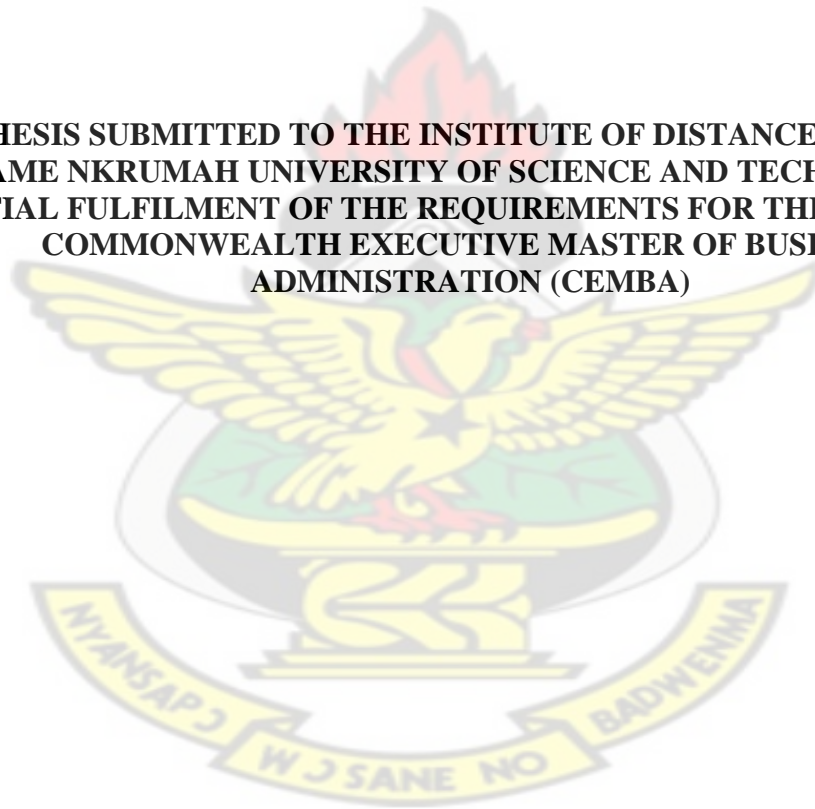


**AN EVALUATION OF INTERNAL FINANCIAL CONTROLS IN PUBLIC
HOSPITALS A CASE STUDY OF REGIONAL AND MUNICIPAL HOSPITAL,
SUNYANI AND DISTRICT HOSPITAL, BECHEM (BRONG-AHAFO)**

BY
ASANTE EFFAH (B.COM)

**A THESIS SUBMITTED TO THE INSTITUTE OF DISTANCE LEARNING,
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS
ADMINISTRATION (CEMBA)**



©SEPTEMBER 2011

DECLARATION

I hereby declare that this submission is my own work towards the CEMBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

ASANTE EFFAH (PG2043608)

15TH SEPT., 2011

.....
Student Name & ID

.....
Signature

.....
Date

Certified by:

PATRICK O. GYAASE

15TH SEPT., 2011

.....
Supervisor's Name

.....
Signature

.....
Date

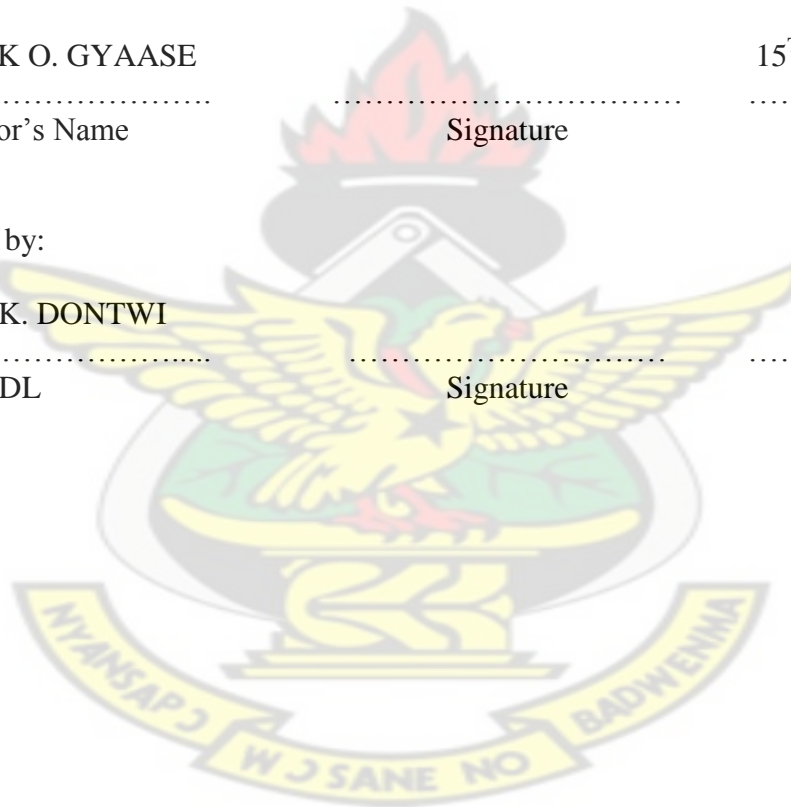
Certified by:

PROF. I.K. DONTWI

.....
DEAN, IDL

.....
Signature

.....
Date



DEDICATION

This work is dedicated to the Almighty God, my parents Mr. & Mrs. Effah and my family Ansu, Afra and Yeboaa Effah. To a friend of mine called Mart. God blesses you all for your emotional support.

KNUST



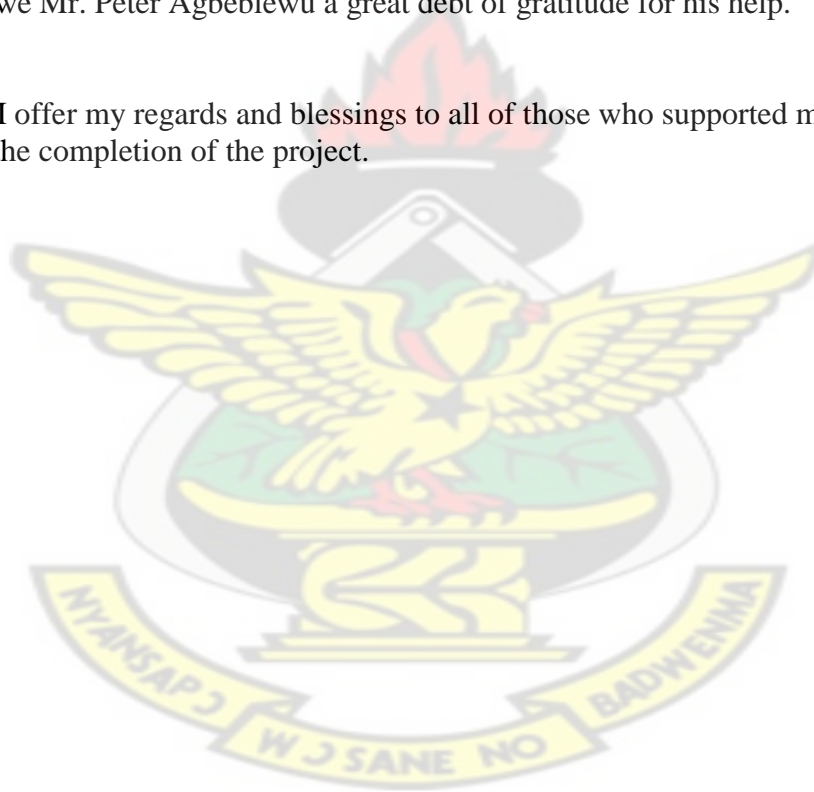
ACKNOWLEDGEMENT

I am heartily thankful to my supervisor, Mr. Patrick Ohemeng Gyaase, whose encouragement, guidance and support from the initial to the final level enabled me to develop an understanding of the subject.

I cannot leave behind the staff of Regional and Municipal Hospital in Sunyani and District Hospital, Bechem Government Hospital for their objectivity and co-operation in answering the questionnaire.

I also owe Mr. Peter Agbeblewu a great debt of gratitude for his help.

Lastly, I offer my regards and blessings to all of those who supported me in any respect during the completion of the project.



ABSTRACT

The main objective of the study is to evaluate internal financial controls in public Hospitals using The Regional and Municipal hospitals in Sunyani and The District hospital, Bechem (Brong-Ahafo) as case study. It was also to establish the existence of internal financial controls. It was to find out the level of compliance. Further, to establish the consequences of compliance and non-compliance with regulations. Data was collected from three (3) Hospitals and twenty-five (25) members of staff. Purposive sampling and observation technique were used. Questionnaires and structured interview techniques were used to gather data regarding internal financial controls in the three Public Hospitals. Data analysis and presentation were done with the aid of Microsoft Excel but carefully done to give the researcher a hand-on experience in carrying out such an exercise. The research period covered six (6) months. It was discovered from the findings that there were existence of internal financial controls regulated by Financial Administration, Procurement, Internal Audit Agency Acts and indirect application of Committee of Sponsoring Organizations of the Treadway Commission (COSO). It was revealed that the level of compliance was high and this is very commendable and must be encouraged. It was also discovered there was fair amount of compliance but sanctions are rarely given to a person who does not comply with the laws and conventions of internal financial controls. It is recommended that punitive action need to be instituted to caution perpetrators, so people will not have the motivation to circumvent the internal control structures because it is not worth it. This would help to enhance and improve the internal control to achieve effective and efficient internal control operations. It was recommended that pre-audit should be done for all transactions and seriousness need to be attached to it. This would help to use conventions and regulated framework well. This would help to avoid so many avoidable issues which may not appear before external auditor in future. It was recommended that audit units need to be strengthened in the public hospitals. It was recommended that review of internal control need to be done from time to time, so that new standards can be embraced for performance and improvement.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT.....	v
TABLE OF CONTENTS.....	vi
List of Tables	viii
List of Abbreviations	ix
List of Appendices	x
CHAPTER ONE	1
INTRODUCTION	1
1.0 Introduction to the Study	1
1.1 Statement of the Problem.....	2
1. 2 Objectives of the Study.....	3
1.3 Research Questions	3
1.4 Significance of the Study	4
1.5 Scope of the Study	4
1.6 Limitations of the Study.....	5
1.7 Structure and Organization of the Study.....	5
CHAPTER TWO	6
LITERATURE REVIEW	6
2.0 Introduction.....	6
2.1 Internal Controls Defined.....	6
2.2 Regulatory Frameworks and Guidelines for Internal Financial Controls systems ..	7
2.3 Elements of Internal Control.....	8
2.3.1 Control Environment	8
2.3.2 Risk Assessment	9
2.3.3 Control Activities.....	9
2.3.4 Information and Communications	10
2.3.5 Monitoring	10
2.4 Internal Control: Guidance for Directors on the Combined Code (The Turnbull Guidance).....	10
2.4.1 CICA’s Criteria of Control Board Guidance on Control	11
2.4.2 Comparison of COSO, CoCo and Turnbull	11
2.5 Control Objectives for Information and Related Technology (COBIT).....	12
2.6 The Sarbanes-Oxley Act (2002) in the US	13
2.7 Recent Developments in Internal Control.....	14
2.7.1 The King Report on Corporate Governance for South Africa	14
2.7.2 Fédération des Expert Comptables Européens (FEE).....	14
2.7.3 Internal Control in the Netherlands.....	15
2.8 The Legal Framework of Financial Administration and Transparency in Ghana .	15
2.8.1 Financial Administration Act, 2003 (Act 654)	15
2.8.2 Internal Audit Agency Act, 2003, (Act 658)	16
2.8.3 Public Procurement Act, 2003 (Act 663).....	17
2.9 Importance of Internal Controls.....	18
2.9.1 Benefits of Internal Controls.....	21

2.10 Limitations of Internal Financial Controls.....	22
2.10.1 Design flaws.....	23
2.10.3 Poor response to reported anomalies	24
2.10.4 Collusion	25
2.10.5 Wrongdoing by top managers	25
2.10.6 Personnel Errors or Mistakes	26
2.10.7 Judgement	26
CHAPTER THREE	27
RESEARCH METHODOLOGY	27
3.0 Introduction.....	27
3.1 The Research Design	27
3.2 Justification for the Method used to Design the Research.....	28
3.3 Population of Study.....	29
3.4 Sampling procedures	29
3.5 Sampling Technique	30
3.6 Instruments Used	30
3.7 Validity and Reliability of data collection	31
3.8 Hospitals Profile.....	32
CHAPTER FOUR.....	33
ANALYSIS OF FINDINGS AND RESULTS	33
4.0 Introduction.....	33
4.1 Background Information	33
4.2 Number of Years of Experience	34
4.3 Number of Years worked for the Organisation.....	35
4.4 Highest Level Educational Background	35
4.5 Job type of Respondents	36
4.6 Grade/Position of Respondents.....	37
4.9 Control Environment	38
4.10 Risk Analysis	40
4.11 Control Activities.....	41
4.12 Information and Communication.....	41
4.13 Monitoring	43
4.14 Compliance with Ghana's financial provisions.....	45
CHAPTER FIVE	47
FINDINGS, RECOMMENDATION AND CONCLUSION	47
5.0 Summary of findings.....	47
5.1 Existence of Internal Financial Controls in Public Hospitals	47
5.2 Level of Compliance and other Financial Management Regulations	48
5.3 Implication for Compliance and Non-compliance.....	48
5.4 Implementation	48
Recommendations	49
Conclusion	50
Bibliography	52
APPENDIX 1	59

List of Tables

TABLE 1: NUMBER OF STAFF OF THE HOSPITALS SAMPLED	29
TABLE 2: SAMPLE FOR THE STUDY	29
TABLE 4: NUMBER OF YEARS OF WORK EXPERIENCE OF RESPONDENTS.....	34
TABLE 5: NUMBER OF YEARS WORKED FOR THE ORGANISATION	35
TABLE 6: EDUCATIONAL BACKGROUND OF RESPONDENTS	35
TABLE 7: JOB TYPE OF RESPONDENTS.....	36
TABLE 8: JOB GRADES OF RESPONDENTS	37
TABLE 9: RESPONSE FOR CONTROL ENVIRONMENT	38
TABLE 10: RESPONSE FOR RISK ANALYSIS	40
TABLE 11: INFORMATION AND COMMUNICATION.....	41
TABLE 12: MONITORING.....	43
TABLE 13: COMPLIANCE WITH GHANA'S FINANCIAL PROVISIONS.....	45



List of Abbreviations

- AICPA** – American Institute of Certified Public Accountants
- CICA** – Canadian Institute of Chartered Accountants
- COBIT** – Control Objectives for Information and Related Technology
- CoCo** – Criteria of Control Board Guidance on Control
- COSO** – Committee of Sponsoring Organizations of the Treadway Commission
- CPI** – Corruption Perceptions Indices
- EDGAR** – Electronic Data Gathering, Analysis and Retrieval
- EU** – European Union
- FCPA** – Foreign Corrupt Protection Act
- FEE** – Federation des Expert Comptables Europeens
- HKICPA** – Hong Kong Institute of Certified Public Accountants
- ICAEW** – Institute of Chartered Accountants of England and Wales
- ICAG** – Institute of Chartered Accountants Ghana
- IT** – Information Technology
- MDA** – Ministries, Departments and Agencies
- MHS** – Municipal Hospital Sunyani
- MMDA** – Metropolitans, Municipals and Districts Assemblies
- RHS** – Regional Hospital Sunyani
- SEC** – Securities and Exchanges Commission
- SOX** – Sarbanes-Oxley Act
- UK** – United Kingdom
- US** – United States
- USA** – United States of America

List of Appendices

Appendix 1	Questionnaire to the Management and Staff of Public Hospitals.....	64
------------	--	----

KNUST



KNUST



CHAPTER ONE

INTRODUCTION

1.0 Introduction to the Study

Internal financial controls are systems within a company that design methods and procedures to produce effective operations, establish reliable financial reporting, avoid fraud and maintain compliance with regulations and laws. Internal financial controls evaluation is meant to help institution review and assess the structure of accountability within the organization. An effective system of internal financial controls gives assurance regarding the integrity of financial reporting and safeguarding of assets. Fraud can easily be detected through internal controls. Such controls also help accuracy in financial reporting (Asare, 2006).

Internal financial controls are used by organisations to make sure financial information is accurate and valid. The existences of internal financial controls are important because they protect the integrity of an organisation's financial information and allow stakeholders a measure of financial health. Strong internal controls can also increase the profitability of a company (Krishnan, 2005).

Public corporations have shareholders demanding accountability. However, in public hospitals accountability demands are not as strong. In the case of hospitals, the taxpayers and donors typically are late in taking action, but because of funding questions, the incentives for and number of effective internal financial controls in the public sector

continues to increase (Hardimam, 2006) U.S. Government Accountability Office (GAO) recommends the use of internal financial controls to improve financial reporting in the public sector (George, 2005).

1.1 Statement of the Problem

There are various components of internal financial control systems used to develop and evaluate an organisational financial regulatory compliance. These components are control environment, risk assessment, control activities, information and communication and monitoring. They need to work together to form a strong set of methods and procedures the company follows in its operations.

In addition to these internal control system, there are other laws and institutional frameworks and are established to ensure sound financial administration of state and other enterprises. Among these are The 1992 Constitution of the Republic of Ghana, the Criminal Code of 1960 (Act 29), the Financial Administration Act (Act 654), the Public Procurement Act (Act 663), and the Internal Audit Agency Act (Act 658) and other various legal frameworks to enhance the effectiveness and efficiency of internal financial controls and to ensure financial accountability in public sector financial administration in Ghana.

The Corruption Perceptions Indices (CPI) suggests a prevalence of corruption in African countries (Transparency International, 2006). Hence, there is apparent risk of senior public officers overriding internal financial controls to achieve their private gains.

With increasing donor support for the health sector and increasing budgetary allocation there are calls for stringent financial management to ensure value for money and thereby increase the total wellbeing of the country. Therefore, there is the need to evaluate effectiveness and efficiency in the implementation of internal financial controls in public sector entities like the Public Hospitals.

1.2 Objectives of the Study

- i.** The research is to establish the existence or otherwise of internal financial control systems in public hospitals.
- ii.** To find out the level of compliance and other financial management regulations that is in operation.
- iii.** To establish the consequences for compliance or non-compliance of such systems and regulations.
- iv.** To make necessary recommendation.

1.3 Research Questions

The health sector continues to be plagued by difficulties in achieving the various targets despite the increases in donor support as well as budgetary allocation.

The research therefore seeks to answer the following questions.

- i.** Are there operational internal financial controls systems in public hospitals?
- ii.** What are the other conventions and laws that govern financial management in the hospitals?

- iii. To what extent are these systems and laws being complied with or otherwise applied in the hospitals?
- iv. What are the difficulties in their implementation?

1.4 Significance of the Study

The significance of the study would be as follows:

- i. The choice of Public hospitals for this research is because public hospitals provide critical access points for our health needs (Huang, 2005) because of their special commitment to serving the citizenry (Bazzoli, 2003).
- ii. The research would enable the government to be aware of the internal financial controls associated with non-profit making organisation like in the health sector and to find appropriate steps in addressing them.
- iii. The personnel of the sector would become aware of the problems and with the recommendations, and thus be in a better position to solve them.
- iv. Findings from the dissertation are expected to give managers insight into internal financial controls in place and to appropriate it to achieve results.
- v. This study can be used as reference for further research.

1.5 Scope of the Study

In evaluating the internal financial system controls in non-profit making organisations like public hospitals, three public hospitals had been considered for the dissertation one District, one Municipal and one Regional to enable comparisons. The target units or departments are accounting, auditing, administrative staff and medical personnel in the public hospitals.

1.6 Limitations of the Study

The major limitations associated with the dissertation were:

- i.** Ideally, the study should have covered all the public hospitals in Ghana based upon accessibility associated with locations of the facilities. However, three public hospitals were chose from Brong-Ahafo Region due to time constraints and limited financial resources.
- ii.** Due to resource constrains the sample size was limited to three public hospitals targeting four departments or units. They are accounting, auditing and administrative staff and medical personnel.

1.7 Structure and Organization of the Study

- i.** Chapter one, covers the dissertation introduction and context, the statement of the problem, dissertation questions, the objectives of the study, significance of the study, scope, limitations of the study, and structure and organisation of the study.
- ii.** Chapter two examines relevant literature where various views from different authors are reviewed.
- iii.** Chapter three concentrates on the methodology of the dissertation.
- iv.** Chapter four focuses on the data, interpretation, analysis and research findings.
- v.** Chapter five covers the recommendations and conclusion.
- vi.** Bibliography
- vii.** Appendices

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Evaluation of internal controls is an essential part of the structure and operations of any organization. The larger and more complex the organization and its activities, the more care must be given to the design of the internal controls systems. But control systems are effective only if they are installed, maintained, and used by competent, dedicated managers (Krishnan, 2005).

2.1 Internal Controls Defined

Evaluating internal controls is one of internal auditing primary responsibilities. In 1992, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defined internal control as a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations: Internal Control—Integrated Framework (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992).

This organizational approach provides both profit and non-profit organisation with a common, accepted, and recommended reference point to assess the quality of its internal financial controls: Internal Control over Financial Reporting — Guidance for Small Public Companies ((COSO), 2006).

A company's objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it (Doyle, 2006).

2.2 Regulatory Frameworks and Guidelines for Internal Financial Controls systems

As the severity of high-profile corporate accounting failures has increased steadily over the last decade, there has been a corresponding increase in the development of new legislation, standards, codes and guidelines to assist organizations in improving their internal controls. The recognition of the critical importance of internal controls is evident in the key frameworks and guidelines on the subject. In the 1990s internal control frameworks such as the COSO (USA), Turnbull (UK) and CoCo (Canada) emerged, some of which have recently been reviewed and updated or supplemented. The COSO's Internal Control Integrated Framework (Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992) and Turnbull's Guidance on Internal Control (1999) both took a much broader approach to internal control than Sarbanes-Oxley, in terms of scope, objectives and approach. They focused on all controls covering the company's entire range of activities and operations, not just those directly related to financial reporting and adopted a risk-based approach to internal control. In addition,

there are many other publications on the theory and benefits of internal control. Internal controls became a highly pertinent and topical business issue at the beginning of the 21st century following a series of large corporate scandals and failures. These failures led to calls for enhanced internal control. Governments and legislators, regulators, and standard setting groups came under increasing pressure to take measures to assist in preventing similar shareholder losses from occurring in the future by (Professional Accountants in Business Committee, 2006).

2.3 Elements of Internal Control

Internal financial controls systems comprise of five interrelated components. These components are used to develop an internal control system and are also the means for evaluating it. These components work together to form a strong set of methods and procedures that organisations follow in its operations (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992).

2.3.1 Control Environment

The control environment is the component of internal controls. It includes factors such as integrity, ethical values, competence of the workers and the management's philosophy in the organization. It is the component that provides the foundation needed for the other components to build on in internal financial controls systems (The Committee of Sponsoring Organisations of the Treadway Commission (COSO), 2005).

2.3.2 Risk Assessment

According to (The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2004) risk assessment is that component which is used for identifying risks in the system. For risk assessment to be effective, preventative measures are put into place by establishing clear objectives. This component identifies and analyzes possible risks internally and externally. This component manages risk by developing precise procedures to achieve consistent objectives within the organization. Risk assessment always takes change into consideration within the objectives set forth.

2.3.3 Control Activities

Control activities include policies, procedures and practices developed to increase risk management strategies. Specific control activities include separation of duties, verifications, reconciliations and physical security of assets. These policies are designed to ensure that management directives are fulfilled (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992). Again, COSO, 1992 observed that due to the wide range of control activities and the volume and nature of the evaluation procedures, evaluation of the third component of internal control system, namely control activities, is limited only to the qualitative evaluation.

2.3.4 Information and Communications

Information must be identified, captured and communicated timely and effectively and is achieved through this internal control component. This component is designed to allow employees the ability to carry out their responsibilities in the best manner possible. Information must be communicated externally as well to all parties involved in the company. Information that is communicated in this fashion allows control activities and employee responsibilities to be more effective (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992).

2.3.5 Monitoring

Monitoring includes assessing the performance of internal control components, ensuring they are operating effectively. This component includes allowing managers clear responsibility guidelines so that they are able to effectively do their jobs. It also includes performing evaluations through audits and other independent parties, ensuring that the company is handling the operations of the business correctly (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992).

2.4 Internal Control: Guidance for Directors on the Combined Code (The Turnbull Guidance)

Internal Control: Guidance for Directors on the Combined Code commonly referred to as Turnbull guidance (Institute of Chartered Accountants 1999) at the request of the

London Stock Exchange to provide guidance to directors of listed companies in implementing the requirements in the Combined Code relating to internal control.

Turnbull further states that, “For the purposes of this guidance, internal controls considered by the board should include all types of controls including those of an operational and compliance nature, as well as internal controls (Institute of Chartered Accountants, 1999).

2.4.1 CICA’s Criteria of Control Board Guidance on Control

CICA’s Criteria of Control Board Guidance on Control (CoCo) (Canadian Institute of Chartered Accountants, Canada 1995) defines control as comprising “those elements of an organization (including its resources, systems, processes, culture and tasks) that, taken together, support people in the achievement of the organization’s objectives.”

The guidance is intended to be useful in making judgments about designing, assessing and reporting on control.

2.4.2 Comparison of COSO, CoCo and Turnbull

As internal control frameworks, COSO, Turnbull and CoCo complement each other. They each see internal control as a process/set of processes designed to facilitate and support the achievement of business objectives. Each of the frameworks takes the wider approach to internal control, covering consideration of significant risks in operations, compliance and financial reporting. Objectives such as improving business effectiveness are included, as are compliance and reporting objectives. The narrow approach to

internal control is usually restricted to internal control over financial reporting (Professional Accountants in Business Committee, 2006).

Underlying each of the three frameworks is the fundamental principle that effective internal control is a process effected by people that supports the organization in several ways, enabling it to provide reasonable assurance regarding risk and to assist in the achievement of objectives.

Fundamental to each of the frameworks is that internal control is integral to the activities of the company, and not something practiced in remote corners.

2.5 Control Objectives for Information and Related Technology (COBIT)

In recognition of the importance of IT internal controls, an IT internal controls framework, Control Objectives for Information and Related Technology (COBIT) was developed in 1996 as a reference framework for developing and managing internal controls and appropriate levels of security in IT. COBIT provides a set of generally accepted IT control objectives to assist entities in maximizing the benefits derived through the use of IT and developing the appropriate IT governance and control in a company.

COBIT adapted its definition of internal control from COSO as the set of policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives are achieved and that undesirable events are prevented, detected and corrected.

While COSO and Turnbull focus on the achievement of business objectives at the overall entity level, COBIT focuses specifically on information technology. Therefore while the concept of internal control presented in COBIT complements the other two frameworks, it applies this concept to controls over IT, and not the business as a whole (COBIT 4.0 n.d.).

2.6 The Sarbanes-Oxley Act (2002) in the US

In July 2002, the United States Congress passed the Sarbanes-Oxley Act (SOX) in an effort to reduce public concern over a number of high profile corporate failures in the US. It was hoped that SOX would assuage the concerns of investors and restore confidence in corporate reporting.

The Sarbanes-Oxley Act concentrates on improving the accuracy and reliability of corporate disclosures. Its legislation requires companies to develop a system for continuous evaluation of both internal and external influences on business performance.

SOX focuses on one specific aspect of internal control, that related to internal control over financial reporting whereas, as been previously noted, the key internal control frameworks such as COSO, Turnbull and CoCo take a wider business-led approach and cover all controls.

Professional Accountants in Business Committee, Information Paper August, 2006.

2.7 Recent Developments in Internal Control

Since 2002, a number of bodies around the world have looked at current guidelines and best practice in the area of internal control in response to the same business scandals that prompted SOX. In the UK during 2004 and 2005, the Turnbull Review Group reviewed the 1999 guidance, making very few changes. In Hong Kong, the Hong Kong Institute of Certified Public Accountants (HKICPA) produced a document entitled Internal Control and Risk Management.

2.7.1 The King Report on Corporate Governance for South Africa

The King Report on Corporate Governance for South Africa was published in 2002 and recommends risk management and internal control should be practiced throughout the company by all staff, and should be embedded in day-to-day activities (The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2004).

2.7.2 Fédération des Expert Comptables Européens (FEE)

At a European level, the Fédération des Expert Comptables Européens (FEE) produced a discussion paper in March 2005 which includes a review of best practice amongst companies in risk management and internal control, a review of regulatory developments in the US and EU in response to the high-profile accounting scandals, and a survey of regulatory requirements on risk management and internal control in EU Member States (Professional Accountants in Business Committee, 2006).

2.7.3 Internal Control in the Netherlands

The Dutch approach is based on managing and controlling, responsibility and right of say, and on accountability and supervision. Integrity and transparency are key issues. The strength of internal control is based on creating checks and balances between key stakeholders and by identifying separate responsibilities for the:

- (Independent) Supervisory Board;
- Management Board (Two tier board system);
- Annual Meeting of Shareholders; and
- External Auditor.

The report provided voluntary recommendations applicable to both listed and other types of enterprises, including not-for-profit.

2.8 The Legal Framework of Financial Administration and Transparency in Ghana

2.8.1 Financial Administration Act, 2003 (Act 654)

The Act defines clearly the powers and responsibilities of financial stewards (individual office holders) and their precise roles. It defines the central players in the financial administration of the country, the assignment of responsibilities, their functions and roles. This includes the duties of the Controller and Accountant-General.

The act among others establishes the conditions for the control and management of public funds, the central mechanism for the control of public finances, outlining the

principles by which funds are collected into the consolidated fund, kept and disbursed, the modalities for the collection of revenue.

More importantly it establishes budgetary control over public finances related to revenue and expenditure, and to receipts and payments describing the conditions under which appropriations are made. Government expenditure is subject to annual legislative appropriation.

It empowers the Controller and Accountant-General to ensure that payments from appropriations are lawfully made. No payment must be made except in a manner provided by law. Specific enactments may give continuing authority for payments such as charged expenditure and establishes principles under which Government Accounts are managed and kept, the preparation of government accounts and the reporting of final accounts of government.

It describes the conditions for liability, offences and penalties and the establishment of Financial Administration Tribunal (The Institute of Chartered Accountants Ghana, 2010).

2.8.2 Internal Audit Agency Act, 2003, (Act 658)

The internal audit agency Act 2003, (Act 658) is arranged into three sections.

Part one establishes the internal audit agency as an apex oversight body to coordinate, facilitate and provide quality assurance for internal audit activities within the public sector. The agency is to set standards and procedures for internal audit within the public service;

It is the duty of the agency to ensure that the financial, managerial and operating information reported internally and externally is accurate, reliable and timely;

Part two establishes internal audit units within MDA'S and MMDA'S and provides for professionalism and competence, integrity and confidentiality. The Agency has responsibility for issues relating to standards, ethics, training, research and other technical and professional matters;

Part three prescribes the submission of annual report of the agency to the President with a copy to the Auditor-General.

It establishes penalties for providing false information and failure to produce documents requested by the Director-General (The Institute of Chartered Accountants Ghana, 2010).

2.8.3 Public Procurement Act, 2003 (Act 663)

The Public Procurement Act 2003, (Act 663) is divided into nine (9) parts and covers the following:

- (1) The Act establishes the Public Procurement Board, its precise powers, and its reporting system;
- (2) It provides for Procurement Structures, their scope of application, tender entities and their evaluation system;
- (3) It establishes Tendering Procedures, provision of Tender Documents, and clarification and modification of tender documents;
- (4) It establishes the procedures for the submission of tenders, tenders securities, evaluation of tenders and acceptance system;

- (5) It establishes the methods and procedures to engage the services of consultants;
- (6) It establishes a review system involving procurement, administration, application of rules and suspension of procurement proceedings;
- (7) It establishes the procedures for disposal of stores, plant and equipment;
- (8) It establishes miscellaneous provisions covering code of conduct; and
- (9) Request for information by the board, statutory audits, review of threshold levels public access to legal texts and international obligations (The Institute of Chartered Accountants Ghana, 2010).

2.9 Importance of Internal Controls

Research found effective and efficient internal controls as a result of independent audit committee characteristics of size, of meeting frequency and financial expertise to serve (Bedard, 2004).

For public corporations finds the association between independent audit committee and internal controls problems (Krishnan, 2005). She compares 128 public corporations who changed auditors and had reported internal controls deficiencies from 1994-2000 with those firms who did not change auditors and had no internal financial controls deficiencies.

Commercial entities which have effective and efficient internal controls have characteristics like independent audit committee, increase committee size and financial expertise, positively influence financial reporting and reduce the likelihood of misstatement or restatement (Abbott, 2004) (J. D. Carcello, 2000) (Krishnan, 2005). Generally, public hospitals committees function, composition, and effectiveness differ from audit committees of public corporations.

Corporate independent audit committee seem to influence corporate internal controls (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1992) (Krishnan, 2005) (New State Attorney General, 2005) (Securities and Exchange Commission (SEC), 2003a). The model audit committee charter identifies specific duties related to internal financial controls and financial reporting. Most corporate committees take their role on internal financial controls seriously (J. D. Carcello, 2002) (DeZoort, 1997) and engage in the examination of internal financial controls (Krishnan, 2005).

Current AICPA standards require the external auditor communicate to the audit committee about significant deficiencies in the entity's internal financial controls (American Institute of Certified Public Accountants (AICPA), 2006) whether government funded or not. In some non-profit hospitals, (Pridgen, 2007) found internal financial controls to be less effective than corporate internal financial controls, especially if not government funded.

Business corporations consider all types of control including those of operational or compliance nature as well as internal controls. The systems of internal controls have an essential role to play in ensuring that a business is well run and its strategic objectives achieved.

By increasing quality of internal controls of corporations obtain a significantly lower cost of debt financing (Anderson, 2004). Other studies in public corporations find that

improved internal financial controls related to improved quality financial reporting outcomes (Agrawal, 2005). Internal controls have great impact on corporations.

Internal control over financial reporting has long been recognized as an important feature of a company (Kinney, 2000). However, prior to Sarbanes-Oxley, standards in place were very limited in scope. The sole statutory regulation of internal control over all SEC registrants was the Foreign Corrupt Practices Act (FCPA) of 1977 and the only required public disclosure of significant internal control deficiencies for all SEC firms, when disclosing a change in auditors (Geiger, 2002) (Krishnan, 2005).

Internal control is a major focus of recent regulatory changes under Sarbanes-Oxley. However, empirical research on the evaluation of internal financial controls quality prior to Sarbanes-Oxley is extremely limited. The most direct evidence is provided by (Krishnan, 2005). She examines 128 internal control deficiencies (including significant deficiencies that are not classified as material weaknesses) reported from 1994–2000 in firms that changed auditors. Her focus is on the association between audit committee quality and internal control quality, which she finds to be positively related. However, her sample is limited to firms that changed auditors (Doyle, 2006). Present a much broader study of the evaluation of internal financial controls problems with our sample of 779 unique firms disclosing material weaknesses in the three years following the effective date of Section 302.

To provide evidence on the pervasiveness of material weakness disclosures prior to

Sarbanes-Oxley (Doyle, 2006) search all the EDGAR database for the three years prior to Section 302 (from August 1, 1999 to August 1, 2002) using the keywords “material weakness” and “material weaknesses.” They identify 61 distinct disclosures of material weaknesses. Of these 61 disclosures, 40 are listed changes in and Disagreements with Accountants on Accounting and Financial Disclosure, and pertain to a change in auditor, the mandatory disclosure requirement discussed above. Among the 21 voluntary disclosures noted, six were disclosed in conjunction with a restatement of the financial statements, four with the disclosure of theft or fraud, and two were identified and disclosed by new senior management. Clearly there has been a marked increase in the disclosure of material weaknesses following the passage of Sarbanes-Oxley, opening the door to many new studies in this area.

2.9.1 Benefits of Internal Controls

Under the current operations of business in general, the importance of the internal control can be divided into the following (Rittenberg October, 2005).

1. Detecting error and fraudulence. Through the enhanced structure of internal control, which includes the establishment and improvement of control environment, according system and control program, the possibility of error and fraudulence can be diminished to the minimum level.
2. Decreasing illegal conduct. The regulations a business entity needs to comply with can be subtle and complicated. If a reckless conduct leads to results of law breaking, it might not only damage the public image of the entity (reputation risk) but also carries the risk of difficulties of operation due to time consuming

law suits and indemnities. The establishment and enhancement of internal control helps in decreasing illegal conducts.

3. Improving the competitiveness of the business entity. A well built –in and efficient internal control system contributes to the success of a business entity. In the highly competitive market, a well-managed internal control system guards the business entity from failure. The small scale of internal control inside the business entity improves employee's understanding of company goals and objectives and builds up the concepts of internal control; employees tend to carry out more exactly on the company policies and programs thus the operating efficiency can be improved as a whole. Good control means that risks are identified and dealt with effectively.
4. Improving the quality of data. Strong internal control processes should lead to more efficient operation and improve the quality of data management, directors and shareholders can rely on to make decisions.
5. Helping to create the business infrastructure. Many new businesses fail because they do not build a control infrastructure to match the business visions of their founders.
6. Decreasing auditors' fees. Effective internal control system allows auditors to rely on it and by reducing the auditing time and effort, the fee can be decreased.

2.10 Limitations of Internal Financial Controls

A foundation concept underlying the definition of financial control is that a financial control structure provides only reasonable assurance that agency objectives will be achieved. Limitations are inherent in all financial control systems. These results from

poor judgement in decision-making, human error, management's ability to override controls, collusion to circumvent control, and consideration of costs and benefits relative to financial control. No matter how financial control operates, some events and conditions are beyond management's control (Lannoye, 1999).

No system of controls can be an absolute guarantee against the risk of wrongdoing or honest error. Any system that attempted to reach that goal, especially in a complex organization, would impose costs far out of proportion to the risks and create rigidities for the organization. Thus the proper goal of the control system should be to provide "reasonable assurance" that improprieties will not occur or that if they occur, they will be revealed and will be reported to the appropriate authorities. With this in mind, managers should be aware of certain risks involved in building and maintaining management control systems (Pridgen, 2007).

2.10.1 Design flaws

It has been stressed that management control systems must be designed for the specific organization, operations, and environment in which they will function, after careful consideration of the risks involved in that particular situation. Managers are sometimes tempted to shortcut the design process, such as by adopting the control systems designed for another organization. This can be dangerous. A flawed design may leave the impression of safety but may overlook important risks in one part of an operation while creating unnecessary inefficiencies in another.

2.10.2 Poor implementation

The best-designed system will achieve its goal only if it is implemented properly. Managers and supervisors at all levels must be vigilant to assure that everyone complies with applicable control procedures. Even more importantly, the required procedures must be ones that workers will be comfortable using at all times, and which they will not be tempted to ignore when the procedures become inconvenient or in times of pressure and stress. Meeting this criterion is one of the key considerations in the design of effective control systems. Managers should also plan ahead for alternative arrangements that might need to be put in place in the event an emergency requires bypassing the regular procedures.

2.10.3 Poor response to reported anomalies

Control systems are designed to call attention to events that depart from normal expectations. For the systems to remain effective, it is essential that supervisors and managers respond properly to such alerts. The triggering event should be investigated promptly to determine if an irregularity was involved. If so, corrective action should be initiated. Failure to respond effectively to reports of anomalies will quickly undermine the effectiveness of the control system. This should also be a factor in the design of control systems.

Care should be taken to avoid making the systems so sensitive that they yield frequent “false alarms”. If this happens too frequently, valid alarms might be ignored (Pridgen, 2007).

2.10.4 Collusion

Any system of controls can be defeated if a sufficient number of dishonest key individuals conspire to subvert them and are able to falsify the relevant documents. A sufficiently complex set of controls can make it difficult to assemble the needed number of conspirators, but at a potentially great cost in organizational inefficiency. Conspiracies of this sort usually come to light when they are observed (and reported) by someone who is not a party to the conspiracy, or when there is a falling out among the conspirators. They may also be detected during a routine audit if substantial amounts of funds are involved or if the conspirators are not sufficiently careful in falsifying the documents.

2.10.5 Wrongdoing by top managers

Management controls are designed to help control the organization on behalf of its management, not to control the top managers themselves. The managers can easily circumvent the control systems, bypassing the controls directly or instructing or authorizing others to do so. There are many examples of dishonest top managers evading the control systems to commit various forms of fraud and abuse. In a large organization, however, such activities are usually noticed by subordinates. Thus, the best protection against wrongdoing by top managers may be an environment of openness, in which workers are encouraged to report evidence of irregularities, confident that they will not be punished for being disloyal to their superiors. Such openness in an organization becomes part of the control environment.

Management controls are an essential part of the structure and operations of any organization. The larger and more complex the organization and its activities, the more care must be given to the design of the control systems. But control systems are effective only if they are installed, maintained, and used by competent, dedicated managers. Systems can support such managers, but they cannot substitute for them.

2.10.6 Personnel Errors or Mistakes

The financial control system is only as effective as personnel who implement and perform the control. For example, employee may misunderstand instructions and make error of judgement. Employees may also make mistakes because of personal carelessness, distraction or fatigue. The auditor should carefully consider the quality of the entity's personnel when evaluating financial control (Williams, 2000).

2.10.7 Judgement

Effective financial control may be limited by the realities of human judgement. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgement decisions may affect achievement of objectives, with or without good financial control. Financial control may become ineffective when management fails to minimise the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue or mistakes (Lannoye, 1999).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses the methods used to obtain the relevant data for the study, the research design, the sample and the sampling procedure, the instruments, the problems the researcher encountered in collection of the data.

3.1 The Research Design

As this study concern itself with evaluation of internal financial controls in public hospitals, a case study of Regional Hospital and Municipal Hospital both at Sunyani and Bechem Government Hospital, District Hospital at Bechem, the plan adopted by the researcher was to obtain answers to research questions formulated. Questionnaires were the main instruments used to collect data. The use of questionnaire was employed to collect data from Accountants, Internal Auditors, Administrators and Health Workers of Public Hospitals, since this method is quicker in collecting information from a number of people at the same time. Secondly, the questionnaire was the most convenient method of eliciting responses to questions.

The questions were based on the following units of analysis and they are background information, control environment, risk assessment, information and communication and monitoring.

Preliminary questionnaires were distributed to some of the prospective respondents from the organization studied for discussions, suggestions and their comments. This was followed by final questionnaire designed which was self-administered.

To evaluate the above parameters, respondents were given option among “Yes”, “No” and “Not Applicable” possible answers to each question.

3.2 Justification for the Method used to Design the Research

Purposive sampling according to (Dane 1990), is a type of non-probability sampling in which the researcher consciously selects specific elements or subjects for inclusion in a study in order to ensure that the elements will have certain characteristics relevant to the study.

Dane, 1990 again points out that, the advantage of purposive sampling is, it allows the researcher to home in on people or events, which have good grounds in what they believe, will be critical for the research.

This type of sampling permits the selection of interviewees whose qualities or experiences permit an understanding of the phenomena in question, and are therefore valuable. The people interviewed were people who understood the research in question.

3.3 Population of Study

Table 1: Number of Staff of the Hospitals Sampled

Hospital	Frequency	Percentage (%)
Regional Hospital	700	67
Municipal Hospital	175	17
District Hospital	167	16
Total	1,042	100

Source of data: from the field, February, 2011

The full set of cases from which a sample is taken is called the population (Saunders 2007). The total population is one thousand and forty-two (1042) staff which represented 100%

3.4 Sampling procedures

Table 2: Sample for the Study

Respondents category	Number of people.	Regional Hospital Sunyani	Municipal Hospital Sunyani	Bechem Government Hospital	Percentage 100%
Accounting Staff	13	11	1	1	52
Auditing Staff	3	1	1	1	12
Health Workers	6	4	1	1	24
Administration Staff	3	1	1	1	12
Total population	25	17	4	4	100

Source of data: from the field, February, 2011

The population constitute the three public hospitals. From the above the table the population for this organized study was twenty-five (25) made up of thirteen(13) workers of Accounting, three(3) workers of Auditing, six(6) Health Workers were workers working in other departments apart from accounting, auditing and administration and three(3) Administration staff.

3.5 Sampling Technique

In this study, samples were selected to enable the views of the staff and their manager to be explored and understood. Twenty-five (25) individuals were sampled purposively in order to elicit specific responses from service deliverers. Thirteen (13) members of Accountants formed 52%, three (3) Internal Auditors formed 12%, six (6) Health Workers 24% and three (3) Administrators 12% of three public hospitals representing key service deliverers. For Regional Hospital, Sunyani the selected people were seventeen (17), accounting staff eleven (11), auditing one (1), administration staff one (1) and health workers four (4). For the Municipal Hospital, Sunyani and Bechem Government Hospital each hospital have accounting, auditing, health worker and administration staff were selected to answer the questionnaire.

3.6 Instruments Used

The researcher employed methods that would aid the collection of data for the study. The instruments used were a structured close-ended questionnaire. The questionnaire was a data collection instrument, which had a number of items. The researcher gave the respondents time and independence to answer the questions. This was also because of the high literacy level of respondents and also to provide the respondents with

anonymity to freely answer the questions. Example with name excluded it provided the respondents with opportunity to answer the questions more truthfully and conveniently. The questionnaire was self-administered by the researcher through personal visits to the premises of the selected public hospitals. The data collection covered a period of two weeks. The instruments were given out to the respondents to be left alone to respond. On the average it took ten minutes for a respondent to complete the instrument. This was possible through the personal visit to each respondent selected.

At the end of the exercise, the researcher collected the questionnaire for analysis. The documentary source was journals, Text books and magazines. The internet also helped the researcher to get information for the research work.

3.7 Validity and Reliability of data collection

The procedures for collecting data were valid and reliable since primary data gathering technique was mostly used through out to collect information for the analysis. In most case, questionnaires proved positive because the people knew what they were doing. This manifested in the high active response rate to questionnaires. The nature of the issues and processes under discussion necessitated the use of qualitative analyses for the data collected. The data collected was edited to check contradictions and ensure consistency. In analyzing the primary data, descriptive and inferential statistics such as percentages were used. The analysis was done with the aid of Microsoft Excel but carefully done to give the researcher a hand-on experience in carrying out such an exercise.

3.8 Hospitals Profile

Regional Hospital is located at the Penkwase Sunyani-Techiman road with staff of Seven Hundred. It serves as a referral centre. It is new hospital recently commissioned by His Excellence Vice President John Mahama. The Municipal Hospital used to be Regional Hospital and the Regional Hospital moved to the new premises then the old premises was turned to Municipal Hospital with a staff strength of one hundred and five (175). It serves Sunyani Municipality and its villages around. The Municipal Hospital is located adjacent to District Police Station, Sunyani. Bechem Government Hospital is located in the Tano South District capital in Bechem. It is hospital for Bechem community and villages around Bechem.



CHAPTER FOUR

ANALYSIS OF FINDINGS AND RESULTS

4.0 Introduction

The focus of this chapter is to analyse the field data and examine the findings in the light of the objectives of the study. This chapter provides information on the data collection procedure adopted, analysis of the data and findings. The responses from the respondents are described, analysed and inferences made to established relationships. The quantitative data collected from the questionnaire interviews were coded for analysis. Microsoft Excel Spreadsheet was used to analyse the quantitative data.

4.1 Background Information

With a questionnaire as the main research tool to gather data from the respondents, the first section of the chapter was intended to gather data on the background information of the respondents. These include name of the institution, name of the location of the facilities, number of years of experience, number of years worked for the institution, higher level of education, job type, grade/position, number of staff and number of departments and frequency tables were used in analyzing the data gathered from the respondents.

4.2 Number of Years of Experience

Table 3: Number of years of work experience of respondents

Number of Years of Experience	Frequency	RHS	MHS	BGHS	Percentage (%)
1-5years	7	4	2	1	28
6-10years	14	9	2	3	56
11-20years	4	4	Nil	Nil	16
21-35years	Nil	Nil	Nil	Nil	Nil
Total	25	17	4	4	100

Source of data: from the field, February, 2011

Table 4 also makes it clear that out of twenty-five respondents, seven (28%) were 1- 5 years, fourteen (56%) were 6-10 years, four (16%) were 11-20 years and no percentage from 21-35 years. In the distribution of questionnaire no attempt was made at selecting candidates based on experience grouping. It was rather thought that all representations would be credible. At the end of the study it was realized that all the respondents had spent some time with the institutions and their responses were a reflection of their experiences. This also implies that staff of the hospitals is well distributed in the various experience brackets and if well utilized a good blend of youthful energy and adult experience will help achieve the evaluation of internal financial controls of the organization.

4.3 Number of Years worked for the Organisation

Table 4: Number of Years worked for the Organisation

Number of Years	Frequency	RHS	MHS	BGH	Percentage (%)
1-5years	16	13	2	1	64
6-10years	6	1	2	3	24
11-20years	3	3	Nil	Nil	12
21-35years	Nil	Nil	Nil	Nil	Nil
Total	25	17	4	4	100

Source of data: from the field, February, 2011

Table 5 also makes it clear that out of twenty-five respondents, sixteen (64%) had 1- 5 years, six (24%) were 6-10 years, three (12%) were 11-20 years and no percentage from 21-35 years. The various number of years worked in the institution have some influence to help the hospital to achieve the evaluation of internal financial controls of the organization.

4.4 Highest Level Educational Background

Table 5: Educational Background of respondents

Education Level	Frequency	RHoS	MHoS	BGH	Percentage (%)
Basic	0	Nil	Nil	Nil	0
Secondary	5	5	Nil	Nil	20
Tertiary	12	6	3	3	48
Other	8	6	1	1	32
Total	25	17	4	4	100

Source of data: from the field, February, 2011

From table 6 out of twenty-five respondents, five (20%) have had Secondary education, twelve (48%) have had Tertiary education. Eight (32%) have had professional education apart from University education. The study revealed that as much as 80% of the

respondents have had Tertiary Education and professional education with the rest having Secondary education. The effect of this was the respondents had no problems in responding to the questionnaire. It means that they may have the capacity and ability to adopt to any financial framework the hospital may choose.

As far as educational attainment was concerned the majority of the respondents had tertiary education. This implies that respondents have appreciably high level of education.

4.5 Job type of Respondents

Table 6: Job type of Respondents

Job Type	Frequency	RHoS	MHoS	BGH	Percentage (%)
Accounting	13	11	1	1	52
Auditing	3	1	1	1	12
Health Workers	6	4	1	1	24
Administration	3	1	1	1	12
Total	25	17	4	4	100

Source of data: from the field, February, 2011

This variable seeks to identify the types of jobs performed by the respondents. From table 7 above, majority of the respondents (52%) were performing accounting duties, 12% perform auditing task, 24% are health workers and 12% perform administrative functions and duties.

Twenty-five (25) people were selected of which thirteen (13) 52% from accounting staff, auditing staff three (3)12%, health workers six (6) 24% and administration three (3) 12%.

From the above statistics it is clear that the responses reflect what is happening at the various areas of work within the various health institutions selected.

4.6 Grade/Position of Respondents

Table 7: Job Grades of Respondents

Grade/Position	Frequency	RHoS	MHoS	BGH	Percentage (%)
Accountants	13	11	1	1	52
Internal Auditors	3	1	1	1	12
Administrators	3	1	1	1	12
Health Workers	6	4	1	1	24
Total	25	17	4	4	100

Source of data: from the field, February, 2011

From table 8 above it was revealed that most of the respondents thirteen (52%) were accountants, from table 8 above, and while six (24%) constitute health workers, three (12%) hospital administrators and three (12%) were the internal auditors.

In the area of profession of the respondents, most of them were accountants. This is because among the four groups that were interviewed the accountants constitute the largest. This means the conclusions from their responses will indicate the level of internal controls at place in the various institutions.

4.9 Control Environment

Table 8: Response for Control Environment

Hospital	Regional Hospital		Municipal Hospital		Bechem Gov't Hosp.	
RESPONSES	YES	NO	YES	NO	YES	NO
Integrity and Ethical Values	47	53	50	50	50	50
Commitment to Competence	71	29	75	25	75	25
Governing Body	82	18	75	25	75	25
Management Philosophy and Operating Style	65	35	50	50	50	50
Organizational Structure	94	6	75	25	75	25
Assignment of Responsibilities	47	53	50	50	50	50
Human Resource Policies and Practices	88	12	100	0	75	25
Total	71	29	68	32	64	36

Source of data: from the field, February, 2011

From table 9 the respondents in the Regional Hospital Sunyani, 71% responded “Yes” for existence of control environment and 29% responded “No”. It means therefore that the control environment is quite effective. However, in terms of integrity and ethical values, and assignment of responsibilities it was found that the control environment was weak.

The respondents in the Municipal Hospital Sunyani, 68% responded “Yes” for existence of control environment and 32% responded “No”. It means therefore that the control

environment is effective. However, human resource policies and practices were found to be the weakest in the control environment.

From table 9 the respondents in the Bechem Government Hospital, 64% responded “Yes” for existence of control environment and 36% responded “No”. It means therefore that the control environment is effective. However, in terms of integrity and ethical values, management philosophy and operating style assignment of responsibilities were weak in the control environment.

The findings confirmed the assertion of the Treadway commission of the committee of sponsoring organizations (COSO), that it is management responsibility to set up the internal control system and that the internal auditor’s role is to evaluate the effectiveness or otherwise of the system. The assessment of the components of internal control for each hospital is reported above. This assessment is based on the detailed evaluation contained in the control questionnaire in appendix 1.

Control environment is the component that provides the foundation needed for the other components to build on in internal financial controls systems. Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting (Draft for public comment, 2005)

Overall, the control environment in Regional, Municipal and Bechem Government Hospital were very good and they were in line with COSO standard. The weakest area in the three Hospitals is human resource policies and practices.

4.10 Risk Analysis

Table 9: Response for Risk Analysis

Institutions	Regional Hospital		Municipal Hospital		Bechem Govt Hospital	
	YES	NO	YES	NO	YES	NO
Importance of financial reporting objectives	65	35	75	25	50	50
Identification/Analysis of financial reporting risks	71	29	75	25	75	25
Assessment of fraud risk	47	53	50	50	50	50
Total	61	39	67	33	58	42

Source of data: from the field, February, 2011

From table 10 the respondents in the Regional Hospital Sunyani, 61% responded “Yes” to the Existence of Risk Assessment and 39% responded “No”. It means therefore that the risk assessment is generally effective. However, in terms of risk analysis fraud risk was the weakest in the risk assessment.

From table 10 the respondents in the Municipal Hospital Sunyani, 67% responded “Yes” to the Existence of Risk Assessment and 33% responded “No”. It means therefore that the control environment was effective. However, assessment of fraud risk was average in the risk assessment.

From table 10 the respondents in the Bechem Government Hospital, 58% responded “Yes” to the Existence of Risk Assessment and 42% responded “No”. It means therefore that the risk assessment was good. However, identification and assessment of fraud risk are very average in the risk assessment.

Risk assessment component identifies and analyzes possible risks internally and externally by Enterprise Risk Management – Integrated Framework (2004).

All hospitals seem to be aware of the common risks, but risks are not documented or formalized, periodical re-assessments are not made, and formal or informal risk policies are lacking. Although the managers appear to be well aware of general threats, risks concerning finances. In risk analysis component, the COSO framework does not state specific approaches, but rather principles which should be followed in risk assessment.

4.11 Control Activities

As a reminder, one of the components of COSO that is the control activities factor was not quantitatively evaluated in present study.

4.12 Information and Communication

Table 10: Information and communication

Institutions	Regional Hospital		Municipal Hospital		Bechem Gov't Hospital	
	YES	NO	YES	NO	YES	NO
Information Needs	82	18	75	25	75	25
Information Control	71	29	75	25	75	25
Existence of Information Systems	59	41	50	50	50	50
Effectiveness of Information System	45	55	40	60	35	65
Communication with outside parties	47	53	50	50	25	75
Total	65	35	63	37	56	44

Source of data: from the field, February, 2011

In observing the hospitals' official accounting policies and procedures, it turned out that procedures related to financial control were regulated at different levels.

From table 11 above, out of 100% responses from the RHS, 65% responded “Yes” to Information Communication and 35% responded “No”. It means therefore that the information and communication was generally effective. However, communication with outside parties was the weakest in the information and communication.

From table 11 above, out of 100% responses from MHS, 63% responded “Yes” to Information Communication and 37% responded “No”. It means therefore that the information and communication is generally effective. However, effectiveness of information system and communication with outside parties’ information were average.

Out of 100% responses from BGH, 56% responded “Yes” to Information Communication and 44% responded “No”. It means therefore that the information and communication is generally effective. However, information needs and information control were weak in the information and communication.

Regional Hospital had extensive information systems in place as well as personnel data were integrated into one system. The weakest part of all three hospitals in terms of information and communication system can be considered to be communication with outside parties, as the communication was low personalized, the clients do not have a personal contact in the hospital and the training system for newcomers was very basic. Municipal Hospital information system was also integrated to capture all relevant information in the hospital.

Bechem Government Hospital information system was also integrated to capture all relevant information in the hospital.

Information and communication component is designed to allow employees the ability to carry out their responsibilities in the best manner possible (Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992).

4.13 Monitoring

Table 11: Monitoring

Institutions	Regional Hospital		Municipal Hospital		Bechem Gov't Hospital	
	YES	NO	YES	NO	YES	NO
Response						
Ongoing Monitoring	75	25	75	25	70	25
Separate Evaluation	75	25	50	50	50	50
Reporting Deficiencies	75	25	75	25	50	50
Performance Evaluation	80	20	85	15	85	15
Total	75	25	67	33	58	42

Source of data: from the field, February, 2011

From table 12 above, out of 100% responses from the RHS, 75% responded “Yes” to Monitoring and 25% responded “No”. It means therefore that the monitoring was very effective.

From table 12, out of 100% responses from the MHS, 67% responded “Yes” to Monitoring and 33% responded “No”. It means therefore that the monitoring is generally effective. However, separate evaluation was average in the Municipal Hospital.

From table 12 out of 100% responses from the BGH, 58% responded “Yes” to Monitoring and 42% responded “No”. It means therefore that the monitoring was generally effective. However, separate evaluation and reporting deficiencies were average.

Monitoring component includes allowing managers clear responsibility guidelines so that they are able to effectively do their jobs by COSO Internal Control - Integrated Framework (1992)

All the three hospitals monitor controls to be sure that they were effective. Regional, Municipal and Bechem Government hospitals, ongoing monitoring was performed through financial and operating information; deficiencies were in general investigated and reported to the management. All the internal auditors were not responsible to only one public hospital but had other hospitals that they took care of. One auditor may be responsible for at least three hospitals in the region.

4.14 Compliance with Ghana's financial provisions

Table 12: Compliance with Ghana's financial provisions

Institutions	Regional Hospital		Municipal Hospital		Bechem Hospital	Gov't
<i>Response</i>	<i>YES</i>	<i>NO</i>	<i>YES</i>	<i>NO</i>	<i>YES</i>	<i>NO</i>
Provisions adherence	90	10	80	20	75	25
Provisions importance	80	20	75	25	80	20
Consequences for compliance	75	25	90	10	90	10
Consequences for non-compliance	80	20	85	15	70	30
Total	81	19	82	18	79	21

Source of data: from the field, February, 2011

From table 13 above, out of 100% responses from the RHS, 81% responded “Yes” to use of internal financial controls provision and 19% responded “No”. It means therefore that the use and compliance level of financial laws was very effective.

From table 13, out of 100% responses from the MHS, 82% responded “Yes” to financial provision controls and 18% responded “No”. It means therefore that the financial provision controls was generally effective. However, 100% were expected for compliance of the provisions in the Municipal Hospital.

From table 13 out of 100% responses from the BGH, 79% responded “Yes” to financial control provisions and 21% responded “No”. It means therefore that the compliance

level of financial control provisions was generally effective. However, a full compliance was expected.

Financial control provisions help Managers to manage and operate the organization's accounting systems, so as to ensure the accountability of all officers transacting such operations and facilitate the efficient discharge of such operations. Public Sector Accounting: The Institute of Chartered Accountants Ghana (ICAG), 2010.



CHAPTER FIVE

FINDINGS, RECOMMENDATION AND CONCLUSION

5.0 Summary of findings

It was found that the hospitals have systematic, comprehensive approach to internal control, which is consistently documented, understood at management level and communicated to personnel. However, there were still some inconsistencies concerning how internal controls are implemented and enforced and also all responsibilities are not clearly defined.

It was found out that it is easier to develop a good internal control system in smaller hospital due to fewer personnel, more personal contacts and less administrative bureaucracy.

However, the effectiveness of internal control does not automatically translate into the internal financial success of the hospital due to the inherent limitations.

5.1 Existence of Internal Financial Controls in Public Hospitals

It was discovered from the findings that there were existence of internal financial controls regulated by Financial Administration Act, Audit Agency Act and indirect application of COSO. As a Government organisation it was more concerned about solving what it considered more pressing issues of fulfilling its objectives than ensuring quality, as it was not a profit making entity. Therefore, periodic checks need to be done to maintain the existence of internal financial controls

5.2 Level of Compliance and other Financial Management Regulations

It was revealed that the level of compliance was high and compliance to other financial management regulations like Financial Administration, Procurement and Internal Audit Agency Act. This is very commendable and must be encouraged. Therefore, there should be yardstick to assess whether objectives are being met in the internal financial controls.

5.3 Implication for Compliance and Non-compliance

It was also discovered there was strong compliance with the internal financial controls, and this may reduce the volume work of the auditor. On the other hand, human error in the use of judgment, simple processing errors and mistakes, collusion of staff in circumventing controls and unscrupulous people abusing that responsibility can override controls. Sanctions should be given to a person who does not comply with the laws and conventions of internal financial controls.

5.4 Implementation

Analysis of the data revealed that there were no difficulties in the implementation of the conventions and regulated framework for internal control however, the speed and seriousness for the implementation is rapid in profit making enterprises compared to non-profit making organisations like public hospitals (Krishnan 2005).

Recommendations

It was recommended that the existence and operation of internal financial controls system was not enough but its operations should be effective. For it to be effective targets should be set for the operations. It means therefore that target could be compared to the performance.

COSO for a long time has been used indirectly for internal financial controls for non-profit making organisation like the public hospitals. It is recommended that COSO should be enforced. It will help to achieve effective and efficient use of scarce resources of non-profit making organisation.

It is recommended that punitive action need to be instituted to caution perpetrators, so people will not have the motivation to circumvent the internal control structures because it is not worth it.

It was recommended that generally acceptable good practices should be adopted. This would help to enhance and improve the internal control to achieve effective and efficient internal control operations.

It was recommended that pre-audit should be done for all transactions and seriousness need to be attached to it. This would help to use conventions and regulated framework well. This would help to avoid so many avoidable issues which may not appear before external auditor in future.

It was recommended that audit units need to be strengthened in the public hospitals. The good work that would be done by the units would reflect the improvement and performance of the hospitals.

It was recommended that internal control should be taken seriously so that it can provide value for money for all transactions. This would help the management to realise the importance of internal control.

It was recommended that review of internal control need to be done from time to time, so that new standards can be embraced for performance and improvement. It would help to change weak conventions, regulated framework and new conventions and regulated framework can be accepted for operations.

Public hospitals need not be dependent exclusively on their own knowledge and experience in the development of effective management controls, auditing and program evaluation. Technical assistance is available in all these areas from multilateral institutions, donor nations and professional organizations. The assistance can take the form of providing relevant documents, formal training and temporary secondment of experts, as well as financial support.

Conclusion

Whilst undertaking the research a number of issues, which could have impacted positively on the current findings, were identified in the course of the study. Due to time and resources constraints, these were not considered and it is hoped that they could be useful areas for future study. However, it is felt that future research in this area would benefit from the suggestions listed below;

- The bulk of the previous studies have evaluated the financial controls by using case studies. A further study could be extended to all the municipal hospitals in the country by taking sample from all of them.
- Like the previous studies, the present study used a relatively small sample size compared to the total population. A future study could use a larger sample size to analyse the same issue under consideration.

The hospitals management teams should determine the nature and extent of the formal documented review of internal financial controls. No external attestation is required to be made on the audit committee's statement on internal financial control.

The hospitals management teams should deploy specific measures and controls to address effective internal financial controls into overall management.

The hospitals should accelerate implementation of the ongoing internal financial control and devote additional attention and resources to building an organizational culture and incentive structure that addresses ineffective internal financial control.

Bibliography

(COSO), The Committee of Sponsoring Organizations of the Treadway Commission. *Internal Control over Financial Reporting -Guidance for Small Public Companies*. New York: AICPA, 2006.

Abbott, L. J., S. Parker, and G.F. Peters. "Audit Committee Characteristics and restatements." *A Journal of Practice and Theory* 23 (March):, 2004: 69-87.

Agrawal, A., and S. Chadha. "Corporate governance and accounting scandals." *Journal of Law and Economics* 48 (October):, 2005: 371-406.

American Institute of Certified Public Accountants (AICPA). *Communicating Internal Control Related Matters Identified in an Audit. Statement on Auditing Standards No. 112*. New York. NY: AICPA, 2006.

American Institute of Certified Public Accountants (AICPA). *Communicating Internal Control Related Matters Identified in an Audit. Statement On Auditing Standards No. 112*. New York: AICPA, 2006.

Amudo, Angella. *"Evaluation of Internal Control Systems: The Case of Public Sector. Project Financed by the African Development Bank Group"*,. The Netherlands, August: An Unpublished MBA Thesis, Maastricht School of Management, , 2008.

Anderson, R. C., S. A. Mansi, and D. M. Reeb. "Board characteristics, reporting integrity, and the cost of debt." *Journal of Accounting and Economics*. 315-342. (2004): 37 (3):.

Asare, T. *Beating Occupational Fraud through Awareness and Prevention*. The African Capacity Building Foundation ACBFWP Working Paper No. 10 July, 2006.

- Astin, A. W., & Panos, R.J. *The Educational and Vocational Development of College Students*. Washington, DC:: The American Council on Education., 1969.
- Bazzoli, G.J., L.M. Manhein, and T. M. Waters. "U.S hospital industry restructuring and the hospital safety net." *Inquiry-Excelsus Health Plan* 40 (Spring):, 2003: 6-24.
- Bedard, J. S.M. Chtourou, and L. Courteau. "The Effect of Audit Committee Expertise, Independence, and Activity on Aggressive Earnings Management. ." *Auditing: A Journal of Practice and Theory*, 23 (September):, 2004: 13-35.
- Bryan, S., Lilien, S., *Characteritics of Firms with Material Weaknesses in Internal Control:An Assessment of Section 404 of Sarbanes Oxley*. Working Paper, Wake Forest University and Baruch College., 2005.
- Budget Statement. *The Budget Statement and Economic Policy of the Government of Ghana*. Accra: The Stationery Office, 2003.
- Budget Statement. *The Budget Statement and Economic Policy of the Government of Ghana*. Accra: The Stationery office, 2007.
- Canadian Institute of Chartered Accountants, Canada. *Guidance on Control*. 1995.
- Carcello, J.V., D.R. Hermanson, and T.L Neal. "Audit Committee Composition and Audit Reporting." *The Accounting Review* 75 (October):, 2000: 453-467.
- Carcello, J.V., D.R. Hermanson, and T.L. Neal. "Disclosures in audit committee charters and reports." *Accounting Horizons* 16 (December):, 2002: 291-304.
- Chen, Y. M., R. Moroney, and K. Houghton. "Audit committee composition and the use of an industry specialist audit firm." *Accounting and Finance* 45 (2):, 2005: 217-239.
- COBIT 4.0. (accessed November 21, 2010).
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). *COSO Definition of Internal Control*. 1992. (accessed November 3, 2010).

- . *COSO Project to Focus on Monitoring of Internal Control*. www.coso.org/IC-IntegratedFramework-Summary.htm (accessed November 10, 2010).
- . *Internal control - Integrated framework*. New York: AICPA, 1992.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). *Internal Control-Integrated Framework: An Executive Summary*. New York: Emst & Young,, 1992.
- Dane, F.C. *Research Methods*. Pacific Grove, Ca.: Brooks Cole., 1990.
- DeFond, M., Jiambalvo, J.,. "Incidence and Circumstances of Accounting Errors." *The Accounting Review* 66,, 1991: 643-655.
- DeZoort, T. "An analysis of experience effects on audit committee members' oversight judgements." *Accounting, Organizations and Society* 23 (January):, 1997: 1-21.
- Doyle, J., W. Ge, and S. Mc Vay. *Determinants of weaknesses in internal control over financial reporting*. Working paper, Utah State University of Washington, and New York University, 2006.
- Felo, A. J., S. Krishnamurthy, and S. A. Solieri. "Audit committee characteristics and the perceived quality of financial reporting: An empirical analysis." 2003.
- Ge, W., and S. Mc Vay. "The disclosure of material weaknesses in internal control after the Sarbanes-Oxley Act." *Accounting Horizons* 19 (September), 2005: 137-158.
- Geiger. M. A., and K. Raghunandan. "Auditor tenure and audit reporting failures." *A Journal of Practice and Theory* 21 (March), 2002: 67-78.
- George, N. "The role of audit committee in the public sector." *The CPA Journal* 75 (August), 2005: 42-43.
- Hardimam, P. "Public sector audit committee." *Government Finance Review* 22 (June), 2006: 50-53.

Hogan, C., and M. Wilkins. *Internal control weaknesses and earnings management*. Working paper, Southern Methodist University and Texas A&M University., 2005.

Huang, Marsha Regenstein and Jennifer. "Caring for patients with diabetes in safety net hospitals and health systems." *Commonwealth Fund Pub.* 826, 2005.

Institute of Chartered Accountants . *Internal Control: for Directors on the Combined Code*. England and Wales, UK: International Federation of Accountants, 1999.

Kinney, W. "Research opportunities in internal control quality and quality assurance." *Auditing* 19,, 2000: 83-90.

Krishnan, J. "Audit committee quality and internal control:An Empirical Analysis." *Accounting Review* 80,, 2005: 649-675.

L.M., Springer. "Revisions to OMB Circular A-123." *Management's Responsibility for Internal Control*, 2004.

Lannoye, M. A. *Evaluation of internal control*. 1999. www.micigan.gov/documents (accessed March 5, 2010).

M., Walker D. *Standards for Internal Control in Federal Government*. www.gao.gov/special.pubs (accessed March 9, 1999).

New State Attorney General. *Internal Control and Financial Accountability for Non-for-Profit Boards*. 2005. www.oag.state.ny.us/charities/internal_controls.pdf. (accessed February 14, 2011).

Ogneva, M., K. Raghunandan, and K. R. Subramanyam. *Internal control weakness and cost of equity:Evidence from SOX Section 404 disclosures*. Working paper, University of Southern California and Florida International University., 2006.

Omane Antwi, B. *Finance in Public Administration, Legon: School Administration*. . Accra: University of Ghana, Press, 1972.

Pridgen, A., and K. Wang. *The role of audit committees in non-profit organisations: An empirical investigation*. August 6, 2007. www.abpridge@olemiss.edu (accessed March 10, 2010).

Professional Accountants in Business Committee. "Information paper, August." 2006.

Reinke, A.W. *Health Planning: Qualitative Aspects and Quantitative Techniques*, Baltimore. John Hopkins University Press, Department of International Health, 1972.

Rittenberg, L. "The relevance of COSO Enterprise Risk Management to European Organizations." *The Paneuropean Conference of Internal Audit* (Larnaca, Cyprus), no. 41p (October, 2005): 13-14.

Saunders, M., Lewis, P., & Thornhill, A. *Research methods for business students*. Harlow, England: Financial Times/Prentice Hall, 2007.

Seawell, L. V. *Hospital accounting and financial management*. Berwyn, III: Physicians' Record Co., 1964.

Securities and Exchange Commission (SEC). *NYSE Rule making: Order Approving Proposed Rule Change Amending the Audit Committee Requirements and Notice of Filing and Order Granting Accelerated Approval of Amendments No.1 and 37 No. 2 Thereto*. Release No. 34-42233. 2003a. www.sec.gov/rules/sro/ny9939o.htm. (accessed March 10, 2011).

Steinhoff, J. C. *Internal Control, Management and Tools*. 2001.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO). *Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting (Draft for public comment)*. New York: AICPA, 2005.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO). *Enterprise Risk Management-Integrated Framework*. New York: AICPA, 2004.

The Information Systems Audit and Control Association & Foundation. *Control Objectives for Information and Related Technology COBIT*. www.isaca.org (accessed March 3, 2010).

The Institute of Auditors. "Sarbanes-Oxley Section 404: A Guide for Management by Internal Controls Practitioners." *Professional Guidance*, January 2008.

The Institute of Chartered Accountants Ghana. *Public Sector Accounting*. Accra: Black Mask Limited, 2010.

The Institute of Internal Auditors. *Internal Auditing: All in a Day's Work*. www.theiia.org (accessed March 5, 2010).

The Republic of Ghana. *Internal Audit Agency Act (Act 658)*. Accra: The Stationery Office, 2003.

—. *Public Procurement Act (Act 663)*. Accra: The Stationery Office, 2003.

—. *The Criminal Code*. Accra: The Stationery Office, 1960.

—. *The Financial Administration Act (Act 654)*. Accra: The Stationery Office, 2003.

—. *The Fourth Republican Constitution of Ghana*. Accra: The Stationery Office, 1992.

Whittington, R., & Pany, K. *Principles of auditing and other assurance services*. Boston: McGraw-Hill/Irwin, 2004.

William, F. M. JR. *Auditing and Assurance Services: A Systematic Approach*. Second Edition. United States of America: McGraw-Hill/Irwin, 2000.

Wolper, L. F. *Health care administration: Principles, practices, structure and delivery*. Gaithersbury: Md, Aspen, 1995.

Woolf, E. *Auditing Today*. New York: Prentice Hall, 1994.

Xie, B., W. N. Davidson III, and P. J. Dadalt. "Earnings Managements and Corporate Governance: The Role of the Board and the Audit Committee." *Journal of Corporate Finance* 9 (3), 2003: 295-316.

Zuckerman, S., Hadley, J. & Iezzoni, L. "Measuring Hospital Efficiency with Frontier Cost Functions." *Journal of Health Economics* 13, 1994: 255-80, 335-40.

, B., W. N. Davidson III, and P. J. Dadalt. "Earnings Managements and Corporate



APPENDIX 1

QUESTIONNAIRE TO THE MANAGEMENT AND STAFF OF PUBLIC HOSPITALS

This questionnaire is intended for the collection of data that will help the researcher to the case study entitled '**An Evaluation of the internal financial controls in Public Hospitals**' which has been chosen for the case study. The exercise is for academic purpose only in partial fulfilment for the degree of Commonwealth Executive Masters in Business Administration. Whatever information you give will be kept confidential. Kindly, complete this questionnaire with appropriate answers with brief reasons or tick where necessary.

Background Information

1. Name of the institution

.....

2. Name of the location of the facilities

.....

3. Number of years of experience.

- i. 1-5years
- ii. 6-10years
- iii. 11-20years
- iv. 21-35years

4. Number of years worked for the institution.

- i. 1-5years
- ii. 6-10years
- iii. 11-20years
- iv. 21-35years

5. Higher Level of Education:

- i. Basic { }
- ii. Secondary { }
- iii. Tertiary { }
- v. Others (specify)

6. Job Type

- i. Accounting { }
- ii. Auditing { }
- iii. Administration { }
- iv. Health Worker { }

7. Grade/Position

- i. Accountant { }
- ii. Internal Auditor { }
- iii. Administrator { }
- iv. Director { }
- v. Health Worker { }

8. Number of Staff

.....

9. Number of Departments.

.....

Control Environment	Yes	No	N/A	Additional Information
10. What is the highest decision making body of this institution?				
11. Has the governing board established policies regarding such matters as acceptable business practices, conflicts of interest and codes of ethics?				

12. Does the entity have performance goals or targets which may test employees' adherence to ethical values?				
13. Is there an internal audit function and/or audit committee?				
14. Is the Internal Audit independent of the management?				
15. Are there advisory boards, committees, or other separate groups to oversee certain functions of the hospital?				
16. Does the audit committee represent an informed, vigilant and effective overseer of the financial reporting process and the entity's internal control structure?				
17. Have entity officials given a high priority to its internal control structure?				
18. Is the entity's internal control objectives documented?				
19. Are lines of authority and responsibility clearly defined?				
20. Do employees receive periodic evaluations that identify training needs and opportunities for improvement?				

Risk Assessment

21. Do you perform periodic risk assessment?				
22. Does management provide for appropriate corrective action, based on the significance and likelihood of occurrence of the risks identified?				
23. Has Management put in place compensation controls?				

Information and Communication

24. Have employees' specific duties been clearly communicated to them?				
25. Has the institution got code of conduct?				
26. Has the consequences of improper conduct been clearly communicated to all employees?				
27. Has the entity informed outside parties (e.g., vendors) of the entity's ethical standards?				
28. Are complaints from external sources reviewed at an appropriate management level since they can point out control problems?				
29. Does the governing board make certain that the advice and recommendations of external auditors are implemented?				

Monitoring

30. Did the entity have a regular internal control review?				
31. Are inventories, supplies, and other assets checked regularly?				
32. Are meetings with employees used to provide management with feedback on whether internal control is effective?				
33. Are employee suggestions on internal control considered and acted upon as appropriate?				

Financial Provisions				
34. Are these provisions adhered to in the public hospitals', the Procurement, Internal Audit Agency and Financial Administration Acts?				
35. Are these provisions, the Procurement, Internal Audit Agency and Financial Administration Act important to internal financial controls?				
36. Do you comply with these provisions: the Procurement, Internal Audit Agency and Financial Administration Acts?				
37. Is there punishment for non-compliance of these provisions the Procurement, Internal Audit Agency and Financial Administration Acts?				