

**UNIVERSITY OF EDUCATION WINNEBA  
COLLEGE OF TECHNOLOGY EDUCATION, KUMASI**

**ASSESSMENT OF INTERNAL CONTROL PRACTICES IN TERTIARY  
INSTITUTIONS: EVIDENCE FROM UNIVERSITY OF EDUCATION,  
WINNEBA (UEW), KUMASI**



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**AUGUST, 2017**

**UNIVERSITY OF EDUCATION, WINNEBA  
COLLEGE OF TECHNOLOGY EDUCATION, KUMASI**

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INSTITUTIONS: EVIDENCE FROM UNIVERSITY OF EDUCATION,  
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**A RESEARCH PROJECT IN THE DEPARTMENT OF ACCOUNTING,  
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OF GRADUATE STUDIES, UNIVERSITY OF EDUCATION, WINNEBA IN  
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF  
MASTER OF BUSINESS ADMINISTRATION DEGREE IN ACCOUNTING**

**AUGUST, 2017**

### **CANDIDATE'S DECLARATION**

I Nana Aisha Barimini, declare that with the exception of the reference to other people's work which has been duly acknowledged, this work is the result of my original research supervised by a lecturer, and that this work has neither in whole, nor in part, been presented for a degree elsewhere.

.....  
NANA AISHA BARIMINI

.....  
DATE

### **SUPERVISOR'S DECLARATION**

I hereby declare that the preparation of this long essay was supervised in accordance with the guidelines on supervision of a long essay laid down by the University of Education, Winneba.

.....  
DR. JOSEPH MBAWUNI

.....  
DATE

## **ACKNOWLEDGEMENT**

I am grateful to all those who have in diverse ways made it possible for me to complete my masters programme.

My profound gratitude also goes to my supervisor Dr. Joseph Mbawuni whose guidance, careful supervision, patience and comments helped to shape this work to its conclusion. Finally, I want to express my sincere gratitude to all my course mates for their love throughout my program



## **DEDICATION**

This work is dedicated to my ever loving parents, Mr. and Mrs. Musa and to my siblings Baba, Papa, Alpha and Tieba for their unwavering support given to me.



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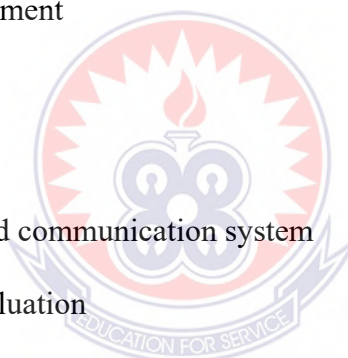


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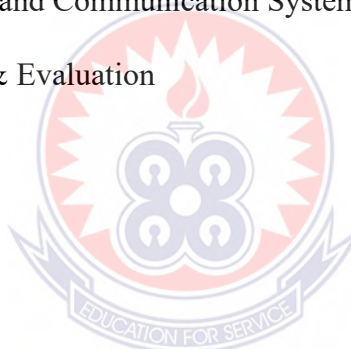


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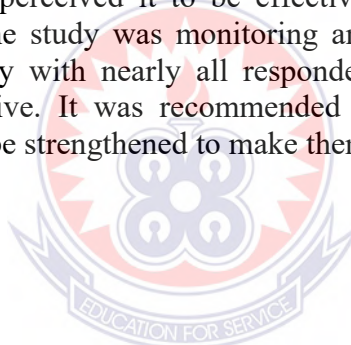
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## ABSTRACT

The main purpose of this study was to evaluate the effectiveness of internal control systems in tertiary institutions in Ghana. The specific objectives included: to review the types and effectiveness of the internal control systems in University of Education, Winneba (Kumasi Campus) (UEW-K); to examine the measures put in place to enhance the effectiveness of internal controls in UEW-K; and to recommend appropriate ways that will improve the effectiveness of internal control activities. The study population was staff of University of Education Winneba-Kumasi. A sample size of sixty (60) respondents was used for the study. The simple random sampling technique was adopted. Data was collected through questionnaire. The data collected were analyzed using frequency tables. Some of the findings made included: It was revealed from the study that, the control environment at UEW-K was very effective as majority of the respondents agreed to that assertion with a few not being sure of the effectiveness of Control environment. In reviewing the risk assessment component of the internal control system it was found that, it was also effective. Again the empirical evidence from the study indicated that, majority of the respondents agreed to the assertion that there is an effective control activity functioning at UEW-K. With regard to assessing the information and communication system of internal control, there was evident from the studies that, many of the respondents were satisfied with that construct and therefore perceived it to be effective. The last element of internal control considered by the study was monitoring and this happened to be the most effective in the company with nearly all respondents showing that, they perceive monitoring to be effective. It was recommended that the various components of internal controls should be strengthened to make them more effective.



## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

This chapter of the research addresses the following headings: background to the study, statement of the problem research objectives and questions, significance of the study, limitations and delimitations of the study and the organization of the study.

#### **1.2 Background to Study**

The College of Technology Education of the University of Education, Winneba was established in 1966. The college was initially established as a Technical Training Centre by the government with support from the British government at Kumasi Polytechnic. Its mandate at that time was to spearhead the training of technical teachers. The College has been named variously as Technical Teachers College, Advanced Technical Teachers' College and presently College of Technology Education of University of Education, Winneba. The college was absorbed as one of the four colleges that formed the University of Education, Winneba when it was created in 1992.

Internal control systems have become a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. Leadership in most organizations with well-established visions, missions and objectives seek ways to best control their enterprises. Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission.

Internal controls are designed and maintained to meet basic objectives of carrying on the business in an orderly and efficient manner, safeguarding assets,

ensuring adherence to management policies and securing as far as possible the completeness of records. Since internal controls serve many important purposes, the increasing call for effective implementation of internal control systems led to The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) report; hence the need for internal audit. According to COSO (2004), Internal Control is a system consisting of specific policies and procedures designed to provide management with reliable assurance that the goals and objectives it believes are important to the entity will be met. In their opinion, the reasons to have internal controls is to promote operational effectiveness and efficiency, provide reliable financial and administrative information, safeguard assets and records, encourage adherence to prescribed policies and compliance with regulatory agencies. The Autorite Des Marches Financiers (AMF Working Group) (2007) described the components of internal controls as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

Internal control in public sector governance should aim at efficiency in operations, with the ultimate goal of increasing the quality of goods and services for an improved quality of life for the people. According to Domelevo (2006), in today's world strong financial management in the public sector is not a luxury but a necessity. In an era of increased demand for accountability and transparency in government, the "stakeholders" of the public sector are demanding more effective and efficient use of public resources. Citizen confidence in government and public institutions is sharply affected by the degree to which resources are perceived to be managed. This requires shaping government policy on fighting corruption and prevention of leakages and

waste of public resources. One agency on which responsibility lies as an oversight organization in curbing corruption and promoting internal control in the public sector is the Internal Audit Agency (IAA). The IAA was established by the Internal Audit Agency Act, 2003 (Act 658) with a mandate to ensure professional internal audit practice in the Ministries, Departments and Agencies (MDAs) and in the Metropolitan, Municipal and District Assemblies (MMDAs). The fundamental objective of the IAA is to promote accountability and effective performance in the public sector of governance in Ghana. Section 2 of Act 658, requires the IAA to coordinate, facilitate and provide quality assurance for internal audit activities within the MDAs and MMDAs. Section 3 (2) (e) of the Act also requires the IAA to ensure that the plans, goals and objectives of MDAs and MMDAs are achieved, while section 3 (2) (f) of the Act requires that the IAA ensures that risks are adequately managed in MDAs and MMDAs. As an agency mandated to ensure that MDAs and MMDAs implement effective quality assurance improvement measures in the public sector such that organizational programme objectives are achieved with efficiency, effectiveness and economy. The IAA has the responsibility to draw the attention of all MDAs and MMDAs to this mandate, ascertain whether or not the processes put in place by MDAs and MMDAs to improve quality assurance are adequate in design and effective in operation, and make and monitor recommendations for improvement. It is important that an organization's fiscal and financial policies are implemented in the most effective and efficient manner. It is to this effect that it has become crucial that management of public institutions institute enough controls to ensure that assets of the institutions are safeguarded.

According to Block and Geoffrey (2008) the improper use of funds deepens poverty around the globe by distorting political, economic and social life, the

improper use of funds in many organizations or institutions has reduced this country to a near 'beggar-state'. The need for prudent financial management is not limited to government officials or financial institutions but it applies to all sectors of the economy especially the educational sectors. In the view of Iddrisu and Anang (2010) the Auditor often needs to consider whether there are reasonably comprehensive financial management policies and information against which to measure performance. Tertiary institutions also have funds that keep the activity of the school going. Central government revenue primarily funds the school's budget line account. The school's internal account is a cash management system to handle cash that flows through each school from students, parents and the community (Akyaa, 2011).

Internal audit is established by management as an independent appraisal function to review the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of the internal control system as a contribution to proper, economic, efficient and effective use of the resources. Though internal auditors are employees of the organization, they are guided by principles such as independence, objectivity, integrity, confidentiality and competency to perform their functions which in turn lead to effective internal controls.

The role of internal auditors is receiving recognition rapidly. This is evident in the establishment of Institute of Internal Auditors (IIA) in countries like United States, United Kingdom, and the recent passage of the Internal Audit Agency Act 2003 (Act 658) in Ghana. Today, internal auditors are seen as part of top management team involved in the creation of organizational wealth and values through effective internal control system.

According to (Miller, 2007) for a tertiary institution, an important part of the internal control framework is financial management and its related operational elements, e.g. the internal controls applying to receipts, payments, custody and control of assets, salaries, wages and other benefits, bank accounts and investments. Internal controls will vary between schools. Small schools, for example, often have difficulty in segregating duties across more than one person. However, schools that do not have appropriate controls face higher risks than those that do. For example, in an organisation where the same person receives cash, issues receipts, prepares the banking, does the actual banking and carries out the bank reconciliations, the risk of a possible cash misappropriation is usually higher than in an organisation where these duties are split between two or more people (Miller, 2007).

An effective system of internal financial controls gives assurance regarding the integrity of financial reporting and safeguarding of assets. Fraud can easily be detected through internal controls. Such controls also help accuracy in financial reporting. The study therefore, sought to establish the fact that an effective internal control is a recipe for effective management and internal auditors are a pre – requisite for an effective internal control system.

### **1.3 Statement of the Problem**

A system of effective internal controls is a critical component of a company's management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and losses (Financial Management Manual, 2005). That is why the Retired Executive Vice President of American Savings Bank, Mary Locatelli in September, 2003, made it known that, the recent rash of corporate failures and accounting frauds are mostly



preceded by a failure in a company's internal control structures (Directorship Journal, 2003). Internal control systems are critical to every organization especially in the aspect of assurance of the reliability and accuracy of the financial reports. Internal control is a very important function of a school's overall approach to accountability. The framework of checks and balances identified in good systems of internal control ensure that the assets of the school are safeguarded, that the accounting information produced is accurate and complete, and the information obtained from the school's accounting system can be relied upon and used with confidence by people involved in school decision making and by stakeholders generally.

In reviewing of relevant literature, it was found that few studies have been conducted on internal control system in Ghana. For example, Gyebi and Quain (2013) examined internal controls on cash collection, using Electricity Company of Ghana as case study. They reported that, the likelihood of achievement is affected by limitation inherent in all internal control systems. However, no study was found that investigated the effectiveness of internal control systems in the University of Education, Winneba - Kumasi (UEW-K) campus. Therefore, there is knowledge gap and this thesis seeks to fill this gap.

#### **1.4 Purpose of Study**

The main purpose of this study was to examine the effectiveness of internal controls in tertiary institutions using University of Education Winneba, (Kumasi campus) (UEW-K) in the Kumasi metropolis in Ashanti region of Ghana as case study. Specifically, the objectives of the study can be summarized as follows:

1. To review the types and effectiveness of the internal control systems in UEW-K;

2. To examine the measures put in place to enhance the effectiveness of internal controls in UEW-K;
3. To recommend appropriate ways that will improve the effectiveness of internal controls in UEW-K.

### **1.5 Research Questions**

The following questions guided the study:

1. What are the types of internal control systems in UEW-K?  
How effective are the internal control systems in UEW-K?
2. What measures need to be put in place to enhance the effectiveness of internal control systems in UEW-K?

### **1.6 Significance of the Study**

The researcher holds the view that inefficiency and ineffectiveness resulting in low output, wastage of resources and profitability in institutions are the products of inadequate and poor internal control measures in most of such institutions.

The focus of this project work is to assess the effectiveness of the internal control systems and how the audit teams and monitoring units perceive their role in sustaining the tertiary institutions in Ghana.

The study among its usefulness adds to existing knowledge of internal control systems and the role internal auditors play in ensuring effective internal controls. It will provide strategies of improving internal control, financial accountability and service delivery in the private health sector.

It will also serve as a good source of reference to organizations so far as instituting and ensuring effective internal controls is concerned. Also, this would enable the

tertiary institutions derive optimum results from their operations by improving upon their control systems.

Again, the study will inform organizations that internal auditors do not only exist to detect fraud but to make sure that internal control systems of the organization are effectively implemented.

### **1.7 Limitation of the Study**

The researcher could not have access to the exception reports generated by the internal control departments of the study area so as to rate the level of policy infractions recorded by the institution. The other challenges faced in the study included resource constraints in terms of finance, time, and logistics as well as difficulty in accessing information. However, various measures were put in place to minimize the problems which emerged in order to reach the goal of this thesis. Therefore the research results cannot be taken to be absolute. That notwithstanding, the researcher was of the view that the results were still adequate and useful for the purpose for which it was undertaken.

### **1.8 Delimitation of the study**

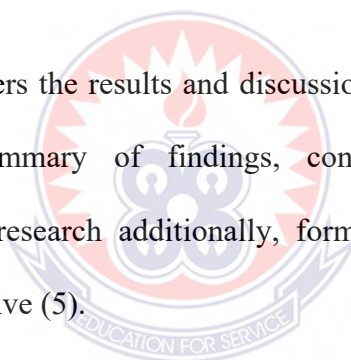
The study evaluated the internal control systems of University of Education Winneba, (Kumasi campus) in the Ashanti region. The emphasis was on the practices and procedures of internal controls. The reason for choosing UEW-K was that the researcher can have access to information and reaching those who matter most in the institution. Again being one of the big institutions in Ghana, in the Ashanti region, UEW-K is sufficiently representative of what goes on in public tertiary institutions.

## **1.9 Organization of the Study**

The report of this study comprises five chapters. Chapter one focuses on the background to the study, the problem statement, research question and the objectives of the study. Other issues discussed in this chapter are the significance of the study, limitations and delimitations of the study. Also in chapter one is the organization of the study.

Chapter two deals with review of previous literature. Chapter three looks at the methodology of the study. This comprises the research design, the population, sample and sampling procedures, data collection instruments and data collection procedures of the study. Additionally covered in the chapter is the method of data analysis.

Chapter four covers the results and discussion of the findings gathered in the study. Finally, the summary of findings, conclusion, recommendations and suggestions for further research additionally, form the concluding chapter of the report, which is chapter five (5).



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

Literature review examines recent (or historically significant) research studies, company data or industry reports including specifically those derived from University of Education, Winneba, that act as basis for the proposed study. This chapter presents the view of other authorities and theories on the topic. It also tries to unfold the key terms that have been used in this project work. It gives more detail about internal controls, its essence, how it is applied and the challenges that it may face. Literature underpinning the study is reviewed with the view to drawing inferences from earlier works related to internal control practices in higher educational institutions. Differences and similarities drawn from the review of literature will be used as benchmarks to influence data analyses.

#### 2.1 The concept of Internal Controls

Grant (2004) defined internal control as a process affected by an organization's structure, work and authority flows, people and management information systems designed to help the organization accomplish specific goals or objectives. In his opinion, it is a means by which the organizations resources are directed, monitored and measured. He went ahead and said that there is need for circumstances to be in place which ensures that procedures will be performed as intended; right attitudes, integrity and competence, and monitoring by managers. Committee of Sponsoring Organizations (COSO, 1998) divided internal controls into two complementary forms, the accounting controls and administrative controls. Accounting controls were viewed as safeguards to control assets and ensure accuracy

of financial records while administrative controls are safeguards designed to provide operational efficiency and adherence to policies and procedures.

According to COSO (1999), Anthony (2004) there exists five internal control components which must be present in order to conclude that internal control is effective namely; control environment, risk assessment, information and communication, control activities and monitoring. Ishmgisa (2001) considered internal controls as a process comprising five components; control environment, risk assessment, control activities, information and communication, and monitoring. The author noted that each component influences all aspects of an organization's activities whether administrative, financial or accounting operations. In this respect, the author stated the need for effective functioning of each of the components for the organization to attain the purpose for which it was established. Cox (2000) bureaucratic theory states that effective internal controls require that all responsibilities are associated with adequate authority and that duties of all personnel are defined as to their specific responsibilities.

ACCA (2005) highlights that internal controls focuses on establishing responsibilities through delegation of power and authority. Bedeian (2005) said that it plays an important role in preventing/detecting fraud and protecting the organizations resources, both physical such as machinery and property, intangible such as reputation, and intellectual property such as trademarks. Davidson (2005) observed that at the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal controls refer to the actions taken to achieve a specific objective (for example

how to ensure that the organization's payments to third parties are for valid services rendered).

Ishumgisa (2001) and Meigs (2007) described internal control as a specific set of policies, procedures and activities designed to meet an objective. A control may exist within a designed function or activity in a process. A control's input may be entity-wide or specific to an account balance, class of transactions or application.

However, Meigs et al (2008) continue to say that controls have specific characteristics; they can be automated or manual, reconciliations, segregation of duties, reviews and approval authorizations, safe guarding and accountability of assets, preventing or detecting error or fraud among others. Controls within a process may consist of financial reporting controls and operational controls (Wales, 2005).

According to Frank (2009), there are three types of controls that the entity's internal audit function should recognize: preventive, authorization and detective controls. Preventative controls prevent risks from occurring for example; segregation of duties, recruiting and training the right staff. Authorization controls prevent fraudulent or erroneous transactions from taking place. Detective controls detect errors or fraud that has not been prevented. These help to deter undesirable acts in the organization. They could be exceptional reports that would reveal that controls have been bypassed. They provide evidence that a loss has occurred but do not prevent loss from occurring for example, large payments being made without being authorized. They include; reconciliatory supervision, internal checks, physical inspections, analysis and audits.

Lawrence (2007) disclosed that controls can either be preventive or detective. Preventive controls attempt to prevent undesirable events from occurring. They are proactive controls that help to prevent losses for example; separation of duties, proper

authorization, adequate documentation and physical control over assets. On the other hand, detective controls attempt to detect undesirable acts. According to Bazzoli (2004), they provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are; reviews, analyses, reconciliations, physical inventories and audits. Chen (2004) said that both types of controls are essential for an effective internal control system and from a quality standpoint, preventive controls are essential because they are proactive and emphasize quality.

However, Wales (2005) emphasized that detective controls play a critical role providing evidence that preventive controls are functioning and preventing losses. Under the COSO (1992) Framework, objective setting is a precondition to internal control. By setting objectives, management can then identify risks to the achievement of those objectives. To address those risks, management of organizations may implement specific internal controls. The effectiveness of those internal controls can then be measured by how well the objectives are achieved and how effectively the risks are managed (Van Horne 2002). More generally, Yeo & Neal (2004) disclosed that setting objectives, budgets, plans and other expectations establish criteria for control. They also added that control itself exists to keep performance or the state of affairs within what is expected, allowed or accepted. Therefore, Control built within a process is internal in nature and it takes place with a combination of interrelated components such as; social environment affecting employee behavior, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements. However, Emile (1994) and Anthony (2004) revealed that there are many definitions of internal control as it affects the various stakeholders of any organization in various ways and at different levels of aggregation.



## 2.2 Objectives Internal Control

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

Internal Audit evaluates system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties (Lousteau, 2006). He contends that authorization is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded. Completeness,; He posits is to ensure that no valid transactions have been omitted from the accounting records.

Furthermore, he indicated that accuracy ensures that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner. On validity, Lousteau said the objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization. Lousteau further intimated that physical safeguards and security ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel. In the same vein, error handling ensures that errors detected at any stage of processing receives prompt corrective action and are reported to the appropriate level of management. Finally, he indicated that segregation of duties in the control process ensures that duties are assigned to individuals in a

manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction. A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

### **2.3 Importance of Internal Controls**

Adu-Gyamfi (2007), points out the following as the reasons why enterprises need internal controls: It stops things such as assets, documents and records from going missing but benefiting individuals either within or outside an organization. It also makes sense of how the business is doing. An internal control prevents or at least minimizes business risks. It improves the efficiency and effectiveness of managers of the enterprise. It ensures that assets are protected and safeguarded. Ensures discipline in the transactions entered into by an enterprise

According to Hevesi (2005), while the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to:

- i. Promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission.
- ii. Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- iii. Promote adherence to laws, regulations, contracts and management directives.
- iv. Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

## **2.4 Components of Internal Controls**

According to COSO (1998), Pandey (2008), & Anthony (2004) there exists five components of internal controls that must be present in order to conclude that internal controls are effective namely; Control environment, control activities, risk assessment, information and communication, and monitoring and review. A review of these components follows below.

### **2.4.1 Control Environment**

Anthony (2004) noted that control environment sets the tone for the organization, influencing the consciousness of its people. It is the foundation for all the other components of internal controls. Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (2009), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. Jenny and Pamela (2006) assert that, “a governing board and management enhance an organization’s control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct”. They also enhance the control environment when they behave in an ethical manner - creating a positive tone at the top – and when they require that same standard of conduct from everyone in the organization.

The institute of Internal Auditors looks at a control environment as one that dictates upon organizational members a feeling of consciousness that their continued stay at an organization is assured by a demonstration of their expected level of

competence as well as their comprehension of authority and responsibility limits. In this respect, organizational members feel and realize that they are accountable to the organization (Dublin, 2009). Okwach (2000) disclosed that under such an environment, the organizational members utilize the available resources efficiently and effectively hence, achieving the expected organizational performance. On the other hand, Okwach (2012) views control environment as an enabler of execution of tasks by organization members as set by the board members and departmental managers through attitudes and actions that encourage the highest level of integrity, appropriate leadership philosophy, operating style and personal and professional standards, thereby leading to reasonable compliance and operational efficiency levels.

Ishumgisa (2001) also noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance. Spillane & Reimer (2000) subscribed to the view that control environment exists when the responsibility to execute an assigned task is not directed by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively declared.

#### **2.4.2 Control Activities**

Craig (2011) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Dublin (2009) considers control activities as activities that provide evidence that a loss has occurred. They include; analysis, reconciliations, and reviews. He

emphasized the importance of authorizations in the form of expenditures as a result of an approved budget as a control activity. Approval of budget expenditure should involve questioning of unusual items, justification of the transaction and review of source documents (Van Horne, 2002). Control activities are actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004). He further categorized the activities as preventive and detective. Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise; proper authorization, segregation of duties, sufficient documentation, and physical control of assets.

The Committee of Sponsoring Organizations (2004) considers control activities as policies and procedures established to address risks and to achieve the entity's objectives. To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable, and directly relate to the control objectives. Control activities occur throughout the organization, at all levels and functions. They include a range of preventive and detective activities for example; authorization and approval procedures, segregation of duties (authorizing, processing, procuring recording, receiving), controls over access to resources and records, verifications, reconciliations, reviews of operating performance, reviews of operations and activities, and supervision (assigning, review in and approving, guidance and training), among others. APB (2005) noted that under reviews of performance, management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and

objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

Control activities comprise the policies and procedures that help to ensure that management directives are carried out (Pandey, 2010; COSO, 1998; & Grant, 2004). They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage or reduce risks, in the same way that managers are responsible for identifying financial and compliance risks for their operations, they also have line responsibility for designing, and implementing and monitoring their internal control systems added Bazzoli et al (2000).

### **2.4.3 Risk Assessment**

COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective. According to McCarty and Anderson (2006), risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Thus, setting objectives is a precondition to internal controls.

At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives (Nakazi, 2002). In a similar view, Gleiling (2005) noted that at the departmental level,

goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Specifically, a department or work unit should have a mission statement, written goals and objectives for each significant activity (Manashe, 2000). Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurement (Gleiling, 2005). In this regard, Sias et al (2004) lamented that there are certain activities which are significant for all organizations such as; budgeting, purchasing goods and services, hiring employees, evaluating employees, and safeguarding property and equipment.

Cochran (2000) considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable- not absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what assets are at risk, and who is in a position of risk. The risks may include; public scandals, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making. Alternatively, Smith (2005) considers identification of risks as a challenge to some organizations. The internal controls can give management information about the entity's progress or lack of it towards achievement of objectives but cannot change an inherently bad manager into a good one.

#### **2.4.4 Information Flow**

ACCA (2005) considers information flow as a process through which the right organizational members receive the right information at the right time. Here, formal

and informal channels information flows are noted. Formal channels comprise of downward or top down, upward or bottom up and horizontal or lateral forms. The informal channels comprises majority grapevine. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner. In addition, the information communicated must be reliable, accurate, complete, specific, understandable, directed to the right people and relevant to the intended users.

Semanda (2001) considers the bottom up channel as a carrier of feedback from subordinates to management and involving verbal and nonverbal communication. According to Stahl (2001), verbal methods constitute management subordinate consultations, face to face discussions, and negotiations while nonverbal methods constitute written reports and suggestion boxes. Such interactions between management and subordinates are pivotal in motivating subordinates towards achievement of expected organizational performance given their democratic nature. According to Suzanne & Naidoo (2005), the top down channel mostly occurs in an impersonal nature leading to information flow ambiguity, clear message delivery failure to subordinates contrary to what is intended by management. However, the bottom up channel supplements the top down to enable management attain desired organizational effectiveness. This was elaborated by Sudha (1999) who said that organizations using the top down channel tend to suffer information gaps, misunderstandings and consequently performance deficiencies.

Sudha (2009) also opined that lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral information flow is the communication between groups of people at the same level and thus, information flow between colleagues, departments or units. The author



warned that poor lateral communication breeds malicious messages, rumors and confusion that in turn would hurt employees and the overall organizational performance.

Byekwaso (2000) emphasized the need for a two way form of information flow to achieve the desired organizational performance because both information flows facilitate the implementation of planned activities. However, he stressed the need for guidance of this information by internal control objectives. Internal controls also cover the aspects of information and communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities (Walker, Shenkir & Burton, 2003). Chen (2004) said that information systems provide reports containing operational, financial and compliance related information that make it possible to run and control an organization. However, information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up down and across an organization (Wales, 2005). He emphasized that reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to people who need it in a form and time frame that is useful.

#### **2.4.5 Monitoring and Evaluation**

The Institute of Internal Auditors (2005) considers monitoring to encompass activities such as periodical evaluations, Internal audits and management self-assessments. COSO (1998), Dublin (2000), Magala (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal

control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

The monitoring processes are used to assess the quality of internal control performance over time (Walker, Shenkir & Buton, 2003). Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. According to Anthony (2004), the purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed. Internal control is effective if management and interested stake holders have reasonable assurance that they understand the extent to which operational objectives are achieved, published financial statements are being prepared reliably, applicable laws and regulations are being complied with.

According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the

project should also be registered in the progress report. The progress report provides major information input to the project review (NADC, 1996).

DiNapoli (2009) suggested precisely the meaning of evaluation as the process management uses to assess whether an organization's operations are effective in achieving its mission. The purposes of evaluation are to provide management with a reasonable assurance that, the organization's system of internal control is functioning effectively, and they can identify both risks to the organization and opportunities for improvement.

## **2.5 Effectiveness of Internal Control**

The extent to which the components are present and operating effectively will serve as a base to judge whether the internal control is effective. Effective functioning of all the components provides reasonable assurance as to achievement of one or more of the three categories of objectives.

Internal control may be judged effective for each of the three categories of internal control objectives if the board of directors and management have reasonable assurance that:

- i. They understand the extent to which the entity's operations objectives are being achieved.
- ii. Published financial statements are being prepared reliably,
- iii. Applicable laws and regulations are being complied with.

Effectiveness of internal control depends on the presence of all the components of internal control working together.

## **2.6 Types of Internal Control Systems**

Internal controls are of different types and are grouped into preventive, detective and corrective control. However, different writers have come out with different types of Internal Control Systems. Milichamp (2002) indicates that the types of Internal Controls are safeguarding of assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting.

Other authors such as Lousteau (2006), the State University of New York and DiNapoli (2005) have agreed that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below

### **2.6.1 Preventive Controls**

Lacotelli M. (2009) Preventive controls are measures put in place by management to deter and prevent noncompliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, frauds and irregularities from occurring in transactions and prevention of loss.

These preventive controls are in the form of segregation of duties, proper authorization and approval, establishment of organizational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff.

### **2.6.2 Detective Controls**

These are controls which are aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed. Although, detection is necessary prevention is more desirable.

These controls are in the form of post-audits, exception reports and validation. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories and audits. However, detective controls play critical role in providing evidence that the preventive controls are functioning and preventing losses (Wells, 2006).

### **2.6.3 Corrective Controls**

According to Simmons (2005) the corrective controls are put in place to address anything which is foreign and every problem that has occurred in the system. Examples of corrective control are system re-design, follow-ups, post audits and application of punishments by management for wrong doing.

### **2.6.4 Directive Controls**

Directive Controls refer to policies and procedures put in place by top management to promote compliance with independence rules. The policies and procedures from management that are important must pervade the organization and must be clear and consistent in order to ensure compliance (Rittenberg et al; 2007).

### **2.6.5 Compensating Controls**

Hunton (2002) stressed the importance of integrating information communication technology (ICT) in enhancing control systems in Accounting and Auditing. He indicated that in today's accounting environment, computerizing, interconnectivity and globalization poses serious challenges to accountants and auditors. He therefore stressed that compensation controls should be put in place to develop value-added business and information processes, create new value chain and

supply chain opportunities and provide assurance services across the entire spectrum of economic activities. Compensating controls according to him are put in place for lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system.

## **2.7 The Need for Internal Auditing in Internal control processes**

Whittington and Pany (2001) rightly stipulate that an important aspect of the organization's monitoring system is the internal audit function. He further argues that as representative of top management, internal auditors are interested in determining whether each branch or department has a clear understanding of its assignment, adequately staffed, maintains good records, properly safeguards cash, inventories and other assets, and cooperates harmoniously with other departments.

According to Institute of Internal Auditors (IIA) (2008), management is responsible for establishing and maintaining a system of internal controls within an organisation. Internal controls are those structures, activities, processes and systems which help management effectively mitigate the risks to an organization's achievement of objectives. Management is charged with this responsibility on behalf of the organization's stakeholders and is held accountable for this responsibility by an oversight body (example board of directors, audit committee, elected representatives). Bou-Raad (2000) posits that the role of auditors is changing from a traditional audit approach to a more proactive value-added approach where internal auditors are taking up partnerships with management. He contends that internal auditors should be seen to be accepting change in order to keep up with demands of the market place. A

dedicated, independent and effective internal audit unit according to him assists both management and oversight body in fulfilling their responsibilities by bringing a systematic and disciplined approach to assessing the effectiveness of the design and execution of the system of internal control and risk management processes. The objective assessment of internal controls and risk management processes by the internal audit unit provides management, the oversight body, and external stakeholders with independent assurance that organization's risks have been appropriately mitigated. Because internal auditors are experts in understanding organizational risks and internal controls available to lessen these risks, they assist management in understanding these topics and provide recommendations for improvements.

According to Byekwaso (2000) organizations that do not have an internal audit function are therefore missing the valuable benefits that professional internal auditors provide. In addition, they are also running the risk of relying on management who may not be in the best position to provide skilled, independent, and objective opinions on internal controls.

Some organizations assign internal auditing on a part-time basis to an existing staff member who has other responsibilities. When this occurs, the person does not have the professional internal audit training or experience necessary for optimal effectiveness. Such organizations run the risk of poorly performed audits and reviews, and this individual, who may be relatively junior in the organisation, may lack the organizational status and stature to achieve positive results. In such an environment, high - risk processes may not be identified for review and serious internal control deficiencies may be overlooked.

As a cornerstone of strong governance, internal auditing bridges the gap between management and the board assesses the ethical climate, effectiveness and efficiency of operations, and serves as an organization's safety net for compliance with rules, regulations and overall best business practices. A lesson from financial failure and collapse of numerous organizations is that good governance, risk management, and internal controls are essential to corporate success. Because of its unique and objective perspective, a well-functioning, fully resourced and independent internal audit unit is well positioned to provide valuable support and assurance to an organisation and its oversight bodies.

### **2.7.1 The impact of Internal Auditing on Internal Controls**

According to Stettler (2004), the growing recognition by management of the benefits of good internal controls and the complexities of an adequate system of internal control in a large organization have led to the development of internal auditing as a form of control over all other internal controls. The emergence of the internal auditor as a specialist in internal control is the result of evolutionary process that is similar in some ways to the evolution of independent auditing. The Institute of Internal Auditors (IIA), define internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

From the foregoing, the internal auditor undertakes appraisal activity within the organisation as a service to management. It follows that internal audit department is responsible to management.



However, Stettler (2004) and the IIA rightly assert that even though internal audit is a service to management, its independence must be established by the organizational and reporting structure for an effective internal audit to operate. In essence, as observed by Guy & Alderman (2003), internal auditors are employed by a specific entity to perform audits that the organization deems necessary. The internal audit is therefore a managerial control, which functions by evaluating risk exposures relating to the organization's governance, operations and information systems, in relations to:

- effectiveness and efficiency of operations,
- reliability and integrity of financial and operational information,
- safeguarding of assets, and
- Compliance with laws, regulations and contracts.

### **2.7.2 Qualities of a Good Internal Audit Unit**

***Independence:*** The IIA recommends that the audit chapter should establish an independence of the internal audit activity by the dual reporting relationship to management and the organization's most senior oversight group. Specifically, the chief audit executive (CAE) should report to executive management for assistance in establishing direction, support, and administrative interface; and typically to the audit committee for strategic direction, reinforcement, and accountability. The internal auditors should have access to records and personnel as necessary, and be allowed to employ appropriate probing techniques without impediment. Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement. To ensure this independence, best practices suggest the CAE should report directly to the audit committee or its equivalent.

**Objectivity:** Objectivity is an unbiased mental attitude that requires internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others. To maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an unbiased and impartial mindset about all engagement (IIA).

Stettler (1977) also asserts that an internal auditor should not prepare records, or engage in any other activity that he would normally review and appraise and which could reasonably be construed to compromise his independence.

**Authority:** According to the IIA (2008), the authority of the internal auditor should be given by the highest level in the organization and this should ideally be by way of board minutes or a top - level management directive. The authority should be in a published form, must also be circulated throughout the organization, and should state the following:

- i. the objectives of internal audit,
- ii. the responsibility of internal audit to make an effective contribution to the success of the organisation,
- iii. the right to access and examine all books and records in all divisions of the organisations,
- iv. the relationship between the internal and the external auditor.

**Technical competence:** Millichamp (2002) argues that membership of a professional body with its competence and ethical implications are desirable in ensuring effective internal audit. Besides, ongoing training in specialist areas, such as computers, is useful.

***Adequate number of personnel:*** A good audit department should have a number of personnel proportional to its scope of work.

## **2.8 Challenges of Internal Control Systems and Auditing**

Various studies have recognized the fact that the relationship between internal controls and financial reporting is a very important element of every company (see Kinney et al., 2007). Notwithstanding, this important aspect of the organization has its own challenges just like every aspect of an organization. Internal auditing may face the following challenges:

***Image:*** In most organizations in a country like Ghana, the image of internal auditors is rather a bad one. Internal auditors have come to be seen as "enemies of management" in some organizations; this may stem from misunderstanding of the roles and duties of internal auditors.

Some top and middle level management members do not even see the contributory role internal auditors play in ensuring effective internal control and overall achievement of set objectives. Rather, they are seen as a group of people who only exist to check fraud, irregularity, misappropriation or errors. This rather unfortunate image makes the work of the internal auditors difficult, as virtual and valuable information, in some instance, are hidden from them in the course of their work. They are scorned and stigmatized in many organizations.

The challenges, however, is not devastating in many well - established companies since the organizations in question have embraced the useful roles internal auditors play in ensuring the achievement of group goals. In companies where this challenge exists and abounds, efforts can be made by the Chief Audit Executive (CAE), or the internal auditor, as the case may be in Ghana, to educate and sensitize

the various stakeholders and those concerned to understand and appreciate such an invaluable role.

**Communication:** Although communication has always been of utmost importance for internal auditors, it has now taken an even more prominent role. Auditors have to speak clearly and succinctly while conveying often sensitive issues and findings to appropriate parties, such as the audit committee. Lately, it has become even more apparent that audit committees must receive more information about the company's risk and controls - a responsibility that falls to the CAE and the internal audit unit with input from the external auditors.

**Staff competency:** With the myriad changes in today's business community, keeping the internal audit team members up to date will require serious commitment to continuing professional education. Reputations fall very quickly when incompetent or untrained staff is assigned to tasks beyond their ability. Management in most instances is even reluctant to release funds for the training and development of the internal audit staff. The lack of training and development of the audit staff hampers the effective discharge of duties.

**Ethical conduct / independence:** Another challenge for individual internal auditors as well as entire internal audit departments is ensuring ethical conduct in their operations; demonstrating the willingness to do the right thing at the right time, even in the face of opposing views. The tendency for management to pry into the activities of the internal audit department is very high. The internal auditor should be and must be seen to be independent with an acceptable line of responsibility and clear terms of authority. Thus, the independence is manifested in the responsibility structure, his mandatory authority and approach to work.

Studies on the challenges of internal control systems include the following:

In its 2004 report on corporate governance and internal control, the Financial Markets' Authority (AMF), France, notes "that unlike corporate governance, which now benchmarks standards against which issuers can compare themselves, the absence of a unanimously accepted reference framework for internal control makes the task of describing it much more difficult and can be an obstacle if one eventually wishes to assess the adequacy and effectiveness of the systems".

The research has also found out that in the wake of a series of financial scandals which shook the American corporate sector at the end of the Nineties and at the beginning of the year 2000, the United States adopted the Sarbanes-Oxley Act (SOX) on July 30th 2002. Article 404 of this act obligated Executive Management to engage their responsibility in setting up an accounting and financial internal control structure and to assess its effectiveness, on an annual basis, from a recognized internal control model viewpoint. The external auditors have to validate this assessment.

In the article, 'Challenges in enhancing enterprise resource planning systems for compliance with Sarbanes-Oxley Act and analogous Canadian legislation', the authors Vinod Kumar, Raili Pollanen, and Bharat Maheshwari identified major challenges faced by companies in enhancing their management systems for compliance with regulatory internal control requirements, specifically those imposed by the Sarbanes–Oxley Act (SOX) of 2002 and analogous Canadian legislation.

The authors undertook a research project in order to arrive at the information for the article. The research project was sponsored partly by the Canadian Academic Accounting Association under its CAAA-SAP research grant program. A previous version of this paper was presented at the Administrative Sciences Association of Canada (ASAC) Annual Conference, Information Systems Division, Ottawa, Canada,

2-5 June 2007, where it was awarded an honourable mention in the best-paper competition. The *purpose* of the research was to examine the major challenges faced by companies in enhancing their management systems for compliance with regulatory internal control requirements, specifically those imposed by the Sarbanes–Oxley Act. Data were collected through case studies of four medium-sized and large companies that have operations in the USA and Canada, thus being subject to SOX and/or similar Canadian regulations. They came out with the following findings:

The companies faced some technical, process and cultural challenges in implementing regulatory control compliance. In all companies, existing management systems specifically the Enterprise Resource Planning system were not able to meet all control requirements without some modifications or add-on applications. Control implementations have been long, complicated and costly processes, which are not fully completed. Detailed analyses and documentation of existing systems, controls and processes were required in all companies. The protection of systems security and the segregation of duties were perceived to be major technical obstacles. Cultural factors resulted in additional challenges, notably resistance to change. The Basle Committee in the USA which has been studying banking problems in order to identify the major sources of Internal Control System problems and categorized them into five (Basle Committee, 1998).

The first was lack of adequate management oversight and accountability and failure to develop a strong control system culture within the banks. Thus, management inattention to, and laxity in, the control culture of the bank, insufficient guidance and oversight by boards of directors and senior management and a lack of clear management accountability through the assignment of roles and responsibilities hinder a successful implementation of Internal Control Systems.

- i. Inadequate assessment of the risk of certain banking activities, whether on or off the balance sheet.
- ii. The absence or failure of key control activities such as segregation of duties, approvals, verifications, reconciliations, and reviews of operating performance.
- iii. Inadequate communication between levels of management within the bank, especially in the upward communication of problems.
- iv. Inadequate or ineffective audit programmes and other monitoring activities.

## **2.9 Internal Controls and Accountability**

Accountability is the liability that one assumes for ensuring that an obligation to perform a responsibility is fulfilled (Frost, 2000). Accountability means being able to provide an explanation or justification and accept responsibility for events or transactions and one's own actions in relation to these events or transactions (Kikonyogo, 2009). Munene (2004) stressed that accountability can be analyzed at the individual, organizational, and general levels. In his view, accountability is like a Semantic tree: the trunk is governance; a main branch is financial accountability which feeds other branches like budgeting, accounting, auditing, and records management.

Accountability is a concept in ethics and governance with several meanings. It is often used synonymously with such concepts as responsibility, answerability, blameworthiness, liability, and other terms with the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, nonprofit and private (corporate) wards. In leadership roles, accountability is the acknowledgement and assumption of responsibility for actions,

products, decisions and policies including the administration, governance and implementation within the scope of the role or employment position and encompassing the obligation to report, explain, and be answerable for resulting consequences. This means that a senior manager cannot delegate responsibility but can only delegate authority to a subordinate and then hold that subordinate accountable for the performance. One of the biggest mistakes that managers can make is to continuously frustrate their employees by not holding them accountable. Accountability is the key to achieving results and helps in identifying opportunities in an organization. Holding employees accountable helps them to know the satisfaction of achieving a goal and performing to standard.

Accountability refers to an organization's capacity to demonstrate, answer, or explain its actions (Green 2003). Anderson (2009) argued that one of the elusive concepts in management is accountability. The essence of accountability is answerability; having the obligation to answer questions regarding decisions and actions (Schedler, 2009). The other defining element of accountability is the availability and application of sanctions on inappropriate actions and behavior uncovered through answerability. Answerability without sanctions is generally considered to be weak accountability and, sanctions without enforcement significantly diminish accountability (Blinkerhoff, 2003). Most people equate sanctions with requirements, standards and penalties embedded in laws, statutes and regulations. Enforcement mechanisms are critical from broad legal and regulatory frameworks to internal agency monitoring systems.



## 2.10 Limitations of internal controls

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems. These include:

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

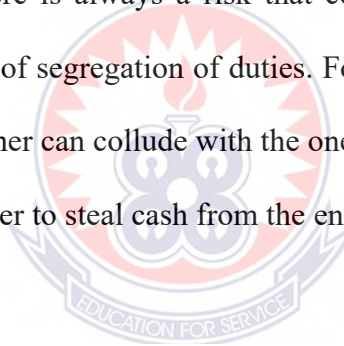
**Breakdowns:** Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

**Management Override:** High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.

In the view of Lannoye (1999), management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with

management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition.

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



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section dwells on the approaches that were adopted in the study. It describes the research design, study population, sample size and sampling technique, data types and sources and, the data collection instruments and the data analysis procedures employed in the study. Reasons will be assigned for the type of research design adopted. Similarly, reasons will be assigned for the choice of population, the sample size and the sampling techniques used. The chapter further discusses strategies adopted to collect data and the mode of analyses adopted and intended results.

#### **3.2 Research Design**

Research design is the framework or blueprint for conducting a meaningful research. It sets the outline for collection, measurement and analysis of data.

Research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the research project - the samples or groups, measures, treatments or programs, and methods of assignment work together to try to address the central research questions.

The research is intended to successfully elicit facts on the effectiveness of internal control systems in the University of Education Winneba, college of technology education, Kumasi in the Ashanti region and how these controls are reducing risks and ensuring effectiveness and efficiency of operations, reliability of claims by management and compliance with applicable laws. A cross sectional survey design was employed in this study. Both qualitative and quantitative approaches to

data collection and analysis were employed in order to get an in-depth understanding of the phenomenon under investigation and to confirm completeness for instruments (Amin, 2005). A structured questionnaire was prepared for respondents to give appropriate answers.

### **3.3 Population of the Study**

According to Mason et al. (2007), the population of a study is the collection of all possible individuals, objects or measurements of interest. The target population of the study was the administrative, accounting and internal auditing staff of University of Education Winneba, college of technology education, Kumasi.

Similarly, a population is the total collection of elements about which we wish to make some inferences. All office workers in the organization compose a population of interest (Cooper & Schindler, 2006). Furthermore, they contended that a population element is the individual participant or object on which the measurement is taken. It is the unit of study, while an element may be a person, it can just as easily be something else. For example each staff member questioned at the College of Technology Education, Kumasi about an optimal promotional strategy is a population element. A census on the other hand is a count of all the elements in a population i.e. listing of all population elements from which the sample will be drawn for the study (Cooper & Schindler, 2006).

### **3.4. Sample Size and Sampling Technique**

The number of individuals to include in a research study constitutes the sample size (Eng, 2003). The basic idea of sampling is that by selecting some of the elements in a population we may draw conclusions about the entire population

(Saunders., Lewis & Thornhill, 1997). The compelling reasons why sampling was required in this research are that it provides lower cost, greater accuracy of results, greater speed of data collection and availability of population elements for ;further analyses and syntheses.

Cooper and Schindler (2006) argued that probability and no-probability sampling can be used to facilitate research be it qualitative or quantitative in nature. According to them, the principles that influence the choice of sample size are:

- i. The greater the dispersion or variance within the population, the larger the sample must be to provide estimation precision.
- ii. The greater the desired precision of the estimate, the larger the sample must be.
- iii. The narrower or smaller the error range, the large the sample must be.
- iv. The higher the confidence level in the estimate, the larger the sample must be.
- v. The greater the number of subgroups of interest within a sample, the greater the sample size must be, as each subgroup must meet minimum sample size requirements.

For this study due to the greater dispersing or variance within the population a sample size of 60 staff participated in this study. In selecting the respondents, both purposive and convenience sampling techniques were used to select from the different categories of personnel. Non-probability sampling is subjective in nature because the probability of selecting population elements is unknown (Saunders., Lewis & Thornhill, 1997). There are a variety of ways to choose persons or cases to include in the sample. Non-probability sampling was used because there was no desire or need to generalize to population parameter. Non-probability samples that are unrestricted are called convenience samples (Cooper & Schindler, 2006). “Convenience” sampling

method was used because it was the cheapest and also enabled the researcher the freedom to choose whomever they found. Purposive sampling on the other hand conforms to specified criteria (Cooper & Schindler, 2006). There are two types of purposive sampling i.e. judgment and quota sampling. Judgment sampling occurs when a researcher selects sample members to conform to some criteria. Quota sampling is used to improve representativeness. The logic behind quota sampling is that certain certain relevant characteristics describe the dimensions of the population. Purpose sampling was used therefore to enhance representativeness of the population regarding oher variables for which we have no control. the case of the purposive sampling also known as judgmental sampling, the researcher picks the sample that will deliver the best information in order to satisfy the research objectives in question or with a purpose in mind. For instance staffs at the internal audit, claims and finance departments were used for the study.

Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non-probability sampling which involves the sample being drawn from that part of the population which is close to hand. The researcher used convenience sampling because respondents that could easily be reached out to were used for the study.

### **3.5 Data Collection Procedures**

The researcher collected data from primary sources. In spite of the advantages of primary data; the provision of data that matched the researchers' need, the data being current and so on, data already collected for similar purpose in the research area were also reviewed in order to save time and money.

### **3.5.1 Primary data**

The major sources of primary data for the research were through questionnaires. The same questionnaires were administered to all the respondents in the study. The questionnaires were prepared to cover the needs of the study. Both open - ended and close - ended questions were used taking into consideration the features of the respondents and the need to increase the response rate. Interviews were recorded and transcribed as part of responses and used in the analysis. Publications, related to the research topic, were read and reviewed.

This helped the researcher to modify the objectives of the study as well as the preparation of the questionnaire used. These publications included textbooks and journals from various libraries. Again, relevant articles from various financial, accounting, internal controls, and other websites were accessed and reviewed as well.

### **3.5.2 Questionnaires**

Seventy (70) questionnaires were administered to the workers. This was made of both senior and junior members of staff in the university. All employees were involved in the questionnaire administering and those that did not understand were given enough explanations and the questions were further explained to them.

The reason for selecting personnel from across the entire organization was influenced by the fact internal control cuts across every operation of an entity. Issues like clearance, approval certification are some of the minor controls that one will have to oversee or go through to get things done.

### **3.5.3 Problems with data collection**

The researcher faced a lot of challenges in the distribution and collection of the data. It should be noted that not all questionnaires were retrieved. 10 of the 70 questionnaires were not used. Some were not filled by the time of collection and others too were incorrectly filled. There were instances that some respondents wanted monetary or other benefits before filling the questionnaires.

### **3.6 Data Analysis**

Descriptive (qualitative) and quantitative methods are used for the data analysis. Descriptive methods provide a deeper analysis and allows for a richer and an in-depth understanding of how people make meaning of their situation or interpret phenomena. By descriptive statistics, the study used tables to describe the data on the perceived factors affecting audit quality by the respondents. Quantitative study is usually based on causal inference and the use of standardized measures to produce qualified data that can be statistically analyzed (Patton, 2002). As Strauss and Corbin (1990) state, quantitative methods are useful to unveil knowledge and to facilitate our understanding on phenomenon that little is known about. On the other hand, Cooper & Schindler (2006) posit that qualitative research includes an “array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world”. Qualitative research therefore, aims to achieve an in-depth understanding or a situation. As a result, this this type of research draws data from a variety of sources including people, organizations or institutions, texts, settings and environments, objects, events and happenings (Cooper & Schindler, 2006). This



means that using quantitative method is appropriate for this study because it is relatively an unexplored topic of accounting research in Ghana.

### **3.7 Ethical Considerations**

The researcher formally sought the consent of all respondents and observed all the necessary protocol. A formal letter was sent to Human resource Manager of the university by the researcher to inform the authorities of the institution about the researcher's interest to conduct a study in the institution. The researcher ensured that information received from respondents was treated with a high level of care and confidentiality. The identities of key informants were not disclosed in the report since the research is to appraise what pertains and not to use personal opinions of individuals.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS OF THE STUDY

#### 4.0 Introduction

This study sought to assess the effectiveness of internal control practices in tertiary institutions in Ghana using University of Education Winneba-Kumasi as the case study. This chapter analyzed the responses received from the respondents. The data was analyzed using, tables and percentages. The results of the analysis were grouped taking into cognizance of the objectives of the research.

#### 4.1 Demographic characteristics of respondents

**Table 4.1: Gender of respondents**

Sex	Freq.	Percent	Cum
Male	42	70.00	70.00
Female	18	30.00	100.00
Total	60	100.00	

**Source: Field Survey, 2017**

The gender distribution showed that both male and female were represented in the study and out of sixty (60) respondents interviewed a total of 42 representing 70% were male and 18 representing 30% were female as indicated on table 4.1. This clearly shows that in terms of gender, majority of the respondents were males and that male staff dominates in the study area. Although the national gender distribution is skewed towards females, this finding demonstrates otherwise. This can be attributed to the few opportunities that exist for women in the region such as educational development

**Table 4.2: Educational Level of Respondents**

	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
1 <sup>ST</sup> DEGREE	18	30.00	30.00
MASTERS	33	55.00	85.00
PROFESSIONAL	9	15.00	100.00
Total	60	100.00	

**Source: Field Survey, 2017**

Table 4.2 shows The level of education of the respondents; 9 respondents representing 15% of the total number of respondents had their professional qualification being CA, ACCA and others, 18 respondents representing 30% of the total number of respondents had their first degree and 33 respondents representing 55% had their had masters degree.

Majority of the respondents had first Degree and Masters Degree which shows that most of the respondents have attained some level of formal education at the highest level. The level of education has the tendency of affecting respondents understanding of internal controls systems and procedures.

**Table 4.3: Respective department of respondents**

<b>Department</b>	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Accounts/finance	25	41.70	41.70
Human Resource	12	20.00	61.70
Internal audit	11	18.30	80.00
Stores	5	8.30	88.30
Procurement	7	11.70	100.00
<b>Total</b>	<b>60</b>	<b>100.00</b>	

**Source: Author's field Survey, 2017**

Table 4.3 shows the various departments in the University respondents work from. 25 respondents representing 41.7% work in the accounts and finance department. 12 respondents representing 20% are in the human resources department, 11 respondent representing 18.3% work in the internal audit department, 5 respondents representing 8.3% work in the stores section and 7 respondents representing 11.7% work in the procurement department.

The results in table 4.3 show that the effectiveness of internal control in the university was examined across several departments in the university which is a clear indication that the outcome of their responses could be relied upon.

**Table 4.4: Staff Category**

	<b>Freq.</b>	<b>Percent</b>	<b>Cum.</b>
Junior staff	8	13.30	13.75
Senior staff	45	75.00	88.50
Management	7	11.70	100.00
<b>Total</b>	<b>60</b>	<b>100.00</b>	

**Source: Author's field Survey, 2017**

Table 4.4 shows the category of staff respondents belong to. It was found that majority of the respondents were senior staff members in the University. They represented 75% of the respondents. 13.3% were junior staff and only 11.7% were part of management. The distribution shows that most of the respondents really understands internal controls and know the procedures and processes in the school. Also since internal controls are usually put in place by management and other senior staff the representation of the respondents shows that accurate information can be obtained from them.

**Table 4.5 Age Distribution of respondents**

<b>Age(years)</b>	<b>Frequency</b>	<b>Percentage</b>
25-35	18	30.0%
36-45	22	36.7%
46-55	12	20.0%
56+	8	13.3%
<b>Total</b>	<b>60</b>	<b>100%</b>

**Source: Authors field survey, 2017**

Table 4.5 shows that 18 respondents representing 30% fall within the ages of 25 to 18. It was seen from the responses that age 27 was the minimum age. 22 respondents

representing 36.7% fall with the ages 36 to 45; 12 respondents representing 20% fall within the ages 46 to 55 and 8 respondents representing 13.3% are 56years and above.

The age distribution indicates that's most of the respondents are of youthful age and their perception of internal controls could contribute positively to the study.

**Table 4.6: Years of Engagement**

<b>Years of Engagement</b>	<b>Frequency</b>	<b>Percentage</b>
1-5yrs	13	21.7%
6-10yrs	14	23.3%
11-15yrs	21	35.0%
16-20yrs	10	16.7%
Above 20yrs	2	3.3%
<b>Total</b>	<b>60</b>	<b>100%</b>

**Source: Author's Field Work, 2017**

The distribution on the years of employee engagement as shown in table 4.6, indicates that, 21.7% of the respondents have worked for about 1 to 5 years, 23.3% have worked for a period of 6-10 years, 35% of the respondents have worked for 11-15 years, 16.7% of the respondents have worked for about 16-20 years, and 3.3% of the respondents have worked for more than 20 years. It could be concluded from the years of employees' engagement that, the respondents are experienced to contribute meaningfully to the study.

## **4.2 Analysis of the Components of Internal Controls in the University**

The control environment and the monitoring activities work in tandem to reinforce the whole system of control in an organization. The control environment is the foundation of all the control components, the Board and senior management should be setting the right tone at the top, giving direction to the rest of the organization on the importance of effective internal controls. The effectiveness of risk assessment, component, control activities component, information and communication component, and the monitoring component will all work to the degree of effectiveness of the control environment. The monitoring component of the internal control system establishes whether controls are present and functioning as intended and if not control deficiencies are reported to the appropriate personnel responsible for such controls. The monitoring activities component ensures that the whole process of internal controls is fluid and not short-circuited. A properly designed and implemented monitoring process will help the organization identify and correct internal control problems on a timely basis, thus ensuring the continuous functioning of the internal control system (Thornton, 2009). The tables below present the results of data gathered on the components of internal controls and discussions of results follow the tables.

#### 4.2.1 The Control environment

Table 4.7 indicates the effectiveness of the control environment.

**Table 4.7 Control Environment**

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Management decisions are made collectively and not controlled by one individual	27.50%	50.00%	18.75%	3.75%
Codes of conduct or ethics policies exist in the company	25.00%	73.75%	_	1.25%
Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff.	10.00%	56.25%	31.25%	2.50%
Audit or other control systems exist to periodically test for compliance with codes of conduct or policies	18.75%	68.75%	10.00%	2.50%
Management periodically reviews policies and procedures to ensure proper controls	16.25%	62.50%	16.25%	5.00%

**Source: Author's Field Survey, 2017.**

Responses to questions on the effectiveness of the control environment, a component of internal control are discussed below.

77.50% of the respondents either strongly agreed or just agreed that management decisions are made collectively and not controlled by one individual in the university. 18.75% disagreed and 3.75% strongly disagreed to the statement. 25% strongly agreed that there exists in the school a code of conduct and ethical policies to guide the operations of the staff. 73.75% also agreed to it. Only 1.25% strongly disagreed to



the question. 10% and 56.25% of the respondents respectively strongly agreed and agreed that policies regarding the importance of internal controls and appropriate conduct are communicated to all staff. 31.25% disagreed and 2.50% strongly disagreed to the statement. On the statement that audit and other control systems exist to periodically test for compliance with codes of conduct or policies in the university, 18.75% of the respondents strongly agreed, majority representing 68.75% agreed. 10% and 2.50% of the respondents disagreed and strongly disagreed respectively. Respondents were again asked whether management periodically reviews policies and procedures to ensure that proper controls are in place. 16.25% of the respondents strongly agreed, 62.50% agreed, 16.25% disagreed and 5% strongly disagreed.

The responses from table 4.6 indicate that there is an effective control environment in the University. This conclusion is in line with Lower (1998), which opine that an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way.

Jenny and Pamela (2006) also assert that “a governing board and management enhance an organization’s control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct”. They also enhance the control environment when they behave in an ethical manner - creating a positive tone at the top – and when they require that same standard of conduct from everyone in the organization.

#### 4.2.2. Risk assessment

Table 4.8 shows how the University assesses risk and control issues.

**Table 4.8: Risk Assessment**

	Strongly Agree		Strongly Disagree	
	Agree	Disagree	Agree	Disagree
The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues.	18.75%	57.50%	17.50%	6.25%
Management appropriately evaluates risk when planning for new product or activity.	3.75%	48.75%	37.50%	10.00%
There are sufficient staff members who are competent and knowledgeable to manage company activities and they have been provided with adequate resources.	6.25%	56.25%	32.50%	5.00%
Technology issues are considered and appropriately addressed.	3.75%	71.25%	18.75%	6.25%
Significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis.	2.50%	58.75%	30.00%	8.75%

**Source: Field Survey, 2017**

Risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Respondents were asked to respond to some statements which tested the effectiveness of risk assessment, an aspect of internal controls in the university. The responses are shown in table 4.8. Respondents were asked whether the university has clear objectives and that these objectives have been communicated so as to provide

effective direction to employees on risk assessment and control issues. 18.75% and 57.50% strongly agreed and agreed respectively, indicating that majority of the respondents agreed to the statement. 17.50% of the respondents disagreed and 6.25% strongly disagreed.

On the question of whether management appropriately evaluates risk when planning for new product or activity, a total of 52.50% either strongly agreed or just agreed to the statement. 47.50% of the respondents disagreed to the statement. Again, 62.5% of the respondents either strongly agreed or simply agreed that there are sufficient staff members who are competent and knowledgeable to manage universities activities and they have been provided with adequate resources. 37.5% disagreed to the statement. Respondents were again asked to agree or disagree that technology issues are considered and appropriately addressed. 75% of the participants either strongly agreed or simply agreed to the statement. Only 25% of the respondents rejected the statement. The last statement to test on the risk assessment of the university was that significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis. 61.25 of the respondents accepted the statement, which is agreed to it. 38.75% of the respondents rejected the statement. From the responses it can be concluded that risk assessment as a component of internal controls is properly addressed in the university. In a similar view, Gleiling (2005) noted that at the departmental level, goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Cochran (2000) also considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable- not

absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what asset are at risk, and who is in a position of risk . The risks may include; public scandal, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making.

#### 4.2.3: Control activity

Table 4.9 indicates the control activities of the University.

**Table 4.9 Control Activity**

	Strongly Agree		Strongly Disagree	
	Agree	Disagree	Agree	Disagree
Policies and procedures exist to ensure critical decisions are made with appropriate approval.	16.25%	68.75%	15.00%	—
Processes exist for independent verification of transaction (to ensure integrity)	26.25%	56.25%	17.50%	—
There is a system in place to ensure that duties are rotated periodically	3.75%	62.50%	31.25%	2.50%
Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management	5.00%	73.75%	20.00%	1.25%
People in the University have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives.	13.75%	55.00%	27.50%	3.75%

**Source: Author's Field Survey, 2017**

Control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Respondents were given statements to test whether control activities are effective and these are the responses. 85% of the respondents either strongly agreed or simply agreed that policies and procedures exist to ensure critical decisions are made with appropriate approval. 15% rejected the statement. On the issue of whether Processes exist for independent verification of transaction (to ensure integrity), 82.5% accepted the statement and 17.5% disagreed. Respondents were again asked to either agree or disagree that there is a system in place to ensure that duties are rotated periodically. 66.25% either strongly agreed or just agreed to the statement and 37.75% disagreed. On the issue of whether processes are in place to ensure that policy overrides are minimal and exceptions are reported to management in the university, 78.75% again either strongly agreed or simply agreed with only 21.25% rejecting the statement. 68.75% of the respondents accepted the statement that staff in the university has the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives. 31.25% rejected the statement. In summary, there is an effective control activity procedure in the university. Pandey (1998), COSO (1998), Anthony (2004); suggested that control activities comprises policies and procedures that help to ensure that management directives are carried out. They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage or reduce risks. In the same way that managers are responsible for identifying financial and compliance risks for their operations, they also have line responsibility for designing, implementing and monitoring their internal control systems added Bazzoli et al (2000). Horne, (2002). Control activities are

actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004). He further categorized the activities as preventive and detective. Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise; proper authorization, segregation of duties, sufficient documentation, and physical control of assets

#### 4.2.4 The Information and communication system

Table 4.10 shows responses on whether there is effective flow of information in the University.

**Table 4.10: Information and Communication System**

	Strongly Agree	Agree	Disagree	Strongly Disagree
There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures.	7.50%	68.75%	23.75%	—
There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.	11.25%	57.50%	30.00%	1.25%
All staff understands their role in the control system.	11.25%	57.50%	27.50%	3.75%

**Source: Field Survey, 2017**

Another component that strengthens internal control is the effective flow of information and good communication system. Respondents were asked to evaluate whether there is effective information flow in the university and the responses are

shown in table 4.10. 76.25% of the respondents accepted the statement that there are effective reporting procedures in communicating a balanced and understandable account of the university's position and procedures. 23.75% rejected the statement by disagreeing to it.

On the next statement that, there are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties, 68.75% either strongly agreed or simply agreed to the statement and 31.25% either disagreed or strongly disagreed. Again, 68.75% of the respondents accepted the statement that all staff understands their role in the control system. 31.25% rejected the statement by disagreeing. It clear from the analysis the information flow in the university according to the respondents was very effective.

Internal controls also cover the aspects of information and communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities (Walker, Shenkir & Burton, 2003).

Chen (2004) said that information systems provide reports containing operational, financial and compliance related information that make it possible to run and control an organization. However, information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up down and across an organization (Wales, 2005). He emphasized that reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to people who need it in a form and time frame that is useful.

Sudha (1999) also opine that lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral

information flow is the communication between groups of people at the same level and thus, information flow between colleagues, departments or units. The author warned that poor lateral communication breeds malicious messages, rumors and confusion that in turn would hurt employees and the overall organizational performance.

#### 4.2.5 Monitoring and evaluation

**Table 4.11: Monitoring & Evaluation**

	Strongly Agree	Agree	Disagree	Strongly Disagree
There are ongoing processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management.	13.75%	76.25	10.00%	___
There are processes to monitor the company's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment.	7.50%	61.25%	28.75%	2.50%
There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments.	6.25%	53.75%	40.00%	___
Reports on significant failings or weaknesses are reported to management on a timely basis.	3.75%	50.00%	46.25%	___

**Source: Author's Field Survey, 2017**

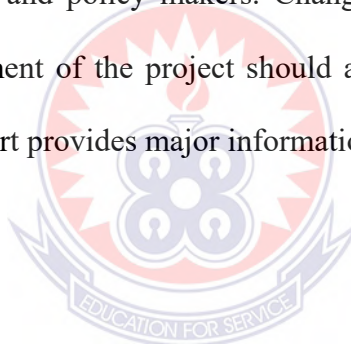


Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Respondents were asked to find out the effectiveness of monitoring and evaluation in the university and the responses are shown in table 4.11. 90% of the respondents accepted the statement that, there are ongoing processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management. Only 10% disagreed to the statement.

Again, 68.75% of the respondents either strongly agreed or simply agreed that there are processes to monitor the university's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment. However 31.25% of the respondents rejected the statement by disagreeing to it. Respondents were also asked to accept or reject the statement that, there are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments. Majority of the respondents representing 60% accepted the statement by either strongly agreeing or simply agreed. However 30% rejected the statement. The results are in line with Walker, Shenkir and Buton (2003) who said that monitoring processes are used to assess the quality of internal control performance over time.

Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. According

to Anthony (2004), the purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control activities, risk assessment, information and communication and monitoring) are present and functioning as designed. According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the project should also be registered in the progress report. The progress report provides major information input to the project review.



## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

This is the final chapter of the study and it presents the summary of the results of the study, draws the necessary conclusions and makes important recommendations on the study.

#### 5.1 Summary of findings

The purpose of this study was to evaluate the effectiveness of internal controls in tertiary institutions. In all 60 participants were used for the study and University of education Winneba-Kumasi campus was used as the case study.

The research revealed that majority of the respondents were males, and the minimum age of respondents was 27 with 58 years being the maximum and an average age of 41 years. Many of the respondents had acquired tertiary education with few having professional qualification in addition. Among the respondents covered by the research it was seen that majority were in the senior staff category.

It was revealed by the study that management was seen as not being solely responsible for setting up internal control and that they involved other staff in control of decisions and other activities. Furthermore, respondents indicated that there was effective internal audit unit in existence. Majority of the respondents did indicate that management oversight responsibility for internal control was the measure to enhance compliance, and that it was the responsibility of management to ensure that control policies and procedures are adhered to. Most of the respondents saw the management as the one responsible for monitoring internal control policy compliance.

## **5.2 Conclusion**

The results of the study revealed that there are internal control systems in University of Education, Winneba-Kumasi. According to McMullen, Raghunandan and Rama (1996), good internal control system in accounting requires the institution of segregating accounting duties, restricting access to financial systems and increasing oversight over transactions. They further contend that good organizations ensure effective financial control by enabling financial statements to be reviewed by third parties. They further posit that to ensure effective financial control, requires employees to take vacation to enable backup persons take over. It was realized that, the effectiveness of the internal control system could be described as strong and woven around the metrics indicated by McMullen, Raghunandan and Rama (2016).

On the measures put in place to enhance the effectiveness of internal controls the study reveals that there exists chain of activities and systems including policies of inclusion, ethical regimes, communication networks and audit and compliance systems that are enforced to achieve that objective. This reinforces the position of Lower (1998) on accounting assurance. The study further revealed that revealed that there was internal audit unit to independently monitor compliance of internal control policies and procedures in the university.

## **5.3 Recommendations**

In spite of the fact that, the study found the internal control structures to be effective, some weaknesses were however revealed which must be brought to the attention of management for the necessary corrective actions to be taken. These are discussed under their respective sub-headings below.

### **5.3.1 Control environment**

A closer look at the individual responses however can help improve the situation especially if management implements the following recommendations.

It was found out from the study that the company's culture, code of conduct, human resource policies and performance reward systems are not very effective. Management therefore must ensure that there are clear rewards (incentives) for doing the right things and consequences (disincentives) for doing the wrong things. In that respect if a serious problem occurs because of a breakdown in internal control and it is found that management did not play its part to establish a proper internal control environment, or did not act expeditiously to fix a known problem, then those responsible need to be held accountable and face the consequences. It is also recommended that management must not only be perceived to do what is right in the company but also must be seen to be doing what is right so that their good examples might motivate others also to imitate them since they set the tone at the top.

Also to ensure that, the right thing is done, management should establish an anonymous fraud tip hotline and enact a whistleblowers protection policy (where a suspicion of fraud and waste is reported)

### **5.3.2 Risk assessment**

Management should evaluate, discuss and appropriately consider control issues when planning for new products or activities since these are sometimes risky. This discussion must include audit personnel and other internal control experts. It is also recommended that management considers and appropriately addresses technology issues. Still on risk assessment, management must communicate acceptable risks levels to all staff in their duties as well as train them to get the needed

knowledge and skills coupled with adequate resources to enable them carry on work effectively and efficiently.

### **5.3.3 Control activity**

In ensuring effective control activity management must enforce job rotation and vacation policies in order to improve upon transparency and bring benefits to the company. This not only ensures that the company only has someone who can step into a job in the event of an emergency, but it also deters fraud when potential perpetrators know that someone else will do their job for a period of time. If fraud is occurring, another person reviewing the work is likely to expose that fraud. Most fraud requires a great deal of attention and rarely stands up to scrutiny by outsiders, particularly during a week or more of vacation. This is very essential because even in medical practices where there is no fraud, this policy helps detect ongoing errors and inefficiencies. Job rotation and enforced vacation are inexpensive yet can reveal any hidden weakness in the internal control process.

### **5.3.4 Information and Communication systems**

Concerning information and communication system, it is recommended that, management should see to it that, there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. Again, management must also be very serious with organizing programs for employees to sensitize them on the understanding of their roles in the control system.

### **5.3.5 Monitoring**

Though monitoring appears to be the most effective construct with most of the respondents agreeing there is an effective monitoring, there are some few things which must be brought to the attention of management.

Firstly, management must encourage all staff to report significant failings and weakness promptly in order to ensure internal controls are working effectively.

Secondly, management should embark on prompt effective follow-up procedures to ensure that, appropriate change or action occurs in response to changes in risk and control assessment.



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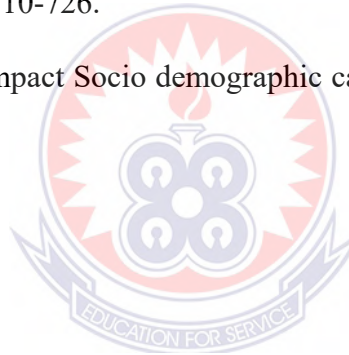
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## APPENDIX A

### QUESTIONNAIRE:

#### TOPIC: ASSESSMENT OF INTERNAL CONTROL PRACTICES IN TERTIARY INSTITUTIONS-EVIDENCE FROM UEW-KUMASI

This study is purely academic and respondents are assured that whatever information is provided will be highly confidential.

Instructions: Please kindly tick [  ] the box that clearly expresses your view about a question.

#### A. PERSONAL DATA

1. Sex: Male [  ] Female [  ]
2. Age: 25-35 [  ] 36-45 [  ] 46-55 [  ] 56+ [  ]
3. Which Department do you belong?  
Accounts/ Finance [  ] Human Resource [  ] Internal audit [  ] stores [  ]  
Procurement [  ]
4. Which staff category do you belong?  
Junior staff [  ] senior staff [  ] Management [  ]
5. Educational Qualification: 1<sup>st</sup> Degree [  ] Masters [  ] Professional [  ]
6. Years of Engagement: 1-5years [  ] 6-10years [  ]  
11-15years [  ] 16-20years [  ] above 20years [  ]

#### B. CONTROL ENVIRONMENT

7. Management decisions are made collectively and not controlled by one individual.  
Strongly agree [  ] Agree [  ] Disagree [  ] Strongly Disagree [  ]
8. Codes of conduct or ethics policies exist in the company

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

9. Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

10. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

11. Management periodically reviews policies and procedures to ensure that proper controls are in place. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

### **C. RISK ASSESSMENT**

12. The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

13. Management appropriately evaluates risk when planning for new product or activity.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

14. There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

15. Technology issues are considered and appropriately addressed.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

16. Significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis.



Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

#### **D. CONTROL ACTIVITY**

17. Policies and procedures exist to ensure critical decisions are made with appropriate approval. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

18. Processes exist for independent verification of transaction (to ensure integrity) Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

19. There is a system in place to ensure that duties are rotated periodically. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

20. Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

21. People in the University have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

#### **E. INFORMATION AND COMMUNICATION SYSTEMS**

22. There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

23. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties. Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

24. All staff understands their role in the control system.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

## **F. MONITORING & EVALUATION**

25. There are ongoing processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

26. There are processes to monitor the company's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

27. There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]

28. Reports on significant failings or weaknesses are reported to management on a timely basis.

Strongly agree [ ] Agree [ ] Disagree [ ] Strongly Disagree [ ]