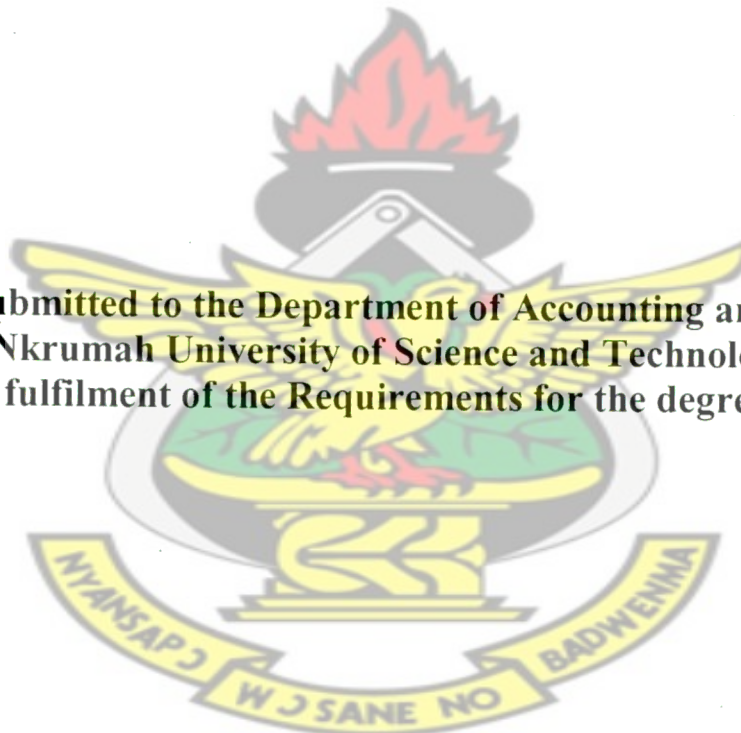


# **ASSESSING THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS AT THE SDA HOSPITAL- KWADASO**

**By:**

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**A Long Essay submitted to the Department of Accounting and Finance  
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in partial fulfilment of the Requirements for the degree of**



**MASTER OF BUSINESS ADMINISTRATION  
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## DECLARATION

I hereby declare that, except for references to other people's work which have been duly cited this work is the result of my own research under the supervision of Mr. K. O. Appiah and that this dissertation has neither in whole or in part been presented for another degree elsewhere.

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## DEDICATION

I wish to dedicate this project to my parents Mr. and Mrs. Quassie, my siblings and to Cynthia Armah for their cooperation, support and sacrifice during the course of the program.



## ACKNOWLEDGEMENT

First and foremost I am appreciative that throughout this period the almighty God has protected me and seen me through successfully.

My sincere thanks and gratitude go to Mr. K. O. Appiah, my supervisor, whose advice, help, direction and patience enabled me to write this Long Essay.

I am also indebted to my interviewees more particularly the administrator, Mr. Francis Acheampong, the finance department including Kwabena Karikari Sekyere, the Hospital accountant who assisted me in distributing the questionnaires and collected on my behalf.

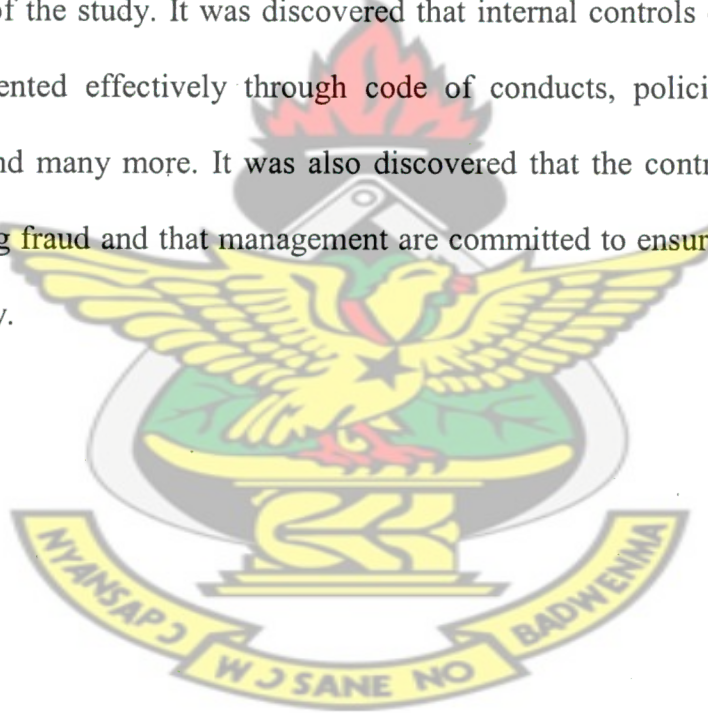
To these special people in my life: Joseph Konadu Sarpong, Sarfo Marfo Dickson, Kwabena Ababio Opoku, Cynthia Armah and many which can not be mentioned.

God bless you all



## ABSTRACT

The study sought to assess the effectiveness of the control system at S.D.A hospital, at Kwadaso. With the objective of measuring the adequacy of such controls in preventing fraud and error and also to assess the commitment of management to ensuring that those controls work properly. The study was carried out using primary data. In arriving at the data for the study management members of the case institution were interviewed. Questionnaires were also distributed. The data gathered were thoroughly discussed. Appropriate frequency tables and charts were used to present some findings of the study. It was discovered that internal controls exist in the hospital and are being implemented effectively through code of conducts, policies and procedures, segregation of duties and many more. It was also discovered that the controls are adequate in preventing and detecting fraud and that management are committed to ensuring that the internal controls work efficiently.



## TABLE OF CONTENTS

|   |      |
|---|------|
| Title Page  | i    |
| Declaration   | ii   |
| Dedication  | iii  |
| Acknowledgements  | iv   |
| Abstract  | v    |
| Table of Contents                                       | vii  |
| List of Tables  | viii |
| List of Figures   | ix   |
| List of Abbreviation                                    | x    |
| <br>  |      |
| CHAPTER ONE GENERAL INTRODUCTION                        |      |
| 1.1 Background of the Study                             | 1    |
| 1.2 Statement of the Problem                            | 4    |
| 1.3 Objectives of the Study                             | 5    |
| 1.4 Relevance of the Study                              | 5    |
| 1.5 Scope and Limitation of the Study                   | 6    |
| 1.7 Organisation of the Study                           | 7    |
| <br>  |      |
| CHAPTER TWO REVIEW OF RELATED PRIOR LITERATURE          |      |
| 2.0 Introduction  | 8    |
| 2.1 Internal Controls Defined                           | 8    |
| 2.2 The Internal Control Process                        | 11   |
| 2.2.1 Control Environment                               | 11   |
| 2.2.2 Risk Assessment                                   | 15   |
| 2.2.3 Control Activities                                | 15   |
| 2.2.4 Information and Communication                     | 17   |
| 2.2.5 Monitoring  | 18   |
| 2.3 Preventing and Detecting Fraud                      | 19   |
| 2.4 Internal Controls Implementation and its Benefits   | 22   |
| 2.5 Roles and Responsibilities in the Internal Controls | 24   |
| 2.6 Chapter Summary                                     | 28   |
| <br>  |      |
| CHAPTER THREE METHODOLOGY AND PROFILE OF INSTITUTION    |      |
| 3.0 Introduction  | 29   |
| 3.1 The Research Design                                 | 29   |
| 3.2 Population of the Study                             | 30   |
| 3.3 The Sample of the Study                             | 30   |
| 3.4 The Data Collecting Techniques                      | 31   |
| 3.5 Method of Data Analysis and Statistical procedure   | 31   |
| 3.6 Organisational Profile                              | 31   |
| 3.7 Chapter Summary                                     | 36   |

|   |    |
|---|----|
| CHAPTER FOUR PRESENTATIONS OF FINDINGS AND ANALYSIS     |    |
| 4.0 Introduction  | 37 |
| 4.1 General Information                                 | 37 |
| 4.2 Control Environment Controls                        | 41 |
| 4.3 Commitment to Competence of Management and Board    | 44 |
| 4.4 Management Philosophy and Operating Style           | 47 |
| 4.5 Assignment of Authority and Responsibility          | 49 |
| 4.6 Risk Assessment Controls                            | 51 |
| 4.7 Communication Controls                              | 54 |
| 4.8 Segregation of Duties                               | 56 |
| 4.9 Chapter Summary                                     | 60 |
| CHAPTER FIVE SUMMARIES, RECOMMENDATIONS AND CONCLUSIONS |    |
| 5.0 Introduction  | 56 |
| 5.1 Summary of Findings                                 | 56 |
| 5.1.1 Existence of Internal Control                     | 56 |
| 5.1.2 Adequacy of the Controls                          | 57 |
| 5.1.3 Management Commitment to Effectiveness            | 58 |
| 5.2 Recommendationsto the Hospital                      | 59 |
| 5.2.1 Existence of Internal Controls                    | 59 |
| 5.2.2 Adequacy of the Controls                          | 60 |
| 5.2.3 Management Commitment                             | 60 |
| 5.3 Recommendation for Studies                          | 60 |
| 5.4 Conclusions   | 60 |
| Bibliography  | 62 |
| List of Appendices                                      |    |
| Questionnaires  | 66 |
| Introductory Letter                                     | 69 |

## LIST OF TABLES

|                                      |    |
|--------------------------------------|----|
| 4.1 Gender of Respondents            | 37 |
| 4.2 Marital Status of Respondents    | 38 |
| 4.3 Department of Respondents        | 39 |
| 4.4 Educational level of Respondents | 41 |



## LIST OF FIGURES

|  |    |
|--|----|
| 4.1 A Bar Chart showing the Gender of Respondents            | 38 |
| 4.2 A Pie Chart Showing marital statuses of Respondents      | 39 |
| 4.3 A Pie Chart showing department of Respondents            | 40 |
| 4.4 A Pie Chart Showing the Educational Level of Respondents | 41 |



## LIST OF ABBREVIATIONS

| Abbreviation | Meaning                                  | Pages                      |
|--------------|--|----------------------------|
| ACFE-        | Association of Certified Fraud Examiners | 3, 17, 18.                 |
| CEO-         | Chief Executive Officer                  | 3                          |
| COSO-        | Committee for Sponsoring Organisation    | 15, 16, 17, 22, 24, 25, 55 |
| MRIC-        | Management Report on Internal Controls   | 21.                        |





# CHAPTER ONE

## GENERAL INTRODUCTION

### 1.1 Background of the Study

This chapter introduces the whole research study by first looking at the general background of the study. It further identifies the problem, the objectives of the study, significance of the study, the scope of the study and the methodology of the research study.

Organisations are set up to pursue certain objectives. For profit making organisations the ultimate objective is to create wealth for shareholders and make reasonable profit to sustain the business. Not-for-Profit making organisations have similar objectives to achieve.

As with for-profit entities, a not-for-profit making organisation prepares and adopts documents such as articles of incorporation and bylaws that set forth the organisation's basic mission, governance structure, and overall operating procedures. Most not-for-profit making organisations establish a governing board, elect officers, and appoint various committees. These individuals are responsible for hiring a chief executive who directs the work of paid staff and volunteers in order to achieve the overall goals of the organisation (Langan, 1998).

Management control in not-for-profit making organisations is a topic to which very little information exists in the accounting literature. Most studies dealing with management control have been conducted in for-profit businesses, where management control techniques were originally developed. Although the manner in which managers may apply the concepts of management control may differ in some respects, the basic concepts of management control are the same for both for-profit and not-for-profit making organisations (Anthony and Young, 1994).

In pursuing these goals and objectives certain tools are employed to assist them in the efficient management of the scarce resources at disposal to bring the best out of them. In this regard, the right environment and tools are needed to employ to achieve the desired objectives. This involves both management and employees to ensure that enabling environment is created.

The issue of stewardship and accountability is dated back to the biblical days when God placed the first man in the Garden of Eden and tasked him to be accountable and keep the Garden (Gen 2:7). The complexity of the modern day business operation demands the use of adequate programmes, tools and policies to ensure that proper procedures are followed to achieve the objectives of the organisation. Jones (2008) said that stewardship and personal accountability are found to be the core elements of medieval internal control. Jones' assertion is in line with the fundamental principles of

Christian beliefs and principle of stewardship and accountability for which the S.D.A Hospital upholds and was established.

According to Creveld [n.d] internal controls have existed from ancient times. In Hellenic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another supervising them.

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Association of Certified Fraud Examiners (2007) stated in their manual that all organisations are subject to the fraud risk. Large frauds have led to the downfall of entire organisations, massive investment losses, significant legal costs, incarceration of key individuals, and erosion of confidence in capital markets. Publicized fraudulent behavior by key executives has negatively impacted the reputations, brands, and images of many organisations around the globe.

A 2004 study by the ACFE discovered that 83% of internal fraud cases were committed by first time offenders, not career criminals. In its 2006 study, the ACFE disclosed that the banking industry is the biggest victim of internal fraud. The ACFE's 2008 Report on Occupational Fraud & Abuse raised the internal fraud loss rate to seven per cent of annual turnover for all organisations. In the case of Société Générale, one single loss amounted to a staggering 20% of the bank's annual revenue, forcing a

recapitalization of the bank and the removal of the bank's Chief Executive Officer (CEO) and head of trading.

Assuring reliability of transactions to stakeholders calls for pragmatic policies and programmes that deal with risks and fraud in organisations. Effective Internal Controls provide that assurance of transactions in terms of transparency and reliability.

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## 1.2 Statement of the Problem

In recent years, increased attention has been devoted to internal controls by auditors, managers, accountants, and legislators. This is due to the fact that there is an increasingly mistrust between owners and management as a result of mismanagement through misapplication of organisation's resources (Colbert and Bowen, 1996).

Again, the complex nature of organisations and their transactions in recent times have raised issues of transparency and accountability. This becomes more profound where the organisation's transactions move from a very simple to a more complex in nature. Recent studies by Association of Certified Fraud Examiners show that small organisations are more prone to organisational fraud. This is due to the fact that they lack the requisite internal control mechanism to monitor transactions in order to ensure transparency and reliability in transactions. The situation worsens with larger organisations as in the case of Societe Generale.



It is expected that adequate system of internal controls put in place would ensure that these activities are carried out in an orderly and efficient manner. These policies are geared towards safeguarding the assets, and completeness and reliability of transactions.

Unfortunately there have been reported cases of embezzlement and fraud perpetrated in organisations where there supposed to be controls as in the case of Societe Generale. The researcher therefore seeks to conduct a study to find out the adequacy of such controls if they exist, in detecting fraud and error in S.D.A Hospital - Kwadaso and management's commitment in ensuring that such controls work.

### 1.3 Objectives of the Study

The researcher intends to achieve the following objectives by conducting this study. This is outlined as follows;

1. To determine the existence of internal control policies in the hospital in general, the revenue and pharmacy departments of the hospital in particular.(accomplished in pages 62 to 63)
2. To measure the adequacy of such control policies in detecting and preventing fraud in its implementation. ( accomplished in pages 63 to 65)

3. To assess the extent to which management and other policy makers are committed to ensuring that internal controls work effectively in the hospital.( accomplished in pages 63 to 65)
4. To recommend suggestions on internal control systems that best suites the hospital in its cash management and dispensing of drugs in the hospital. ( accomplished in pages 65 to 67)

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## 1.4 Relevance of the Study

The relevance of the study will among others;

1. Intends to make the hospital come to the realization and institute adequate internal control system for efficient management in hospital administration.
2. Designed to increase the knowledge base of practitioners and stakeholders with regards to instituting and implementing adequate internal control policies and programmes
3. To a large extent it will serve as a guide to the players in the industry to be able to point out the peculiar challenges in hospital administration and possible remedies in dealing with error and fraud.
4. Finally the research findings will generate another interest to be subjected to more scrutiny by other researchers.



### **1.5 Scope and Limitation of the Study**

The research work covers all operations of the hospital which include both the financial and operational controls of the hospital. It however focuses on operations in the finance and pharmacy departments as it is considered to be more risky areas of hospital and health care management.

The research study could not cover every aspect of the hospital's operations due to lack of adequate time to conduct a thorough research. It is also limited to financial constraints to assist the researcher conduct a good cause. Uncooperative attitude of some respondents also delayed gathering of the data for the study.

### **1.6 Organisation of the Study**

The study is organised into five distinct chapters. Chapter one introduces the study by looking at the background through to the significance of the study and its limitations. Chapter two on the other hand deals with a critical analysis of prior related literature as well as conceptual framework for various models. Chapter three looks at the methodology of the research and the profile of the organisation under study. Chapter four deals with the presentation of the findings and the analysis of the data collected whilst chapter five also deals with the summary, conclusion and recommendations.

## CHAPTER TWO

### REVIEW OF RELATED PRIOR LITERATURE

#### 2.0 Introduction

This chapter discusses and reviews existing literature on the subject matter from general perspective. A lot of studies have been conducted on the subject of internal control and internal audit on the international level, but on the local scene little has been done. Consequently, most of the literature on this study will predominantly be the ones conducted by foreign researchers and authors.

The chapter mainly looks at the literature which is related to the field of study and a critique made where necessary. It is organized into the following headings; Internal Control Defined, Internal Control Process, Preventing and Detecting Fraud, Internal Control implementation and its Benefits, Roles and Responsibility in the internal control, and finally summary of the chapter.

#### 2.1 Internal Controls Defined

There are a variety of definitions of internal controls, as it affects the various stakeholders of an organisation in various ways and at different levels of aggregation.

Differences of opinion have long existed about the meaning and objectives of internal controls. Some interpreted the term internal controls as the steps taken by a business to

prevent fraud-both misappropriation of assets and fraudulent financial reporting (Whittington and Pany, 2004).

Various organisations and professional bodies have defined internal controls differently. A review of some definitions will be done and compared in line with the objectives set for this study.

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The Institute of Chartered Accountants of Ghana (2008) defines internal control as the policies and procedures adopted by management of an entity to assist in their objective of achieving as far as practicable, the orderly and efficient conduct of the business, including adherence to internal policies, safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information.

Bishop (1991) also stated that it is a means by which an organisation's resources are directed, monitored, and measured. Trenerry (1999) added that internal control systems play an important role in preventing and detecting fraud and protecting the organisation's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organisational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with

laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organisation's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes

Lander (2004) on the other hand stressed on internal control over financial reporting as a process designed by, or under the supervision of, the company's principal executive and principal officers and implemented by the company's board of directors, management and other personnel to provide reasonable assurance for the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. According to Lander, this includes those policies and procedures that:

1. Cover maintaining records, in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the company's assets;
2. Provide reasonable assurance that transactions are recorded as necessary to prepare financial statements in accordance generally accepted accounting principles, and that receipts and expenditures of the company are made only under the authorizations of management and directors of the registrants; and
3. Provide reasonable assurance for the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could materially affect the statements.



According to Simmons (2009) the most comprehensive and encompassing definition of internal controls is the one provided by the Committee of Sponsoring Organisation (COSO) which defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achieving of objectives in the following categories: a) Effectiveness and efficiency of operations; b) Reliability of financial reporting; and c) Compliance with laws and regulations.

## 2.2 The Internal Control Process

Internal control as defined by Committee of Sponsoring Organisation (1992) consists of five interrelated components. The components are: Control Environment, Risk Assessment, Control Activities, Information and Communication Controls and Monitoring of Controls. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal control.

### 2.2.1 Control Environment

Wittington and Pany (2004) expressed that the control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. O'Leary *et al* (2006) affirms that auditors consider control environment the most important element of internal control. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors. These factors are discussed below.

#### i. Integrity and Ethical Values

The effectiveness of internal control depends directly upon the communication and enforcement of integrity and ethical values of the personnel who are responsible for creating, administering, and monitoring controls. Management should establish behavioral and ethical standards that discourage employees from engaging in acts that would be considered dishonest, unethical, or illegal. To be effective, these standards must be effectively communicated by appropriate means, including by official policies, codes of conduct (Wittington and Pany, 2004).

#### i. Commitment to competence



Employees should possess the skills and knowledge essential to the performance of their job. If employees are lacking in skills or knowledge, they may be ineffective in performing their assigned duties. This is especially critical when the employees are involved in performing controls. Ideally, management should be committed to hiring employees with appropriate levels of education and experience, and providing them with adequate supervision (New York State of Internal Control Association, 2002).

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### iii. Board of Directors or Audit Committee

The control environment of an organisation is significantly influenced by the effectiveness of its board of directors or the audit committee. Factors that bear on the effectiveness of the board of directors or audit committee include the extent of its independence from management, the experience and stature of its members, the extent to which it raises and pursues difficult questions with management, and its interaction with the internal and external auditors (Lander, 2004).

### iv. Management Philosophy and Operating Style

Managements differ in both their philosophies towards financial reporting and their attitude toward taking business tasks. Some management teams are extremely aggressive in financial reporting and place great emphasis on meeting or exceeding earnings projections. They may be willing to undertake activities of high risks with prospects of high return. Other management teams are extremely conservative and risks

averse. Management philosophy and operating style have a significant influence on the control environment, regardless of the consideration given to the other control environment (Ramos, 2006).

v. Organisational Structure

Another control environment factor is the entity's organisational structure. A well designed organisational structure provides a basis for planning, directing, and controlling operations. It divides authority, responsibilities, and duties among members of an organisation by dealing with such issues as centralized versus decentralized decision making and appropriate segregation of duties among the various departments. The organisational structure of an entity should separate responsibilities for authorization of transactions, recordkeeping for transactions and custody of asset (Trenerry, 1999).

vi. Assignment of Authority and Responsibility

Ramos (2006) again indicated that Personnel within an organisation need to have a clear understanding of their responsibilities and rules and regulations that govern their actions. Therefore, to enhance the control environment, management develops employee job description and clearly defines authority and responsibility within the organisation. Policies may also be established describing appropriate business practices, knowledge and experience of key personnel and the use of resources.

### 2.2.2 Risk Assessment

Millichamp (1996) asserted that every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment 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.

### 2.2.3 Control Activities

Rittenberg et al (2007) discussed Control activities as the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organisation, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Rittenberg *et al* (2007) further stated that Control activities also consist of the policies and procedures that ensure employees carry out management directives. Control activities include reviews of the control system, physical controls, segregation of duties, and information system controls. Controls over information systems include general controls and application controls. General controls are those covering access, software, and system development. Application controls are those which prevent errors from entering the system or detect and correct errors present in the system.

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Wittington and Pany (2004) also talk about how the entity obtains pertinent information and communicates it throughout the organisation. The information system identifies, captures, and reports financial and operating information that is useful to control the organisation's activities. Within the organisation, personnel must receive the message that they must understand their roles in the internal control system, take their internal control responsibilities seriously, and, if necessary, report problems to higher levels of management. Outside the entity, individuals and organisations supplying or receiving goods or services must receive the message that the entity will not tolerate improper actions.

Colbert and Bowen (1996) in adding to control activities explained that management monitors the control system by reviewing the output generated by regular control activities and by conducting special evaluations. Regular control activities include



comparing physical assets with recorded data, training seminars, and examinations by internal and external auditors. Special evaluations can be of varying scope and frequency. Deficiencies found during regular control activities are usually reported to the supervisor in charge; deficiencies located during special evaluations are normally communicated to higher levels of the organisation.

#### 2.2.4 Information and Communication

The COSO Report (1992) spelt out that pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, 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 inform business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organisation. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

### 2.2.5 Monitoring

COSO (1992) suggests that internal control systems need to be monitored in order to that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

COSO (2008) points out that there is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. The report further states that unmonitored controls tend to deteriorate over time. When monitoring is designed and implemented appropriately, organisations benefits because they are more likely to:

- Identify and correct internal control problems on timely basis,
- Produce more accurate and reliable information for use in decision-making,



- Prepare accurate and timely financial statements, and
- Be in a position to provide periodic certifications or assertions on the effectiveness of internal controls.

There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category-the effectiveness and efficiency of operations, for instance, all five components must be present and functioning effectively to conclude that internal control over operations is effective (COSO, 2006).

### **2.3 Preventing and Detecting Fraud**

Financial Insights (2008) issued a statement indicating that internal fraud can wreak havoc on institutions of all types and sizes. Implementing rigorous controls to prevent and detect internal fraud threats continues to be a mandatory priority. A lack of effective fraud and theft prevention puts the health of an institution at risk.

ACFE (2006) issued a report which stated that Organisation stakeholders have clearly raised expectations for ethical organisational behavior. Meanwhile, regulators worldwide have increased criminal penalties that can be levied against organisations and individuals who participate in committing fraud. Organisations should respond to

such expectations. Effective governance processes are the foundation of fraud risk management. Lack of effective corporate governance seriously undermines any fraud risk management program. The organisation's overall tone at the top sets the standard regarding its tolerance of fraud.

The ACFE report further stated that the board of directors should ensure that its own governance practices set the tone for fraud risk management and that management implements policy that encourage ethical behavior, including processes for employees, customers, vendors, and other third parties to report instances where those standards are not met. The board should also monitor the organisation's fraud risk management effectiveness, which should be a regular item on its agenda. To this end, the board should appoint one executive-level member of management to be responsible for coordinating fraud risk management and reporting to the board on the topic.

KPMG LLP (2006) issued a similar fraud risk management outlined that organisations should understand fraud risk and the specific risks that directly or indirectly apply to the organisation. A structured fraud risk assessment, tailored to the organisation's size, complexity, industry, and goals, should be performed and updated periodically. The assessment may be integrated with an overall organisational risk assessment or performed as a stand-alone exercise, but should, at a minimum, include risk identification, risk likelihood and significance assessment, and risk response

The report by KPMG stated that effective business ethics programs can serve as the foundation for preventing, detecting, and deterring fraudulent and criminal acts. An organisation's ethical treatment of employees, customers, vendors, and other partners will influence those receiving such treatment. These ethics programs create an environment where making the right decision is implicit.

A clear and comprehensive internal fraud risk assessment must carefully focus on implementing and enforcing appropriate internal controls for business functions. Institutions must continually review, revise and improve corporate governance to successfully combat internal fraud. For this reason some regulators have either encouraged or required institutions to strengthen internal fraud capabilities by promulgating regulations. (Financial Insights, 2006)

Financial Insights 2006 report, suggested some internal fraud prevention initiatives to combat internal fraud as;

- ❖ Establishing controls that reduce the opportunity for unauthorized use of organisational resources (including perimeter defense technology such as firewalls, email scanning, and ID access)
- ❖ Delineating clear lines of responsibility, providing sufficient employee monitoring, segregating duties for operational processes, and regularly rotating staff in key positions.

- ❖ Using thorough recruitment screening and educating employees about the legal repercussions of being involved in illegal activities to act as a deterrent.
- ❖ Instituting controls such as automated detection systems and advanced analytic technologies that look for suspicious behavior and anomalous patterns that may require investigations.
- ❖ Establish accountability and ownership for negligent security procedures
- ❖ Reprimand staff for breaking or failing to follow security protocol, even minor violations.
- ❖ Providing confidential and easy-to-use channels of communication for whistleblowers.

#### **2.4 Internal Controls Implementation and Benefits**

Noordin (1997) asserted that regardless of an entity's size or type, and regardless of whether it is held privately or publicly, managers and accountants should be alert to the rudiments of accounting systems and controls. Accounting records are kept for a variety of purposes, and a major purpose is to help managers operate their entities more efficiently and effectively.

The American Institute of Certified Public Accountants (2005) emphasized that internal control over financial reporting has always been a major area in the governance of an organisation, and this importance has been magnified in recent years.



Aggarwal *et al* (1998) concluded that for organisations to maintain availability, confidentiality and integrity of data, management must develop internal control mechanisms. This goes to buttress the fact the internal controls are very beneficial to the success of organisations.

Coe and Ellis (1991; cited by Duncan *et al*, 1998) conducted a study designed to identify common weaknesses in internal control in state, local and nonprofit agencies. They determined that 38.6 per cent of the crimes were the result of improper separation of duties, 12.6 per cent were the result of poor purchasing controls, and 11.8 per cent went undetected because no audit was performed.

Hermanson (2000) established in a study that financial statement users agree that internal controls are important. It was also established that respondents agreed that voluntary management report on internal control (MRIC) improved controls and provided additional information for decision making. Using a broad definition of controls, respondents strongly agreed that MRICs improved controls and provided a better indicator of a company's long term viability.

Berkowitz (2005) stated that managers implement internal controls to ensure that programs operate effectively and efficiently, financial reporting on these programs is



reliable, and agency employees and those acting on behalf of the agency carry out these programs in compliance with all laws and regulations.

The Institute of Internal Auditors (1997) published a report in which stated that organisations with strong internal controls are more likely to have sustained rapid growth, success in meeting corporate objectives, increasing return on equity.

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In a recent study, Green (2007) established that there is now widespread recognition that effective internal control directly impacts business performance in a number of areas and that more businesses are investing more in internal controls.

Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting. And it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprises along the way.

## 2.5 Roles and Responsibilities in the Internal Controls

According to the COSO Framework (1992) everyone in an organisation 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 effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions. Each major entity in corporate governance has a particular role to play:

**Management:** The Chief Executive Officer of the organisation has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise (Lander, 2004).

**Board of Directors:** Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and

environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem (COSO, 1992).

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**Auditors:** The internal auditors and external auditors of the organisation 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. They may also review Information technology controls, which relate to the IT systems of the organisation. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. To provide reasonable assurance that internal controls involved in the financial reporting process are effective, they are tested by the external auditor, who is required to opine on the internal controls of the company and the reliability of its financial reporting (Lander, 2004).

**Other Personnel:** Internal control is, to some degree, the responsibility of everyone in an organisation and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control

system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions (COSO, 1992).

It is clear that a number of external parties often contribute to achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. Others providing information to the entity **useful** in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system

The COSO report issued in 1992 describes a unified approach for evaluation of the internal control systems that management has designed to:

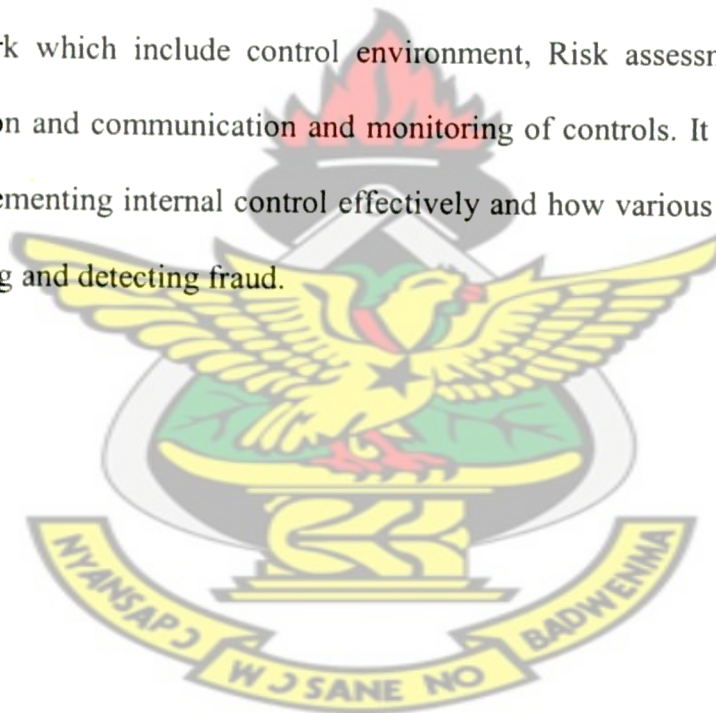
- provide reasonable assurance of achieving corporate mission, objectives, goals and desired outcome,
- while adhering to laws and regulations
- Allow the company to accurately report successes and outcomes to the public and interested third parties. and



- serves as a common basis for managements, directors, regulators, academics and others to better understand enterprise risk management, its benefits and limitations, and to effectively communicate about enterprise risk management

## 2.7 Chapter Summary

The chapter reviewed the prior related literature and the conceptual framework. The chapter identified the definitions, the processes or the components using the COSO integrated framework which include control environment, Risk assessment, control activities, information and communication and monitoring of controls. It also outlines the benefits of implementing internal control effectively and how various stakeholders conduct in preventing and detecting fraud.





## CHAPTER 3

### THE RESEARCH METHODOLOGY AND PROFILE OF INSTITUTION

#### 3.0. Introduction

The previous chapter discussed the relevant related prior literature. It looked at the definition, the control process, the implementation and benefits of internal controls, responsibilities of the stakeholders in preventing and detecting fraud and error.

This chapter also deals with the data collection methods and techniques. It discusses the research design, the population, sample size and the method of analyzing the data. It then gives a brief account of the study area, S.D.A Hospital-Kwadaso.

The significance of this subsection is to show in a coherent manner the systematic steps that the researcher has taken during the data collection stages. The research design was the first step taken during the data collection process.

#### 3.1 The Research Design

The instrument for collecting adequate data for this study was developed by the researcher. The intention for this study is to assess the effectiveness of the internal control system at the S.D.A Hospital at Kwadaso.

To ascertain the appropriate data for the study a survey was used which involved the use of questionnaires. Questionnaires consisting of 32 questions were designed for the study. This comprises four (4) questions on general information about respondents, another four (4) on control environment, and additional four (4) on commitments to competence. The rest are another four (4) questions centered on management philosophy, three (3) questions on assignment of authority and responsibility, four (4) questions on risk assessment control, four (4) questions on communication control and finally five (5) questions on segregation of duties. Further interviews were conducted to ascertain authenticity of respondents' response.

### **3.2 Population of the Study**

Information for this study was collected and integrated from three main primary sources of participants. These include the accounting staff, pharmacy and dispensary staff and the administrative staff.

### **3.3 The Sample of the Study**

The procedure for this project involved three steps. The researcher sought permission from the authorities of the S.D.A Hospital at Kwadaso regarding the purpose and nature of the project. A letter of introduction was also obtained from the KNUST School of Business to confirm it. A follow up was made on the arrangement of distribution of questionnaires and collection.

The population for the departments was forty (40) in numbers consisting of accounting staff and administration (16), pharmacy and dispensary (21), and Auditing staff (3).

A sample size of forty (40) respondents were selected which represent 100 percent of the target population. A purposive sampling technique was used to arrive at the selection of the Hospital and the department.

### 3.4 The Data Collecting Techniques

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Primary data was used for this study. Primary data was sourced from the staff of the SDA Hospital which includes the accounting staff, the pharmacy and the dispensary staff, and the administrative staff. Interviews were conducted with management to confirm the responses and reactions of workers and authenticate the various responses.

### 3.5 Method of Data Analysis

Data collected from the study will be put into qualitative and quantitative analysis. In analyzing the data, frequency tables and charts were used as analytical techniques for the general questions. Qualitative explanations were made of the data collected as well as explain their implication. This then followed by recommendation made there on.

### 3.6 Organisational Profile

#### 3.6.1 The History of the Hospital

The S.D.A Hospital is a mission hospital in Kumasi, Ghana, with the principal objective of caring and providing comprehensive disease and health management for the people in the conference and surrounding communities. This precipitated the establishment of the hospital. The S.D.A Central Ghana Conference realized the need to provide some form of healthcare for its workers and family. In 1992 a Maternity Home was set up. As the work expanded, infrastructure in the facility was also expanded to the status of a hospital. It now operates as one of the most reputable mission hospitals in the Ashanti Region. The current working force would normally include the following categories of workers: Medical staff falls in the groupings of consultants, specialists, senior medical doctors, junior medical doctors, interns and various categories of auxiliary nurses and nurse aids, Accounting staff, Laboratory staff, Pharmacy staff, Secretarial staff and Plant and grounds staff.

#### 3.6.2 The Vision of the Hospital

In harmony with the great prophecies of the Scriptures, we see as the climax of God's plan the restoration of all His creation to full harmony with His perfect will and righteousness with the attendant total and holistic health.



### 3.6.3 The Mission of the Hospital

The mission of the Kwadaso Seventh-day Adventist Hospital is to play the role of an entering world, to break down prejudices, and facilitate the proclamation of the everlasting gospel of God's love in the context of the three angels' messages of Revelation 14:6-12, and as revealed in the life, death, resurrection, and high priestly ministry of Jesus Christ, leading them to accept Jesus as personal Savior and Lord and to unite with His remnant church, and to nurture them in preparation for His soon return.

The other arms of the ministry achieve this mission through principally PREACHING within the gospel ministry and TEACHING within the education ministry. Within the health sector, even though we also use these methods, our main method is as set below.

**Our Method** – We pursue this mission under the guidance of the Holy Spirit through HEALING – Affirming the biblical emphasis on the well-being of the whole person, we make the preservation of health and the healing of the sick a priority and through our ministry to the poor and oppressed, cooperate with the Creator in His compassionate work of restoration.

### 3.6.4 Value Statement

Seventh - day Adventist values are rooted in the revelation of God provided through the Bible and the life of Jesus Christ. Our sense of identity and calling grows from an



understanding of Bible prophecies, especially those concerning the time immediately preceding the return of Jesus. Consequently all of life becomes a growing experience and demonstration of involvement with God and His kingdom.

Our sense of mission is driven by the realization that every person, regardless of circumstances, is of infinite value to God and thus deserving of respect and dignity. Through God's grace every person is gifted for and needed in the diverse activities of the church family.

Our respect for diversity, individually, and freedom is balanced by regard for community. We are one- a worldwide family of faith engaged in respecting the reign of God in our world through ethical conduct, mutual regard, and loving service. Our faithfulness to God involves commitment to and support of His body, the Church.

### 3.6.5 Corporate Objectives

The corporate objectives are to provide quality health care through

- Guidance and counseling programs to patients
- Better antenatal and postnatal care to patients
- Performing laboratory and dispensary services

- Training medical assistants for the continuous survival of the hospital.

### 3.6.6 Scope of Operations

As the hospital grows, its scope of operations also widens. However as at now the following departments are catered for: Out-patient department and in-patient department catering for obstetric for medical, surgical, pediatric and ophthalmic. Maternity prenatal and postnatal department catering for obstetric and gynecological patients, Child Welfare clinic & Immunizations Family planning, imaging services, Laundry, Youth friendly services and Preventive Services.

And to be able to carry out the myriad of services entailed in the various departments above, the hospital employs the appropriate categories of workers. It should be understood that apart from these categories mentioned here, the board may add or delete as the operations of the hospital calls for. It also has the right to scale down the working force to the point of complete closure as the situation demands. The current working force would normally include the following categories of workers:

**Medical staff** falls in the groupings of consultants, specialists, senior medical doctors, junior medical (physician) assistants.

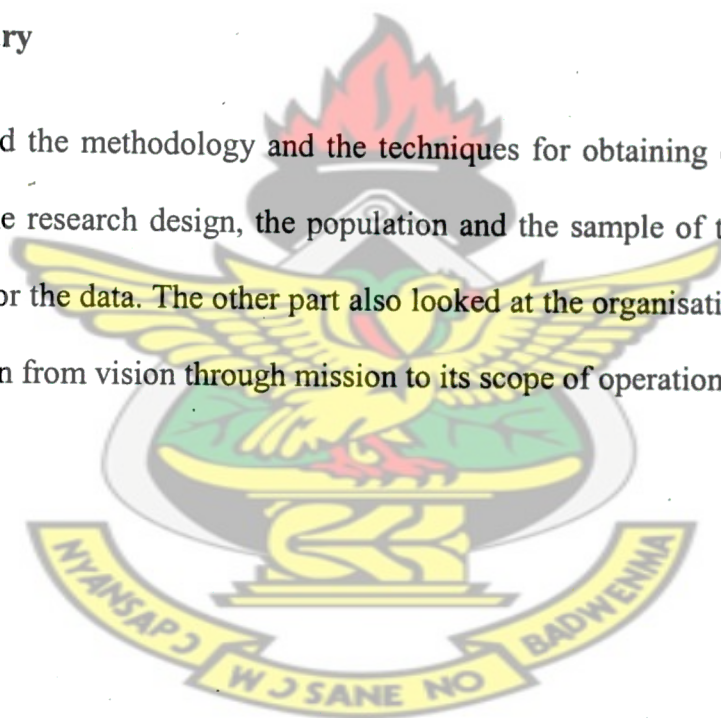
**Nursing staff** in the groupings of directors of nursing, associate and assistant directors, principal nursing officers, senior nursing officers, junior nursing officers, general duty nurses and midwives, and various categories of auxiliary nurses and nurse aids such as:

- Accounting staff
- Laboratory staff
- Pharmacy staff
- Secretarial staff
- Plant & grounds staff

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### 3.7 Chapter Summary

The chapter discussed the methodology and the techniques for obtaining data for the study. It looked at the research design, the population and the sample of the study as well as the analysis for the data. The other part also looked at the organisational profile of the study institution from vision through mission to its scope of operations.



## CHAPTER 4

### RESEARCH ANALYSIS AND DISCUSSION

#### 4.0 Introduction

The previous chapter highlighted on the methodology and the techniques of collecting data. It also looked at the profile of the organisation under study.

This chapter deals with the analysis and discussion of data collected and explaining their implications. The analysis will be carried out in accordance with the arrangement of the questionnaires and in accordance with the objectives stated.

#### 4.1 General Information

The general information looks at the gender, marital status, various departments and educational levels of the respondents.

Table 4.1 Gender of Respondents

|        | Frequency | Percent (%) |
|--------|-----------|-------------|
| Male   | 22        | 55          |
| Female | 18        | 45          |
| Total  | 40        | 100         |

Source: Author's survey

Table 4.1 above portrays the gender of the respondents in the survey. From the study, out of the 40 respondents chosen 18 are females which represent 45% and 22



respondents being males representing 55%. This is an indication that there are more males in the three selected departments. This shows the dominant of males in most of our various places of work. This is shown in bar chart in figure 4.1 below.

Figure 4.1 Bar Chart showing the Gender of Respondents

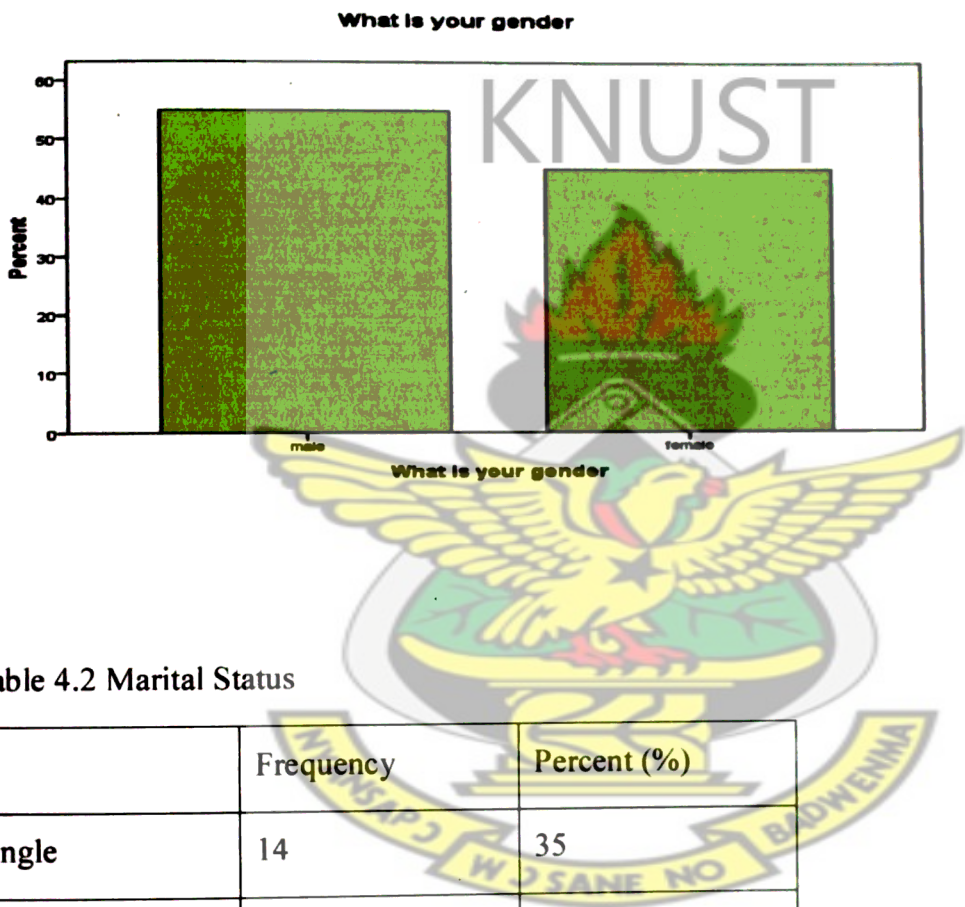


Table 4.2 Marital Status

|         | Frequency | Percent (%) |
|---------|-----------|-------------|
| Single  | 14        | 35          |
| Married | 26        | 65          |
| Total   | 40        | 100         |

Source: Author’s Survey

Table 4.2 shows that 14 of the respondents are single representing 35%, whilst 26 respondents are married which also represents 65%. This indicates that more employees in the selected departments are married people. The table is represented by a pie chart in figure 4.2 below.

Figure 4.2 A Pie Chart Showing marital statuses of respondents

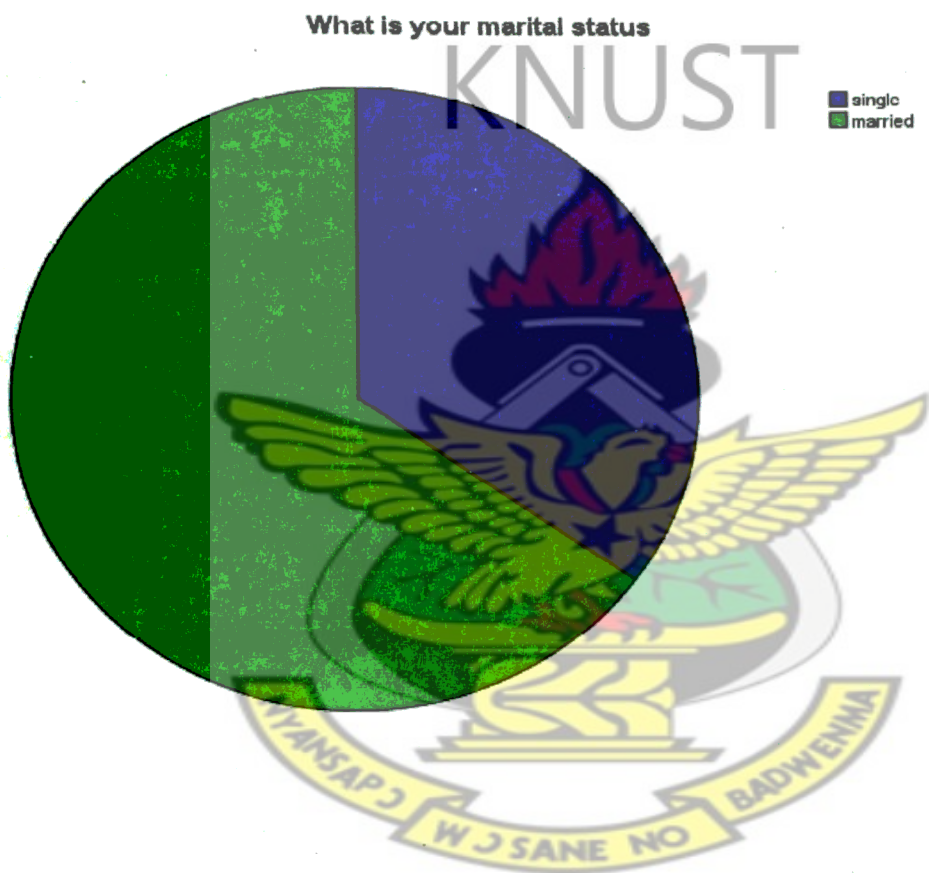


Table 4.3 Department of Respondents

|                | Frequency | Percent (%) |
|----------------|-----------|-------------|
| Finance        | 19        | 47.5        |
| Administration | 4         | 10          |
| Pharmacy       | 17        | 42.5        |
| Total          | 40        | 100         |

Source: Author’s Survey

In Table 4.3 above, 19 respondents work in the Finance Department representing 47.5%, 4 respondents belong to the Administration Department representing 10% while 17 respondents also work in the Pharmacy Department. This is an indication that majority of the employees are in the pharmacy and finance departments where operations take place. This is also represented in pie chart in figure 4.3 below.

Figure 4.3 a Pie Chart showing Departments of Respondents

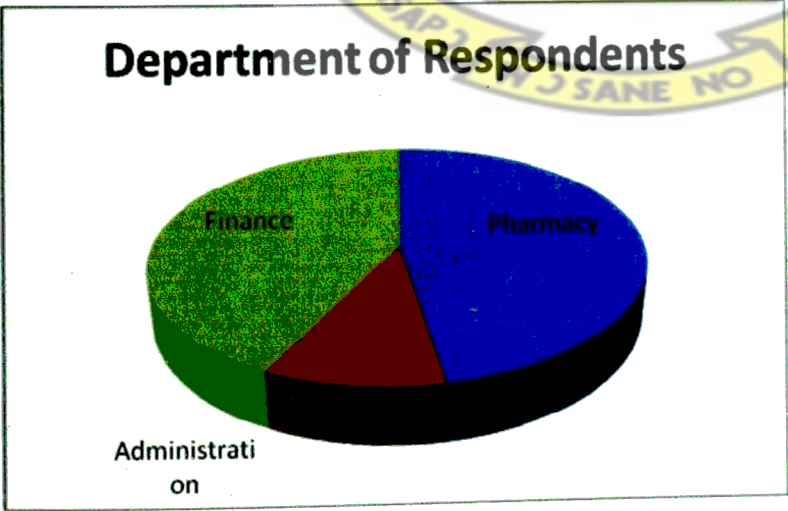


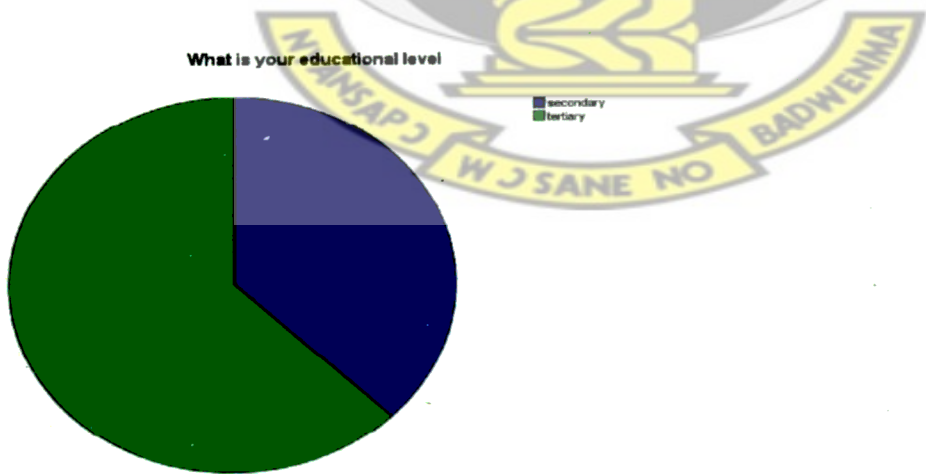
Table 4.4 Educational level of Respondents

|           | Frequency | Percent (%) |
|-----------|-----------|-------------|
| Secondary | 15        | 37.5        |
| Tertiary  | 25        | 62.5        |
| Total     | 40        | 100         |

Source: Author’s Survey

Table above 4.4, above shows 15 of the respondents have attained secondary education and the remaining 25 also have tertiary education which represent 37.5% and 62.5% respectively. This indicates that majority of the employees have attained tertiary education. This is indication that management is committed in employing qualified labour. This is also shown in pie chart below.

Figure 4.4 a Pie Chart Showing the Educational Level of Respondents





## 4.2 Control Environment Controls

In order to achieve the first objective that is to determine the existence of internal controls in the hospital, the researcher conducted interview with the management of the case institution. The following questions were asked for response.

Q1. Board oversight responsibility to management and staff regarding integrity and ethical values

On the issue of whether the board of directors have an oversight responsibility to staff and management, all respondents collectively answered yes meaning that the board has an oversight responsibility which is very common to management and staff. These oversight responsibilities include formulating policies and setting agenda for management.

Q2. Has the Board adopted a code of conducts for the hospital?

On the question of code of conduct for the hospital it was revealed that the hospital has code of conducts for all employees that establish what to do and what not to do. This is an indication the hospital is able to provide guidelines for its employees. This is a clear manifestation that the board has policies spelt out in the code which are made available to staff.

Q3. Has the hospital got punitive or disciplinary actions for violation of the code of conducts?

All the respondents answered yes to the fact that the Hospital has disciplinary actions against employees who go contrary to the code of conducts of the hospital. The disciplinary actions are well communicated to the staff in language they understand better. These punitive measures ranges from caution to outright dismissal depending on the offence and the number of times committed.

Q4. Are employees rewarded for achieving and exceeding targets set for them?

Respondents said that the hospital rewards its employees for achieving targets and also exceeding targets sets. These rewards vary in many forms, with some in the form of promotion as well as cash rewards.

On control environment controls, findings arrived at from the study include board of directors having an oversight responsibility on management and staff with regards to integrity and ethical values.

Moreover, the board of directors and management has in place code of conducts which guide employees in the conduct of their business operations. This is a clear indication that proper internal controls exist in the hospital as the first objective sought achieve

### 4.3 Commitment to Competence of Management and Board

Q5. Are there formal job descriptions for each position?

When respondents were asked whether there is a formal job description they all said that they have specific jobs given to them. This job description is spelt out on the employee contract letter given out to employees. Day-to-day activities are also given by superiors and management

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Q6. How often does the board meet?

There were mixed reaction on the number of times the board of direct meet and plan on the institution. While some were saying that the board meets on quarterly basis, others were not sure the number of times the board meets. However, interviews with executive management member revealed that the board meets on every quarter.

Q7. Are there employees that are board members?

Respondents admitted that some employees are board members. These include the administrative manager, the finance manager and the head of the medical service. This is a manifestation that the board has a closer relationship with the management and employees.

Q8. Is there a board sub-committee on finance?

Respondents said that there is a board sub committee on finance. Even though there were some few respondents were not in the known. Respondents from the finance department seem to know the existence of the sub-committee. A further interview confirmed the majority's decision that there is a board sub committee on finance.

On commitment to competence of Board and Management, it was revealed that they have expressed commitment to competence through prescribing specific job roles to employees to increase efficiency in their operations. There is also regular meeting of board and management to deliberate on the policies and procedures that will promote organisational efficiency. The existence of executive directors attests to the fact that the Board of Directors wants to be closer and be abreast with the happenings in the hospital. For internal controls to work effectively and efficiently management and board have to put certain policies and programmes in place and get involved as well. From the study, management has put in place all the necessary policies and programmes to make things work in the hospital.

#### **4.4 Management Philosophy and Operating Style**

Q9. Does management hold formal meetings with staff to discuss policies and procedures?



All respondents agreed that management holds formal meeting with staff to discuss policies and procedures. This indicates that management has created a favourable working environment that discusses management decisions and feedback from employees. An organisation with a philosophy of holding regular meetings with employees is a source of motivation for both employees and management and that can increase productivity. The findings from the study indicate that there exists the right working environment.

Q10. How often does the management meet with employees?

All respondents including management agreed that management meets employees on every quarter to discuss pertinent issues on matters arising and the way forward on the operation of the hospital. Meeting with employees create a platform for ideas sharing and also afford management an opportunity to know subordinates and establish good working relationship.

Q11. How often are formal meetings held with staff to discuss policies?

All respondents unanimously said that management holds meetings with staff to discuss policies on quarterly basis. Policies are guidelines for decision making and as when condition and situation changes these policies must be reviewed to suite the current situation.

Q12. Does management solicit input from employees?

Management affirmed that employees' inputs are solicited in some decision making process. Management consults employees in decision making, however the study did not find out what specific inputs that are required. Requesting inputs from employees make them feel a sense of belongingness. This culture of consensus building exhibits democracy in the work place and assures employees of their recognition in the organisation.

The study revealed that management operates in a friendly environment and also respects employees' views by accepting inputs from employees in some decision making process. Such operating culture motivates employees to put their best and as a result increase productivity. The above discussion so far is clear manifestation that internal controls exist in the hospital through the institution of code of conduct and other policies for efficient operations.

#### **4.5 Assignment of Authority and Responsibility**

This section intended to measure the adequacy of the internal control system at the hospital. In order to achieve that objective the following questions were asked.

Q13. Are there formal procurement processes and written procedures?

Both management and subordinates agreed that there are procurement processes. This is to ensure that simple bureaucratic principles are followed. Such processes provide a framework for safeguarding assets and operations.

Q14. Does management have procedures to identify and monitor goals and objectives and determine if they are met?

From the survey respondents attested to the fact that management sets targets and also monitor them. All organisations have objectives to achieve and for these objectives to be achieved. In order to achieve these objectives targets must be set for employees and well monitored to ensure that those targets are met. Proper supervision is crucial in ensuring that objectives are achieved. However, the study did not look at how the monitoring is done in order to determine whether they are achieved or not.

Q15. Do the written procurement procedures meet national requirements?

Organisations do not operate in a vacuum. In order to achieve internal control's objectives of compliance with laws and regulations and also provide reliable financial reporting, any policies or procedures should be in line with national requirements. From the survey, respondents confirmed that the hospital's procurement procedures meet national requirements. This helps to provide the reasonable assurance that internal controls systems intends to.

#### 4.6 Risk Assessment Controls

Q16. Do policies and procedures address the safeguarding of assets?

All respondents answered that they believe their policies and procedures address safeguarding of assets. Physical controls in the organisation are meant to safeguarding of assets in order to provide some reasonable assurance to all stakeholders. This indicates that respondents agree that the controls adequate and able to detect and prevent fraud. Management's ability to well security checks at various points of entry at the hospital, operating from enclosed premises, a well management pharmacy and accounts departments attest to the fact the controls are able to safeguard assets.

Q17. Do policies and procedures address preventing fraud and errors?

A well designed internal control system should be able to prevent fraud and errors. Preventive control like separation of duties, proper authorisation, adequate documentation and physical control over assets have been put in place in the hospital to ensure that fraud and errors are addressed. From the study, respondents answered yes to the question that the hospital has policies and procedures that address preventing fraud and error.

Q18. Are there accounting staff given training to ensure that they have an understanding of the accounting and reporting process?



Staff training and development are very crucial for organisations success. Organisation's greatest assets are its human resources. In this regard organisations that spend resources to train its human capital propel them to sustainable future. From the study respondents said they are aware of training programs giving to accounting staff to update their knowledge on accounting and reporting process. Management also confirmed that there are regular training programmes for all departments. This indicates that management has made commitment to improving on the knowledge of its staff.

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Q19. Are policies and procedures approved by the board, reviewed annually, and revised as needed?

When respondents were asked as to whether the board meet to review and approve policies, all the respondents answered yes attesting to the fact that the board review and approve policies and procedures annually.

The study also revealed that the hospital's policies are able to address the safeguarding of assets. One essence of internal control system is to safeguards assets and therefore if internal controls are able to safeguard assets as in the case of the S.D.A hospital then that objective is achieved. Safeguarding of assets also means that it prevents fraud and error and from the study it is revealed that the internal controls of S.D.A hospital is monitored to prevent fraud and error. Policies are reviewed and approved by the board and this prevents fraud.

#### 4.7 Communication Controls

In order to achieve the third objective stated, that is the commitment of management to ensuring that the internal control systems work properly the following questions was put before management and staff to solicit their views.

Q20. Are the policies and procedures made available to staff?

Information flow in the organisation is very important and beneficial to the success of any organisation. The COSO reports on communication and information control recommends that pertinent information must be identified, captured and communicated in form and timeframe that enable people to carry out their responsibilities. This information flow should be carried through the designed channel. From the study respondents confirmed that policies, programmes and procedures are communicated and made available to staff.

Q21. How often are reports provided to management and the board?

Management reports are meant to communicate the performance of organisations to the board and the other stakeholders. The availability and frequency of management reports to a large extent support decision making process. From the study, respondents said that management reports are presented on quarterly basis. This goes to confirm that management meet staff on quarterly basis and during this time various reports are presented.

Q22. Is there a process in place for communicating changes in accounting methods, regulations, and rules to staff?

As already discussed, information and communication is very important in management of organisations. Effective communication also must occur in a broader sense, flowing down, across and up the organisation. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. From the study there is clear structure for information flow in the hospital. This concludes that management has an avenue to communicate changes in accounting methods to staff.

Q23. Are there established internal and external communication channel?

Organisations must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders. It is established that internal and external communication channel exist, as all the respondents answered that there is a channel of communication all for employees. This also affirms the issue that employees are given specific job roles to perform.

The research found out that policies and code of conducts are made available to employees to ensure easy flow of communication in the organisation. From the study, all respondents said that policies are made available to the staff. Management reports

are issued to the Board and Management on regular interval to ensure that communication control are well articulated to ensure information flow. To make it effective management has established proper channel of communication for which all issues are addressed.

#### 4.8 Segregation of Duties

The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction.

Q24. Who receives cash in the hospital?

All respondents said that all monies coming into the hospital are received by the cashier. This indicates that duties have been segregated in the hospital to avoid monitoring of activities.

Q25. Who signs expenditure cheques?

Respondents answered that the accountant is responsible for signing and approving payments. A further interview and observation revealed that the administrative manager also has a signatory to all payments vouchers and cheques.



Q26. Who authorizes or approves purchases of drug?

All the respondents said that the head of the medical personnel authorizes and approves purchases of drugs into the hospital.

Q27. Are employees required to take annual leave?

From the study respondents said that, employee are required to take annual. These are done to provide an opportunity for employees to rest and fresh themselves for efficient delivery of tasks.

Q28. Are employees from other department allowed to work in another department without authorisation?

Respondents reported that employees can work in another department only when they have been assigned to that department.

The section intended to confirm the assertions made earlier by respondents that the controls are able to prevent fraud. The finding from the study indicates that there is clear segregation of duties in the hospital.

#### 4.9 Chapter Summary

The chapter discussed data collected from the survey and analysis drawn using frequency tables and charts to support some tables for easier clarification. The data analysis was carried in accordance with the arrangement of the questionnaires as follows; general information, control environment, management philosophy, assignment of authority and responsibility, risk assessment, communication controls and segregation of duties.

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## CHAPTER 5

### SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

#### 5.0 Introduction

The whole study started with the introductory chapter which looked at the background of the study, the problem statement and the objective of the study. It further discussed the relevance of the study as well as the methodology and limitation of the study. Chapter two discussed the prior related literature. Chapter three then looked at the research design, sampling techniques and methods of collecting data and its analysis. Chapter four followed with the presentation of the data collected using frequency tables and charts in the analysis. This chapter however, looks at the summary of the findings from the entire research work, recommendations will be suggested and finally conclusions drawn.

#### 5.1 Summary of Findings

##### 5.1.1 Existence of Internal Controls

Findings arrived at from the study include board of directors having an oversight responsibility on management and staff with regards to integrity and ethical values. This has translated into management recruiting highly skilled labour as was revealed in the survey that greater number of employees have attained tertiary education.

Moreover, the board of directors and management has in place code of conducts which guide employees in the conduct of their business operations. From the study these policies, programmes and procedures are meant to provide a reasonable assurance in the category of effective and efficient operations, reliable financial reporting and compliance with laws and regulations. This is a clear indication that proper internal controls exist in the hospital as the first objective sought achieve.

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The research found out that policies and code of conducts are made available to employees to ensure easy flow of communication in the organisation. From the study, all respondents said that policies are made available to the staff. Management reports are issued to the Board and Management on regular interval to ensure that communication control are well articulated to ensure information flow. To make it effective management has established proper channel of communication for which all issues are addressed.

#### **5.1.2 Adequacy of the Internal Control System**

The study also revealed that the hospital's policies are able to address the safeguarding of assets. One essence of internal control system is to safeguards assets and therefore if internal controls are able to safeguard assets as in the case of the S.D.A hospital then that objective is achieved. Safeguarding of assets also means that it prevents fraud and error and from the study it is revealed that the internal controls of S.D.A hospital is



monitored to prevent fraud and error. Policies are reviewed and approved by the board and this prevents fraud.

### 5.1.3 Management's Commitment

Board and Management have expressed commitment to competence through prescribing specific job roles to employees to increase efficiency in their operations. There is also regular meeting of board and management to deliberate on the policies and procedures that will promote organisational efficiency. The existence of executive directors attests to the fact that the Board of Directors wants to be closer and be abreast with the happenings in the hospital.

The study revealed that management operates in a friendly environment and also respects employees' views by accepting inputs from employees in some decision making process. Such operating culture motivates employees to put their best and as a result increase productivity.

To ensure that objectives are achieved management set targets for employees and monitor the progress of department and employees. From the study it was revealed that management has a process to monitor employees to ensure that targets sets are achieved. The research work also identified that the hospital has procurement procedures and this involves many people each doing a particular job at each process.

## 5.2 Recommendations to the Hospital

This section covers some recommendations that will help improve operations and continue to strengthen existing internal controls. The COSO model measures internal control's effectiveness at a point in time and therefore these recommendations are made with that in mind.

### 5.2.1 Existence of the Internal Controls

It is a fact that internal controls exist yet some reservations are made. Conscious efforts should be made for employees to really understand the code of conducts and actually apply at work. Continuous efforts should be made on the internal controls to ensure they are active and working effectively and efficiently so that their existence will be meaningful.

### 5.2.2 Adequacy of the Internal Controls

Adequacy of the controls depends on how the controls are able to prevent, detect and correct fraud and error. In regard management should strengthen preventive controls as the hospital increases in size and operations. Management meeting should be more frequent than it exist now. The current meeting on quarterly basis is too long for monitoring an effective controls and it should be reduced to monthly. This monthly meeting can target heads of departments and top management in the hospital.

### 5.2.3 Management's Commitment

Even though as it is now, the controls are able to prevent fraud and error, it is recommended that management should review the controls on regular basis to match with the size and the environment. The hospital continues to grow and for that matter more controls should be brought in to strengthen operations.

### 5.3 Recommendation for Further Studies

This study does not claim to be a comprehensive deliberation on internal controls in hospital administration. Definitely there are prospects for further research, obvious among these are;

- Further study should be initiated into the internal controls of the hospital to include more departments other than three chosen for this study.
- Additional assessment should be carried out into this topic since the COSO model assesses and evaluates internal controls' effectiveness at a point in time.

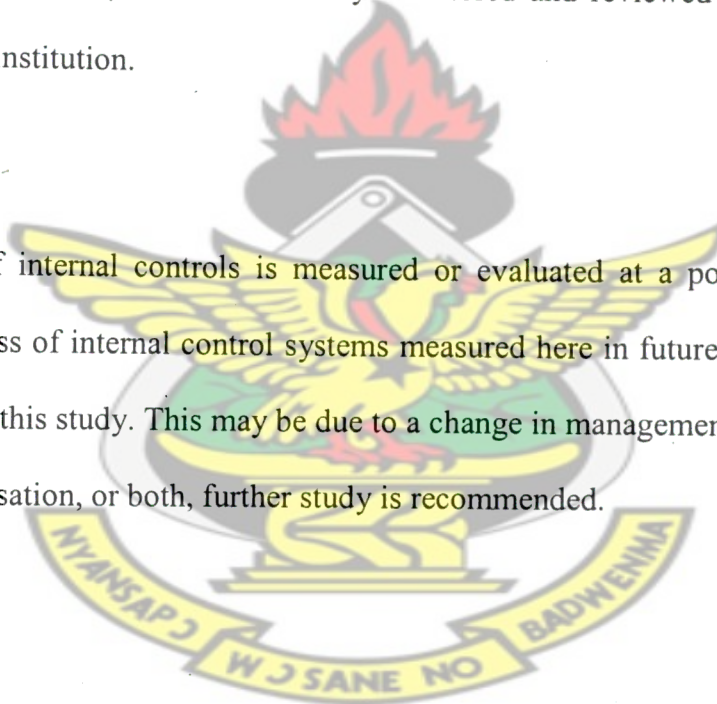
### 5.4 Conclusion

In recent years, increased attention has been devoted to internal controls by auditors, managers, accountants, and legislators. This is due to the fact that there is an increasingly mistrust between owners and management as a result of mismanagement

through misapplication of organisation's resources. To curtail this, there is the need for effective internal control system to ensure efficient management of resources. The study revealed that internal controls actually exist in the hospital and helps in the efficient operations. It was also revealed that the effectiveness of internal controls depends on the commitment of management, Board of Directors and staff.

Moreover the hospital is experiencing phenomenal growth and therefore the control systems should be constantly and continuously monitored and reviewed to meet the current status of the institution.

The effectiveness of internal controls is measured or evaluated at a point in time; therefore effectiveness of internal control systems measured here in future may not be effective as found in this study. This may be due to a change in management, growth in the size of the organisation, or both, further study is recommended.





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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY  
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DEPARTMENT OF BUSINESS ADMINISTRATION

**Questionnaires:**

This questionnaire is intended for the collection of data that will help the researcher to *“Assess the Effectiveness of Internal Control System at SDA Hospital-Kwadaso”* which is chosen as the case study. The exercise is for academic purpose only. Any information obtained will be kept confidential. Please complete the questionnaires by ticking the appropriate column.

**A. general information**

1. Gender a. male [ ] b. female [ ]
2. Marital status a. Single [ ] b. married [ ]
3. Department a. Finance [ ] b. Administration [ ] c. pharmacy [ ]
4. Your educational level. a. Basic [ ] b. Secondary [ ] c. Tertiary [ ]

**B. Control Environment controls**

5. Does the board provide an oversight responsibility to management and staff regarding integrity and ethical values? a. Yes [ ] b. No [ ]
6. Has the board adopted formal codes of conduct for the organisation? a. Yes [ ] b. No [ ]
7. Has the hospital got punitive or disciplinary actions for violation of the formal codes of conduct? a. Yes [ ] b. No [ ]
8. Are employees rewarded for achieving and exceeding targets set for them?  
a. Yes [ ] b. No [ ]

**C. Commitment to Competence of Management and Board of Directors**

9. Are there formal job descriptions for each position? a. Yes [ ] b. No [ ]
10. How often does the board meet? a. Weekly [ ] b. monthly [ ] c. quarterly [ ] d. other [ ]
11. Are there employees that are board members? a. Yes [ ] b. No [ ]
12. Is there a board sub-committee on finance? a. Yes [ ] b. No [ ]

#### **D. Management's Philosophy and Operating Style**

13. Does management hold formal meetings with staff to discuss policies and procedures? a. Yes [ ] b. No [ ]
14. How often does management meet with employees? a. weekly [ ] b. monthly [ ] c. quarterly [ ] d. other [ ]
15. How often are the formal meetings held with staff to discuss policies and procedures? a. weekly [ ] b. monthly [ ] c. quarterly [ ] d. other [ ]
16. Does management solicit input from employees? a. Yes [ ] b. No [ ]

#### **E. Assignment of Authority and Responsibility**

17. Are there formal procurement processes and written procedures? a. Yes [ ] b. No [ ]
18. Does management have procedures to identify/monitor goals and objectives and determine if they are met? a. Yes [ ] b. No [ ]
19. Do the written procurement procedures meet national requirements? a. Yes [ ] b. No [ ]

#### **F. Risk Assessment Controls**

20. Do the policies and procedures address the safeguarding of assets? a. Yes [ ] b. No [ ]
21. Do policies and procedures address preventing fraud and intentional errors? a. Yes [ ] b. No [ ]
22. Are the accounting staff given training to ensure that they have an understanding of the accounting and reporting processes? a. Yes [ ] b. No [ ]

23. Are policies and procedures approved by the board, reviewed annually, and revised as needed? a. Yes [ ] b. No [ ]

### G. Communication Controls

24. Are the policies and procedures made available to staff? a. Yes [ ] b. No [ ]
25. How often are the reports provided to management and the board? a. weekly [ ] b. monthly [ ] c. quarterly [ ] d. yearly [ ]
26. Is there a process in place for communicating changes in accounting methods, regulations, and rules to staff? a. Yes [ ] b. No [ ]
27. Are there established internal and external communication channels? a. Yes [ ] b. No [ ]

### H. Segregation of Duties

28. Who receives cash in the hospital a. Administrator [ ] b. accountant [ ] c. cashier d. doctor [ ]
29. Who signs expenditure cheques? a. Administrator [ ] b. accountant [ ] c. cashier d. doctor [ ]
30. Who authorizes/approves purchases of drugs? a. Administrator [ ] b. accountant [ ] c. cashier d. doctor [ ]
31. Are employees required to take annual leave? Yes [ ] No [ ]
32. Are employees from one department allowed to work in another department without authorization? Yes [ ] No [ ]

*Thank you*

# KNUST School of Business

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KSB/SA/Vol. 1

13<sup>th</sup> May, 2009

The Administrator  
SDA Hospital, Kwadaso  
Kumasi

# KNUST

Dear Sir / Madam,

## LETTER OF INTRODUCTION

I hereby introduce the bearer, Tandoh Bismark as a Master of Business Administration (MBA) student from KNUST School of Business (KSB), Kumasi.

As part of KNUST School of Business' curriculum, students offering Postgraduate courses are supposed to undertake research.


Tandoh Bismark has chosen to undertake this research in your esteemed organization on "Assessing the Effective of the Internal Control Systems at SDA Hospital, Kwadaso".

I would be grateful if you would accord him the necessary support.

I count on your usual co-operation.

Thank you.

Yours faithfully,

  
J. Dwumfour,  
Prin. Admi. Asst.