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ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROLS IN PUBLIC SECTOR ORGANIZATIONS

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DECLARATION

Student's Declaration

I, Emmanuel Owusu Yorke, declare that this dissertation, except for quotations and references contained in the published works which have all been identified and duly acknowledged, is entirely my original work and it has not been submitted, either in part or whole, for another degree elsewhere.

Signature: ………………………………….

Date: ………………………………………

Supervisor's Declaration

I hereby declare that the preparation and presentation of this work were supervised in accordance with the guidelines for supervision of dissertation as laid down by the University of Education, Winneba.

Madam Mavis Pobbi (Supervisor)

Signature: ………………………………….

Date: ………………………………………

DEDICATION

I dedicate this work to my loving Mother, Christiana Yankah, my father, Samuel Mensah Yorke, and my siblings Kenneth and David.

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In the preparation of this dissertation, valuable information was obtained from journals, articles, books, and the internet. I am highly indebted to the authors of these works.

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ABSTRACT

The study was carried out to assess the effectiveness of internal control in Ghana's public sector. The design for the study was a case study. Twenty-five staff of selected public hospitals and a polyclinic were purposively sampled for the study. Data were collected using a questionnaire and the same was analyzed using descriptive statistics. The outcome of the study was that the hospitals had a systematic, comprehensive approach to internal control, which is consistently documented, understood at the management level, and communicated to personnel. However, there were still some inconsistencies concerning how internal controls were implemented and enforced and also all responsibilities were not clearly defined. It was also found out that it was easier to develop a good internal control system in smaller hospitals due to less personnel, more personal contacts, and less administrative bureaucracy. Following the outcome of the study, it was recommended among other things that policies and procedures must be observed consistently throughout the hospitals. Also, irregularities revealed by the internal financial controls system must attract prompt and effective corrective action. To assure continued effectiveness, the hospital's internal financial controls system must be reassessed frequently.

CHAPTER ONE

INTRODUCTION

Background to the Study

When companies abruptly collapse, the often reverberant question is, ―what went wrong?". The usual cause is associated with a breakdown in the internal control system. Internal control is a process that directs an organization towards achieving its set objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (COSO, 2012). The absence of these variables often results in organizational failure. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed the absence of, or weak, internal controls as the primary cause of many cases of fraudulent company financial reporting (Pridgen & Wang, 2007).

Internal financial controls are systems within an organization that develop methods and procedures to generate effective operations, establish reliable financial reporting, avoid fraud and maintain compliance with regulations and laws. Internal financial controls evaluation is meant to help institutions review and assess the structure of accountability within the organization. A sound system of internal financial controls ensures the integrity of financial reporting and the protection of assets. Fraud can easily be detected through internal controls. Such controls also help accuracy in financial reporting (Asare, 2006). Organizations rely on internal financial controls to ensure that financial information is accurate and valid. The existence of internal financial controls is important because they protect the integrity of an organization‘s financial information and allow stakeholders a measure of financial health (Asare, 2006). Strong internal controls can also increase the profitability of a company (Krishnan, 2005). Public corporations have shareholders demanding accountability.

However, public hospitals do not have as much accountability. In the case of hospitals, the taxpayers and donors typically are late in taking action, but because of funding questions, the incentives for and many effective internal financial controls in the public sector continue to increase (Hardiman, 2006). U.S. Government Accountability Office (GAO) recommends the use of internal financial controls to improve financial reporting in the public sector (George, 2005).

Internal control comprises the plan of an organization and all the coordinate methods and measures adopted within a business to safeguard its assets, verify the accuracy and reliability of its accounting data, proportional operational effectiveness and compliance with prescribed management policies. The definition of internal control comprises financial internal control and non-financial (administrative) internal control. Financial internal control pertains to financial activities and may be exemplified by controls over the company‘s cash receipts and payments financing operations and the company‘s management of receipts and payments. Non-financial internal control, on the other hand, deals with activities that are indirectly financial i.e. controls over the company‘s personnel section and its operations, fixed assets controls, and even controls overlaid down procedures (Reid & Ashelby, 2002).

A sound internal financial control system helps an organization to prevent frauds, errors and minimize wastage. Custody of assets is strengthened; it provides assurance to the management on the dependability of accounting data and eliminates unnecessary suspicion and helps in the maintenance of adequate and reliable accounting records. Even though an internal financial control system is expensive to install and maintain, it gradually evolved over the years with the greatest development occurring at the beginning of the 1940s. Not only have the complexities of the business techniques contributed to this development but also the increased size of business units which have encouraged the adoption of methods that will increase the efficiency of a business, act as a safeguard against errors and frauds. Mawanda (2008), states that there is a general perception that institution and enforcement of proper internal financial control systems will always lead to improved financial performance.

Generally, there is also a belief that well-established systems of internal financial control improve the reporting process and result in reliable reporting that enhances an entity's management accountability function. The preparation of sound financial information is one of the principal responsibilities of the management of each public company. Effective business management requires access to timely and accurate information.

Furthermore, if a company wishes to raise funds through the public securities markets, investors must be able to trust its financial report. The design and effectiveness of processes, as well as the safeguards in place for financial responsibility and reporting, play a part in management's capacity to carry out its financial reporting responsibilities. Most firms, especially those with several locations, operations, and financial reporting processes that are accurate and timely for management, investors, lenders, and other users, would find this extremely difficult without these controls. While no practical control system can guarantee that financial reports will never contain serious errors or misstatements, a good system of internal financial reporting control can significantly minimize the risk of such errors and inaccuracies in a company's financial statements (Kaplan, 2008). Cunningham (2004) states that internal financial control systems begin as internal processes with the positive goal of helping a corporation meet its set objectives. Management primarily provides oversight activity; it sets the entity's objectives and has overall responsibility for the internal control system. Internal controls are integral to the financial and operational policies and procedures of every organization. Internal controls are all of the measures taken by an organization to protect its resources from waste, fraud, and inefficiency, to ensure the accuracy and reliability of accounting and operating data, to ensure adherence to organizational policies, and to assess the level of performance of all organizational units. Internal Control Systems (ICS) are applicable to each organization in relation to key risks and are embedded within the operations and not treated as a separate exercise. ICS should be able to respond to changing threats both inside and outside the organization, and they should be viewed as a means to an end rather than an end itself.

Cunningham (2004) states that internal controls are affected by people not merely by policy manuals and forms, but people functioning at every level of the institution. Internal financial control only provides reasonable assurance to the firm's leaders regarding the achievement of operational, financial reporting, and safeguarding resources against loss due to waste, abuse, mismanagement, errors, and fraud. Internal financial controls lead to the promotion of adherence to laws, regulations, contracts, and management directives and the development and maintenance of reliable financial and management data, and accurately present that data in timely reports (Kaplan, 2008).

Treba (2013) states that internal financial control is a tool for ensuring that a firm realizes its mission and objectives. He further notes that as much as internal financial controls are often thought to be the domain of accountants and auditors; it is actually management that has primary responsibility for proper controls. A critical element of any comprehensive internal control system is regular monitoring of the effectiveness of internal controls to determine whether they are well designed and functioning properly (Treba, 2013). He further explained that weaknesses in internal financial control systems (control over the payroll, over expenditure commitments, and over procurement processes) lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money that will be attained in public spending. The results of the Treadway Commission Report in the United States (USA) in 1987 indicated that the lack of internal financial controls, or the presence of poor internal financial controls, is the fundamental cause of many occurrences of fraudulent financial reporting by companies.

Internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). Internal financial control, therefore, has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management, or restatements. Internal financial controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Beeler, 2012). Fadzil (2015) said that an effective internal financial control system unequivocally correlates with organizational success in meeting its revenue target level.

Effective internal financial control for revenue generation involves a regular review of the reliability and integrity of financial and operating information. A review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures, and applicable laws and regulations, and evaluation of the efficiency and effectiveness with which management achieves its organizational objectives (Ittner, 2003).

Internal financial controls are no longer a private concern for companies. The recent credit and liquidity crisis in the financial sector is an example of how corporate scandals place the spotlight on corporate governance practices in general and the effectiveness of risk management and internal control in particular (Richard Anderson & Associates, 2012). The recent turmoil in financial markets (Richard Anderson & Associates, 2009; The Walker Review, 2009; Senior Supervisors Group, 2009; Adamson, 2012), revealing both systemic problems, general corporate governance weaknesses, and specific internal-control weaknesses, has contributed to an even sharper focus on matters of internal financial control. From a Swedish perspective, matters of risk management and internal financial control today constitute key supervisory objects of the financial supervisory authority (Grant Thornton, 2012).

There are three major classifications of internal financial controls; preventive, detective, and corrective. Preventive controls identify potential problems ahead of time, make modifications, and eliminate any errors, omissions, or intentional acts. Detective controls are used to detect and report the occurrence of an omission, an error, or a malicious act. Finally, corrective controls aid in minimizing the impact of a threat, identifying the source of a problem, and correcting errors that result from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton, 2006).

Statement of the Problem

Internal financial control systems are made up of numerous components that are used to design and evaluate organizational financial regulatory compliance. Control environment, risk assessment, control activities, information and communication, and monitoring are the components. These elements must work together to produce a solid set of processes and procedures that the company uses in its operations. Other legislation and institutional structures have been implemented to maintain effective financial administration of the state and other firms, in addition to these internal control systems. Among these are The 1992 Constitution of the Republic of Ghana, the Criminal Code of 1960 (Act 29), the Public Financial Management Act, the Public Procurement Act (Act 663), the Internal Audit Agency Act (Act 658), and other 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 Perception Indices (CPI) suggests a prevalence of corruption in African countries (Transparency International, 2006). Therefore, there is a superficial risk of senior public officers having power to override internal financial controls to achieve their private gains. With the recent growth in donor support for the health sectors and increment in budgetary allocation, there are calls for rigorous financial management to ensure value for money and thereby increase the total wellbeing of the country. Mostly, internal controls are said to be implemented better in profit organizations compared to non-profit organizations. Owing to that, assessing the effectiveness and efficiency in the implementation of internal financial controls in public sector organizations like public hospitals has become an important part of the management role.

Purpose of the Study

The purpose of the study is to assess the effectiveness of internal controls in public sector organizations.

Objectives of the Study

The objectives of the study were to:

1. establish the existence or otherwise of internal financial control systems in the hospitals.
2. find out the level of compliance and other financial management regulations.
3. establish the consequences for compliance or non-compliance of such systems and regulations.
4. make necessary recommendations.

Research Questions

Despite improvements in donor support as well as financial allocation, the health sector continues to face challenges in meeting various targets.

The research, therefore, seeks to answer the following questions.

1. What are the operational internal financial controls systems in public hospitals?
2. What are the other conventions and laws that govern financial management in hospitals?
3. To what extent are these systems and laws being complied with or otherwise applied in the hospitals?

4. What are the difficulties in their implementation?

Significance of the Study

The outcome of the study would enable the government to be aware of the internal financial controls associated with non-profit making organizations like in the health sector and to find appropriate steps in addressing them. Besides, 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.

Outcomes of the study are expected to help managers to have insight into internal financial controls in place and to appropriate it to achieve results. This study can also be used as a reference for further research. This dissertation is to partially fulfill an academic requirement for the award of a master_s degree, it is expected that recommendations would be provided to complement regulatory bodies to influence effective internal financial controls.

Delimitations

In assessing the internal financial system controls in non-profit making organizations like public hospitals, three public hospitals had been considered for the dissertation, thus, the Ewim Polyclinic, Cape Coast District Hospital, and the Cape Coast Teaching Hospital to enable comparisons. The target units or departments are Accounting, Auditing, Administrative staff, and Medical personnel in the public hospitals. Ideally, the study should have covered all the public hospitals in Ghana based upon accessibility associated with the locations of the facilities. However, three public hospitals were chosen from Cape Coast Metropolitan Assembly due to their close proximity to where the researcher resides. This, it was envisaged, would enhance efficient data collection

Definition of Terms

Internal controls: This refers to the mechanisms, rules, and procedures implemented by a company to ensure the integrity of financial and accounting information.

The Sarbanes-Oxley Act (SOX): This is a U.S. law meant to protect investors from fraudulent accounting activities by corporations. Sarbanes-Oxley was enacted after several major accounting scandals in the early 2000's perpetrated by some companies

The Committee of Sponsoring Organizations (COSO): This is a joint initiative of five professional organizations and is dedicated to helping organizations improve performance by developing thought leadership that enhances internal control, risk management, among others.

The Corruption Perception Indices (CPI): It is an index which ranks countries by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as an abuse of entrusted power for private gain.

Structure and Organization of the Study

Chapter One covers the background to the study, statement of the problem, purpose of the study, research questions, objectives of the study, significance of the study, delimitation, limitations of the study, and definition of terms. Chapter Two examines relevant literature where various views from different authors are reviewed. Chapter Three concentrates on the methodology of the dissertation. Chapter Four focuses on the data, interpretation, analysis, and research findings. Chapter Five covers the recommendations and conclusion.

CHAPTER TWO

LITERATURE REVIEW

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. Systems can support such managers, but they cannot substitute for them (Krishnan, 2005).

Internal Controls Defined

Evaluating internal controls is one of internal auditing‘s 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 (1992).

This organizational approach provides both profit and non-profit organizations 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 (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).

Control over the activities of a budget organization can be divided into two types - internal and external control, which establishes levels of management, a certain type of relationship, and stakeholder attitude to a particular system of control. Internal control includes senior management of the organization, while external control for a budgetary institution can be defined as the basic principles and provisions of state regulation of expenditures of budgetary institutions (Roberts, 2014). The introduction of a system of financial management and control and managerial accountability (responsibility) in public institutions should be result-oriented and carried out systematically. In modern research of scientists on the problems of implementation and development of internal control, two scientific approaches have been formed (Finisha, 2012).

Internal control is a set of two controls - accounting and management, which ensures the compliance of those decisions that are made in the institution, their practical implementation. Accounting control is a set of methods and techniques that ensure the preservation of existing values, based on the verification of financial statements to avoid inventory errors, fraud, and other types of violations. Administrative control is a set of instructions, regulations, as well as methods and techniques that help manage, plan and control the economic activities of the organization. So, two methodological approaches to the study of internal control have formed- functional - managerial and informational. In this context, control over the validation of reporting was already focused on the effectiveness of activities. Thus, internal financial control is an accounting and management tool. The system of internal financial control (PIFCS - Public Internal Financial Control Systems) is being implemented in the public sector, following European standards to reform the public administration and establish its administrative capacity (Poisher, 2015). The Internal Control Committee of the International Organization of Supreme Audit Institutions has developed a manual on internal control standards for the public sector, which has been based on the concept of risk-oriented control of COSO. Researchers of theoretical and practical issues of implementing the COSO model in the risk management process consider control as a process carried out by managers at all levels and other employees. The basis of risk-oriented management is the introduction of a system of internal control and managerial accountability (responsibility).

Relative key performance indicators, which derive directly from strategic goals, link the strategic plan to the budget management process. A public internal financial control is a system of internal control, internal audit, inspection, harmonization activities to ensure quality management of state resources based on the principles of legality, economy, efficiency, effectiveness, and transparency. Internal control is a set of measures used by the head to ensure compliance with the legality and efficiency of budget funds, achieving results per the established purpose, objectives, plans, and requirements for the activities of the budgetary institution and its subordinate institutions (Duane, 2010).

The basic principle of a public internal financial control is a clear distinction between internal control and internal audit. An internal audit should determine how internal control has been performed. Internal control is a management tool that allows the management of a public sector body to check the status of the body‘s tasks (Hamilton, 2017). Internal control should not be looked upon as separate, specialized systems within an agency. Rather, internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations. Internal control is synonymous with management control in that the broad objectives of internal control cover all aspects of agency operations. Although ultimate responsibility for good internal control rests with management, all employees have a role in the effective operation of internal control that has been set by management (Silver, 2015).

Understanding of internal control can be enhanced by focusing on two basic aspects of internal control: objectives and techniques. Objectives are the goals or purposes to be achieved, while techniques are the mechanisms (the procedures, processes, physical arrangements, organizational structures, and assignments of responsibility and authority, to name a few) that achieve the goal (Silver, 2015).

All internal controls have objectives and techniques. In practice, internal control starts with defining entity-wide objectives and then more specific objectives throughout the various levels in the entity. Techniques are then implemented to achieve the objectives. In its simplest form, internal control is practiced by citizens in the daily routine of everyday life. For example, when you leave your home and lock the door or when you lock your car at the mall or on a street, you are practicing a form of internal control (Russell & Russell, 2014). The objective is to protect your assets against undesired access, and your technique is to physically secure your assets by locks. In another routine, when you write a check, you record the check in the ledger or on your personal computer. The objective is to control the money in your checking account by knowing the balance. The technique is to document the check amount and the balance

(Russell & Russell, 2014). Periodically, you compare the checking account transactions and balances you have recorded with the bank statement. Your objective is to ensure the accuracy of your records to avoid costly mistakes. Your technique is to perform the reconciliation. These same types of concepts form the basis for internal control in business operations and the operation of government. The nature of their operations is, of course, significantly larger and more complex, as is the inherent risk of ensuring that assets are safeguarded, laws and regulations are complied with, and data used for decision-making and reporting are reliable. Focusing a discussion on objectives and techniques, the acquisition, receipt, use, and disposal of property, such as computer equipment, can illustrate the practice of internal control in the operation of government activities.

According to Goode (2012), internal control at the activity level such as procuring equipment should be preceded, at a higher organizational level, by policy and planning control objectives and control techniques that govern overall agency operations in achieving mission objectives. Examples of high-level control objectives that logically follow a pattern include the following:

- The mission of the agency should be set in accordance with laws, regulations, and administration and management policy.
- Agency components should be defined in accordance with the overall mission of the agency.
- Missions of the agency and components should be documented and communicated to agency personnel.

Scheme of organization and interaction of internal financial control and internal audit budgetary institutions, depending on their direction and purpose. Thus, internal control is management control, the purpose of which is to assist management in managing and performing tasks on an ongoing basis. That is, it is not a one-time action, but a series of actions and activities carried out by these bodies permanently, so internal control should not be considered as a separate system within the public sector body. Preliminary control - control that precedes the adoption of a management decision or the implementation of financial and economic transactions (for example, before making financial commitments or before making payments). Further control - control that has been carried out after the implementation of a management decision or financial and economic transaction (for example, after making payments). Internal control should also provide an opportunity to make management judgments and take the initiative to increase efficiency and effectiveness, as well as reduce costs (Malik, 2017).

Structure of Effective Internal Control Systems

The COSO Framework states that internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

Organizations achieve these objectives through the operation of the five interrelated components of internal control. These components provide a framework for understanding internal control and assessing its effectiveness (Kae, 2012). The concepts embodied in the COSO Framework are frequently presented in terms of a three-dimensional cube that depicts the five components operating across each internal control objective and within all organizational units and activities.

Not only does the cube demonstrates the connections between objectives and components, it also illustrates that the control components operate at different levels across the organization, a concept that is often overlooked. Like the other control components, monitoring can operate at different levels (Finisha, 2016). As organizations increase in size, evaluators at the highest organizational levels -who are removed from direct interaction with controls or process owners - often monitor by evaluating the results from monitoring activities performed at another level.

Conversely, in smaller organizations, management often has more direct exposure to the operation of controls and, thus, might rely less on monitoring performed by others. The interrelationships embodied in the components of the COSO Framework have also been illustrated in the process-oriented graphic included in COSO‘s 2006 Guidance (Horngreen, 2010).

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 (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, International Federation of Accountants in the USA, Information Paper August 2006.

Elements of Internal Control

Internal financial controls systems comprise 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 organizations follow in their operations (COSO Internal Control-Integrated Framework, 1992)

Control Environment

The Institute of Internal Auditors control environment definition states that the control environment is the ―foundation on which an effective system of internal control is built and operated in an organization that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets." The control environment is the component of internal controls. It includes factors such as integrity, ethical values, the 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 (Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting (Draft for public comment, 2005). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as ―a process, effected by an entity‘s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives." There are five key components of internal control (sometimes referred to as the principles of internal control) that include the following:

Risk Assessment

Risk assessment is that component that is used for identifying risks in the system. In the designing and implementation of internal control for an organization, it is necessary to identify and analyze threats or risks to the achievement of the entity‘s objectives. For risk assessment to be effective, preventative measures are put in 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 by Enterprise Risk Management – Integrated Framework (2004).

Buttressing the above, Ham (2012) opines that risk-taking involves identifying the areas in which the greatest threat or risk of inaccuracies or loss exists. To be most efficient, the greatest risks should receive the greatest amount of effort and level of control. For example, the dollar amount or the nature of the transaction (for instance, those that involve cash) might be an indication of the related risk.

Control Activities

Risks that management determines that the entity must mitigate in order to achieve its objectives are addressed by control activities. Organizations develop control activities to assist in monitoring. 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. Through policies and procedures, control activities or actions are put into place to address those risks. These policies are designed to ensure that management directives are fulfilled. (COSO Internal Control-Integrated Framework, 1992). Due to the wide range of control activities and the volume and nature of the evaluation procedures, evaluation of the third component of the internal control system, namely control activities, is limited only to the qualitative evaluation. It is important that an organization use a risk-based approach in designing its control activities or internal control framework. This means that controls are designed to address the risk factors identified in its internal risk assessments rather than using a pre-defined control list. While some frameworks are widely accepted (such as COSO‘s internal control framework), each organization is different and faces different challenges. This requires that an organization customize even the best framework to align with its needs.

Internal Control Activities and Best Practices

Boaz (2008) indicates that internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. A good internal control system should include the control activities listed below. These activities, according to Boaz (2008), generally fit into two types of activities.

1. ***Preventive***: Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include thorough documentation and authorization practices. Preventive control activities prevent undesirable "activities" from happening, thus requiring well-thought-out processes and risk identification.
2. ***Detective***: Detective control activities identify undesirable "occurrences" after the fact. The most obvious detective control activity is reconciliation.

Other Internal Control Best Practices

Hamilton (2015) posits that, with a good internal control system in place, other considerations to keep in mind include:

- Regularly communicate updates and reminders of policies and procedures to staff through emails, staff meetings, and other communication methods.
- Periodically assess risks and the level of internal control required to protect University assets and records related to those risks. Document the process for review, including when it will take place. (Example: Determine that all security activities, reconciliation processes, and separation of duties will be reviewed annually. They will, however, be staggered. Security activities will be reviewed in July, reconciliation in September, and separation of duties in March.)
- Management is responsible for making sure that all the staff are familiar with the organization‘s policies and changes in those policies.

Information and Communications

Personnel within the organization must understand their responsibilities for internal control. This component is designed to allow employees the ability to carry out their responsibilities in the best manner possible. This is best achieved when individuals can relate the impact that their activities have on the achievement of the business' goals and objectives. The information must be identified, captured, and communicated timely and effectively and is achieved through this internal control component. This communication should be an ongoing process. Organizations with truly effective internal control provide training to personnel on a regular basis, keep current policies and procedures available to personnel, and communicate other critical information promptly via company meetings or emails as needed. The 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 (COSO Internal Control-Integrated Framework, 1992)

Monitoring

Monitoring includes assessing the performance of internal control components, ensuring they are operating effectively. Findings should be evaluated against criteria established by the board of directors, management policies, industry standards, and regulators. Deficiencies should be communicated to management and the board of directors, as needed. Management should follow up on these items through resolution. This component includes allowing managers clear responsibility guidelines so that they can 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 (COSO Internal Control-Integrated Framework, 1992). Monitoring activities may extend beyond the borders of an organization. Such as with service providers whose services may impact their clients' internal controls over financial reporting. For example, the American Institute of Certified Public Accounts (AICPA) Statement on Standards for Attestation Engagements (SSAE) No. 18, which replaced SSAE 16 as the standard for SOC 1 reporting on May 1, 2017, emphasizes the importance of service providers monitoring controls at sub-service organizations.

COSO states that: There is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. "Built-in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

In an effective internal control system, the COSO Framework's five components work together, providing reasonable assurance to management and the board of directors regarding the achievement of the organization's objectives. The effective operation of the monitoring component provides value to the organization in three ways:

- It enables management and the board to determine whether the internal control system -which includes all five components - continues to operate effectively over time. Thus, it provides valuable evidence to support assertions, if required, about the internal control system's effectiveness.

- It improves the organization's overall effectiveness and efficiency by providing timely evidence of changes that have occurred or might need to occur, in the way the internal control system addresses meaningful risks.
- It promotes good control operation. When people who are responsible for internal control know their work is subject to oversight through monitoring, they are more likely to perform their duties properly over time.

Monitoring leads to the identification and correction of control deficiencies before they materially affect the achievement of the organization's objectives. Using the financial reporting objective as an example, monitoring should identify and correct control deficiencies before the failure of the underlying controls leads to a material misstatement of an organization's published financial statements. For the objective of the operation, monitoring should identify and correct deficiencies in controls over a manufacturing process before they lead to the production and sale of defective products.

Properly designed and executed monitoring helps ensure and promote good internal control operation. It requires thoughtful planning that leads to the evaluation of persuasive information, which is both suitable and sufficient in the circumstances. In contrast, ineffective monitoring, over time, allows the natural deterioration of internal control systems. Absent effective monitoring, controls within any or all of the five components may change, cease to operate or lose effectiveness because of changes in circumstances. Monitoring should be designed to detect such changes in a timely fashion.

No system of internal control can guarantee the prevention and detection of all control deficiencies that result in the inability to achieve organizational objectives. However, when properly designed and executed, monitoring will help ensure that internal control continues to operate effectively. Monitoring is most effective and efficient when it considers how the entire internal control system manages the risks to achieving the organization‘s objectives. In contrast, it is less effective and efficient when it focuses on a checklist of control activities that are selected for evaluation without regard to the level of the risk they address, or their relative importance in addressing the risk.

Most organizations will find that many elements of monitoring described in this guidance are part of their normal activities. This guidance will help them identify and more effectively utilize existing monitoring (e.g., to provide support for external assertions regarding internal control effectiveness). Other organizations may find that they lack effective monitoring or perform monitoring in an inefficient manner. This guidance will help them improve their monitoring procedures.

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

The Turnbull Report was first published in 1999 and set out best practices on internal control for UK-listed companies. In October 2005 the Financial Reporting Council (FRC) issued an updated version of the guidance with the title Internal Control: Guidance for Directors on the Combined Code. In September 2014 this was superseded by the FRC's Risk Guidance. Internal Control: Guidance for Directors on the Combined Code, commonly referred to as Turnbull guidance, was issued by the Institute of Chartered Accountants of England and Wales (ICAEW) 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. The committee which wrote the report was chaired by Nigel Turnbull of The Rank Group plc.

The report informed directors of their obligations under the Combined Code with regard to keeping good "internal controls" in their companies or having good audits and checks to ensure the quality of financial reporting and catch any fraud before it becomes a problem. Risk management is an established corporate governance feature in many areas; but current practices in investment appraisal, project, and health and safety management often lack integration, common guiding principles, and consistency in standards or coverage. Turnbull aims to change this by making directors specifically accountable for developing organization-wide risk management policies and for implementing integrated, inclusive, and dynamic risk management strategies.

CICA'S Criteria of Control Board Guidance on Control

CICA‘s Criteria of Control Board Guidance on Control (CoCo) 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.” This guidance defines control and sets out criteria that can be used to assess the effectiveness of control. Control is seen as encompassing the entire organization starting with its smallest unit, the individual person. CoCo uses four essential elements as groupings within which it articulates 20 criteria of control.

- Purpose criteria provide a sense of the organization's direction. They address its objectives, risks, and opportunities, policies, planning, and performance targets and indicators.
- Commitment criteria provide a sense of the organization's identity and address its ethical values, human resource policies, authority, responsibility and accountability, and mutual trust.
- Capability criteria provide a sense of the organization's competence. They deal with knowledge, skills, tools, communication processes, information, coordination, and control activities.
- Monitoring and learning criteria provide a sense of the organization's evolution. They involve reviewing internal and external environments, monitoring performance against targets, challenging assumptions, reassessing information needs and systems, establishing follow-up procedures, and assessing the effectiveness of control.

These criteria are interrelated and together they provide the framework for looking at the whole organization from a control perspective. The guidance is intended to be useful in making judgments about designing, assessing, and reporting on control. It is not intended as prescriptive minimum requirements.

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, Information Paper August, 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.

Control Objectives for Information and Related Technology (COBIT)

In recognition of the importance of IT internal controls, and 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 adopted its definition of internal control from COSO: 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.

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.

SOX were far-reaching and contained many new regulations. Of particular interest to this document were the new rules regarding the reporting of evaluations related to internal control over financial reporting. These were required by Section 404(a): Management Assessment of Internal Controls which requires each annual report of an issuer to contain an ―internal control report," which shall:

- State the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and
- Contain an assessment, as of the end of the issuer‘s fiscal year, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

In addition, SOX, via Section 404(b) which covers Internal Control Evaluation and Reporting, requires, that the organization‘s auditor shall ―attest to, and report on the assessment made by management" in respect of the internal control assessment. 404(b) noted that the attestation shall be made in accordance with standards for attestation engagements issued by the Public Company Accounting Oversight Board and that any such attestation shall not be the subject of a separate engagement. 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. Assessments of internal control using the SOX definition are less likely to focus on the business benefits that can result from a review of the wider aspects of internal control and the related processes for risk management (Professional Accountants in Business Committee, Information Paper August, 2006).

Recent Developments in Internal Control

Since 2002, a number of bodies around the world have looked at current guidelines and best practices 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 to address issues of effective management and internal controls in organizations.

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. A Basic Framework in June 2005. In the US in 2004, COSO produced the COSO Enterprise Risk Management—Integrated Framework, which supplements the 1992 internal control framework.

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:

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

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

The Legal Framework of Financial Administration and Transparency in Ghana

Public Financial Management Act, 2016 (ACT 921)

The Act defines clearly the powers and responsibilities of financial stewards (individual officeholders) 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, and 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 the law. Specific enactments may give continuing authority for payments such as charged expenditure and establish principles under which Government Accounts are managed and kept, the preparation of government accounts, and the reporting of final accounts of the government. It describes the conditions for liability, offenses, and penalties, and the establishment of the Financial Administration Tribunal (Public Sector Accounting: The Institute of Chartered Accountants Ghana (ICAG), 2010).

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 Government Ministries, Departments and Agencies and Metropolitan, Municipal, and District Assemblies 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 the 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 (Public Sector Accounting: The Institute of Chartered Accountants Ghana (ICAG), 2010).

2.13.2 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, plants, and equipment;
8. It establishes miscellaneous provisions covering the 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.

(Public Sector Accounting: The Institute of Chartered Accountants Ghana (ICAG), 2010).

Importance of Internal Controls

The research found effective and efficient internal controls as a result of independent audit committee characteristics of size, meeting frequency, and financial expertise to serve Bedard (2004). For public corporations, Krishnan (2005) finds the association between the independent audit committees and internal controls problems. 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 (as shown in prior research, e.g., Abbott, 2004; Carcello & Neal 2000; Krishnan, 2005). Generally, public hospitals committees' function, composition, and effectiveness differ from audit committees of public corporations. Corporate independent audit committees seem to influence corporate internal controls (COSO 1992; Krishnan 2005; New York State Attorney General 2005; Securities and Exchanges 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 (Carcello, 2002; DeZoort 1997) and engage in the examination of internal financial controls (Krishnan, 2005).

Current AICPA standards require the external auditor to communicate to the audit committee about significant deficiencies in the entity_s internal financial controls (SAS No. 112, AICPA 2006), whether government-funded or not. In some non-profit hospitals, Pridgen and Wang (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 the quality of internal controls, 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 & Chadha 2005). Internal controls have a great impact on corporations.

Internal control over financial reporting has long been recognized as an important feature of a company (see Kinney et al., 1990; Kinney, 2000; Kinney, 2001). However, before Sarbanes-Oxley, standards in place were very limited in scope. The sole statutory regulation of internal control over all Securities and Exchange Commission 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 (SEC, 1988; Geiger and Taylor, 2003; 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 before 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 was on the association between audit committee quality and internal control quality, which she found to be positively related. However, her sample was limited to firms that changed auditors. (Doyle, 2006) present a much broader study of the evaluation of internal financial controls problems with a sample of 779 unique firms disclosing material weaknesses in the three years following the effective date of Section 302.

Role of Boards and Audit Committees

Consequent to the formal responsibility introduced under the 2013 Act, the role of the Board and the Audit Committee in the oversight of internal control has become increasingly critical (Kazskan, 2015). The Board is expected to play an important role in establishing the control environment, including clarity of expectations regarding integrity and ethics and adherence to codes of conduct and creating clear accountability for the performance of internal control responsibilities. The Board‘s assessment of the risk of management override of internal control and establishing open lines of communication between management and the Board, as well as providing separate lines of communication (e.g., whistle-blower hotlines)is important.

According to Cardos (2018), the need for Boards to perform this self-evaluation and ensure maintenance of appropriate skills and expertise is a critical success factor in meeting the new requirement of the 2013 Act. Audit Committees play a critical role in overseeing internal control. Although their primary focus may be on Internal Financial Controls over Financial Reporting (IFCFR), now, more than ever, Audit Committees are taking the lead in overseeing controls about compliance and operational matters. Expectations of the Audit Committee‘s role have expanded due to enhanced company and external auditor reporting requirements, along with an increased focus on compliance by regulators.

Questions for Board and Audit Committees to consider:

- Has a framework for internal financial controls been identified for the company (e.g. COSO 2013)?
- Does the framework include operations and regulatory compliance as well?
- Have the internal controls been mapped to the framework defined?
- Based on the defined framework, are there any gaps in current processes, control activities, or documentation, and if so, how are these being addressed?
- Is the company educating leadership & executive management, and control owners regarding the content in the framework?
- What policies are in place and who is responsible for communicating internal control considerations to external parties (e.g., third-party service providers)?
- Does the company use information technology and data analytics to help continuously monitor internal control systems?

Advantages of a Robust Internal Financial Control System

Cooper (2012) indicates that, by placing more accountability and responsibility on the Board and Audit Committee with respect to internal financial controls, the 2013 Act is attempting to align the corporate governance and financial reporting standards with global best practices. With adequate and effective internal financial controls, some of the benefits that the companies would experience include:

- Senior Management Accountability
- Improved controls over the financial reporting process
- Improved investor confidence in entity's operations and financial reporting process
- Promotes a culture of openness and transparency within the entity
- Trickling down of accountability to operational management
- Improvements in Board, Audit Committee and senior management engagement in financial reporting and financial controls
- More accurate, reliable financial statements
- Making audits more comprehensive

Internal financial controls also become important as they help derive values in the form of:

- A fresh independent look at key business processes
- Identification of potential operating process opportunities
- Updated formal, centralized, and managed internal financial controls documentation for the company
- Enhanced support to CEO/CFO certifications
- Enhanced control environment, thereby mitigating risk
- A better understanding of inherent and residual control risks in internal controls

Opportunities for institutions

To truly unlock the value that can be achieved by adopting the internal financial controls, management should take a step back and evaluate how it is addressing the risks to its organization in light of the company‘s size, complexity, global reach, and risk profile (Brown, 2016). In the companies‘ implementation of internal financial controls, there is a difference between doing the minimum and doing the right thing to effectively address the requirements. Companies that choose to do the right thing will unlock the value, reduce fraud risk, avoid financial reporting surprises, and support sustained business performance over the long term (Cooper, 2012).

Benefits of Internal Controls

The importance of internal controls cannot be understated, especially in a large, complex organization like the federal government. Internal control is the first line of defense against fraud, waste, and abuse and helps agencies achieve their missions effectively and efficiently.

Internal control is concerned with stewardship and accountability of resources consumed while striving to accomplish an agency‘s mission with effective results (Franken, 2011). Specifically, the United State‘s Government Accountability Office (GAO) Standards for Internal Controls in the Federal Government defines internal control as ―the plan of organization and methods and procedures adopted by management to ensure resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable information is obtained, maintained, and fairly disclosed in reports (Franken, 2011) Internal control is synonymous with management control in that the broad objectives of internal control cover all aspects of agency operations. Although ultimate responsibility for internal controls rests with management, all employees have a role in the effective operation of internal controls established by management. Effective internal control provides reasonable, not absolute, assurance that an agency‘s activities are being accomplished under its control objectives (Poisher, 2015).

Internal control helps management achieve the mission of the agency and prevent or detect improper activities. The cost of fraud cannot always be measured in dollars. Improper activities erode public confidence in the government. In 1982, Congress passed the Federal Managers‘ Financial Integrity Act requiring (1) agencies to annually evaluate their internal controls, (2) GAO to issue internal controls standards, and (3) OMB to issue guidelines for agencies to follow in assessing their internal controls. Agencies were required to report annually to the President and the Congress whether their internal controls complied with GAO‘s standards. The Integrity Act was beneficial in focusing management and employee attention on the importance of internal control. Although progress was made, internal control problems continued. More recently, Congress has enacted several statutes to provide a framework for performance-based management and accountability. These statutes include the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994 (to ensure more reliable financial reporting); the Government Performance and Results Act of 1993 (requiring agency strategic and annual performance planning); and the Federal Financial Management Improvement Act of 1996 (to improve federal financial management systems).

What Happens When Internal Controls Are Not Effective

Edmondson (2015) posits that weak internal controls pose a significant risk to the government - losses in the millions, or even billions, of dollars, can and do occur. For example, weak internal controls contributed significantly to the failure of over 700 savings and loans in the 1980s, costing the taxpayers hundreds of billions of dollars. In the health care area, the Health and Human Services Inspector General estimated that $23 billion of $163 billion in processed fee-for-service payments during the fiscal year 1996 were improper. GAO and others have reported that weak internal controls over safeguarding and accounting for government property are a serious continuing problem (Bloomfield, 2012). GAO‘s 1997 high-risk series identifies major areas of government operations where the risks of losses to the government are high and where achieving program goals is jeopardized. Effective internal controls are essential to achieving agency missions. Management and employees should focus not necessarily on more controls, but on more effective controls. Plans and budgets should be developed in accordance with the missions of the agency and its components (Bloomfield, 2012).

- Policies and procedures should be defined and communicated to achieve the objectives defined in plans and budgets.
- Authorizations should be in accordance with policies and procedures.
- Systems of monitoring and reporting the results of agency activities should be defined.
- Transactions should be classified or coded to permit the preparation of reports to meet management‘s needs and other reporting requirements.
- Access to assets should be permitted only under laws, regulations, and management‘s policy.

Examples of control techniques to help achieve the objectives include the following:

- agency and component mission statements approved by management and its legal counsel;

- training of personnel in mission and objectives;
- long and short-range plans developed related to budgets;
- monitoring of results against plans and budgets;
- policies and procedures defined and communicated to all levels of the organization and periodically reviewed and revised based on internal reviews;
- authorizations defined, controls set to ensure authorizations are made, and authorizations periodically reviewed;
- classifications of accounts set to permit the capture and reporting of data to prepare required reports; and
- physical restrictions on access to assets and records, and training in the security provided to employees.

The policy and planning control objectives and techniques provide a framework to conduct agency operations and to account for resources and results. Without that framework, administration and legislative goals may not be achieved; laws and regulations may be violated; operations may not be effective and efficient and maybe misdirected; unauthorized activities may occur; inaccurate reports to management and others may occur; fraud, waste, and abuse is more likely to occur and be concealed; assets may be stolen or lost, and ultimately the agency is in danger of not achieving its mission. Within this higher-level framework for guiding and operating the agency, specific activities take place to achieve the agency‘s mission and the intended results (Kae, 2013). The procurement and management of computer equipment is an example of such specific activity. Objectives and techniques should be established for each activity‘s specific control. As examples of control objectives, vendors should be approved by laws, regulations, and management‘s policy, as should the types, quantities, and approved purchase prices of computer equipment. As examples of related control techniques, criteria for approving vendors should be established and approved vendor master files should be controlled, and the purchase governed by criteria, such as obtaining competitive bids and setting specifications of the equipment to be procured. Likewise, control objectives should be set for the receiving process Kae, 2013). For example, only equipment that meets contract or purchase order terms should be accepted, and equipment accepted should be accurately and promptly reported. Related control techniques include (1) detailed comparison of equipment received to a copy of the purchase order, (2) prenumbered controlled receiving documents that are accounted for, and (3) maintenance of receiving logs.

Throughout the purchasing and receiving of equipment there needs to be an appropriate separation of duties and interface with the accounting function to achieve funds control, timely payments and inventory, and control of equipment received.

Equipment received should be safeguarded to prevent unauthorized access and use. For example, in addition to physical security, equipment should be tagged with identification numbers and placed into inventory records. Equipment placed into service should only be issued to authorized users and records of the issuances should be maintained to achieve accountability. Further, physical inventories should be taken periodically and compared with inventory records. Differences in counts and records should be resolved in a timely manner and appropriate corrective actions are taken. Also, equipment retired from use should be by management‘s policies, including establishing appropriate safeguards to prevent unauthorized information that may be stored in the equipment from being disclosed (Ann, 2010). It is important to recognize that internal controls can be designed to provide reasonable, not absolute, assurance that an organization‘s activities are being accomplished following its objectives. The

American Institute of Certified Public Accountants - in Statement of Auditing Standards Number 55 - identified internal control limitations, such as the possibility of errors arising from such causes as a misunderstanding of instructions, mistakes of judgment, and personal carelessness. Also, procedures whose effectiveness depends on the segregation of duties can be circumvented by collusion. Similarly, management authorizations may be ineffective against errors or fraud perpetrated by management. In addition, the standard of reasonable assurance recognizes that the cost of internal control should not exceed the benefit derived. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks (Fraenkel, 2013).

The cost of fraud, waste, and abuse cannot always be measured in dollars and cents. Such improper activities erode public confidence in the government‘s ability to efficiently and effectively manage its programs. Management at several federal government agencies is faced with tight budgets and limited personnel. In such an environment, related operating factors, such as executive and middle management turnover and the diversity and complexity of government operations, can provide a fertile environment for internal control weakness and the resulting undesired consequences (Fraenkel, 2013).

It has been almost 50 years since Congress formally recognized the importance of internal control. The Accounting and Auditing Act of 1950 required, among other things, that agency heads establish and maintain effective internal controls over all funds, property, and other assets for which an agency is responsible. However, the ensuing years up through the 1970s saw the government experience a crisis of poor controls.

To help restore confidence in government and to improve operations, Congress passed the Federal Managers‘ Financial Integrity Act of 1982. The Integrity Act required, among other items, that

- we establish internal control standards that agencies are required to adhere to,
- the Office of Management and Budget (OMB) issue guidelines for agencies to follow in annually assessing their internal controls,
- agencies annually evaluate their internal controls and prepare a statement to the President and Congress on whether their internal controls comply with the standards issued by GAO, and
- agency reports include material internal control weaknesses identified and plans for correcting the weaknesses.

OMB has issued agency guidance that sets forth the requirements for establishing, periodically assessing, correcting, and reporting on controls required by the Integrity Act. Regarding the identification and reporting of deficiencies, OMB‘s guidance states that ―a deficiency should be reported if it is or should be of interest to the next level of management. Agency employees and managers generally report deficiencies to the next supervisory level, which allows the chain of command structure to determine the relative importance of each deficiency." The guidance further states that ―a deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e., included in the annual Integrity Act report to the President and the Congress) shall be considered a 'material weakness.' The guidance encourages reporting of deficiencies by recognizing that such reporting reflects positively on the agency‘s commitment to recognizing and addressing management problems and, conversely, failing to report a known deficiency reflects adversely on the agency (Bison, 2015). In 1983, internal control standards were issued as required by the Integrity Act. In developing the standards, we drew on our previously issued guidance and experts throughout the government, private sector, and academic communities. The internal control standards consist of five general standards, six specific standards, and one audit resolution standard. The five general standards require (1) a supportive attitude toward controls by managers and employees, (2) competent personnel, (3) internal controls that provide reasonable assurance that objectives are achieved, (4) the development of internal control objectives for each agency activity, and (5) control techniques that are effective and efficient in accomplishing internal control objectives. The six specific control standards identify basic techniques to help achieve control objectives. The standards address

- documentation of control objectives and techniques and all pertinent aspects of transactions;
- required prompt and proper recording of all transactions;
- executing transactions and events according to management‘s directives;
- separation of duties between authorizing, processing, recording, and reviewing transactions;
- qualified and continuous supervision to ensure that control objectives are achieved; and
- limiting access to resources and records to authorized persons to provide accountability for the custody and use of resources.

Finally, the audit resolution standard requires managers to promptly evaluate findings, determine proper resolution, and establish corrective action or otherwise resolve audit findings.

The Integrity Act was beneficial in focusing management and employee attention on the importance of internal control to achieve an agency‘s mission. However, agency reports required under the Integrity Act disclosed so many internal control weaknesses that additional measures were needed to provide for effective program management and accountability. Since the Integrity Act, Congress has enacted many statutes to provide a framework for performance-based management and accountability. These statutes include the following:

- The Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, laid the foundation for government to better ensure reliable financial information through audited financial statements.
- In response to the savings and loan crisis and the growing list of bank failures in the early 1990s, the Federal Deposit Insurance Corporation Improvement Act of 1991 required depository institutions whose assets exceeded certain amounts to prepare an annual statement of management‘s responsibility for establishing and maintaining adequate internal controls, including an assessment of the effectiveness of the controls. Also, the institution‘s independent auditors are required to attest to the fair presentation of management‘s assertion on internal control effectiveness.
- The Government Performance and Results Act of 1993 requires, among other items, that agencies identify their missions, strategic goals, and approaches (strategies) for achieving the goals. The act also requires agencies to report on their performance, using performance measures, in meeting the goals.

The Federal Financial Management Improvement Act of 1996 requires that auditors audit financial statements according to the expanded Chief Financial Officers Act report whether each agency is maintaining financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards, and the government‘s standard general ledger at the transaction level (Kurtis, 2013).

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

1. Detecting error and fraudulence. Through the enhanced structure of internal control, which includes the establishment and improvement of the control environment, according to the 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 reckless conduct leads to results of lawbreaking, it might not only damage the public image of the entity (reputation risk) but also carries the risk of difficulties of the operation due to time-consuming lawsuits and indemnities. The establishment and enhancement of internal control help in decreasing illegal conduct.
3. Improving the competitiveness of the business entity. A well-built 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 against failure. The small scale of internal control inside the business entity improves employees‘ 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. An effective internal control system allows auditors to rely on it and by reducing the auditing time and effort, the fee can be decreased.

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 judgment 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 a 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)

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.

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 for alternative arrangements that might need to be put in place in the event an emergency requires bypassing the regular procedures.

Poor Response to Reported Anomalies

The Control system is designed to call attention to events that depart from normal expectations. For the systems to remain effective, supervisors and managers must 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)

Collusion

Any system of controls can be defeated if a sufficient number of dishonest key individuals conspire to subvert them and can 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.

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.

Personnel Errors or Mistakes

The financial control system is only as effective as the personnel who implement and perform the control. For example, employees may misunderstand instructions and make errors of judgment. 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).

Judgement

Effective financial 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 the time pressures of conducting agency business. These judgment decisions may affect the achievement of objectives, with or without good financial control. Financial control may become ineffective when management fails to minimize the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes (Lannoye, 1999).

CHAPTER THREE

RESEARCH METHODOLOGY

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 the collection of the data.

Research Design

Every research study is unique in its way, especially with how it is undertaken. In principle, the decision to use any method to collect and analyze data is influenced by the research design. According to Ghosh (2004), a research design is regarded as an arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance with the research purpose. It is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement, and analysis of data. This view is supported by Ngoma (2006), who stated that a research design is a set of logical steps taken by a researcher to answer the research questions. It is the blueprint or recipe for the study and determines the methods used by the researcher to obtain participants, collect and analyze data, and interpret the results. The design for the study is a case study, and the choice for a case study was inspired by Fraenkel and Wallen (2003) who opined that a case study produces good response rate and gives meaningful representations of phenomenon that expounds behaviour and opinions.

There is no doubt that case studies are a valuable and important form of research for all of the industries and fields that use them. Case study method is responsible for intensive study of a unit. It is the investigation and exploration of an event thoroughly and deeply. You get a very detailed and in-depth study of a person or event. This is especially the case with subjects that cannot be physically or ethically recreated. Case studies are one of the best ways to stimulate new research. A case study can be completed, and if the findings are valuable, they can lead to new and advanced research in the field. There has been a great deal of research done that would not have been possible without case studies. However, along with all its advantages, a case study also has some disadvantages. For instance, a case study lacks scientific rigour and provides little basis for generalization of results to the wider population. Researchers' own subjective feeling may influence the case study and it is difficult to replicate. Besides, a case study is time consuming and expensive.

Population of the Study

The study was conducted at Cape Coast Teaching Hospital, Cape Coast Metro Hospital, and Ewim Polyclinic where much attention was placed on the internal financial management control system to obtain an effective and accurate result. The following population groups were targeted for the research: senior medical officers, hospital administrators, accountants and accounts office assistants, Auditing Officers, and some health workers. Their estimated population is 520.

Sample and Sampling Technique

In this study, samples were selected to enable the views of the service deliverers and their managers to be explored and understood. Twenty-five (25) staff of selected public hospitals and a polyclinic were sampled purposively to elicit specific responses from service deliverers. The use of purposive sampling technique was to access information from people who have in-depth knowledge in their respective field of work. Fifteen (15) members of Accountants Department, two (2) Internal Auditors, six (6) Health Workers, and two (2) Administrators of two public hospitals representing key service deliverers.

Table 1: The Components of the Sample of the Study

Respondents category	Number of people.	Cape Coast Teaching Hospital	Cape Coast Metro Hospital	Ewim Polyclinic	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**

Research Instruments

The researcher employed methods that would aid the collection of data for the study. The instrument used was a structured close-ended questionnaire. The questionnaire is a data collection instrument, which had several items. The answers were arranged and coded using point numeric rating scales (Saunders, 2007) as follows: numeric rating scale ‗'Yes, No and Not Applicable''. The questionnaires were used to give 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. For example, with names excluded provided the respondents with the 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 two weeks. The instruments were given out to the respondents to be left alone to respond. On average, it took ten minutes for a respondent to complete the instrument.

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

Validity and Reliability Research Instrument

The procedures for collecting data were valid and reliable since the primary data gathering technique was mostly used throughout to collect information for the analysis. In most cases, questionnaires proved positive results because the people knew what they were doing. This manifested in the high active response rate to questionnaires.

Data Analysis

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 statistics such as percentages and averages were used. Frequencies obtained for the responses for each item was converted into percentages in order to determine the different responses given by specific proportions of the study sample.

Hospital Profile

The Central Regional Hospital now Cape Coast Teaching Hospital is currently a 400-bed capacity referral Hospital situated in the Northern part of Cape Coast. It is bounded on the north by Abura Township, on the south by Pedu Estate/4th Ridge, Nkanfua on the East, and Abura/Pedu Estate on the West. The Hospital, which was the first of a series of ultra-modern Regional Hospitals established by the Ministry of Health, started full operations on 12th August, 1998, and was adjudged the best Regional Hospital in the year 2003. The Hospital has been transformed into Cape Coast Teaching Hospital with the inception of the School of Medical Sciences at the University of Cape Coast. The first batch of Medical Students graduated from the Teaching Hospital in June 2013.

Cape Coast Metropolitan Hospital was established by the government of Ghana to care for the health needs of Cape Coast and its environs, and Elmina. This is a district hospital with good infrastructure to provide the health needs of patients that attend the hospital.

Ewim Polyclinic, however, is a community hospital established by the Cape Coast Metropolitan assembly to serve the Ewim, Brafoyaw, Moree, Fourth-ridge, and the surrounding towns; this hospital thus serves a wide range of patients with varying educational backgrounds. Although the hospital runs 24-hour services

Ethical Consideration

In accordance with the ethics of research, the researcher first and foremost briefed the respondents in advance about the purpose of the study and sought their consent, to indicate their willingness to participate in the study. Regarding the issue of confidentiality, the names of participants were not written and their contributions remained anonymous. Privacy was observed during fieldwork and no unauthorized persons were allowed to access the data collected. Respondents were informed that their information would be treated confidentially and that they reserved the right to withdraw from the study even during the process if they so wished. They were also assured that the study was for academic purposes.

Voluntary Participation and Informed Consent

Respondents were provided with accurate and adequate information on the goal and procedures of the research to fully understand and in turn, decide whether to participate or not (Strydom & Venter, 2002). This makes informed consent a prerequisite to any research in which human beings are involved as respondents. For instance, in this study, the researcher spelled out the purpose, the nature of the study, and the significance of the study to the respondents. The researcher expected the respondents to make rational decisions on whether to participate or not to participate in the study. However, no respondent was forced to participate in the study.

Anonymity

Respondents' well-being and interests need to be protected. Thus, respondents' identities in the study should be masked or blinded as far as possible (Trochim & Donnelly 2006). The people who read the research should not be able to identify a given response with a given respondent (Babbie, 2013). The names of respondents were not revealed anywhere in this study.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The study sought to assess the effectiveness of internal controls in public sector organisations. The design was a case study and participants were purposively sampled. The status of the sample was two internal auditors, six health workers, and two administrators of two public hospitals representing key service deliverers. The focus of this chapter is to analyze the field data and examine the findings in 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, analyzed and inferences made to established relationships.

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 the name of the institution, 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.

Number of Years of Experience

Table 2: Number of years of work experience of respondents

Number of Years of Experience	Frequency	CCTH	CCMH	EP	Percentage (%)
1-5 years	7	4	2	1	28
6-10 years	14	9	2	3	56
11-20 years	4	4	0	0	16
21-35 years	0	0	0	0	Nil
Total	**25**	**17**	**4**	**4**	**100**

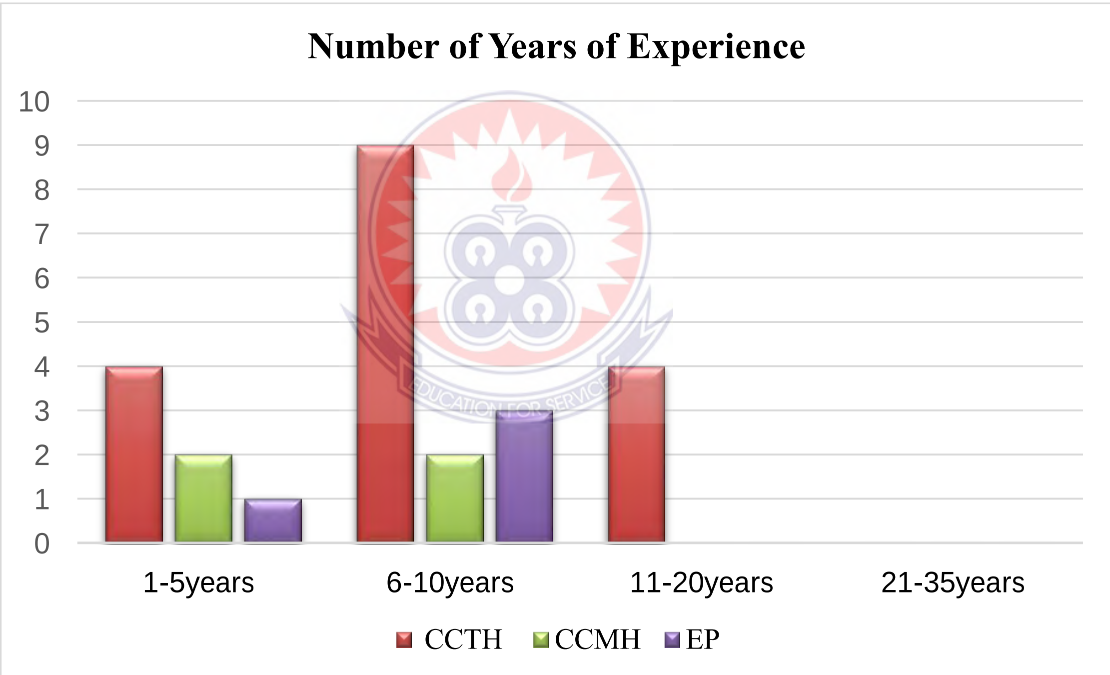

Figure 1: Number of Years of work experience of the respondents.

Table 2 makes it clear that out of twenty-five respondents, seven (28%) were having 1- 5 years of job experience, 14 (56%) were having 6-10 years' experience, four (16%) were having 11-20 years of job experience and no percentage for 21-35 years. In the distribution of the questionnaire, an 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 the 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.

Number of Years worked for the Organisation

Table 3: Number of Years worked for the Organisation

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

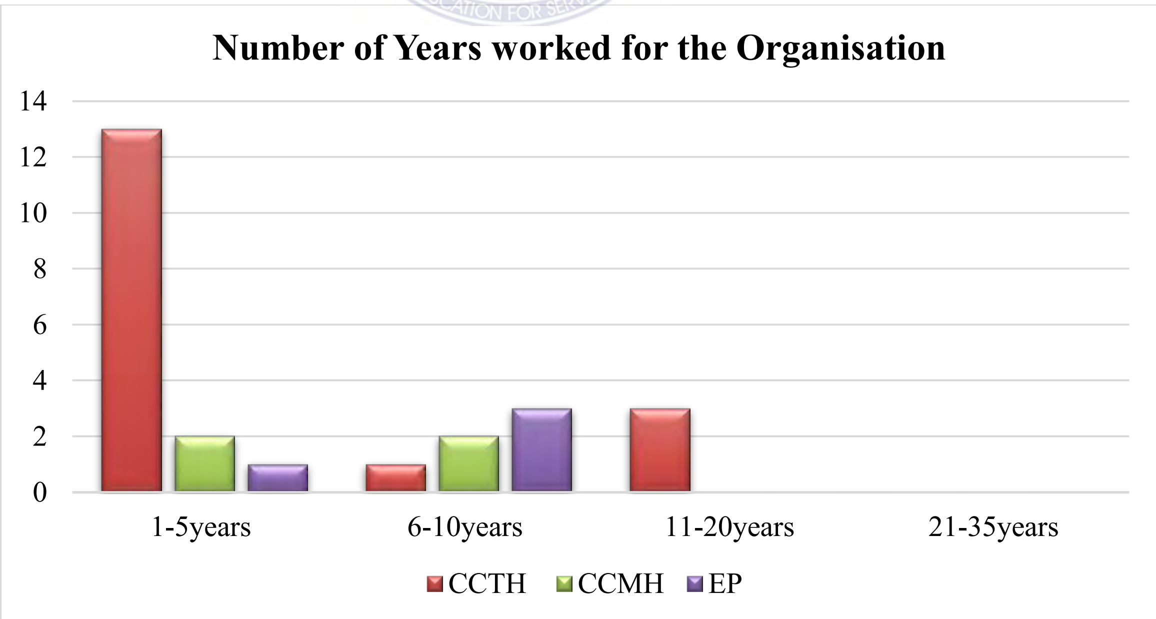

Figure 2: Number of Years worked for the Organization

Source: Field Data, 2021

Table 3 also makes it clear that out of twenty-five respondents, sixteen which represents 64% had between 1- 5 years of service with the hospitals they work with, six respondents representing 24% had 6-10 years of service, three respondents represented 12% had 11-20 years of service with their facility and no percentage from 21-35 years. The various number of years working in the facility have some influence to help the hospital to achieve the evaluation of internal financial controls of the organization.

Educational Background

Table 4: Educational Background of Respondents

Education Level	Frequency	CCTH	CCMT	EP	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**

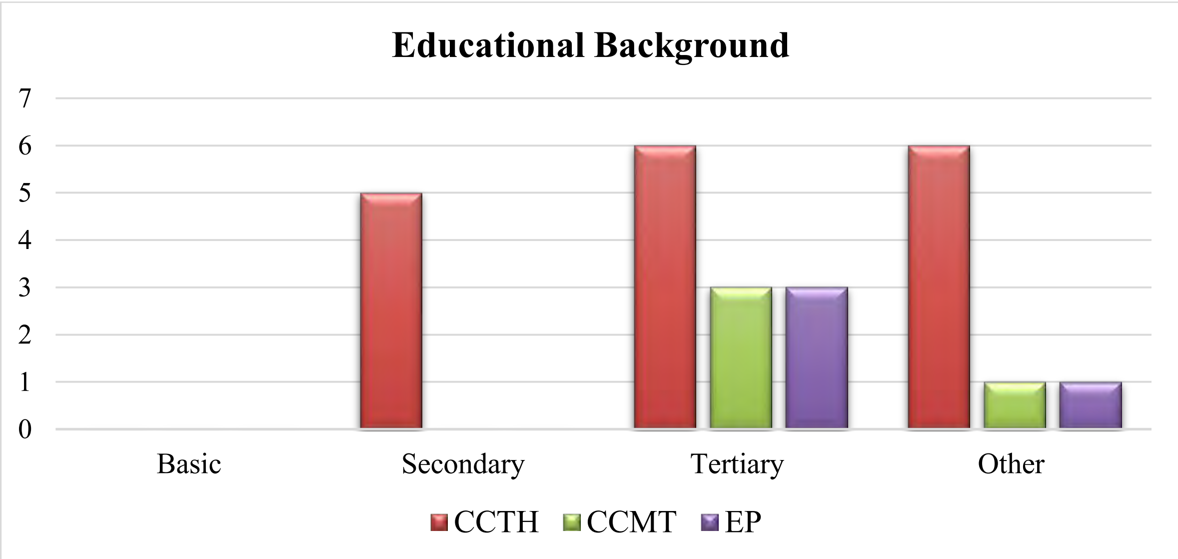

Figure 3: Highest Level of Educational Background

Source: Field Data, 2021

From Table 4, out of twenty-five respondents, five (20%) have had Secondary education, twelve (48%) have had Tertiary education qualifications. 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 adapt 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 an appreciably high level of education.

Job type of Respondents

Table 5: Job type of Respondents

Job Type	Frequency	CCTH	CCMH	EP	Percentage (%)
Accounting	10	8	1	1	40
Auditing	4	2	1	1	16
Health Workers	6	4	1	1	24
Administration	5	3	1	1	20
Total	**25**	**17**	**4**	**4**	**100**

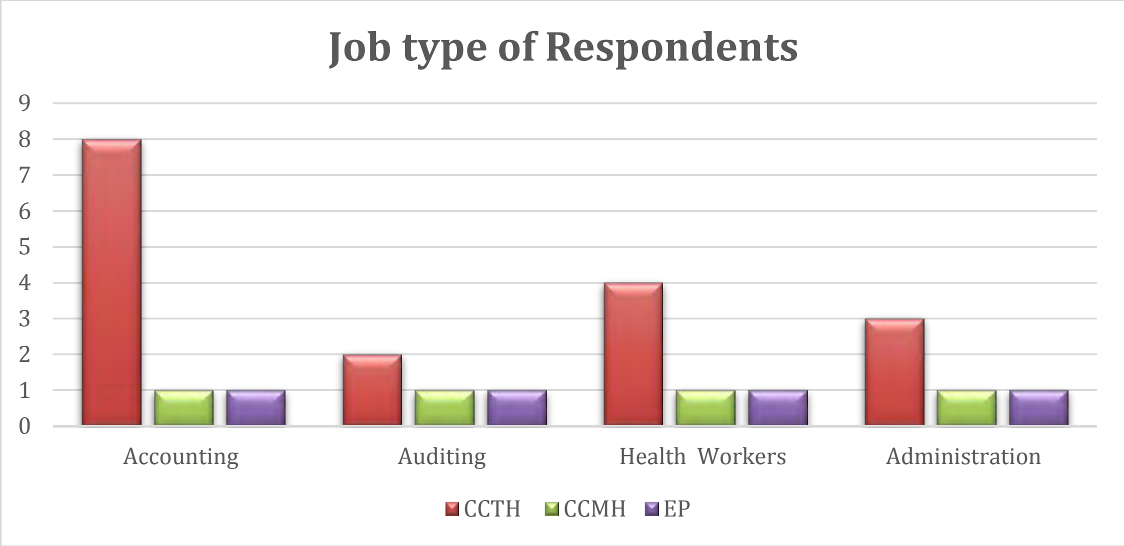

Figure 4: Job type of Respondents

Source: Field Data, 2021

Areas of Work

This variable seeks to identify the types of jobs performed by the respondents. From Table 5, the majority of the respondents (40%) were performing accounting duties, 16% perform auditing tasks, 24% are health workers, and 20% performed administrative functions and duties. Twenty-five (25) people were selected of which ten (10) 40% from accounting staff, four auditing staff (4)16%, health workers six (6) 24%, and administration five (5) 20%. From the foregoing, it is clear that the responses reflect what is happening at the various areas of work within the various health institutions selected.

Grade/Position of Respondents

Table 6: Job Grades of Respondents

Grade/Position	Frequency	CCTH	CCMH	EP	Percentage (%)
Accountants	10	8	1	1	40
Internal Auditors	4	2	1	1	16
Administrators	5	3	1	1	20
Health Workers	6	4	1	1	24
Total	**25**	**17**	**4**	**4**	**100**

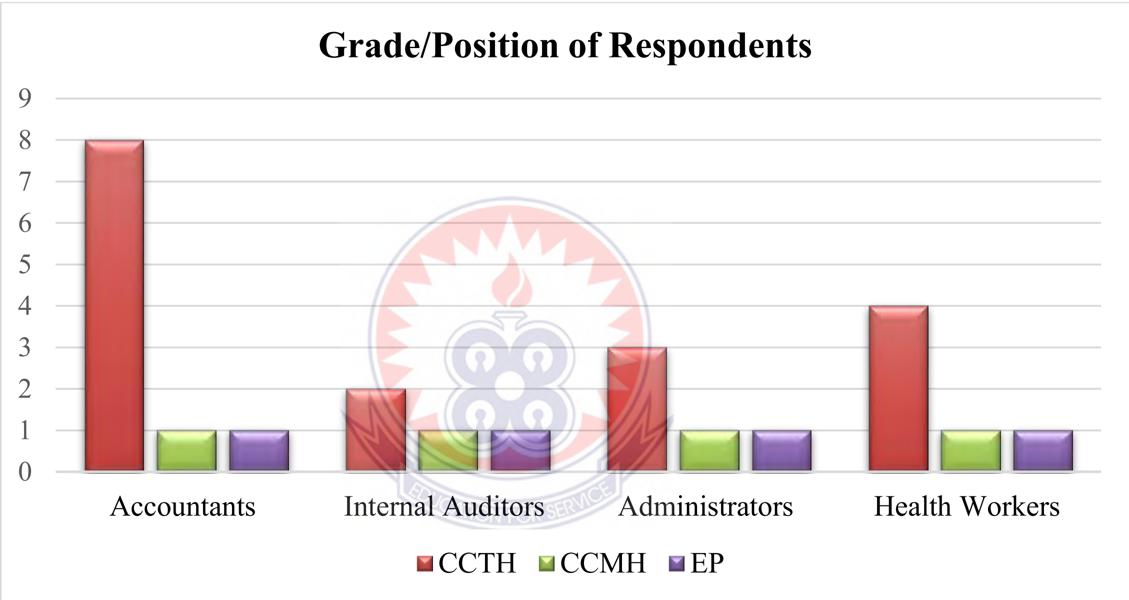

Figure 5: Responses for Job Grade

Source: Field Data, 2021

From Table 6, it was revealed that most of the respondents, thus, ten (40%) were accountants, while six (24%) constitute health workers, five (20%) hospital administrators and assistants and four (16%) were the internal auditors. In the area of the 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 in place in the various institutions.

Control Environment

Table 7: Response for Control Environment

Hospital	**CCTH**		**CCMH**		**EP**	
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

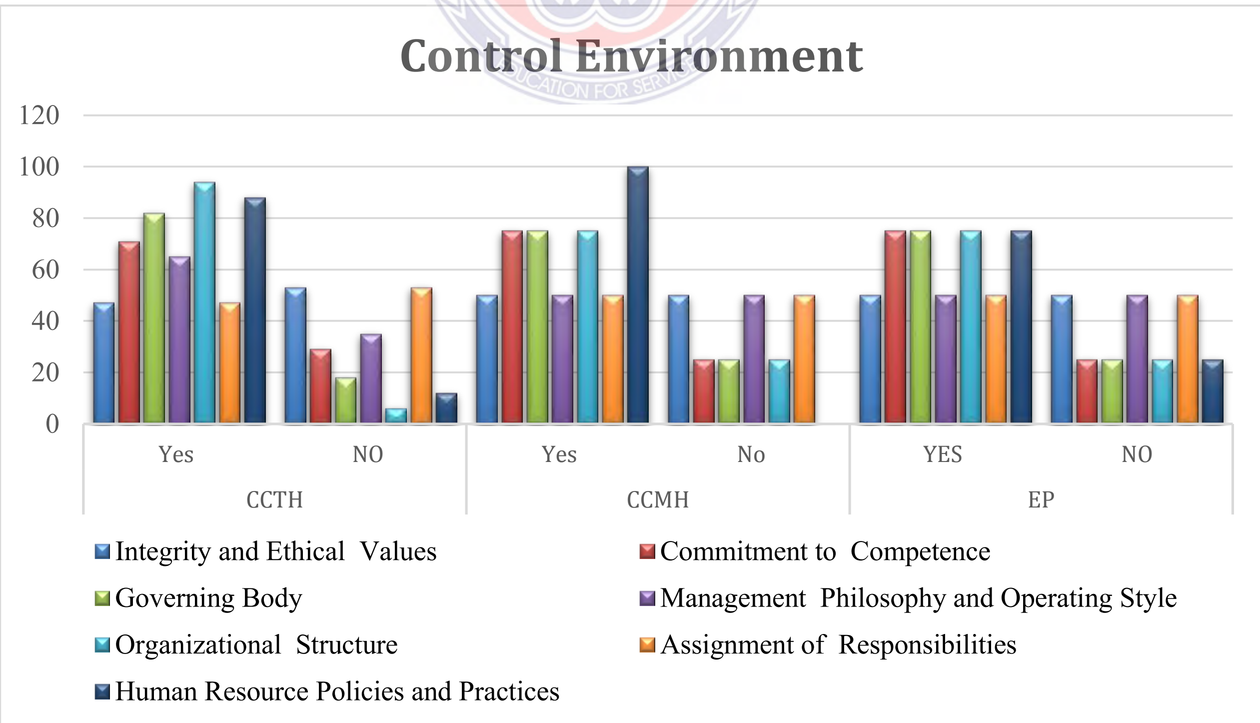

Figure 6: Response for Existence of control Environment

Source: Field Data, 2021

From Table 7, 71% of the respondents in the Cape Coast Teaching Hospital responded a Yes for the existence of a control environment while 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. With the respondents from the Cape Coast Metro Hospital, 68% responded Yes to the existence of control environment and 32% responded No. It means that the control environment is effective. However, human resource policies and practices were found to be the weakest in the control environment.

From Table 7, 64% of the respondents in the Ewim Polyclinic responded Yes for the existence of a control environment and 36% responded No. This implies 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‘s responsibility to set up the internal control system and that the internal auditors‘ 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 administered.

The 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 Cape Coast Teaching Hospital, Cape Coast Metro Hospital, and Ewim Polyclinic was very good and they were in line with COSO standards. The weakest area in the three Hospitals is human resource policies and practices.

Risk Analysis

Table 8: Response for Risk Analysis

Institutions	**CCTH**		**CCMH**		**EP**	
Responses	***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**

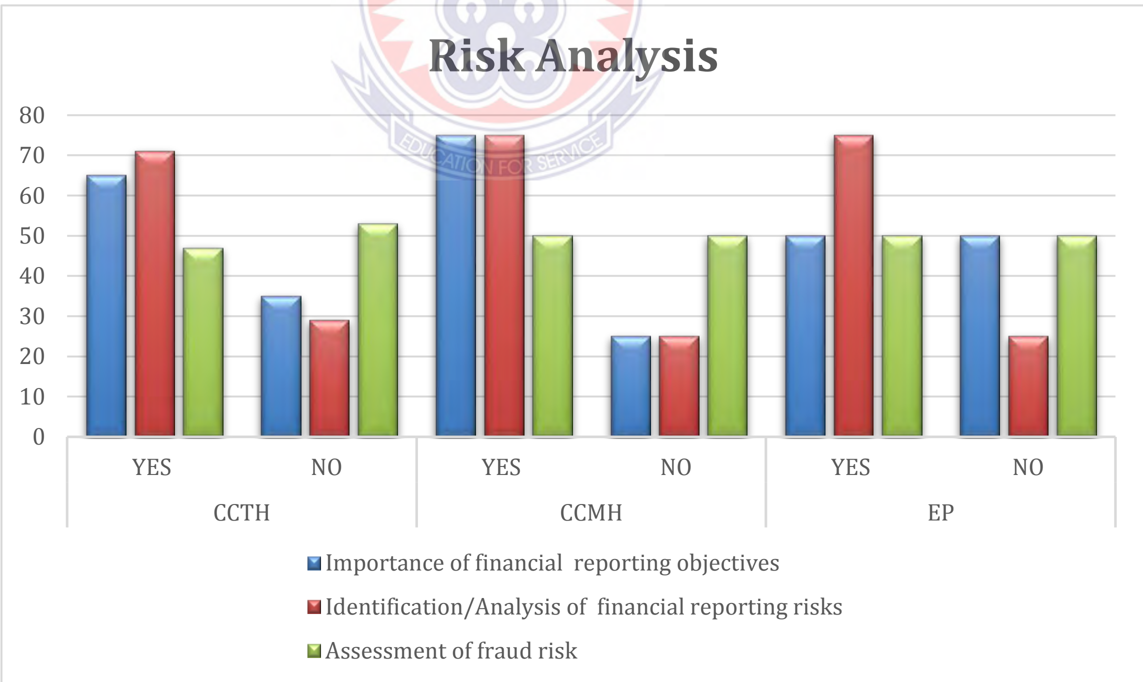

Figure 7: Response for the Existence of Risk Assessment in the sampled Hospitals

Source: Field Data, 2021

From Table 8, 61% of the respondents in the Cape Coast Teaching Hospital responded Yes to the Existence of Risk Assessment and 39% responded No. This implies that the risk assessment is generally effective. However, in terms of risk analysis fraud, the risk was the weakest in the risk assessment. From Table 8, 67% of the respondents in the Cape Coast Metro Hospital responded Yes to the Existence of Risk Assessment and 33% responded No. This indicates that the control environment was effective. However, the assessment of fraud risk was average in the risk assessment.

Finally, 58% of the respondents in the Ewim Polyclinic 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 were very average in the risk assessment. The 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 threat risks concerning finances. In the risk analysis component, the COSO framework does not state specific approaches, but rather principles that should be followed in risk assessment.

Control Activities

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

Information and Communication

Table 9: Information and Communication

Institutions	**CCTH**		**CCMH**		**EP**	
Responses	***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**

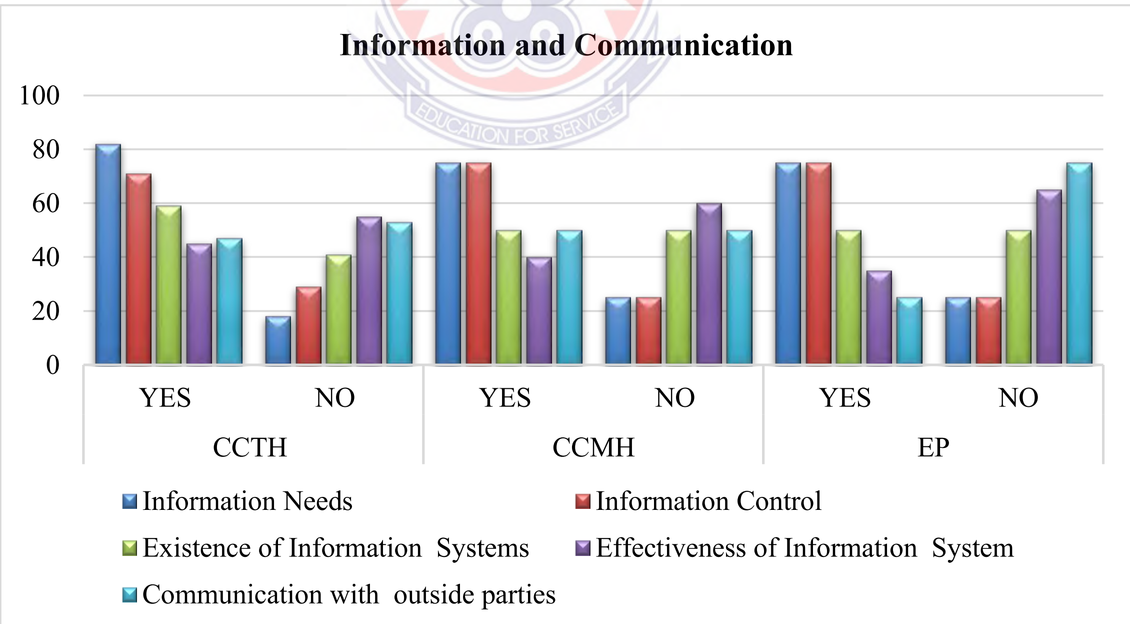

Figure 8: Responses for Information Communication

Source: Field Data, 2021

In observing the hospital‘s official accounting policies and procedures, it turned out that procedures related to financial control were regulated at different levels. From Table 9, out of 100% responses from the CCTH, 65% responded Yes to the effectiveness of Information Communication and 35% responded No. This implies that the information and communication were generally effective. However, communication with outside parties was the weakest in the information and communication process.

From Table 9, out of 100% responses from CCMH, 63% responded Yes to the effectiveness of Information Communication and 37% responded No, which indicates that the information and communication are generally effective. However, the effectiveness of the information systems and communication process with outside parties‘ information was on average.

Out of 100% responses from Ewim Polyclinic, 56% responded Yes to Information Communication and 44% responded No. It means that the information and communication are generally effective. However, information needs and information control were weak in the information and communication process. Cape Coast Teaching Hospital had extensive information systems in place as well as personnel data which were integrated into one system. The weakest part of all three hospitals in terms of information and communication system could 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. The Metropolitan Hospital information system was also integrated to capture all relevant information in the hospital. Ewim Polyclinic‘s information system was also integrated to capture all relevant information in the hospital. The information and communication component is designed to allow employees the ability to carry out their responsibilities in the best manner possible

(COSO Internal Control-Integrated Framework, 1992)

Monitoring

Table 10: Monitoring

Institutions	**CCTH**		**CCMH**		**EP**	
Response	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
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**

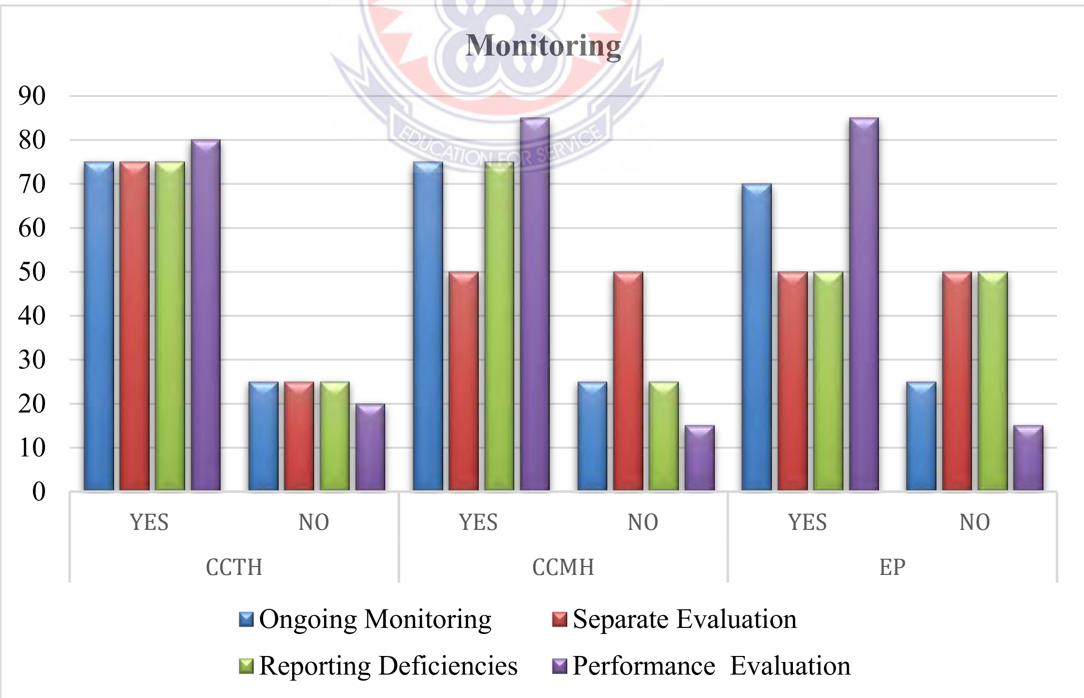

Figure 9: Responses to Monitoring

Source: Field Data, 2021

From Table 10, out of 100% responses from the CCTH, 75% responded Yes to the effectiveness of Monitoring activities and 25% responded No. This means that the monitoring was very effective. Again, out of 100% responses from the CCMH, 67% responded Yes to the existence of effective Monitoring activities and 33% responded No, which implies that the monitoring is generally effective. However, separate evaluation was average in the Metro Hospital. Finally, out of 100% responses from the EP, 58% responded Yes to monitoring and 42% responded No. This indicates that the monitoring was generally effective. However, separate evaluation and reporting deficiencies were average. The 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 three hospitals monitor controls to be sure that they were effective. The 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 for 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.

Compliance with Ghana's financial provisions

Table 11: Compliance with Ghana's Financial Provisions

Institutions	**CCTH**		**CCMH**		**EP**	
Response	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
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**

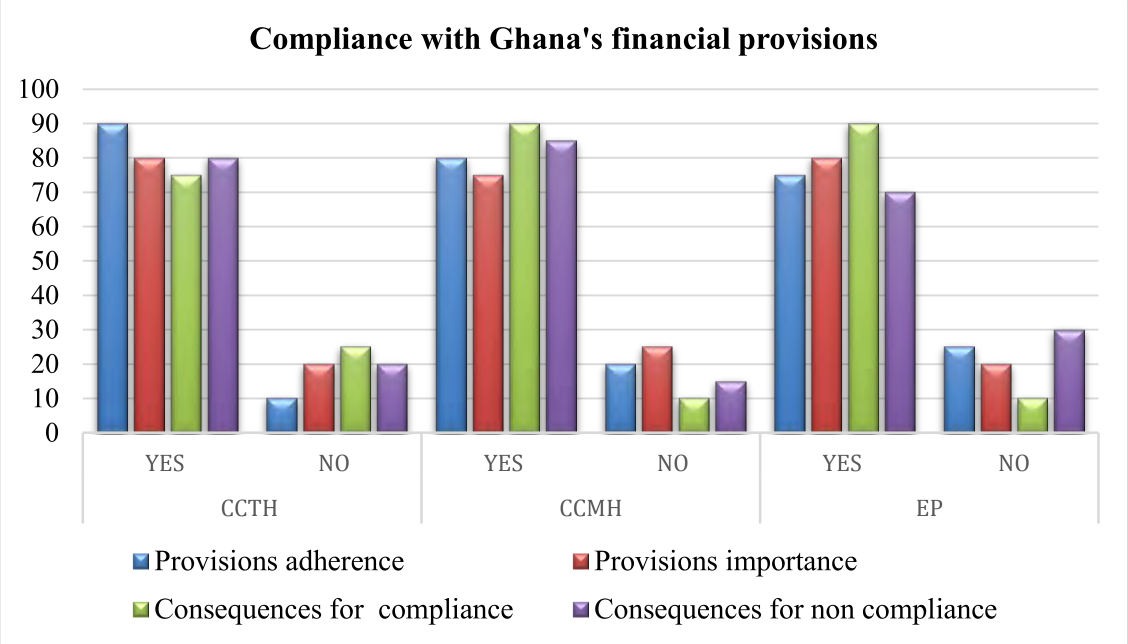

Figure 10: Compliance with Ghana's Financial Provisions

Source: Field Data, 2021

From Table 11, out of 100% responses from the CCTH, 81% responded Yes to the use of internal financial controls provision and 19% responded No. It means therefore that the adherence and compliance level of financial laws was very effective. Again, out of 100% responses from the CCMH, 82% responded Yes to financial provision controls and 18% responded No. Indicating that the financial provision controls were generally effective. However, 100% were expected for compliance with the provisions in the Cape Coast Metro Hospital. From the table out of 100% responses from the EP, 79% responded Yes to financial control provisions and 21% responded No. This means that the compliance level of financial control provisions was generally effective. However, full compliance was expected. Financial control provisions help Managers to manage and operate the organization_s accounting systems, 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

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter presents the summary of findings, conclusions, and recommendations made following the outcome of the study. The purpose of the study is to assess the effectiveness of internal controls in public sector organisations. A case study design was employed in which twenty-five participants were purposively sampled. The study was guided by the following research questions:

1. What are the operational internal financial controls systems in public hospitals?
2. What are the other conventions and laws that govern financial management in hospitals?
3. To what extent are these systems and laws being complied with or otherwise applied in the hospitals?
4. What are the difficulties in their implementation?

Data were collected through questionnaire, and was analysed using frequency counts and simple percentages.

Summary of Findings

It was found that the hospitals have a systematic, comprehensive approach to internal control, which is consistently documented, understood at the management level, and communicated to personnel. However, there were still some inconsistencies concerning how internal controls were implemented and enforced and also all responsibilities were not clearly defined. It was found out that it is easier to develop a good internal control system in smaller hospitals due to less 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.

Existence of Internal Financial Controls in Public Hospitals

It was discovered from the findings that there was the existence of internal financial controls regulated by the Public Financial Management Act, Audit Agency Act, and indirect application of COSO. As a Government organization, 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.

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.

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 of the auditor. On the other hand, human error in the use of judgment, simple processing errors and mistakes, the collusion of staff in circumventing controls, and unscrupulous people abusing that responsibility can override controls.

Conclusion

It emerged from the study that the selected hospitals have a systematic, comprehensive approach to internal control, which is consistently documented, understood at the management level, and communicated to personnel. However, there were still some inconsistencies concerning how internal controls were implemented and enforced and also all responsibilities were not clearly defined. It was found out that it is easier to develop a good internal control system in smaller hospitals due to less 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.

Recommendations

In the light of the above findings, the researcher will make the following recommendations:

1. Effective and efficient internal financial controls come from inspired leadership (servant Leadership) throughout the organization; from excellent monitoring system design; from the effective use of information and technology; and from a slow-to-change, invisible, all-powerful, internal force called corporate culture. This concept must be strongly imbued into the entire machinery of the staff of public hospitals to create the necessary institutional capacity to foster national development.
2. It is recommended that the existence and operation of an internal financial controls system were not enough but its operations should be effective. For it to be effective targets should be set for the operations. It means that the target could be compared to the performance. COSO for a long time has been used indirectly for internal financial controls for non-profit making organizations like public hospitals.
3. It is recommended that COSO should be used directly as one of the laws and conventions. It will help to achieve effective and efficient use of scarce resources of non-profit making organizations. Because it was not one of the direct laws for the public hospitals punitive for non-compliance of the

COSO is not there. When it is adopted for use punitive measures should be attached for the effective operation of the COSO. Once we wanted to make effective use of our scarce resources as a nation then let us comply with COSO to achieve effective internal financial controls.

4. It is recommended that management should take COSO seriously especially those in non-profit making organizations like public hospitals to achieve value for money with the resources at their disposal. Internal financial controls are a basic responsibility of any manager. To be effective, the internal financial controls system must have the strong support of the entity_s leadership.

5. It is recommended that policies and procedures must be observed consistently throughout the hospitals. Also, irregularities revealed by the internal financial controls system must attract prompt and effective corrective action. To assure continued effectiveness, the Hospitals internal financial control system must be reassessed frequently. Even though, no system of internal financial controls can provide a guarantee against the occurrence of fraud, abuse, inefficiency, and human error.

6. However, it is recommended that a well-designed system of internal financial controls can give reasonable assurance that significant irregularities will be detected. At the same time, even well-designed internal financial controls can be defeated by collusion, especially if that collusion involves senior executives who have the power to disarm or bypass the control system. Thus, it is necessary to set priorities. In almost all countries, and especially in developing and transition economies, the highest priority should be placed on assuring the reliability of the financial systems and the integrity and security of the controls over transactions. This

translates into placing the first emphasis on building reliable internal. Financial control structures and effective internal audit units in the Hospitals and on assuring the effectiveness of the Audit Service as the external auditor. Only when these structures are in reasonably satisfactory condition is it worthwhile to focus on the efficiency and effectiveness of operations.

7. The Ministry of Health need not be dependent exclusively on their 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.

Recommendations for Further Studies

Whilst undertaking the research some 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 samples 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 analyze the same issue under consideration.

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APPENDIX

UNIVERSITY OF EDUCATION, WINNEBA

QUESTIONNAIRE FOR RESPONDENTS

Thank you for agreeing to take part in this research study. I am an MBA student from the University of Education, Winneba, and I am expected to carry out a research project as part of my assessment for the award of degree in Accounting. This questionnaire is for that purpose. May I assure you that everything filled out this questionnaire will be treated with the utmost confidentiality.

Please tick [√] where applicable

1. Number of years of experience

1-5 years [ ]

6-10 years [ ]

11-20 years [ ]

21-35 years [ ]

2. Number of years worked with the organisation

1-5 years [ ]

6-10 years [ ]

11-20 years [ ]

21-35 years [ ]

3. Educational level

Basic [ ]

Secondary [ ]

Tertiary [ ]

Other [ ]

4. Job type

Accounting [ ]

Auditing [ ]

Health [ ]

Administration[ ]

5. Control environment

Institutions	CCTH		CCMH		EP	
Responses	*Yes (%)*	*NO(%)*	*Yes (%)*	*No(%)*	*YES (%)*	*NO (%)*
Integrity and Ethical Values						
Commitment to Competence						
Governing Body						
Management Philosophy and Operating Style						
Organizational Structure						
Assignment of Responsibilities						
Human Resource Policies and Practices						

6. Risk analysis

Institutions	**CCTH**		**CCMH**		**EP**	
Responses	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
Importance of financial reporting objectives						
Identification/Analysis of financial reporting risks						
Assessment of fraud risk						

7. Information and communication

Institutions	**CCTH**		**CCMH**		**EP**	
Responses	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
Information Needs						
Information Control						
Existence of Information Systems						

Effectiveness of Information System						
Communication with outside parties						

8. Monitoring

Institutions	**CCTH**		**CCMH**		**EP**	
Response	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
Ongoing Monitoring						
Separate Evaluation						
Reporting Deficiencies						
Performance Evaluation						

9. Compliance with Ghana's Financial Provisions

Institutions	**CCTH**		**CCMH**		**EP**	
Response	***YES***	***NO***	***YES***	***NO***	***YES***	***NO***
Provisions adherence						
Provisions importance						
Consequences for compliance						
Consequences for non-compliance						