

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING

ASSESSMENT OF AUDIT INTERNAL CONTROL PRACTICES IN THE
EASTERN REGIONAL HOSPITAL, KOFORIDUA

BY

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CERTIFICATION

I hereby declare that this dissertation is my own work towards the award of CEMBA and that to the best of my knowledge, it contains no material previously published by another person or does not contain any material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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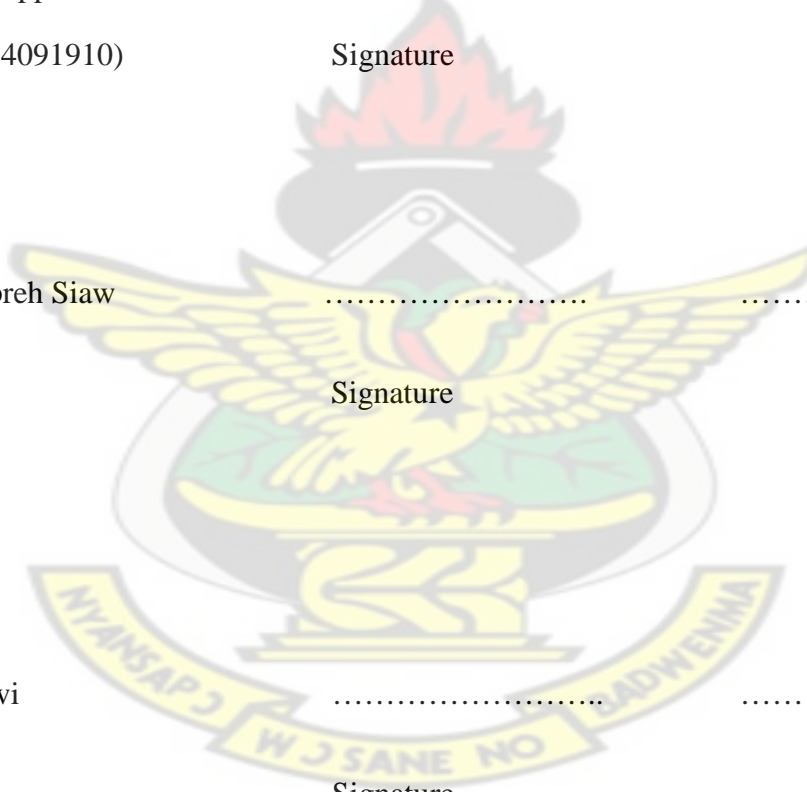
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ABSTRACT

This study assesses audit internal control practices in the Eastern Regional Hospital in Koforidua with the aim of improving efficiency in the performance of the hospital. This was achieved by determining the internal control practices at Regional Hospital, the problems associated with the internal control practices and the staff perception on the internal audit department on internal control systems. A cross sectional descriptive survey employing quantitative methods of data collection and analysis was used for the study. Primary sources of data collections were used and these were done through the use of questionnaires which were both open and closed ended questions. A total of ninety two (92) questions were administered to the staff of the hospital using the stratified sampling method where each department was taken as a starter and sample drawn proportionally from them. The data collected were presented using tables and analysed using percentages. A major finding of the study is that, the main problems affecting internal control at the hospital are inadequate audit staff, inadequate logistics and intimidation and interference from staff. It was recommended that management should recruit more audit staff and provide the logistics needed for effective internal control practices at the hospital.



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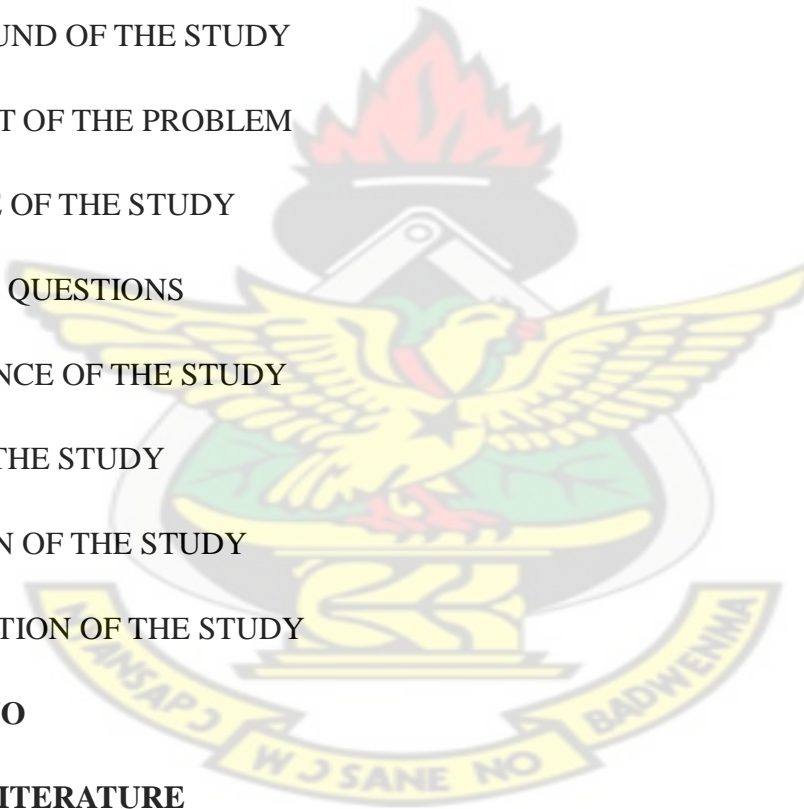
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TABLE OF CONTENT

CERTIFICATION	I
ABSTRACT	II
ACKNOWLEDGEMENT	III
TABLE OF CONTENTS	IV
LIST OF TABLES	VIII
CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY	1
1.2 STATEMENT OF THE PROBLEM	2
1.3 OBJECTIVE OF THE STUDY	3
1.4 RESEARCH QUESTIONS	3
1.5 SIGNIFICANCE OF THE STUDY	4
1.6 SCOPE OF THE STUDY	5
1.7 LIMITATION OF THE STUDY	5
1.8 ORGANIZATION OF THE STUDY	5
CHAPTER TWO	6
REVIEW OF LITERATURE	6
2.1 DEFINITION OF TERMS	7
2.2 INTERNAL CONTROL OBJECTIVE	10
2.3 TYPES OF INTERNAL CONTROL	12
2.3.1 DIRECTIVE CONTROL	12

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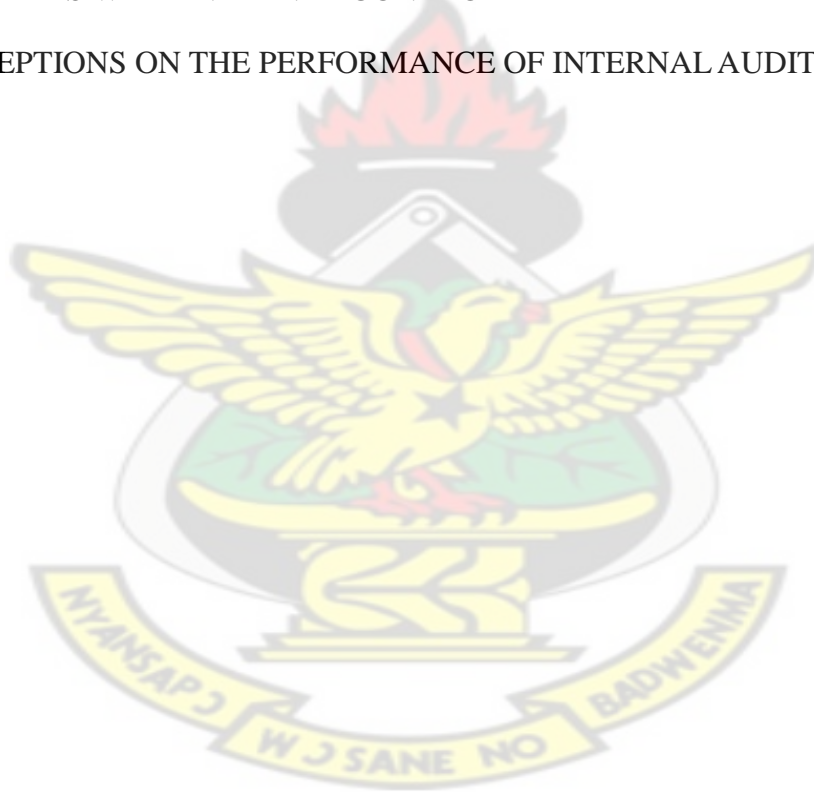
2.3.2 PREVENTIVE CONTROL	13
2.3.3 COMPENSATING CONTROLS	13
2.3.4 DETECTIVE CONTROLS	14
2.4 COMPONENTS OF INTERNAL CONTROL	14
2.4.1 CONTROL ENVIRONMENT	15
2.4.2 RISK ASSESSMENT	16
2.4.3 RISK IDENTIFICATION	16
2.4.4 RISK ANALYSIS	17
2.4.5 MANAGING RISK DURING CHANGE	17
2.4.6 INFORMATION AND COMMUNICATION	18
2.4.7 CONTROL ACTIVITIES	19
2.4.8 MONITORING	20
2.5 INTERNAL CONTROL EVALUATION	21
2.5.1 EFFECTIVE OF INTERNAL CONTROL	21
2.5.2 UNDERSTAND AND DOCUMENT THE CLIENT'S INTERNAL CONTROL	22
2.5.3 OBTAINING AND UNDERSTANDING	23
2.5.4 DOCUMENT THE INTERNAL CONTROL	23
2.5.5 ASSESS THE CONTROL RISK	24
2.5.6 PERFORM TEST THE CONTROL AUDITS PROCEDURE AND REASSESS CONTROL RISK	24
2.5.7 PERFORM TEST OF CONTROL AUDITS PROCEDURES	25
2.5.8 REASSESS THE CONTROL RISK	26
2.6 PARTIES RESPONSIBLE FOR AND AFFECTED BY INTERNAL	

CONTROL	26
2.7 PROBLEMS OF INTERNAL CONTROLS	28
2.7.1 JUDGMENT	28
2.7.2 BREAKDOWN	29
2.7.3 MANAGEMENT OVERRIDE	29
2.7.4 COLLUSION	29
2.7.4 EFFECTS OF POOR INTERNAL CONTROLS PRACTICES	30
CHAPTER THREE	32
METHODOLOGY	32
3.0 INTRODUCTION	32
3.1 RESEARCH DESIGN	32
3.2 SOURCES OF DATA	32
3.3 THE STUDY POPULATION	32
3.4 SAMPLING METHODS	32
3.5 INSTRUMENT OF DATA COLLECTION	33
3.6 METHODS OF DATA COLLECTION AND ANALYSIS	33
3.7 PRE – FIELD ACTIVITY	33
3.8 ETHICAL ISSUES	33

CHAPTER FOUR	34
DATA PRESENTATION AND ANALYSIS	34
4.0 INTRODUCTION	34
4.1 SOCIO – DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS	34
4.1.1 SEX OF RESPONDENTS	34
4.1.2 AGE OF RESPONDENTS	35
4.1.3 MARITAL STATUS OF RESPONDENTS	35
4.1.4 LEVEL OF EDUCATION	36
4.1.5 YEAR OF SERVICE	37
4.2 TYPES OF INTERNAL CONTROL PRACTICES	37
4.3 PROBLEMS WITH INTERNAL CONTROLS	40
4.4 PERCEPTION ON THE PERFORMANCE OF INTERNAL AUDIT SECTION	43
CHAPTER FIVE	46
SUMMARY, CONCLUSION AND RECOMMENDATION	46
5.1 SUMMARY	46
5.2 CONCLUSION	46
5.3 RECOMMENDATION	48
REFERENCE	49

LIST OF TABLES

Table 4.1 SEX OF RESPONDENTS	34
Table 4.2 AGE OF RESPONDENTS	35
Table 4.3 MARITAL STATUS OF RESPONDENTS	36
Table 4.4 LEVEL OF EDUCATION	36
Table 4.5 YEAR OF SERVICES	37
Table 4.6 TYPES OF INTERNAL CONTROL PRACTICES	38
Table 4.7 PROBLEMS WITH INTERNAL CONTROL	40
Table 4.8 PERCEPTIONS ON THE PERFORMANCE OF INTERNAL AUDIT SECTION	43



CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

How many times do we read about large sums of money getting lost by individuals, partnerships, companies, charities and governmental entities? The reason for the loss is often due to lack of controls. Many times the follow question is “where were the auditors”? Each of these common explanation for losses is at the heart of economic activities. Internal control systems and auditing practices are at times remotely related to the economic activity. (Wallace 2004)

Internal control is defined as a process effected by an organization structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives (Anderson 2008).

Internal control is a means by which organization resources are directed, monitored and measured. It plays an important role in detecting and preventing fraud and protecting the organizations resources both physical and intangible (COSO 2011)

At the organizational level internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal controls refer to the actions taken to achieve specific objectives. Internal control procedures reduce process evaluation leading to more predictable outcomes. (Anderson 2008)

Internal controls have existed from ancient times. In Hellenistic Egypt, there was a dual administration, with one set of bureaucrats charge with collecting taxes and another with supervising them. (Van - Creveld 2000)

In the republic of China, the control Yuan is one of the five branches of government, charge as

investigatory agency that monitors the other branches of government.

Oreilly et al (1998) describes internal control as comprises five interrelated components that are necessary for the objectives to be achieved, they are control environment, risk assessments, control activities information and communication and monitoring.

According to the COSO framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control systems or take other actions needed to affect control. Also all personnel's should be responsible for communicating for upwards problems in operations, non compliance with the code of conduct or other policy violations or illegal actions. Each major entity in cooperate governance has a particular role to play for instance the chief executive officer (CEO) of the organization has the overall responsibility for designing and effecting internal control. He fulfills these duties by providing leadership and directions to Senior Management and reviewing the way they are controlling the business effectively. Internal control implies that, the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether an organization achieves operational and strategic objectives may depend on the factors outside the enterprise such as competitions or technological innovations.

These factors are outside the scope of internal control, therefore effective internal control provides only timely information or feedback on progress towards the achievement of operational and strategic objectives but cannot guarantee their success. (INTOSAI 1992).

1.2 STATEMENT OF THE PROBLEM

Koforidua Regional Hospital is the only referral hospital in Eastern Region. A review of the internal controls in the hospital revealed that despite being the only, referral hospital and a major

health facility in Eastern region did not have any administration manual on its own. There were huge savings under capital budget, suggesting a weak budgetary control. It has also been identified that the audit department is under staffed and most often saddled with a lot of work.

It is therefore the wish of the researcher to determine how audit internal controls can manage the huge capital inflows in such a busy hospital. It will also be interested to know how the internal mechanism put in place to manage claims of national health insurance in the wake of delayed payments by the scheme.

It is also critical to know how the institution manages its scarce financial resources in meeting the health needs of the huge population without compromising with accounting standards.

1.3 OBJECTIVES OF THE STUDY

The general objective of the study is to assess the effectiveness of internal control practices at the Eastern Regional Hospital, Koforidua.

The specific objectives are to:

1. Determine the internal control practices at the audit section of the Regional Hospital;
2. Analyse the problems associated with internal control practices;
3. Determine staff perception on the performance of the internal audit section on internal control system.

1.4 RESEARCH QUESTIONS

The study will aim at finding answers to the following questions;

1. What are the types of Internal Controls Systems adopted by the audit unit at the Regional Hospital?

2. What are the problems encountered by the audit Staff in maintaining internal controls at the Hospital?
3. What perceptions do the staff hold on internal control systems in the Hospital?

1.5 SIGNIFICANCE OF THE STUDY

The importance of this study is to help meet accounting standards in the organization. Accounting standards seek to suggest rules and criteria of accounting measurements to keep the set of rules, social needs, legal requirements and technological developments in view.

Formulation of proper accounting standards therefore is a vital step in developing accounting as a business language. Internal control is the process effected by an organization structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives (Anderson 2008). Internal control therefore, will help the accounting department of the hospital to meet the Ministry of Health (MOH) sector financial reporting requirements using the MOH accounting package (ACCPAC).

The study will also help check excesses and waste in the organization. One of the best defences against excess and waste in the hospital is the maintenance of effective audit internal control. Internal control is a crucial aspect of the hospitals governance system and the ability to manage risk, and is fundamental to supporting the achievement of an organization's objectives and creating, enhancing, and protecting stakeholder value. However, this obscures the fact that the right kind of internal controls should be introduces and this will enable the hospital to capitalize on opportunities while offsetting the threats that can actually save time, money, promote the creation and preservation of quality work.

Another significance of the study is to detect fraudulent practices and financial malfeasance in the Hospital. It is the duty of management of the hospital to established good internal control

practices while the internal auditor appraised the controls and advises. Fraudulent practices can never be prevented rather it can be managed when adequate control measures are put in place. Internal controls would help detect fraudulent practices and financial malfeasance if both senior managers and junior staff of the hospital understand that violations of the hospitals ethical standards will not be tolerated and if they see senior management living by strict ethical standards and consistently demonstrating high integrity, fraudulent behaviour becomes difficult to rationalize and this help to improve on quality standards.

1.6 SCOPE OF THE STUDY

The study will be limited to staff of the Eastern Regional Hospital and particularly on the audit staff.

1.7 LIMITATIONS OF THE STUDY

1. The main problem envisages would be the fear of audit staff to give information on internal control systems. Many at times, Auditors have the responsibility to be confidential with audit observations. This is the third standard of the regulatory body of the institute of internal Auditors, the global auditing body.
2. Difficulty of getting audit report and queries for study. Even though this research is to assess audit internal control practices in the Eastern Regional Hospital, there are constraints in terms of getting external and internal audit reports since, it is believed that audit reports are for management consumption.
3. There are also resource constraints, in terms of time and logistics as well as the difficulties in getting other staff from other departments especially finance to interview on financial control

practice.

1.8 ORGANIZATION OF THE STUDY

The study was divided into five chapters. The first chapter was for the introduction and background of the study. The second chapter also reviewed relevant literature related to internal control practices whilst the third chapter dealt with the methods used for the study.

The last two chapters dealt with data presentation and analysis as well as conclusions and recommendations of the study.



CHAPTER TWO

REVIEW OF LITERATURE

2.1 DEFINITION OF TERMS

Internal control comprises of the plan of organisation and all of the coordinate methods adopted within a business to safeguard its Assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies (2007). This definition recognises that the system of internal control is trend beyond those matters which relates directly to the functions of accurate department (Brockport 2007)

Internal control is the integration of activities, plans, attitudes, policies and efforts of the people of an organisation working together to provide reasonable assurance that the organisation will achieve its objective and mission. Methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets and transmit management policies throughout the organization.

In accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. (COSO Definition of Internal Control) It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act of 2002, which required improvements in internal control in United.

States public corporations. Internal controls within business entities are also referred to as operational controls.

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. (Van Creveld, Martin. *The rise and Decline of the State*. Cambridge University Press.

There are many definitions of internal control, as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation.

Under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control -Integrated Framework, a widely-used framework in the United States, internal control is broadly defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

The COSO definition relates to the aggregate control system of the organization, which is composed of many individual control procedures.

Discrete control procedures or *controls* are defined by the SEC as: "...a specific set of policies, procedures, and activities designed to meet an objective. A control may exist within a designated function or activity in a process.

A control's impact may be entity-wide or specific to an account balance, class of transactions or application. Controls have unique characteristics – for example, they can be: automated or manual; reconciliations; segregation of duties; review and approval authorizations; safeguarding and accountability of assets; preventing or detecting error or fraud. Controls within a process may consist of financial reporting controls and operational controls (that is, those designed to achieve operational objectives)."(SEC Interpretive Guidance)

According to A. H. Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records. He further analyzed the redefinition as follows;

1. The whole system: internal control can be seen as a whole or single system. The whole is more than the sum of parts.
2. Financial and otherwise: the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.
3. Established by Management: internal controls are established by management, either through consultant (external) or internal through internal audit.
4. Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.
5. Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.

6. Secure completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it.

Besides, Alan G. Hevesi (2005) also defined internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the objectives for which the organization was set up.

The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness, accuracy and liability of the accounting records and the promotion of operational efficiency and adherence to management policies (Okai, 1996).

However, in the context of this project work internal control shall be defined as recommended by COSO that is a process affected by an entity's board of directors, management and other personal, designed to provide reasonable assurance regarding the achievement of objectives in the following categories.

- Effectiveness and efficiency of operations in the Eastern Regional Hospital
- Reliability and accuracy of financial reporting
- Compliance with applicable laws and regulations.

2.2 INTERNAL CONTROL OBJECTIVES

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable. (Mercers University).

Internal Audit evaluates Mercer's system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

AUTHORIZATION

The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

COMPLETENESS

The objective is to ensure that no valid transactions have been omitted from the accounting records.

ACCURACY

The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

VALIDITY

The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

PHYSICAL SAFEGUARDS & SECURITY

The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

ERROR HANDLING

The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

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.

A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

2.3.0 TYPES OF INTERNAL CONTROLS

Different writers have come with different types of internal control systems. Milichamp (2002) puts the types of internal controls as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, Safeguarding Assets, and Reporting. However, many other authors such as Dr Lousteau (2006), the state university of New York and Napoli (2005) have agreed that the types of internal control are directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

2.3.1 DIRECTIVE CONTROLS

Directive Controls relate to policies and put in place by top management to promote compliance with independence rules. To ensure compliance with directive controls, a clear, consistent message from management that policies and procedures are important must permeate the organization. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories, and audits. However, detective controls play critical role providing evidence that the preventive controls are functioning and preventing losses. Control activities include approvals, authorizations, verifications, reconciliation, and reviews of performance, security of assets, segregation of duties, and controls over information systems. (Di Napoli 1999).

2.3.2 PREVENTIVE CONTROL

Preventive controls relate to measures taken by a firm to deter noncompliance with policies and procedures. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation and physical control over assets, Dr Lousteau (2006)

2.3.3 COMPENSATING CONTROLS

Compensating controls are intended to make up for a lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system. While the list would have to be reprinted from

time to time to add new clients would mitigate some of the obsolescence that exists with hard copies. University of New York (200%).

2.3.4 DETECTIVE CONTROLS

Directive controls are aimed at uncovering problems after they have occurred. Although necessary in a good internal control system, detection of an independence violation after the fact is less desirable than prevention in the first place. Detective controls rarely work well as a deterrent in the absence of severe penalties Dr Lousteau (2006).

2.4 COMPONENTS OF INTERNAL CONTROL

COSO defines internal control as having five components:

- Control Environment-sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment-the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed
- Information and Communication-systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities

- Control Activities-the policies and procedures that help ensure management directives are carried out.
- Monitoring-processes used to assess the quality of internal control performance over time.

These components are explained further in detail;

2.4.1 CONTROL ENVIRONMENT

This sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. (Administrator of National Banks, Comptroller's Hand Book 2001). Hevesi (2005) however considers the Control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

This environment sets the organizational tone, influences control consciousness, and provides and foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control. (Lannoye 1999). Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and/or ethics policy and this must be adequately communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

2.4.2 RISK ASSESSMENT

This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. The second internal control standard addresses risk assessment. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives have been set, the agency needs to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level. Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management

then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

2.4.3 RISK IDENTIFICATION

Management should perform a comprehensive analysis of identifiable risk, including all risks associated with department-wide and activity level objective (derived from the organization's mission). The activities analyzed should include those that support both financial and non-financial objectives. Management must consider the significant interactions with external organizations as well as those internal to their organization at both the department-wide and activity levels. Several means of risk identification can be used, including; management planning conferences, strategic planning, periodic reviews of factors effecting department's activities, changing needs or expectations of agency officials or the public and natural catastrophes. (Lannoye, 1999).

2.4.4 RISK ANALYSIS

After identifying department-wide and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following:

- Estimating risk significance
- assessing likelihood/frequency of occurrence
- Considering how to manage risk

Risk with little significance and low probability of occurrence may require special attention. After assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among agencies, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness. (Lannoye, 1996).

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2.4.5 MANAGING RISK DURING CHANGE

When change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization's most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks. (Walker 1999).

2.4.6 INFORMATION AND COMMUNICATION

According to the fourth internal control standard, for an agency to run and control its operations, it must have relevant, reliable information, both financial and non financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. (Steihoff 2001) Hevesi (@0050 information and communication are essential to effective control. Information

about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful.

According to the comptroller's Handbook (2001), accounting, information, and communication systems capture and impart pertinent and timely information in a form that enables the board, management, and employees to carry out their responsibilities. Accounting systems are the methods and records that identify, assemble, analyze, classify, record, and report on transaction. Information and communication systems enable all personnel to understand their roles in the control system, how their roles relate to others, and their accountability. The entity must be able to prepare accurate and timely financial report including interim reports. The board of directors and management must ensure that they receive accurate and timely information to allow them to fulfill their responsibilities. Management must also provide written job descriptions and reference manuals that describe the duties of personnel.

2.4.7 CONTROL ACTIVITIES

The policies and procedures that help ensure management directives are carried out. According to the Administrator of National Banks, (2001), control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. These activities help ensure that the board and management act to control risks that could prevent an organization from attaining its objectives. The New York State comptroller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can

impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient. According to Walker (1999) control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. He provided the following as example of control activities:

- Top level reviews of actual performance,
- Reviews by management at the functional or activity level,
- Management of human capital,
- Controls over information processing,
- Physical control over vulnerable assets,
- Establishment and review of performance measures and indicators,
- Segregation of duties,
- Proper execution of transaction and events,
- Accurate and timely recording of transactions and events,
- Access restrictions to and accountability for resources and records, and
- Appropriate documentation of transactions

2.4.8 MONITORING

Monitoring is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. The purpose of monitoring is to determine

whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all five internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) are present and functioning as designed. Springer (2004). Periodic evaluations of internal control are made and personnel, in carrying out their regular duties, obtain evidence as to whether the system of internal control continues to function. Management should implement internal control recommendations made by internal and independent auditors, correct known deficiencies on a timely basis, and respond appropriately to reports and recommendations of regulators. There must also be an internal audit function that management uses to assist in their monitoring activities. In Ghana Health service there is the internal audit and monitoring unit that carries out the functions of monitoring internal controls.

2.5 INTERNAL CONTROL EVALUATION

Di Napoli (1999) defined evaluation as the process management uses to assess whether an organization's operations are effective in achieving its mission. The purposes of evaluation are to provide management with a reasonable assurance that; the organization's systems of internal control are functioning effectively; and they can identify both risks to the organization and opportunities for improvement.

According to Louwers (2002) the five components of internal control are considered to be the criteria for evaluating a financial reporting control and the bases for the auditors' assessment of control risks in terms of;

- Understanding a client's financial reporting controls and documenting that understanding,
- Preliminarily assessing the control risk, and
- Testing the controls, reassessing control risk, and using that assessment to plan the remainder of the audit work.

2.5.1 EFFECTIVENESS OF INTERNAL CONTROL

A judgment as to whether an entity's internal control is effective is based on considering the extent to which the components are present and operating effectively. Effective functioning of all the components provides reasonable assurance as to achievement of one or more of the three categories of objectives.

Internal control may be judged effective for each of the three categories of internal control objectives if the board of directors and management have reasonable assurance that they understand the extent to which their entity's operations objectives are being achieved, published financial statements are being prepared reliably, and applicable laws and regulations are being complied with.

Effectiveness of internal control depends on the presence of all the components of internal control working together. No two entities are likely to have the same internal control system.

Nevertheless, even though entities may not respond to similar risks in the same way, the basic components contributing to an entity's being in control need to be satisfied.

For the financial reporting objective there is a more detailed criterion, namely, the material weakness concept. A material weakness is defined as follows:

A condition in which the design or operation of one or more components of internal control does not reduce to a relatively low level the risk that errors or irregularities in amount that would be material to the financial statements may occur and not be detected and corrected within a timely period by employees the normal course of performing their assigned duties.

2.5.2 UNDERSTAND AND DOCUMENT THE CLIENT'S INTERNAL CONTROL

A major goal on audits is to be efficient. This means performing the work in minimum time and with minimum cost while still doing high-quality work to obtain sufficient, competent avoidance. The allocation of work times between control-evaluation and year-end audit work is a lost-benefit trade-off. Generally, the more auditors know about good controls, the less substantive test year-end work they need to do. However, auditors do not necessarily need to determine the actual quality of a company's internal control. They only need to know enough to plan the other work. They can obtain only a minimum understanding of a client's control, assess a high control risk, and perform extensive substantive balance-audit work.

2.5.3 OBTAINING AND UNDERSTANDING

This gives auditors an overall acquaintance with the control environment and management's risk assessment, the flow of transactions through the accounting system, and the design of the client's activities. After the audit team gains an understanding of the control environment of the accounting system. Auditors obtain an understanding of internal controls from several sources of information. Minimum requirements for a good control oriented accounting system include a chart of accounts and some written detritions and instructions about measuring and classifying transactions.

2.5.4 DOCUMENT THE INTERNAL CONTROL UNDERSTANDING

Working papers documentation of a decision to assess risk can consist only of a memorandum of that fact. However for future reference in next year's audit, the memorandum should contain an explanation of the effectiveness-related or efficiency-related reasons.

Working paper documentation is required and should include records showing the audit team's understanding of the control. This can be summarized in the form of questionnaires, narratives and flowcharts.

Internal Control Questionnaires. The most efficient means of gathering evidence about the control structure is to conduct a formal interview with knowledgeable managers, using the checklist type of internal control questionnaire. The questionnaire is organized under headings that identify the control environment questions and the questions related to each of the seven control objectives. All questionnaires are not organized like this, so auditors need to know the general transaction control objectives in order to know whether the questionnaire is complete. Internal control questionnaires are designed to help the audit team obtain evidence about the control environment and about the accounting and control activities that are considered good error checking routines. Answers to the questions, however should not be taken as final and definitive evidence about how well control actually functions.

Do native descriptions. One way to tailor these inequity procedures to a particular company is to write a narrative description of each important control subsystem. Such a narrative would simply describe all the environmental elements, the accounting system, and the control activities. The narrative description may efficient in audits of very small businesses.

2.5.5 ASSESS THE CONTROL RISK

After obtaining an understanding of control and designing a preliminary audit program, the audit team should be able to make a preliminary assessment of the control risk. One way to make the assessment is to analyze the control strengths and weaknesses. Strengths are specific features of good general and application controls. Weaknesses are the lack of controls in particular areas. The auditor's findings and preliminary conclusions should be written up for the working papers files. Strengths and weaknesses should be documented in a working paper sometimes called a bridge working paper, so called because it corrects the control evaluation to subsequent and it procedures.

2.5.6 PERFORM TEST OF CONTROLS AUDIT PROCEDURES AND REASSESS CONTROL RISK

When auditors reach third phase of an evaluation of internal control, they will have identified specific controls on which risk could be assessed very low. To reduce the final risk assessment to a low level, auditors must determine

- the required degree of company compliance with the control policies and procedures and
- the actual degree of company compliance. The required degree of compliance is the auditor decision criterion for good control performance. Knowing that compliance cannot realistically be expected to be perfect, auditors might decide, for example that evidence of using bills of lading to validate sales invoices is sufficient to assess a low control risk for the audit of accounts receivable.

2.5.7 PERFORM TEST OF CONTROLS AUDITS PROCEDURES

At this stage the auditors can perform test of controls procedures to determine how well the company's controls actually functioned during the period under audit. A test of controls audit procedure is a two part statement. Part one is an identification of the data population from which a sample of items will be selected for audit. Part two is an expression of an action taken to produce relevant evidence. In general, the action is to determine whether the selected item correspond to a standard and determine whether the selected items agree with information in another data population. Some test of control procedures involves re-performance. The auditors perform again the arithmetic calculations and the comparisons the company people were supposed to have performed. Test of controls procedures, when performed should be applied to samples of transactions and control activities executed throughout the period under audit. The reason for this requirement is that the conclusions about controls will be generalized at the whole period under audit.

2.5.8 REASSESS THE CONTROL RISK

Final control risk assessment is complicated. In the sampling modules you will find explanations of sampling methods for performing test of controls procedures. However for an advanced peace at the result, recognized that the final evaluation of a company's internal control is the assessment of the control risk (CR) related to each assertion. Control risk is the element in the audit risk model. $AR = IR * CR * DR$, where AR is defined as audit Risk, IR as Inherent risk and

DR as detection risk. These assessments are an auditors expression for the effectiveness of internal control for preventing, detecting and of internal control for preventing, detecting and correcting specific errors and gauds in management's final statement assertions. Each of these final control risk assessments can be qualitative or quantitative.

An assessment of control risk should be coordinated with the final audit plan. The final account balance audit plan includes the specification of substantive audit procedures to detect material misstatements in account balances and foot notes disclosures.

2.6 PARTIES RESPONSIBLE FOR AND AFFECTED BY INTERNAL CONTROLS

While all of an organization's people are an integral part of internal control, certain parties merit special mention. These include management, the board of directors (including the audit committee), internal auditors, and external auditors.

The primary responsibility for the development and maintenance of internal control rests with an organization's management. With increased significance placed on the control environment, 36 the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. Emphasis on these intangible aspects highlights the importance of top management's involvement in the internal control system. If internal control is not a priority for management, then it will not be one for people within the organization either.

As an indication of management's responsibility, top management at a publicly owned organization will include in the organization's annual financial report to the shareholders a statement indicating that management has established a system of internal control that

management believes is effective. The statement may also provide specific details about the organization's internal control system.

Internal control must be evaluated in order to provide management with some assurance regarding its effectiveness. Internal control evaluation involves everything management does to control the organization in the effort to achieve its objectives. Internal control would be judged as effective if its components are present and function effectively for operations, financial reporting, and compliance. The boards of directors and its audit committee have responsibility for making sure the internal control system within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated. Two parties involved in the evaluation of internal control are the organization's internal auditors and their external auditors.

Internal auditors' responsibilities typically include ensuring the adequacy of the system of internal control, the reliability of data, and the efficient use of the organization's resources. Internal auditors identify control problems and develop solutions for improving and strengthening internal controls. Internal auditors are concerned with the entire range of an organization's internal controls, including operational, financial, and compliance controls.

Internal control will also be evaluated by the external auditors. External auditors assess the effectiveness of internal control within an organization to plan the financial statement audit. In contrast to internal auditors, external auditors focus primarily on controls that affect financial reporting. External auditors have a responsibility to internal control weaknesses (as well as reportable conditions about internal control) to the audit committee of the board of directors.

2.7 PROBLEMS OF INTERNAL CONTROLS

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some problems are inherent in all internal control systems (Mercer University – United States of America (Georgia)). These include:

2.7.1 JUDGMENT

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand. According to Lannoye (1999) Effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect achievement of objectives, with or without good internal control. Internal control may become ineffective with management fails to minimize the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes.

2.7.2 BREAKDOWNS

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

2.7.3 MANAGEMENT OVERRIDE

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. With Lannoye, management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition.

2.7.4 COLLUSION

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual received cash receipts from customer can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams 2000).

2.8 EFFECTS OF POOR INTERNAL CONTROL PRACTICES

When we recommend improving controls within a department, we often hear three basic arguments for not implementing our recommendations:

- There is not enough staff to have adequate segregation of duties.
- It is too expensive.
- The employees are trusted and controls are not necessary.

These arguments represent pitfalls to unsuspecting management. Each argument is in itself a problem that needs to be resolved.

- The problem of not having enough staff or other resources should be discussed with your supervisor. In most cases, compensating controls can be implemented in situations where one person has to do all of the business-related transactions for a department.
- If implementing a recommended control seems too expensive, be sure to consider the full cost of a fraud that could occur because of the missing control. In addition to any funds that may be lost, consider the cost of time that would have been spent by the department during the time of an investigation of the matter, and the cost of hiring a new employee. Fraud is always expensive and the prevention of fraud is worth the cost.
- Finally consider the issue of trust. Most employees are trustworthy and responsible, which is an important factor in employee relations and departmental operations. However, it is also the responsibility of administrators to remain objective. Experience shows that it is often the most trusted employees who are involved in committing frauds.

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CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter describes the study area, research design, target population, instrument of data collection and analysis, pre-field activity, sampling techniques and ethical issues.

3.1 RESEARCH DESIGN

This study is a cross-sectional descriptive survey employing quantitative methods of data collection.

3.2 SOURCE OF DATA

Primary and secondary source of data was used. Questionnaire was the main primary source used to collect primary data. It was comprised of open-ended and close-ended questions. The questionnaire was used to solicit data on the type of internal control systems, problems with internal control systems and the perception of staff on internal control practices.

The secondary data used was comprised of magazines and reports on internal control practices.

3.3 THE STUDY POPULATION

The study units were made up of the staff at the Regional Hospital. The internal audit section of the hospital was also be used.

3.4 SAMPLING METHODS

The stratified sampling method was used to categories the staff of the hospital into their respective departments. After which a proportionate sample was drawn from each stratum to form the total sample size of ninety two (92) for the study.

3.5 INSTRUMENTS FOR DATA COLLECTION

The main instrument used for data collection was the use of questionnaire. The questionnaire was

comprised of both open and close-ended questions. The questionnaire was used because the study is quantitative in nature.

3.6 METHODS OF DATA PRESENTATION AND ANALYSIS

Data was collected through the use of questionnaires and this was presented by means of tables and chart to help enhance the understanding of the data as well as provide a summary of the data. The data presented was analyzed using percentages.

3.7 PRE-FIELD ACTIVITY

The questionnaires design was pre-tested at St. Joseph's hospital. This was because it is similar in character to that of the regional hospital. A total of (20) twenty questionnaires were pre-tested to help determined the reliability of the instrument

3.8 ETHICAL ISSUES

Anonymity and confidentiality of respondents was assured by expressly indicating it in the cover note attach to the questionnaire.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter presents data and analysis on internal control practices, problems with internal control practices and staff perception in the performance of the internal audit section. In addition to this, the socio – demographic characteristics of respondent were also examined.

4.1 SOCIO – DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The following socio – demographic characteristics were analysed as part of the analysis, age of respondents, sex of respondents, marital status of respondents, educational level of respondents and year of services of the respondent.

4.1.1 SEX OF RESPONDENTS

It was found that majority of the respondent are males (58%) while the remaining are (42%) are females. This suggests that most of the staff dealing with audits internal controls practices are males. The details are presented in table 4.1 below.

Table 4.1 SEX OF RESPONDENTS

SEX OF RESPONDENT	FREQUENCY	PERCENTAGE
Male	53	58.0
Female	39	42.0
Total	92	100

Source: field work (2012)

4.1.2 AGE OF RESPONDENTS

Analysis of respondents indicated that, majority of the respondent are between 30 – 39 years (38.4%), 40 – 49 (24%) and 50 – 59 (23.0%). It was found that those ages above 60 constitute 6.3%. The analysis of age of respondent indicates that majority of the staff handling internal control practices are above 30 years. The details are presented in table 4.2 below.

Table 4.2 AGE OF RESPONDENTS

AGE OF RESPONDENTS	FREQUENCY	PERCENTAGE
20 – 29	11	12.0
30 – 39	32	34.8
40 – 49	22	24.0
50 – 59	21	23.0
60+	6	6.52
Total	92	100

Source: field work (2012)

4.1.3 MARITAL STATUS OF RESPONDENTS

It was found that majority of the respondent are married (46.7%). It was found also that a fairly high percentage of the respondents are single (37.0%) while a small (5.4%) divorced, 2.2% widowed, 8.7% separated. The details are presented in table 4.3 below.

Table 4.3 MARITAL STATUS OF RESPONDENTS

MARITAL STATUS	FREQUENCY	PERCENTAGE
Single	34	37.00
Married	43	46.70
Divorced	5	5.43
Widowed	2	2.17
Separated	8	8.70
Total	92	100

Source: field work (2012)

4.1.4 LEVEL OF EDUCATION

Analysis on the level of education indicates that the level of education among the respondents is high in the study area. It was found that 34.8% have their bachelor degree, 32.6% diploma and 14.1% their master degree. It was also found that known of the staff have educational level less than senior high school. The tables are presented in table 4.4 below.

Table 4.4 LEVEL OF EDUCATION

LEVEL OF EDUCATION	FREQUENCY	PERCENTAGE
S.H.S/ Secondary level	15	16.30
Diploma	30	32.60
First degree	32	34.80
Second degree	13	14.13
Third degree	2	2.17
Total	92	100

Source: field work (2012)

4.1.5 YEARS OF SERVICES

Analysis on the years of services indicated that 33.7% have service the institution below 5 – 9 years; it was also found that those who have service the institution below 10 – 14 years constitute 30.4% while those who have serve the institution more than 20 years is 8.7%. This analysis suggests that there is a high retention rate in the study area. The details are presented in table 4.5 below.

Table 4.5 YEARS OF SERVICES

YEARS OF SERVICES	FREQUENCY	PERCENTAGE
1 – 4 years	4	4.3
5 – 9 years	31	33.7
10 – 14 years	28	30.4
15 – 10 years	21	22.8
20+	8	8.7
Total	92	100

Source: field work (2012)

4.2 TYPES OF INTERNAL CONTROL PRACTICES

To bring about efficiency and judicious use of resources, internal control practices are paramount in every business organization. Based on this background, the researchers explore the internal

control practices at Eastern Regional Hospital, Koforidua. The details are presented in Table 4.6 below.

Table 4.6 TYPES OF INTERNAL CONTROL PRACTICES

INTERNAL CONTROL PRACTICES	FREQUENCY	PERCENTAGE
Financial Control	32	34.80
Expenditure Control	28	30.43
Stores and Inventory Control	21	22.80
Operational Control	11	11.96
Totals	92	100

Source: field work (2012)

From table 4.6, it was found that the main internal control practice is the control of funds (financial control). This constituted 34.8% of the responses. The primary duty of internal audit is to evaluate the internal controls practices established by management. This practices mainly on financial controls and it usually results to how to keep within the budget lines and to keep to approved financial commitments. The study found that in meeting the financial controls tasks of the organization, one of the main tasks under internal control is to ensure that proper accounting records as well as proper accounting standards are kept. To meet this standard, a periodic internal audit is carried out to ensure that the standards are met. It was found that the any user department which derivates from such standard is queried though the audit report. The study found that another financial control is to ensure accurate financial reporting. This is done by ensuring that all error and omissions are corrected to represent the true and fair view of the financial statement.

It was found that without proper financial controls, there would be financial impropriety which will at the long run reduce the internal generation funds (IGF) of the hospital.

Another major type of internal control practices at the hospital is expenditure control. This constituted 30.4% of the responses. With this type of control, the internal audit ensures that, only budgetary items are honored. In this case, non – budgetary items are classified as illegitimate items which when honored could lead to budget deficit. The study found that, most at the times unbudgeted items are unplanned items which can be ignored and still maintaining the administration of the organization.

Another type of internal controls practices identified is store and inventory controls. This constituted 22.8%. The study found that the main internal control practice is to undertake frequent stock taking which is done on monthly, quarterly and annually. This is to ensure that there are no discrepancies in the physical count and the store ledgers. The study also found that another major stores and inventory control undertaken by the internal audit is the maintenance of store ledgers and tally cards. This is for daily recording of issues and receipt of items into and out of stores.

It is a policy that any item received or issued should be properly recorded and the audit team ensures that these are met since items which are not properly receipted or issued can easily be stolen.

Another major inventory activity under the audit section is to establish an inspectorate team which will inspect every item to be received into stores to ensure that they confirms to the standards and specifications required. The absence of this control mechanism could lead to a situation where inferior and sub standard items can be procured at high price.

Operational Control (11.96%) is another type of Internal Control practice embarked at the Eastern Regional Hospital. It was found that, this type of control deals with policy directives and guidelines. A major operational control is policy direction for all procurement of medicines and non medicines consumables to be purchased from the Regional Medical Stores (RMS) to ensure standardization of such consumables. Per this directive, the internal audit section ensures compliance by the procurement unit of the Hospital.

Another operational control is related to policy directive on the payment of allowances from the Internally Generated Funds (IGF) as incentives to staff. Another operational control practice is for all health professional that are on call duty to respond to all emergency calls.

It can be concluded that there are a number of internal controls practices at the Koforidua Regional Hospital and that the main practices are financial control, Expenditure control, Stores and inventory management and operational control. The ability to maintain these internal control practices saves a lot of resources and safe guards the Hospitals Assets.

4.3 PROBLEMS WITH INTERNAL CONTROLS

In order to improve internal control practices, there is the need to identify the problems associated with it so that remedial actions can be taken. The details on the problem with internal controls are presented in table 4.7.

Table 4.7 PROBLEMS WITH INTERNAL CONTROLS

PROBLEMS WITH CONTROL PRACTICES	FREQUENCY	PERCENTAGE
Intimidation and interference	18	19.56
Indifferent attitude	8	8.70

Inadequate Audit staff	32	34.80
Inadequate logistics	21	22.81
Disregard to accounting standards and polices	13	14.13
Totals	92	100

Source: field work (2012)

From table 4.7, inadequate audit staff (34.80%) was found to be a major problem affecting audit internal controls in Eastern Regional Hospital. It was found that there is only eight (8) audit staff in the office and its allied departments. It was found that these Auditors undertake internal control practices in nineteen (19) functional departments in the Hospital and this make the work difficult for these few workers creating a number of stressful situations for them. The study found that under the normal situation, the audit department should have been departmentalized so that audit departments such as financial control department, expenditure control department, Stores and inventory control department and operational control department have separate staff but due to inadequate staff, all the audit staff are placed under one section but undertake different assignments as and when required. This situation does not bring about efficiency of work. The study also found that the inadequate staffing in the department normally delays routine audit practices in the hospital.

Inadequate logistics (22.8%) was found to be another major problem with the internal control. It was found that the office lacks a number of logistics such as field recording accessories like Lap tops, cameras, portable scanners to capture spot data and observations as evidence to support documentations on financial improprieties. The study found that the department has only one (1) Lap top and only one (1) desk top for the eight (8) workers to work with. Because of these, the work intends and it is normally delays their activities. The section is also found to be housed in

only one room. This means that the eight (8) audit staff are congested into one room making their work difficult.

The department was found to have only one field vehicle and as such when a field officer is using the vehicle, the others would have to wait until the vehicle is returned and this creates a number of inconveniences and delays in maintaining internal controls in the hospital.

Intimidation and interference of the work of internal audit staff is also found to be a problem. This constituted (19.5%) of the response. The study found that normally, other staff that have internal control problems interferes with the operations with the internal audit department. It was found that some even throw or burn important files or falsifies documents in order to cover up their misdeeds. It was also found that some personally frustrate the internal auditor by physically preventing them from undertaking their audit activities. For instance, an officer can deliberately decide not to come to work on a particular day if he/she knows that the audit department will be there on that day.

Intimidations in the form of threats and assault are normally mounted to internal audit staff who are able to identify a fraudulent practice and do not compromise in such standards.

Another problem with internal control practice is the disregard to accounting standards and practices (14.1%). It was found that most accounting standards at the hospital especially keeping of ledgers and cash books are not done properly since supporting documents in the form of receipts and invoices are not attached to the payment vouchers making auditing of such transactions very difficult. It was also found that there are certain protocols to follow as internal controls practices. For instance, all items procured needs to be inspected by the internal audit team to ensure that they are in line with the specifications before they are sent to stores but

unfortunately, in most cases, items bought are rather sent to the stores and the supporting documents given to the finance office to effect payment.

Indifferent attitudes (8.7%) were found to be another problem affecting internal control practices. It was found that most often; other staff does not give the needed support to the internal auditor when they visit their department to work. It was found that most often heads of department suspect that other subordinates will hide secrets and shielded deals in their department to the internal auditors. As such, they do not want to get closer to the internal Audit team. This situation of non cooperative makes the internal audit practice difficult since certain basic information will have to be provided as well as certain explanations given on certain transaction.

It can be concluded that there are a number of major problems associated with internal control practices and these are; inadequate Audit Staff, inadequate logistics, intimidations and interference and disregard to accounting standards and policies.

4.4 PERCEPTIONS ON THE PERFORMANCE OF INTERNAL AUDIT SECTION

In order to determine how well the internal audit section is performing, the researcher used the perception of other staff as a proximiter determinant and this is found in table 4.8

Table 4.8 PERCEPTIONS ON THE PERFORMANCE OF INTERNAL AUDIT SECTION

PERCEPTION ON THE PERFORMANCE OF INTERNAL AUDIT SECTION	FREQUENCY	PERCENTAGE
Very good	7	7.61
Good	15	16.30
Fairly Good	16	17.39
Bad	31	33.69

Very Bad	22	23.91
Totals	92	100

Source: field work (2012)

From table 4.8, a small percentage of staff at the Regional Hospital (7.6%) have the perception that the audit section performance is very good. They were of the view that the audit section have been able to streamline procurement practices and saved huge sums of cedis to the Hospital. Without the internal audit control practices, these monies could have been fraudulently misused.

This category of workers further found that the internal audit has streamline the financial controls in the finance department by their routine audit inspections and frequent queries on any accounting practice that is not in line with accounting standards.

A fairly high percentage of workers (16.3%) indicated that the performance of the audit department is good. This category of staff indicated that they have been able to streamline operational control practices at the hospital such that all purchases of medicines and non drugs consumables are first procured from the Regional medical stores (RMS) to improve on standardization of the medicines and non drugs used at the hospital. The only problem that affects the work of the internal audit department is the inadequate staffing that normally delays their activities at the hospital.

Another fairly high percentage (17.3%) of workers has the perception that the work of the internal auditor at the hospital is fairly good. This category have the perception that even though the internal audit department are supposed to audit all the accounts of the various department of the hospital on quarterly basis and also undertake routine spot checks as and when required, the audit department is not able to undertake such activities on time. It was found that, they delay in

submitting quarterly audit reports to management and also scarcely undertake spot checks whenever there is a perception of financial malfeasance is taking place in a particular functional area. The reasons for the inability of the audit department to undertake such functions as required might be due to inadequate logistics as well as inadequate staffing.

As high as (33.6%) of the respondents perceived internal audit activities to be bad in the hospital. Most staff has the perception that the audit department is just there to find fault with any monetary process every member of staff is involved in. It was also found that due to this powers given them, they are often arrogant and do not respect most of the staff when they come to audit them. It was also found that, any small fault found in the process of audit are not over looked and the officer in charge who either have to be interrogated by the audit team or a report submitted to management for management to sanction the officer concerned.

As high as (23.9%) of the respondents were of the view that the work of the internal Auditor of the hospital is very bad. This category indicated that most of the Auditors are unfriendly and do not relate well to the other staff of the hospital. It was found that their reports to management are most often exaggerated and it includes issues which could have been dealt with during the exit conference. It was also found that in most cases, the audit departments do not have harmonized working relations with the accounting department. It was identified that the accounting department normally adopts a given accounting principles which is not acceptable by the audit department and in reconciling, this anomaly creates a problem for the two sister departments. The study also found that in most cases, recommendations from the external auditors indicate a given accounting practice which must be adopted to solve a specific problem but in reality such recommendations are not applicable so when the internal audit begins to implement such

recommendations, the other departments normally sees them as not competent in dealing with the issue at stake.

It can be concluded that majority of the workers perceived the work of the internal audit department to be bad because of their poor relations and their role of maintaining internal discipline and control in all functional areas of the hospital.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

This study assesses audit internal control practices in the Eastern Regional Hospital in Koforidua with the aim of improving efficiency in the performance of the hospital. This was achieved by determining the internal control practices at Regional Hospital, the problems associated with the internal control practices and the staff perception on the internal audit department on internal control systems.

A cross sectional descriptive survey employing quantitative methods of data collection and analysis was used for the study. Primary sources of data collections were used and this was done through the use of questionnaires which was both open and closed ended questions.

A total of ninety two (92) questions were administered to the staff of the hospital using the stratified sampling method where each department was taken as a starter and sample drawn proportionally from them. The data collected were presented using tables and analysed using percentages.

5.2 CONCLUSION

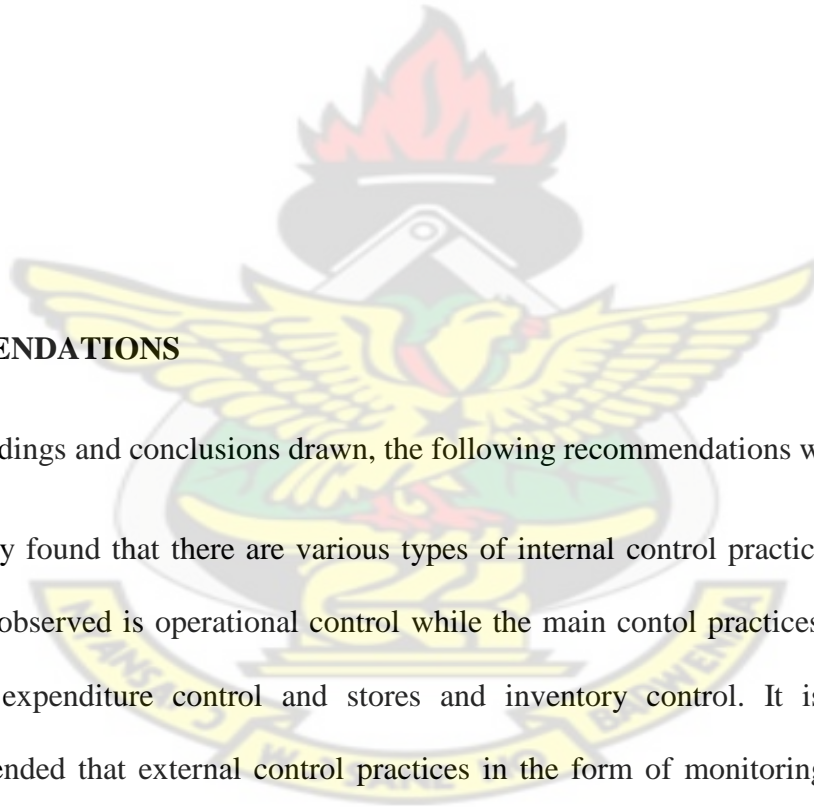
The following findings were considered before the conclusions were drawn. They include:

1. Majority of the internal audit team were found to be males.
2. The most dominant age group for the internal audit workers is between 30 to 39 years signifying that, a lot of the audit officers are young adult.
3. The educational background of the internal audit are high and the majority are holding bachelors degree whiles a small percentage are having secondary level of education with professional qualification.
4. Majority of the internal audit staff have worked between 10 to 14 years. This suggests that they have many years of experience in the field of internal audit.
5. There are various types of internal control practices embarked upon at the Regional Hospital and the main practices include financial control, expenditure control, stores and inventory control and operational control.
6. Major problems affecting internal control at the Regional hospital are inadequate audit staff, inadequate logistics and intimidation and interference from staff.
7. Minor problems associated with internal control practices at the hospital are indifferent attitude of workers and disregard to accounting standards and policies.

8. There is the general perception that performances of the internal audit department on internal control practices are bad at the Regional hospital.

It was found that the main problems affecting the efficient operation of internal control practices at the hospital are inadequate audit staff, inadequate logistics, intimidation and interference and disregard to accounting standards and policies. Based on these weaknesses, the activities of the internal audit department are perceived to be bad in the Eastern Regional hospital.

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5.3 RECOMMENDATIONS

Based on the findings and conclusions drawn, the following recommendations were made:

1. The study found that there are various types of internal control practices and the minor practice observed is operational control while the main control practices are on financial control, expenditure control and stores and inventory control. It is therefore recommended that external control practices in the form of monitoring, guidelines and policies with regard to operations in the various department should be enhanced to maintain operational quality and standards at the hospital.
2. The study found that major problems affecting internal control are inadequate audit staff and logistics. To help improve efficiency, management should recruit more audit staff and to supply all the needed logistics in order to improve efficiency at the hospital.

3. The issue of intimidation and interference from other staff to internal audit staff should be addressed by management in order to give the internal audit staff free room to operate
4. Majority of the workers have the perception that internal audit department performance is bad in terms of internal control. It is necessary for management to address the basic challenges confronting internal auditors in order to improve efficiency of their work.
5. Internal Audit personnel need to work on their image and their human relations so that the perception that they are arrogant and insensitive to other workers plight could be reduced.

The logo of Kenyatta University of Science and Technology (KNUST) is centered in the background. It features a yellow eagle with its wings spread, perched on a green shield. Above the eagle is a red and orange flame. Below the eagle is a yellow banner with the Swahili motto 'NYANSIA WIZANI NO LEDWENNA'. The acronym 'KNUST' is written in large, light grey letters across the middle of the page.

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QUESTIONNAIRE

TOPIC: ASSESSMENT OF AUDIT INTERNAL CONTROL PRACTICES AT EASTERN REGIONAL HOSPITAL, KOFORIDUA

HOW TO COMPLETE THE QUESTIONNAIRE

Most of the questions seek response by ticking in the box that corresponds to the appropriate answer. Other questions demand that you provide your own responses.

SECTION A: SOCIAL DEMOGRAPHIC PROFILE OF RESPONDENTS

1. What is your sex?

Male

Female

2. In which age group do you belong

20 – 29

30 – 39

40 – 49

50 – 79

3. Which level of education are you?

SHS/Secondary

Voc/Commercial/Technical

Diploma

Bachelors'

Masters'

Others (Specify).....

4. Which year of service are you in the Hospital?

Less than 1 year

1 – 4 years

5 – 9 years

10 – 14 years

14 – 19 years

20 – 24 years

25+

SECTION B: INTERNAL CONTROL PRACTICES AT AUDIT SECTION

1. What internal Control practices does the account dept use in this hospital?

Financial control

- Expenditure control
- Stores and inventory management controls
- Operational control
- Effective control

2. Which of these practices identified, are more important?

- Financial control
- Expenditure control
- Stores and inventory management controls
- Operational control

3. Explain the choices of year response.

- To strengthen the financial operation of the hospital
- To detect fraudulent activities on time
- Ensure proper expenditure account
- Bring about effective stores and inventory management

SECTION C: PROBLEMS ASSOCIATED WITH INTERNAL CONTROLS

1. What are the problems associated with the implementation of the internal control practice at the hospital?

- Problems of intimidation and interference from other staff
- Indifferent attitude by staff from other depts
- Inadequate audit staff

Inadequate logistics

2. How can the problem identified be solved.

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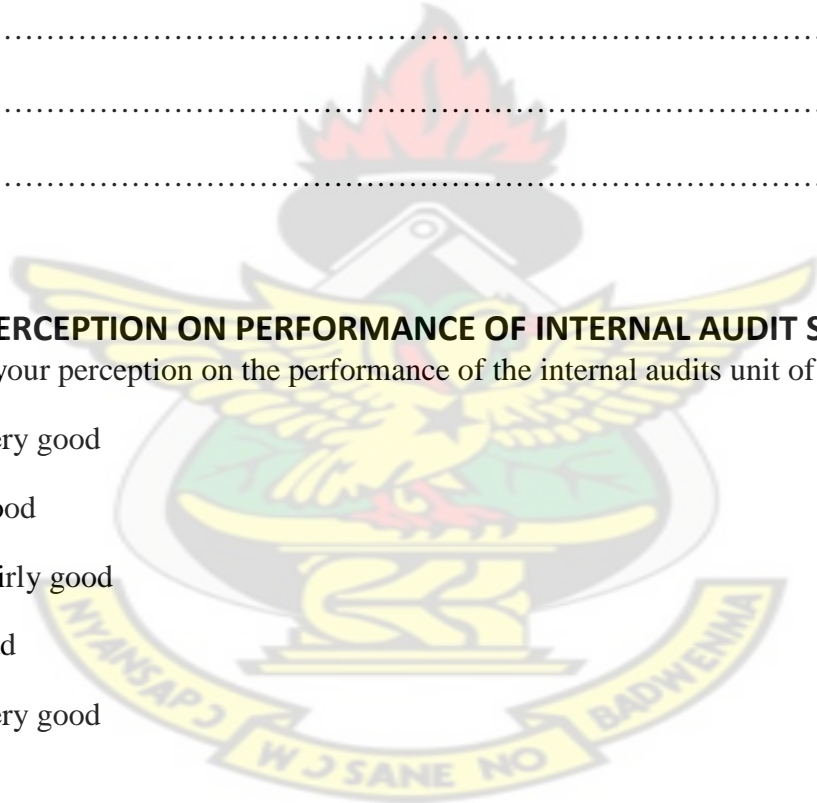
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SECTION D: PERCEPTION ON PERFORMANCE OF INTERNAL AUDIT SECTION

1. What is your perception on the performance of the internal audits unit of the hospital

- Very good
- Good
- Fairly good
- Bad
- Very good

2. Given reasons for your choice of response in 1 above

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