The findings are discussed as follows:

In the view of the respondents it was found out that to ensure effectiveness and efficiency; 51.1% and 33.3% of them stated that approval and authorization for release of funds must come from a higher authority at the District Assembly such as the District Chief Executive and the District Coordinating Director respectively. Furthermore, it was found out that 94.4% and 5.6% of respondents believe that the approval and release of funds should be based on what was originally captured in the original budget estimates or activity plan in respect of the activity to be undertaken.

Also, it was found out that 94.4% of respondents stated that request for funds may be rejected if the activity for which the request is being sought is not captured in the budget estimates or activity plan for that period or if the funds are not available.

In addition, it was found out that 100% and 88.8% of the respondents respectively pointed out that the activities for which the funds are released has to be monitored and cross-checked to ensure that funds are judiciously used for the intended purpose to ensure effectiveness and efficiency.

#### **4.10.5 Actions taken when Irregularities are identified**

Furthermore, it was found out that, 94.4% of the respondents revealed that where inaccuracies or irregularities are identified, appropriate sanctions such as making those culpable to pay back the amount involved are applied so as to serve as a deterrent.

#### **4.10.6 Establishing Workable Internal Control Systems**

On the other hand, on the issue of establishing workable internal control systems to ensure efficient financial management, 78% and 26% of respondents respectively strongly agree and

agree that the following control activities will be applicable:

- Existence (validity): only valid or authorized transactions are processed (i.e. no invalid transactions).
- Occurrence (cut off): Transactions occurred during the correct period or are processed timely.
- Completeness: All transactions are processed and that there should be no omissions.
- Valuation: Transactions are calculated using an appropriate methodology or are computationally accurate.
- Rights and Obligations: Assets represent the rights of the entity, and liabilities, obligations, as of a given date.
- Presentation and Disclosure (classification): Components of financial statement (or other reports) are properly classified (by type of accounts) and described.
- Reasonableness: Transactions or results appear reasonable, relative to other data or trends.
- Organization: A well defined organizational structure showing how responsibility and authority are structured.
- Segregation of Duties: Separating authorization, custody and record keeping roles to avoid fraud and error.
- Physical Safeguards and Controls: Keeping custody of assets and records, and making sure that access to assets and records is only permitted to authorized persons.
- Authorization and Approval: All transactions require authorization and approval by a responsible person, and limits on authorization should be set down in writing.
- Arithmetical Accounting and Documentation: Checking the arithmetical accuracy of records and maintaining documentation to substantiate validity of transactions.
- Personnel: There must be competent and well motivated personnel who possess the

requisite skills and know how to make the system function.

- Supervision: There must be in existence a good supervisory and monitoring procedures and constant review of ongoing operational activities by management to make the system work.
- Top-Level Review: There must be regular review of reports; comparing actual performance to goals, and established objectives as well as other key performance indicators (KPIs).

The finding outlined above is in tune with the work of COSO (1992), and cited by Ratcliffe and Landes (2009); which states that internal control activities are designed to provide reasonable assurance that particular objectives are achieved and/or specific activities are undertaken, or related progress understood. To them internal controls may be categorized in terms of: the objective they pertain to; and the nature of the control activity itself.

#### **4.10.6 Audit Queries and Lapses or Weaknesses in Internal Controls**

Finally, on the issue of audit queries issued to the GES Adaklu Anyigbe, it was found out that 86.7% of the respondents stated that there is whilst 13.3% gave no response. However, upon further interviews, those who gave no response stated that they do not want to put anybody into trouble because there are queries but they would not bulge out any information on the queries. However the respondents who agreed that there are queries gave out the following lapses or weaknesses in the internal control systems:

- Non-retirement of imprest on time
- Non-payment of withholding taxes on time. (When the law clearly states that 15 days after collecting such taxes they should be paid to the appropriate authority – IRS).
- Unaccountable imprest

- Un-returned accountable imprest balances.
- Non-compliance with applicable laws (inability to file final accounts on time).
- Procurement not going through competitive bidding.
- Keeping personnel on payroll, who could not be traced but continue to draw salary.

Besides, respondents believe that the following accounts for lapses or weaknesses:

- ❖ Inadequacy of qualified professionals to perform audit and accounting duties;
- ❖ Lack of courage and will power on the part of some auditors to report the truth;
- ❖ Fear of intimidation on the part of auditors;
- ❖ General systemic and structural failures in the public sector; and
- ❖ Failure to apply the rules and regulations to the latter when the need be.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This section deals with summary of findings, conclusions drawn and recommendations made based on the findings of the study.

#### 5.2 Summary of Findings

Answers have been basically found to the research questions raised in the statement of the problem. The study reveals that there have been internal controls established by the GES, Adaklu-Anyigbe over the years and is in line with the COSO integrated framework of internal control systems. It was also revealed that the responsibility of establishing internal control in an entity lies with management. In addition, it was revealed that to ensure judicious use of resources there must be an effective and efficient system of internal controls in place. The study again reveals that to have workable internal controls in place control activities must be categorized in terms of the objective they pertain to; and the nature of the control activity itself. Finally, the study shows that there are audit queries issued in the last five years; and there are certain lapses or weaknesses in the internal control systems at GES, Adaklu-Anyigbe. There has been a remarkable agreement on the need to establish internal control system in every public sector organization to ensure effective and efficient management of resources, be it financial or otherwise.

#### 5.3 Conclusions

Some conclusions can therefore be drawn as follows;

There are internal controls instituted by GES, Adaklu-Anyigbe over the years and these controls are consistent with the COSO Integrated Framework.

The one responsible for establishing internal controls is the management of any entity.

There are certain factors responsible for ensuring effective and efficient internal controls as follows: design of internal controls, inculcating the ingredients as indicated earlier; internal auditors adhering strictly to their working document and applicable laws; funds of the entity must be sent to bank regularly, especially on daily basis; proper supporting documents such as receipts, invoices, payment vouchers and request forms must always accompany transactions before payment is effected; existence of fixed assets register and updating it regularly; reconciliation of the entity's accounts balances with that of their bankers regularly, preferably monthly; proper authorization and approval for the disbursement and payment of funds; physical safeguards and control of assets and records; there must be a budget or activity plan to guide expenditure; monitoring, supervision and evaluation of activities and making appropriate reviews; reporting and presenting the actual reports without fear and intimidation; engaging the services of more qualified professionals in the public sector to strengthened the system; and appropriate sanctions must be applied as required without reservations.

The internal controls must not only be established but also seen to be working effectively and efficiently to ensure attainment of stated goals and objectives of the entity.

There are certain lapses and weaknesses in the internal control systems as the auditors sometimes fail to query or apply the rule or appropriate sanctions as demonstrated by those two respondents who revealed that they do not want to put anybody into trouble; by providing the audit queries which were issued over the past five years.

## 5.4 Recommendations

Based on the conclusions made above the following recommendations are outlined:-

The established internal controls by the GES, Adaklu – Anyigbe should be constantly reviewed by management together with the ARIC (Audit Review and Implementation Committee), so as to be in line with national and international best practices to ensure that the irregularities and the inaccuracies are minimized if not eliminated completely.

All employees in general and those in charge of managing financial resources should constantly be schooled – workshops, seminars, in-service trainings be organized for them to enable them to be conversant with matters relating to internal controls, as some of them are not aware that it was management who has the authority to establish internal controls.

To inculcate in all personnel the effective and efficient way of doing things to ensure that goals and objectives are achieved. This can be done through regular workshops, in-service trainings and seminars.

To ensure that workable internal controls are established and strengthened so as to achieve results and reduced inaccuracies and irregularities. This according to COSO (1992) and cited by Ratcliffe and Landes (2009) can be achieved when control activities are categorized in terms of the objective they pertain to; and the nature of the control activity itself.

Auditors should be encouraged by management to report nothing but the actual position of what took place.

That where there are lapses or weaknesses and/or irregularities or inaccuracies, those found culpable should be sanctioned accordingly to serve as a deterrent to others to desist from such acts. Also, auditors should be encouraged to expose wrong doings and apply the rules as and when the situation demands.

Also, Audit Review Implementation Committee (ARIC) should be established in all public sector organizations, where they do not exist; but where they exist but are dormant; they should be strengthened and made to function effectively; by giving them the necessary support and providing them with the needed resources.



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**QUESTIONNAIRE ON “INTERNAL CONTROL AS A TOOL FOR FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR: A CASE STUDY OF GES ADAKLU ANYIGBE DISTRICT”**

**(QUESTIONNAIRE FOR GES, ADAKLU ANYIGBE DISTRICT)**

*The purpose of this questionnaire is to collect data for an academic exercise only. Your candid opinions and views on the subject would be very essential and useful for this study. However, you are assured that your information gathered would be treated with utmost confidentiality and tactfulness.*

Please, answer the questions by putting  in the appropriate boxes or by writing in the spaces provided.

**Biographic Data**

1. Gender:            Male                              Female
  
2. Please, indicate your age group.
  - a. 21 – 30        b. 31 – 40                          c. 41 – 50                          d. 51 and above
  
3. What is your highest level of formal education?
  - a. Ordinary Diploma                              b. HND                              c. First Degree
  - d. Masters Degree                              e. PhD
  
4. For how long have you been working in the public service?
  - a. 1 – 5 years            b. 6 – 10 years                              c. 11 – 15 years
  - d. 16 – 20 years            e. above 20 years
  
5. What is the nature of your responsibility as personnel in this organization? Please state your:
  - a. Job Title/Position.....
  - b. Nature of your job/job description.....



c. Specialized Agency (Ghana Audit Service)  d. Others Specify.....

.....  
 .....

12. To what extent do you agree with the following with regard to internal control system?

		SA	A	U	D	SD
i	It is the measures put in place by management to protect and safeguard the assets of the organization.					
ii	It is the checking of arithmetical accuracy of transactions and Records.					
iii	It is a whole system of controls.					
iv	It is the actions taken by establishments to detect and/or prevent fraud and error.					

NB: SA=Strongly Agree      A=Agree      U=Undecided      D=Disagree

SD= Strongly Disagree.

13. What is the working document for Internal Auditors in your organization?

a. Procedural Manual      b. Activity Manual      c. Others Specify.....

.....  
 .....

14. To what extent do you agree that the following are the ingredients/hallmarks that ensure effective and efficient system of internal controls in your organization? That controls:

		SA	A	U	D	SD
i	Are designed to meet objectives which are clear.					
ii	Have regards to competitive issues.					
iii	Enable and ensure that performance is measured.					
iv	Result of unsatisfactory performance being rectified.					
v	Ensure that activities are completed in a timely manner.					
vi	Are cost efficient.					
vii	Are 'preventive' rather than merely 'permissive'.					
viii	Are placed as early in the process as is practicable, so that thereafter there is no control.					
ix	Have no more movements, or steps than are necessary.					
x	Are the enlightened self interests of the entity.					

NB: SA=Strongly Agree    A=Agree    U=Undecided    D=Disagree

SD=Strongly Disagree

15. How often are funds or monies from your organization sent to bank?

a. Daily        B. Weekly        C. Monthly   

16. What are the necessary documents which must always accompany transactions?

Mention three of such documents briefly.....

.....

.....

17. The transactions or documents are to be taken through proper authorization and approval

process before payment is effected.    a. strongly agree    b. agree

c. undecided    d. disagree    e. strongly disagree

18. Do you check for arithmetical and accounting accuracy to ensure that transactions and records are properly documented and authorized before payment is effected?

Yes  No

19. If no, state reason. ....  
.....  
.....

20. Do you have a fixed asset register in your organization? Yes  No

21. If yes, how often do you update it? Please state briefly. ....  
.....

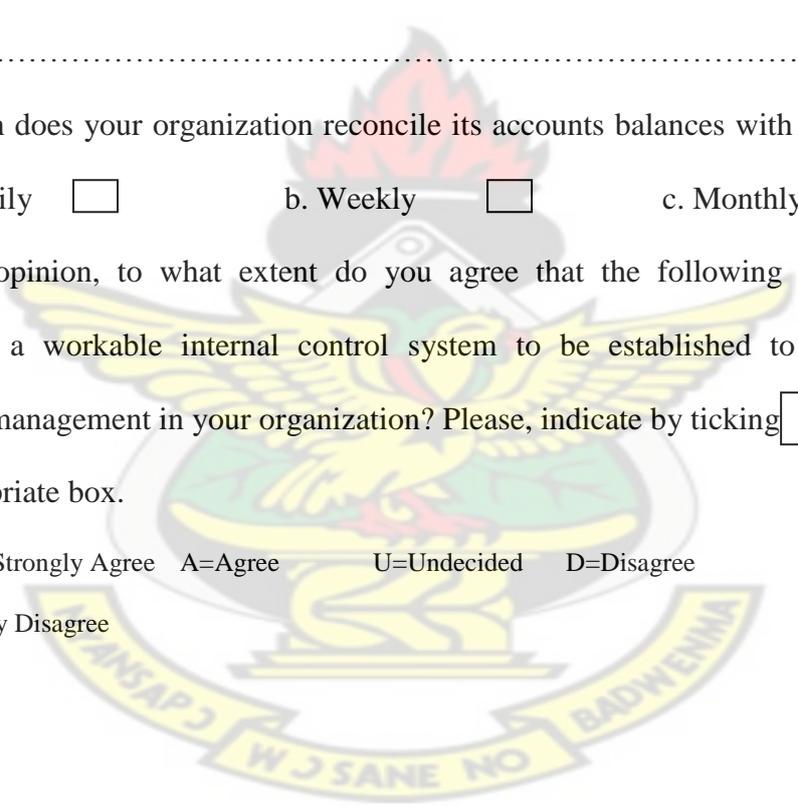
22. How often does your organization reconcile its accounts balances with that of the bank?

a. Daily  b. Weekly  c. Monthly

23. In your opinion, to what extent do you agree that the following control activities constitute a workable internal control system to be established to ensure efficient financial management in your organization? Please, indicate by ticking  the appropriate box.

NB: SA=Strongly Agree A=Agree U=Undecided D=Disagree

SD=Strongly Disagree



		SA	A	U	D	SD
i	<b>Existence (validity):</b> Only valid or authorized transactions are processed ( i. e. no invalid transactions).					
ii	<b>Occurrence (cut off):</b> Transactions occurred during the correct period or are processed timely.					
iii	<b>Completeness:</b> All transactions are processed and that there should be no omissions.					
iv	<b>Valuation:</b> transactions are calculated using an appropriate methodology or are computationally accurate					
v	<b>Rights and Obligations:</b> Assets represent the rights of the entity, and liabilities obligations as of a given date.					
vi	<b>Presentation and Disclosure (Classification):</b> Components of financial statements (or other reports) are properly classified (by type or account) and described.					
vii	<b>Reasonableness:</b> Transactions or results appear reasonable relative to other data or trends.					
viii	<b>Organization:</b> A well defined organizational structure showing how responsibility and authority are structured.					
ix	<b>Segregation of Duties:</b> Separating authorization, custody and record keeping roles to avoid fraud or error.					
x	<b>Physical Safeguards and Controls:</b> Keeping custody of assets and records, and making sure that access to assets and records is only permitted to authorized persons.					
xi	<b>Authorization and Approval:</b> All transactions require authorization and approval by a responsible person, and limits on authorization should be set down in writing.					
xii	<b>Arithmetical Accounting and Documentation:</b> Checking the					

	arithmetical accuracy of records and maintaining documentation to substantiate transactions.					
xiii	<b>Personnel:</b> There must be competent and well motivated personnel who possess the requisite skills and know how to make the system function.					
xiv	<b>Supervision:</b> There must be in existence a good supervisory and monitoring procedures, and constant review of ongoing operational activities by management to make the system work.					
xv	<b>Top-Level Review:</b> There must be regular management review of reports; comparing actual performance to goals, and established objectives as well as other key performance indicators (KPIs).					

24. Has there been any query on the financial statement of your organization by a team of Auditors for the past five years? Yes  No

25. If yes, what kind of internal control weaknesses have been identified by the team of auditors in your organization? State five briefly

.....

.....

.....

.....

.....

*Thank you so much for completing this questionnaire. It is strictly confidential and your status is respected.*

**QUESTIONNAIRE ON “INTERNAL CONTROL AS A TOOL FOR FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR: A CASE STUDY OF GES ADAKLU ANYIGBE DISTRICT”**

**(QUESTIONNAIRE FOR DISTRICT ASSEMBLY, ADAKLU ANYIGBE)**

*The purpose of this questionnaire is to collect data for an academic exercise only. Your candid opinions and views on the subject would be very essential and useful for this study. However, you are assured that information gathered would be treated with utmost confidentiality and tactfulness.*

Please, answer the questions by putting  in the appropriate boxes or by writing in the spaces provided.

**Biographic Data**

1. Gender: Male  Female
2. Please, indicate your age group.  
b. 21 – 30  b. 31 – 40  c. 41 – 50  d. 51 and above
3. What is your highest level of formal education?  
b. Ordinary Diploma  b. HND  c. First Degree   
d. Masters Degree  e. PhD
4. For how long have you been working in the public service?  
b. 1 – 5 years  b. 6 – 10 years  c. 11 – 15 years   
d. 16 – 20 years  e. Above 20 years
5. What is the nature of your responsibility as personnel in this organization? Please, state your:  
a. Job Title/Position.....  
b. Nature of your Job/Job Description.....  
.....

6. Who has the authority to approve or authorize the release of funds allocated to the decentralized departments such as the GES, to undertake their activities?

Please, specify briefly .....

7. What is the basis upon which the funds are released? a. Budget Estimates  
b. Activity Plan c. Others, specify.....

8. When the requests are submitted for the release of funds what are the mechanisms in place to check for arithmetical and accounting accuracy?

a. Pre-audit b. Others, specify.....

9. Would there be a situation for which requests submitted may be rejected?

Yes  No

10. If yes, state reasons briefly.....

11. Do you monitor the activity for which the funds have been disbursed?

Yes  No

12. How then do you determine that the funds released are used efficiently for the purpose for which it was disbursed? a. Demand Performance Report  b. Demand

Activity Report  c. Demand Returns  d. Others, specify.....

13. Do you later cross-check whether funds allocated and disbursed to the GES to undertake specific activities are actually expended for such activities?

Yes  No

14. If yes, have you ever identified any anomalies where the funds have been misapplied?

State briefly.....  
.....  
.....

15. When inaccuracies or irregularities are identified are there any actions taken?

Yes  No

16. If yes, please state briefly.....

.....  
.....  
.....



*Thank you so much for completing this questionnaire. It is strictly confidential and your status is respected.*

TABLES RELATING TO FIGURES IN CHAPTER FOUR

Table 1: Level of Formal Education of Respondents

GES DISTRICT DIRECTORATE			DISTRICT ASSEMBLY	
Level of Education	Frequency	Percent	Frequency	Percent
Ordinary Diploma	1	6.7	0	0.0
HND	4	26.7	5	27.8
First Degree	10	66.6	13	72.2
Masters Degree	0	0.0	0	0.0
PhD	0	0.0	0	0.0
Total	15	100	18	100

Source: Field Data, May 2011

Table 2: Staff Categorization of Respondents

GES DISTRICT DIRECTORATE			DISTRICT ASSEMBLY		
Category	Frequency	Percent	Frequency	Percent	Total
Accounting	5	50.0	5	50.0	100
Internal Audit	2	66.7	1	33.3	100
Management	8	40.0	12	60.0	100
Total	15		18		

Source: Field Data, May 2011

Table 3: Level of Awareness of Respondents on COSO Integrated Framework

Response	Frequency	Percent
Yes	9	60.0
No	6	40.0
Total	15	100

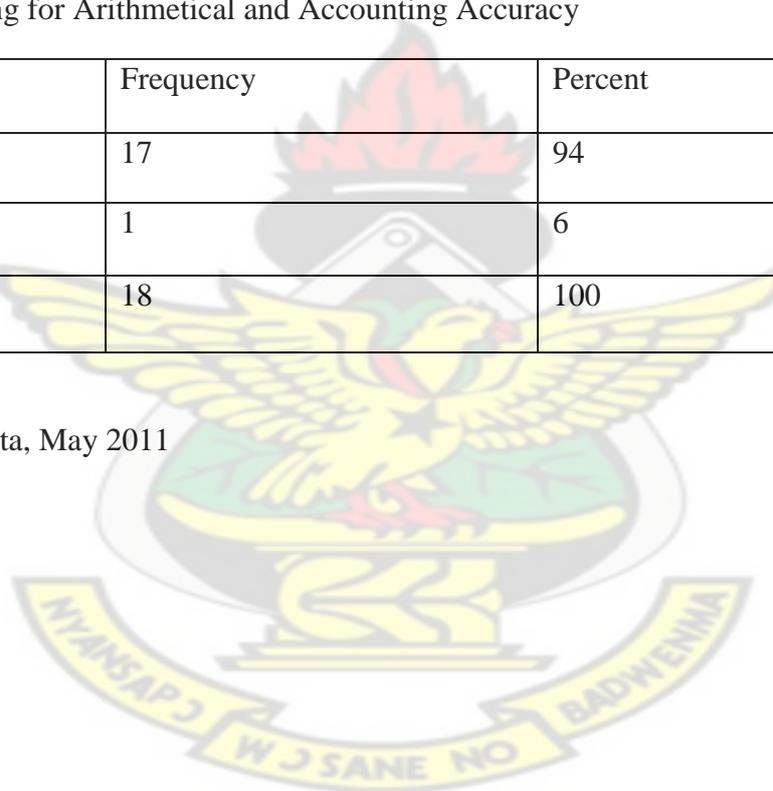
Source: Field Data, May 2011

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Table 4: Checking for Arithmetical and Accounting Accuracy

Activity	Frequency	Percent
Pre-Audit	17	94
Other	1	6
Total	18	100

Source: Field Data, May 2011



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