PROJECT ABSTRACT

Master of Business Administration
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TITLE: A STUDY ON THE INTERNAL CONTROL SYSTEMS OF KWADASO SEVENTH-DAY ADVENTIST HOSPITAL

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Internal control system is a topical issue following fraudulent financial reporting and accounting scandals. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures in organizations. The study sought to study the control systems of Kwadaso Seventh-day Adventist Hospital with the objective of measuring the adequacy of such controls in preventing fraud and unintentional mistakes and also to assess the commitment of management to ensure that those controls work effectively.

A sample of one hundred (100) respondents was chosen. Primary data was collected using structured questionnaires, interviewing and interaction with management of the institution and official documents based on availability and accessibility. The data obtained were analyzed using frequencies and percentages.

The findings revealed that internal controls exist in the Hospital through code of conducts, policies and procedures and segregation of duties. It was also shows that the controls are adequate in preventing and detecting fraud and that the management are committed to ensuring that the internal controls work effectively and have put in place mechanisms for mitigation of critical risk that may result from fraud. However, the controls should be reviewed on regular basis to match with the dynamics of the environment.

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# A STUDY ON THE INTERNAL CONTROL SYSTEMS OF KWADASO SEVENTH-DAY ADVENTIST HOSPITAL

A project

presented in partial fulfillment

of the requirements for the degree

Master of Business Administration

by

Emmanuel Owusu Afriyie

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Dedicated to my lovely wife, Mrs Hanna Owusu Afriyie, and children

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| | |
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| ACFE | Association of Certified Fraud Examiners |
| AICPA | American Institution of Certified Public Accountants |
| CEO | Chief Executive Officer |
| COSO | Committee for Sponsoring Organization |
| GAHS | Ghana Adventist Health Services |
| HIIA | Hellenic Institute of Internal Auditors |
| ICFR | Internal Control over Financial Reporting |
| ISAASB | International Auditing and Assurance Standards Board |
| MRIC | Management Report on Internal Control |

# CHAPTER ONE

# INTRODUCTION

## Background of the Study

Internal control in non-profit making organizations is a topic to which very little information exists in the accounting literature. Most studies dealing with internal control have been conducted in for-profit businesses where internal controls techniques were originally developed. Although the manner in which managers may apply the concepts of internal control may be different in some aspects, the basic concepts of internal control are the same for both for-profit and not-for profit making organizations.

Control means different things to different people. Control is basically a process of motivating and inspiring people to perform organizational activities that will further the achievement of the goals of the organization. It is also a process for detecting and correcting unintentional errors and irregularities such as theft or misuse of resources. Millichamp (2002) also defined it as any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Millichamp (2002) sees controls to exist for the safe guarding of assets, separation of supervision, verifications, approval and authorization of documents.

In recent years, increased attention has been devoted to internal controls of auditors, managers, accountants and legislators. This is due to the fact that there is an increased suspicion between owners and management as a result of mismanagement through misapplication of organization’s resources.

Again, recent studies by Association of Certified Fraud Examiners show that small organizations are prone to organizational fraud due to the fact that they lack the requisite internal control mechanism to monitor transaction to ensure transparency and reliability in transactions; the situation worsens with large organizations. Besides, the Association of Certified Fraud Examiners (2007) stated in their manual that all organizations are subject to the fraud risk. Large frauds have led to the downfall of entire organizations, massive investment losses, significant legal costs and erosion of confidence in capital markets. Publicized fraudulent behavior by key executives have negatively impacted on the reputations, brands and images of many organizations around the globe.

Assuring reliability of transaction to stakeholders calls for pragmatic policies and programs that deal with risks and fraud in organizations. Effective internal controls provide that assurance of transactions in terms of transparency and reliability.

In addition, managers of firms with weak internal control can more readily override the controls and intentionally prepare biased accrual estimates that facilitate meeting their opportunistic financial reporting objectives. Thus, regardless of whether misstatements are unintentional or intentional, the quality of accruals is likely diminished when firms have weak internal controls.

## Statement of the Problem

Kwadaso Seventh-day Adventist hospital needs to have adequate system of internal controls put in place to ensure that the Hospital's activities are carried out in an orderly and efficient manner. Unfortunately, there have been reported cases of embezzlement and fraud perpetuation in Kwadaso Seventh-day Adventist where there are supposed to be controls. Hence, the aim of the researcher was to examine the internal control systems in detecting and preventing fraud for efficient management of the hospital.

## Research Questions

The research sought to find answers to the following questions:

1. Are there any internal control policies in Kwadaso Seventh-day Adventist Hospital in general?
2. How effective is the control policies in detecting and preventing fraud?
3. To what extent are management and other policy makers committed to ensuring that internal controls work effectively?

## Significance of the Study

This research aimed at assessing the effectiveness of internal control systems of Kwadaso SDA Hospital. This study would be valuable to the stakeholders of Hospitals by creating awareness of the importance of internal control systems for efficient management in hospital administration. The study would also assist practitioners and government functionaries to design and implement appropriate internal control policies and programs to avert fraud. The study to a large extent, will serve as a guide to the players in the industry to be able to point out the peculiar challenges in Hospital administration and possible remedies in dealing with error and fraud. Finally, the research findings will generate another interest to be subjected to more scrutiny by other researchers.

## Scope and Limitation of the Study

The research on internal control systems was conducted at Kwadaso SDA Hospital in Kumasi in the Ashanti region of Ghana. The study could not cover all Hospitals in Kumasi because of financial constraints and the challenges involved in collecting data from all Hospitals in Kumasi. The study assessed the internal control practices of the Hospital within a period of five years. Internal controls mechanisms are many but the study focused on assessing; the internal control polices in the Hospital, effectiveness of the internal control system in detecting fraud, and management commitment to internal control policies in the Hospital. In addition, some of the respondents were not willing to give information due to confidentiality policy of the organization and for fear of being victimized by their superiors. Such respondents were given the freedom and choice to opt out of participation. Also, using mostly nominal data and frequencies for analysis may not enable participants to express degree of response.

## Operational Definition of Terms

**Code of Conduct:** A set of rules outlining the responsibilities or proper practices of an individual or organization.

**Control Activities:** Specific activities performed by the company personnel to ensure that internal control is effective.

**Internal Control:** The measures taken by the organization for the purpose of protecting it resources against waste**.**

**Formal Procurement Processes:** Acquisition of goods and/ or services at the best possible total cost of ownership, in the right quality and quantity, at the right time in the right place and from the right source for the direct benefit or use of corporations, individuals or even governments.

**Monitoring:** The ongoing feedback mechanism that ensures that internal control systems that are effectively designed remain that way

**Risk Assessment:** The identification of points in the company's business processes where internal control is important

**Safeguard of Assets:** Policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have material effects on the financial statement.

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews and discusses existing literature on the subject matter from general perspective. It is organized into the following important headings; definition of internal control, internal control process, internal control implementation and its benefits, and role and the responsibility in the internal control.

## Definition of Internal Control

There is variety of definitions of internal controls as it affects the various stakeholders of an organization in various ways and at different levels of aggregation. Differences of opinion have long existed about the meaning and aims of internal controls. Some people explain that good internal control system is the foundation for high-quality financial reporting, since strong internal controls likely curtail both procedural and estimation errors, as well as earnings management (Doyle & McVay, 2010). This definition of internal control is sufficiently exact to avoid misunderstanding and is also comprehensive enough to encompass most performance objectives that are applicable to all organizations and to accommodate existing definitions.

The concept is, however, defined in different ways. For example, Auditing Standards No. 2 (AS No. 2, PCAOB 2004, Para. 7) defines internal control over financial reporting (ICFR) as: a process designed by the company's principal executive and principal financial officers and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles (Knechel,2013).

Bell, Causholli and Knechel (2015) also defined internal control as a process that is designed by management in order to provide reasonable assurance that the organization's objectives are being met. Kisel and Kitati (2012) stated that it is a means by which organization's resources are directed, monitored and measured. Bode and Marcinko (2010) added that internal control systems play an important role in preventing and detecting fraud and protecting the organization's resources, both physical (example machinery and property) and intangible (example reputation or intellectual property such as trade marks).

The institute of chartered accountant of Ghana (2008) also defines internal control as the policies and procedures adopted by management of an entity to assist in their objectives of achieving as far as practicable, the orderly and efficient conduct of the business, including adherence to internal policies, safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information. International Auditing and Assurance Standards Board (ISAASB) 2013, outlines internal control as a process that is put in place by management and stakeholders and is designed to provide reasonable assurances that the institution's objectives are been achieved effectively and efficiently in compliance with applicable legal prescript and that there is reliable and accurate financial reporting.

Kiabel (2012) described internal control as the regulation of activities in an organization through systems designed and implemented to facilitate the achievement of management objectives. Lander (2004), on the other hand, stressed on internal control over financial reporting as a process designed by or under the supervision of the company's principal executives and principal officers and implemented by the company's assurance for the reliability of financial reporting and the preparation of financial statements for extreme purposes in accordance with generally accepted accounting principle. According to Lander, this includes those policies and procedure that:

a. Cover maintaining records, in reasonable detail, that accurate and fairly reflect the transaction and dispositions of the company's assets.
b. Provide reasonable assurance that transactions are recorded as necessary to prepare financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are made only under the authorizations of management and directions of the registrants; and
c. Provide reasonable assurance for the prevention or timely detention of unauthorized acquisition, use or disposition of the company's assets that could materially affect the statements.

According to Simmons (2001) the most comprehensive and encompassing definition of internal controls is the one provided by the Committee of Sponsoring Organization (COSO) which defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achieving of objectives in the following category:

i. Effectiveness and efficiency of operations.
ii. Reliability of financial reporting, or
iii. Compliance with laws and regulations.

For the purpose of this research the definition by Doyle & McVay, 2010 is useful: internal control is "a process ... to provide reasonable assurance regarding the reliability of financial reporting, supposed to result in more reliable financial information, aim to prevent and/or detect errors or fraud that could result in a misstatement of the financial statement'' (p228).

Good internal control system is the foundation for high-quality financial reporting, since strong internal controls likely curtail both procedural and estimation errors, as well as earnings management. Weaknesses in internal control will result in lower accruals quality because, they have the potential to allow errors in accrual estimation to occur and impact the reported financial statements. These potential errors include both intentional (earnings management) and unintentional (poor estimation ability) errors. For a company with weak controls, intentionally biased "discretionary" accruals could be greater by failing to limit management's ability to manage earnings (Doyle & McVay, 2010).

The working group established in terms of the Cadbury Report's recommendations to investigate certain aspect of cooperate governance also used this definition in the United Kingdom. Thus, internal controls encompass mechanisms designed to decrease the likelihood of fraud, and to increase the accuracy of asset valuations and performance disclosures made to investors.

## Forms of Controls

Rostock (2012) argues that design of organizational control mechanisms focuses on achieving cooperation among individuals having divergent objectives. Goal congruity is a central mechanism of control in an organization (Rostock, 2012). Based on the scope of the control, there are three modes of control that work in different ways to achieve cooperation amongst people who share partially congruent objectives (Rostock, 2012).

The market mode of control acts through its ability to precisely measure and reward individual contributions. It is applicable to task that are accurately measurable.

Bureaucratic control is the second mode of control which relies on mixture of close evaluation of performance and reward. It is achieved through formal structure of organizations which acknowledges the work and rewards through incentives. The third mode of controls, clan control relies completely upon socialization process, which effectively eliminates goal incongruence through shared beliefs and objectives. Clan control attains cooperation by socializing individuals such that individual objectives align with organizational objectives. Market, bureaucracies and clans are three distinct mechanisms, which are present in differing degrees in any real organization (Rostock, 2012).

The design problem of defining the control objectives is of assessing the social and informational characteristics of each division, department or task and analyzing what would be the scope of control that needs to be emphasized in each case (Rostock, 2012). Conceptually, it can be argued that the three modes of controls (market, bureaucratic, clan) are similar to the three levels of management in an organization (technical, formal, informal) because of similar informational requirements in each (Kirsch, 2002; Rostock, 2012). In classification of controls, formal, informal and technical taxonomy are used for the sake of clarity.

## Formal Control

All controls are formal in scope and are targeted at the different stages of the business processes. Research in this area entails formal decision points such as security budgets (Gordon and Loab, 2006; Bodin et al, 2005), risk assessment models (Tiwana and Keil, 2004; Iversen et al, 1999; Lewis et al, 2003) physical security and recruitment rules, security strategy (Langfeild-Smith, 1997; Snell, 1992). Controls targeted at the process level of formal security methods includes standards (Siponen, 2006), policies, procedures, internal audit (Hogg, 1992; Hansen and Hill, 1989) and training (Aeran, 2006). Formal controls targeted at the output of results of formal security methods and its interaction with the environment and the scope is organizational structure and management. Research in this area includes compliance mechanisms (Aeran, 2006), external audit and governance efforts for legitimacy (Moultan and Cole, 2003; CISA Review Manual, 2004).

## The Internal Control Process

Internal control as defined by Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) consists of five interrelated components. These are: control environment, risk assessment, control activities, information and communication controls and monitoring of controls. These are derived from the way management runs a business and are integrated with the management process. Although the components apply to all entities, small and medium-size companies may implement them differently than large ones. Small and medium size companies' controls may be less formal and less structured, yet a small company can still have effective internal control.

### Control Environment

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

These factors are discussed below:

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

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

Rittenberg et al (2007) further stated that control activities also consist of the policies and procedure that ensure employees carry out management directives. Control activities include reviews of the control system, physical controls, segregation of duties and information system controls. Control over information systems includes general controls and application controls.

General controls are those covering access, software and system development. Application controls are those which prevent mistakes or errors from entering the system or detect and correct errors and mistakes in the system.

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

**Management Philosophy and Operation Style**. Management differs in both their philosophies towards financial reporting and their attitude towards taking business tasks. Some management teams are extremely aggressive in financial reporting and place great emphasis on meeting or exceeding earnings projections. They may be willing to undertake activities of high risks with prospects of high return extremely conservative and risks averse. Management philosophy and operating style have a significant influence on the control environment, regardless of the consideration given to other control environment (Ramos, 2006).

**Organizational Structure**. Another control environment factor is the entity's organizational structure. A well designed organizational structure provides a basis for planning, directing and controlling operations. It divides authority, responsibilities and duties among members of an organization by dealing with such issues as centralized versus decentralized decision making and appropriate segregation of duties among the various departments. The organizational structure of an entity should separate responsibilities from authorization of transactions, record keeping for transactions and custody of asset (Mwankisinasinde, Odhiambo & Byaruhanga, 2014).

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

## Risk Assessment

The Committee of Sponsoring Organizations of the Treadway Commission (2013) believes that every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. This is because economic, industrial, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

## Control Activities

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

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

Bellino, Wells, Hunt and Harwath (2009) in adding to control activities explained that management monitors the control system by reviewing the output generated by regular control activities and by conducting special evaluations. Regular control activities include comparing physical assets with recorded data, training seminars and examinations by internal and external auditors. Special evaluations can be varying scope and frequency. Deficiencies found during regular control activities are usually reported to the supervisor in-charge; deficiencies located during special evaluations are normally communicated to higher levels of the organization.

**Information and Communication**

The COSO report (2013) spelt out that pertinent information must be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to inform business decision making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization.

All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own roles in the internal control systems, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also the need to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

**Monitoring**

COSO (2013) suggested that internal control systems need to be monitored in order to assess the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and performing their duties.

The scope and frequency of separate evaluation will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

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

i. Identify and correct internal control problems on timely basis.

ii. Produce more accurate and reliable information for use in decision making.

iii. Prepare accurate and timely financial statements and

iv. Be in a position to provide periodic certification or assertions on the effectiveness of internal controls.

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

### Fraud Detecting and Preventing

Financial Insight (2008) issued a statement indicating that internal fraud can cause havoc on institutions of all types and sizes. Implementing vigorous controls to prevent and detect internal fraud threats continues to be a mandatory priority. A lack of effective fraud and theft prevention puts the health of an institution at risk. In 2006, the Association of Certified Fraud Examiners (ACFE0) issued a report which stated that organization stakeholders have clearly raised expectations for ethical organizational behavior. Meanwhile, regulators worldwide have increased criminal penalties that can be levied against organizations and individuals who participate in committing fraud. Organizations should respond to such expectations. Effective governance processes are the foundation of fraud risk management. Lack of effective corporate governance seriously undermines any fraud risk management programme. The organization’s overall tone at the top sets the standard regarding its tolerance of fraud.

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

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

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

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

Financial Insight (2006) report suggested some internal fraud prevention initiatives to combat internal fraud as:

i. Establishing controls that reduce the opportunity for unauthorized use of organizational resources (including perimeter defense technology such as firewalls, emails, scanning and ID access).
ii. Delineating clear lines of responsibility, providing sufficient employee monitoring, segregating duties for operational processes and regularly rotating staff in key positions.
iii. Using thorough recruitment screening and educating employees about the legal repercussions of being involved in illegal activities to act as a deterrent.
iv. Instituting controls such as automated detection systems and advanced analytical technologies that look for suspicious behavior and anomalous patterns that may require investigations.
v. Establish accountability and ownership for negligent security procedures.
vi. Reprimand staff for breaking or failing to follow security protocol, even minor violations.
vii. Providing confidential and easy-to-use channels of communication for whistleblowers.

## Internal Controls Implementation and Benefits

Adewale (2014) asserted that regardless of an entity's size or type and regardless of whether it is held privately or publicly, managers and accountants should be alert to the rudiments of accounting systems and controls. Accounting records are kept for a variety of purposes and a major purpose is to help managers operate their entities more efficiently and effectively. Also, the American Institute of Certified Public Accountants (2005) emphasized that internal control has always been a major area in the governance of an organization, and this importance has been magnified in recent years.

Pickett (2010) on the other hand, concluded that for organizations to maintain availability, confidentiality and integrity of data, management must develop internal control mechanisms. This goes to buttress the fact that internal controls are very beneficial to the success of organizations.

Coe and Ellis (1991, cited by Duncan et al, 1998) conducted a study designed to identify common weaknesses in internal control in state, local and non-profit agencies. They determined that 38.7 per cent of the crimes were the result of improper separation of duties, 12.7 per cent were the result of poor purchasing controls and 11.9 per cent want to undetected because no audit was performed.

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

Berkorwitz (2005) stated that managers implement internal controls to ensure that programmes operate effectively and efficiently, financial reporting on those programmes is reliable and agency employees and those acting on behalf of the agency carry out these programmes in compliance with all laws and regulations.

The Institute of Internal Auditors (2012) published a report which stated that organizations with strong internal controls are more likely to have sustained rapid growth, success in meeting corporate objectives, increasing return on equity.
More so, Green (2007) established that there is now widespread recognition that effective internal control has direct impact on business performance in a number of areas and that more businesses are investing more in internal controls.

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

## Characteristics of Internal Control

Internal control system has certain characteristics that are worthy to note. First, it is a process – not an end in itself, but a mean to an end. This means that internal control is a dynamic function operating every day. Secondly, the entire control system is operated by people. This means that an organization may have policy manuals, procedures, forms, computer-controlled information and accounting and other features of control but people make the system of internal control work at every level of management. Therefore, staff or management establish the objectives, put control mechanisms in place and operate them. In addition, it provides reasonable assurance. It can help to prevent and detect failures, but it cannot guarantee that they will never happen. It is not absolute assurance. Because people operate the controls, breakdowns can occur. More so, internal control is designed to achieve objectives in three categories. In the operations category, some examples of objectives are good business reputation and safeguarding assets in the context of their effective and efficient use.  For an organization to be successful, management must achieve the goals and objectives of the organization. To achieve those goals and objectives, management needs to establish internal controls and link communication systems to all interrelated components of internal control (Green, 2007). The control components are relevant for the control objectives because they constitute the focus of auditors' attention.

## Roles and Responsibility in the Internal Controls

According to the COSO framework (2013) everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control system or take other actions needed to needed to affect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct or other policy violations must face the legal action. Each major entity in corporate governance has a particular role to play. For instance, the chief executive officer of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the tone at the top that affects integrity and ethics and other factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior management and reviewing the way they are controlling the business. Senior managers in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive often and owner-manager is usually more direct. In any event, in a cascading responsibility a manager is effectively a chief executive of his or her sphere of responsibility. Or particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise (Lander, 2004).

More so, management is accountable to the board of directors, which provides governance, guidance and oversight responsibilities. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong active board particularly when coupled with effective upward communications channels and capable of financial, legal and internal audit functions is often best to identify and correct such a problem (COSO, 2013).

Besides, the internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively and make recommendations on how to improve internal control. They also review information technology controls, which relate to the (IT) systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. To provide reasonable assurance that internal controls involved in the financial reporting process are effective, they are tested by the external auditor, who is required to opine on the internal controls of the company and the reliability of its financial reporting (Lander, 2004).

Furthermore, internal control is, to some degree the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone’s job description. Virtually all employees produce information used in the internal control systems or take other actions needed to effect total control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct or other policy violations or illegal actions (COSO, 2013).

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

The COSO report issued in 2013 describes a unified approach for evaluation of the internal control systems that management has designed to:

i. Provide reasonable assurance of achieving corporate mission, objectives, goals and desired outcome.

ii. While adhering to laws and regulations.

iii. Allow the company to accurately reports successes and outcomes to the public and interested third parties and

iv. Serves as a common basis for management, directors, regulators, academics and others to better understand enterprise risk management, its benefits and limitations and to effectively communicate about enterprise risk management.

### What Internal Controls Cannot Do

As important as internal control structure is to an organization, an effective system is not a guarantee that the organization will be successful. An effective internal control structure will keep the right people informed about the organization's progress (of lack of progress) in achieving its objectives, but it cannot turn a poor manager into a good one. Internal control cannot ensure success or even survival (Opoku-Anto, 2008).

Internal control is not an absolute assurance to management and the board about the organization's achievement of its objectives. It can only provide reasonable assurance, due to limitations inherent in all internal control systems. For example, breakdowns in internal control structure can occur due to simple error or mistake as well as faulty judgments that could be made at any level of management. In addition, controls can be circumvented by collusion or by management override.

Finally, the design of the internal control systems is a function of the resources available; there must be a cost-benefit analysis in the design of the system (Opoku-Anto, 2008).

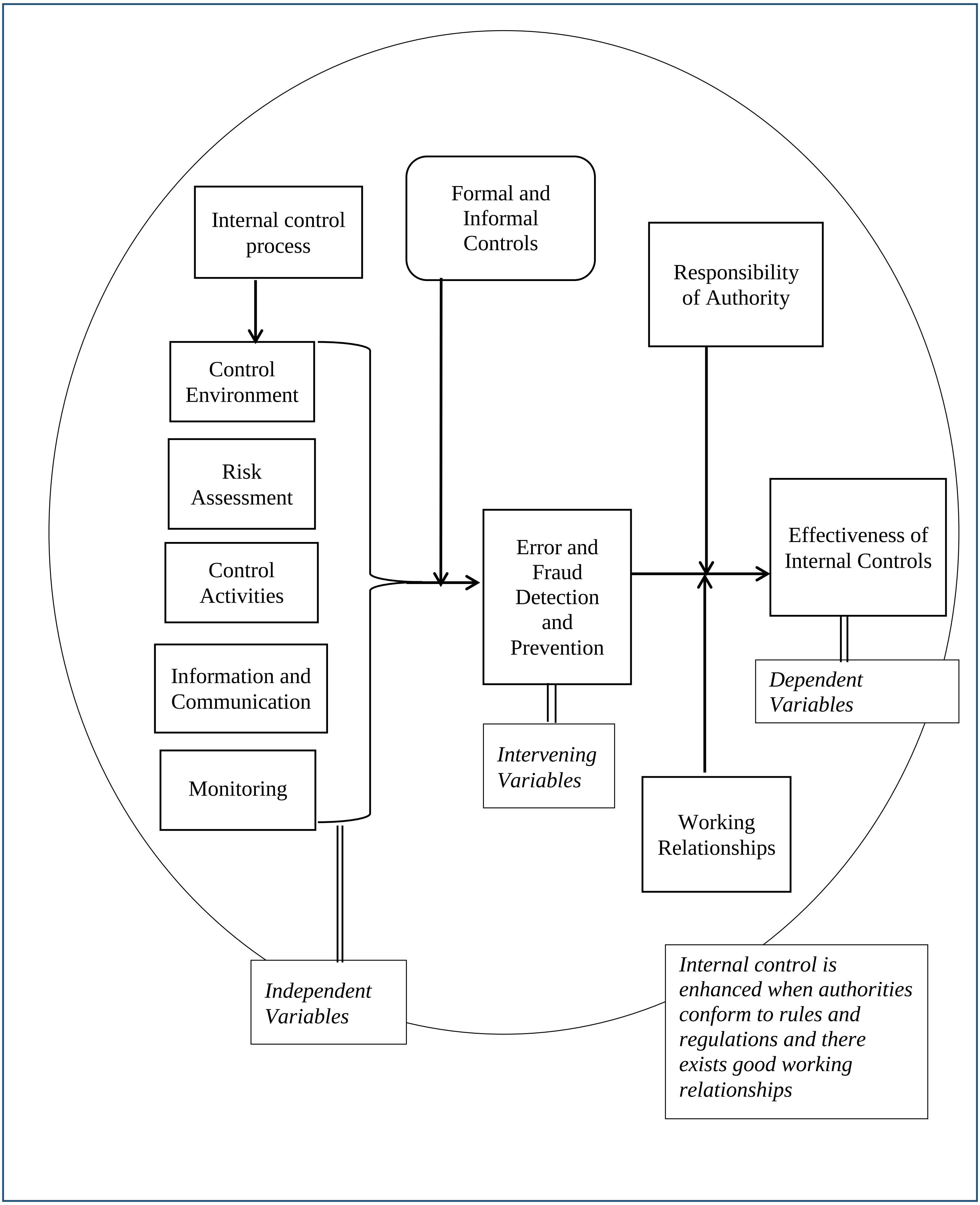
### Theoretical Framework

In the modern business world, the term internal control is being used to refer to two basic concepts; the internal control system and the internal control itself. The internal control system refers to an organized amalgamation of functions and procedures, within a complete system of controls established by the management and whose purpose is the successful function of the business (Cheung 2006). In 1963, the

American Institution of Certified Public Accountants (AICPA) defined internal control as those measures and methods adopted within the organization itself to safeguard the cash or the other assets of the company and to check the clerical accuracy of the book keeping. According to the AICPA, (1963) a system of internal control extend beyond those matters which relate directly to the functions of accounting and the financial statements.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) asserts that improved internal control monitoring practices should enhance the efficiency, effectiveness, and assurance of internal control processes (COSO 2009a).

According to Cook and Wincle (2007), the internal control system resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management .It is directly linked to the organizational structure and the general rules of the business The internal control system is all the methods and procedures followed in order to ensure, to a great extent, as much successful cooperation as possible with the director of the company, the insurance of the capital, the prevention and the detection of fraud, as well as the early preparation all the useful financial information (Papadatou, 2005). Therefore, this study is based on the premise that for an organization to function optimally, effective internal control systems and practices are very necessary as displayed in Figure 1.




Source: Conceptual framework developed based on literature reviewed, 2017

# CHAPTER THREE

# METHODOLOGY

This chapter deals with the data collection methods and techniques. It discusses the research design, the population of the study, sample size and sampling techniques and the method of analyzing the data.

## Research Setting

The research was conducted in Kwadaso SDA Hospital which is part of the Ghana Adventist Health (GAHS) Services. The Hospital was founded in 1990 by the Central Ghana Conference of SDA Church. It is a 250-bed care facility managed by qualified professionals who include experienced, full-time resident doctors and consultants. Kwadaso SDA Hospital is the largest Adventist Hospital based in Kumasi in the Ashanti of Ghana. The Hospital is managed by the GAHS and in collaboration with the Ministry of Health (MoH). The Hospital is one of the most comprehensive non-profit health-care systems in Ghana. The Hospital has an annual average of 290,000 out-patient visits and about 25,000 in- patient admissions.

## Research Design

The study used a descriptive research design to study the case (Kwadaso SDA Hospital). The study assessed the internal control policies at Kwadaso SDA Hospital, how effective is the control policies in detecting and preventing fraud and the extent to which management are committed to ensuring that internal controls work effectively at the Hospital.

## Population and Sample Procedure

The target population of this study was 100. The population was stratified into four strata based on duties and responsibilities. These are; Management, Doctors and Nurses, Accounts, and Pharmacy.

*Table 1*. Target Population of the Study

| **Group of workers** | **Sample** |
|---|---|
| Management | 12 |
| Doctors & Nurses | 45 |
| Accounts | 26 |
| Pharmacy | 17 |
| **Total** | **100** |

Source: Human resource department of the Hospital (2017)

## Instruments for Data Collection

The main instrument employed for data collection was self-designed questionnaire based on the literature reviewed. The first section of the questionnaire was designed to collect mainly demographic data. The second section intended to gather data about the internal control policies of the hospital and the third section was about how effective the control system is in detecting and preventing fraud. The fourth section of the questionnaire gathered information on how committed management is to upholding internal control policies.

The researcher adopted Likert linear scale to examine how strongly respondents agree or disagree with statements on a 7-point scale, where 7= strongly agree and 1= strongly disagree. In addition, category questions such as dichotomous scale were used to elicit a yes or no answer or to elicit a single response.  Additional data for the study was taken from the official documents of the hospital by permission. Also, interviews were conducted to provide understanding of internal control practices at the hospital.

## Validity and Reliability of Instrument

The instrument was checked for content validity to ensure that it would measure what it was supposed to measure. The questionnaire was presented to the researcher's supervisor and other experts. The evaluators ensured adequate and representative set of question items would appropriately measure the relevant variables before collecting data from the respondents.

To obtain the reliability of the Likert type scale instrument, a pilot study was administered on a sample of 20 employees at the hospital. Cronbach's alpha showed the scale items to reach acceptable reliability of 0.89; suggesting a high reliable scale items.

## Ethical Considerations

Since this research involved human participation, the following steps were followed sequentially to reduce any ethical misconduct.

First, prior to conducting the study, the research proposal including the questionnaire was approved by the MBA Research committee at AUA. This was very necessary to achieve before proceeding to the field for data collection. Secondly, institutional consent and approval was granted by the participating institution, thus clearing the way for data collection. In addition, the institution was offered the opportunity to receive a report about results and conclusions of the research project. Furthermore, individual participants were briefed about the general nature and purpose of the study. An introductory letter to the questionnaire indicates statement regarding how their identity, privacy, confidentiality and anonymity will be protected. For instance, in order to ensure the utmost privacy and anonymity, no respondent was required to write his or her name and results were reported in aggregates. In addition, the participants were assured of their freedom and choice to participate, decline in the study or withdraw from the study at any time without any punitive action.

In addition, this research avoided plagiarism by acknowledging the work of others utilized in this research.

## Data Collection Procedure

After approval of the proposal, the researcher obtained letter of approval from AUA research committee. Permission was sought from Kwadaso SDA hospital Administrators to seek their consent. The researcher explained the rationale of the research to the hospital administrators and respondents and the need to participate in this study. Upon approval, the questionnaires were distributed to the respondents. An interview was also scheduled with the management. Ten respondents which comprise five management members and five accounts staff were interviewed to confirm the response from the questionnaire.

## Method of Data Analysis

The data that were obtained from the primary source were analyzed using SPSS version 22.   Descriptive statistics was used for quantitative data analysis which involved the use of frequencies, and percentages whereas content analysis was used for the qualitative data.

## CHAPTER FOUR

## RESULTS AND DISCUSSION

This chapter presents the findings obtained from the survey conducted. The study was conducted to examine the internal control policies of Kwadaso Seventh-day Adventist Hospital, assess the effectiveness of the control policies of the Hospital in detecting and preventing fraud, and how management and other policy makers are committed to ensuring that internal controls work effectively in the Hospital.

The data was collected from ninety (90) respondents of the hundred (100) sampled. This translates to a response rate of 90%. The high response rate was attributed to the fact that from each group of staff the researcher was given an officer in-charge to assist in getting the respondents.

### General Information of Respondents

In order to understand this study well the respondents were asked to indicate their profile in terms of gender, department, educational level and years of service. Tables 2 - 5 present the findings.

*Table 2*. Gender of Respondents

| Gender | *f* | % |
|---|---|---|
| Male | 48 | 53 |
| Female | 42 | 47 |
| **Total** | **90** | **100** |

Source: Field data, January, 2017

The result indicates that 53% of the respondents were male while the rest of 47% were female. The result of the finding implies that there are more males than females who participated in the study. This is also an indication that there is more male staff in the Hospital than their female counterparts.

*Table 3*. Department of Respondents

| Department | *f* | % |
|---|---|---|
| Management | 10 | 11 |
| Doctors and Nurses | 45 | 50 |
| Accounts | 22 | 24 |
| Pharmacy | 13 | 14 |
| **Total** | **90** | **100** |

Source: Field data, January, 2017

Table 3 indicates that out of the 90 respondents who participated in the study 45 (50%) are Doctors/nurses with the highest percentage, followed by Accounts staff 22 (24%), Pharmacy, 13 (14%), and Management 10 (11%). This is an indication that the Hospital being a health service employs more health workers than their supporting staff.

*Table 4*. Educational Level of Respondents

| Qualification | *f* | % |
|---|---|---|
| Secondary | 27 | 30 |
| Tertiary | 63 | 70 |
| **Total** | **90** | **100** |

Source: Field data, January, 2017

Table 4 shows the educational qualification of the respondents, 27 (30%) have attained secondary education and the remaining 63 (70%) have tertiary education. This shows that majority of the employees have attained tertiary education. The work in the selected departments is demanding and therefore people with requisite knowledge are employed. This implies that management is committed in employing qualified personnel.

*Table 5*. Respondents by Years of Service

| Years | *f* | % |
|---|---|---|
| Less than 5years | 25 | 28% |
| 5-10years | 50 | 55% |
| Over 10years | 15 | 17% |
| **Total** | **90** | **100%** |

Source: Field data, January, 2017

With respect to the years of service in the Hospital, Table 5 above shows that out of 90 respondents who participated in the study, 25 (28%) have worked in the Hospitals not more than 5 years, 50 (55%) have worked in the Hospital between 5 and 10 years, and 15 (17%) have worked over 10 years in the Hospital. This indicates that majority of the respondents have worked in the Hospital between 5 and 10 years.

## Assessing the Internal Control Policies in the Hospital

In this section, the respondents were asked to assess the internal control policies in the Hospital. The areas assessed were the Board oversight responsibility, code of conduct of the Hospital, staff training, policy reviews and approval, formal job description, formal procurement processes, procurement procedure meeting national requirements, management target and monitoring, communication changes in accounting methods, and established communication channels. The results are indicated below in Table 6 below:

*Table 6*. Descriptive Statistics on the Internal Control Policies at Kwadaso SDA Hospital.

| Questions | Yes | No |
|---|---|---|
| 1. Does the board provide an oversight responsibility to management and staff regarding integrity and ethical values? | 80 | 10 |
| 2. Has the board adopted formal codes of conduct for the organization? | 85 | 5 |
| 3. Are the accounting staff given training to ensure that they have an understanding of the accounting and reporting processes? | 75 | 15 |
| 4. Are policies and procedures approved by the board, reviewed annually, and revised as needed? | 90 | 0 |
| 5. Are there formal job descriptions for each position? | 80 | 10 |
| 6. Are there formal procurement processes and written procedures? | 90 | 0 |
| 7. Do the written procurement procedures meet national requirements? | 75 | 15 |
| 8. Does management have procedures to identify/monitor goals and objectives and determine if they are met? | 70 | 20 |
| 9. Is there a process in place for communicating changes in accounting methods, regulations, and rules to staff? | 80 | 10 |
| 10. Are there established internal and external communication channels? | 73 | 17 |

Source: Field data, January, 2017

From Table 6, the respondents were asked to indicate whether the Board provides an oversight responsibility to management and staff regarding integrity and ethical values. Eighty (80) respondents, representing 89% indicated that the Board does undertake these functions as stipulated by the Ministry of Health, whereas 10 respondents representing 10% stated otherwise. It also shows that 85 respondents, representing 94% affirmed that the board has adopted formal codes of conduct for the organization. However, 5 respondents representing 6% indicated that the board has no formal code of conduct for the organization. With regards to whether the accounting staff are given training to ensure that they have an understanding of the accounting and reporting processes, 75 respondents representing 83% said they were aware of training programs given to accounting staff to update their knowledge on accounting and reporting process whiles a few 15(17%) respondents answered on the contrary that they were not aware of any training program. This indicates that management has made satisfactory commitment to improving on the knowledge of its staff. On the question of whether policies and procedures approved by the Board reviewed annually and revised as needed, all the respondents answered yes. This attests to the fact that the board review and approve policies and procedures annually. This goes to support the fact that the Hospital is not a static type but rather dynamic.

From Table 6, 80 respondents (89%) indicated that the organization has formal job description for each position of their employees whereas 10 respondents (11%) answered on the contrary.

On the question of whether there are formal procurement processes and written procedures at the Hospital, the entire respondents answered yes. Also, the respondents were asked to indicate whether the written procurement procedures meet national requirements. It can be realized that majority (75) of the respondents representing 83% indicated that the written procurement procedures meet national requirement. However, only 15, representing 17% indicated otherwise. On the question of whether management has procedures to identify/monitor goals and objectives and determine if they are met, majority 70 (78%) of the respondents answered yes with a few 20(22%) answering on the contrary.

From Table 6, the question intended to find out whether there is process in place for communicating changes in accounting methods to staff.  Majority (80) of the respondents representing 89% attested that there is a process in place for communicating changes in accounting methods with only10 respondents representing 11% with the view that there has been no process in place for communicating changes in accounting methods. For the establishment of internal and external communication channels in the Hospital, It was established that internal and external communication exist; as 73 respondents representing 80% answered yes to this question with a few 17 respondents representing 10% answering on the contrary. This indicates that there is a channel of communication for all employees.

Follow-up interviews that revealed the assessment of the internal control policies at Kwadaso SDA Hospital have been summarized below:

1. The Management of the Kwadaso Seventh-day Adventist Hospital is made up of seven members which is accountable to the Hospital Board.
2. Every employee is given a copy of the code of conduct on assumption of duty which spells out the rules and regulations of the hospital.
3. Employees of the hospital are also made to sign conflict of interest form on yearly basis which also form part of the working policy of the church.
4. Staff training at Kwadaso SDA Hospital is organized quarterly with the main aim of assisting employees to be abreast with current processes and procedures in the working places.
5. The hospital uses the point factor method in job evaluation because it is the one approved by the Ministry of Health.
6. Procurement involves a bidding process i.e. tendering. The Hospital usually selects the minimum bidder. However, if the lowest bidder is deemed incompetent to provide the desired product/service, it will then select the submitter who has the next best price, and is competent to provide the product/

service. There are strict rules on procurement processes that are followed by all workers.

7. The Hospital sets a lot of targets such as the reduction in infant mortality rate as well as the control of the six childhood killer diseases such as polio, tetanus etc.
8. The Hospital has a monitory team which moves from place to place to educate and assess the effectiveness of their programs.
9. The monitoring team also reports of their finding to management for an immediate action which is in line with the dictates/principles of the Ministry of Health.

**Ensuring Effective Internal Control System in Detecting and Preventing Fraud**

Respondents were asked to evaluate the effectiveness of the internal control systems in the Hospital in detecting and preventing fraud. The areas that were assessed are safeguarding of assets, policy availability, signatory and approval of payments, and periodic reconciliation of accounts. The responses were indicated below:

*Table 7.* Descriptive Statistics on Internal Control System in Detecting and Preventing Fraud

| Questions | Yes | No |
|---|---|---|
| 1. Do the policies and procedures address the safeguarding of assets? | 85 | 5 |
| 2. Does Management solicit input from employees? | 82 | 8 |
| 3. Are the policies and procedures made available to staff? | 80 | 10 |

Source: Field data, January, 2017

From Table 7 Eight-five (85) respondents representing 94% indicated that the policies and procedures address the safeguarding of assets whereas five (5) respondents representing 6% answered on the contrary. On the question of whether management solicits input from employees, 82 respondents representing 91% affirmed that management solicits input from employees. However, 8 respondents representing 9% indicated that the management does not solicit input from employees. From Table 7, 80 respondents representing 89% attested to the fact that policies and procedures are made available to staff whereas 10 respondents representing 11% answered on the contrary.

The study sought to find out who reconcile cash book balances with bank statement. Majority 66 (73.3%) of the respondents indicated that the reconciliation is done by the accountant, 10 (11.1%) respondents indicated that reconciliation is done by the cashier, 9 (10%) respondents indicated that reconciliation is done by the accounts clerk whereas 5 (5.6%) indicated that reconciliation is done by the administrator. This is an indication of internal controls. The result is displayed in Table 8.

*Table 8*. Frequency Distribution on Person in Charge of Reconciliation of Account

| **Reconciliation of accounts is done by:** | *f* | % |
|---|---|---|
| Cashier | 10 | 11.1% |
| Accountant | 66 | 73.3% |
| Accounts clerk | 9 | 10% |
| Administrator | 5 | 5 .6% |
| **Total** | **90** | **100%** |

Source: Field data, January, 2017

On the question of how often they reconcile their account, majority 50, (55%) of the respondents indicated that they do not know how often reconciliations are done, 25 (27.8%) indicated that reconciliations are done on yearly, 10 (11%) indicated that reconciliations are done on quarterly whereas 5 (5.6%) indicated that reconciliations are done on monthly. An observation and official documents were taken from the accounts office and it indicated that reconciliations are done on quarterly. Information on how often accounts are reconciled has been summarized in Table 9below:

*Table 9*. Frequency Distribution on How Often Accounts are Reconciled

| **How often do you reconcile your account?** | ***f*** | **%** |
|---|---|---|
| Monthly | 5 | 5.6 |
| Quarterly | 10 | 11.1 |
| Yearly | 25 | 27.8 |
| Do not know | 50 | 55.5 |

Source: Field data, January, 2017

Follow – up interviews that revealed ensuring effective internal control system in detecting and preventing fraud have been summarized below:

1. The movable assets of the Hospital are numbered and records are kept. Furthermore, the Hospital also performs periodic physical inventory counts.
2. Workers who are caught stealing the assets of the Hospital are dismissed or made to face the law.
3. Staff durbars are held on quarterly basis to discuss policies and procedures of the hospital and also to seek the concerns of employees.
4. All payments and reimbursements require three approvals; Hospital Administrator, Medical Superintendent and Hospital Accountant. However, if the quantum of the amount is less than GH₵ 100.00 cedis, the hospital accountant can approve by signing the cheque himself. Apart from these

personalities any person who approves or signs any cheque for payment on behalf of the Hospital renders the cheque invalid.

### Management Commitment to Internal Control Policies

In this section, the respondents were asked to assess the management commitment to internal control policies in the Hospital. The areas assessed were, disciplinary action for the violation of code of conduct, internal auditing, who is in charge of receiving cash, depositing cash, and payment of expenditure and the respondents' assertion about cash control functions. The information from the respondents is given in Table 10 below:

*Table 10*. Frequency Distribution on Management Commitment to Internal Control Policies

| Question | Yes | No |
|---|---|---|
| Does the hospital have disciplinary action for violation of the formal code of conduct? | 85 | 5 |
| Do you have an internal auditor? | 90 | 0 |

Source: Field data, January, 2017

From Table 10, Eighty-five (85) respondents representing 94% indicated that the Hospital has disciplinary action for the violation of the code of conduct whereas five (5) respondents representing 6% answered on the contrary. On the question of whether the Hospital has internal auditor, all of the respondents answered yes.

Follow-up interviews that revealed the management commitment to internal control policies have been summarized below:

1. Cash is received by the cashier and to ensure internal control, cash received are banked daily and no payments are made from receipt.

2. Cash depositing is done by the cashier and the functions of the employees handling cheque are separated from those of the employees recording the transactions.
3. All payments except petty cash payments are made by cheque by that same cashier.

**Respondents Assertions about Cash Control Functions**

Respondents were asked to indicate their assertion about cash control functions which have been summarized below using Tables 11 - 15.

Table 11. Cash is the One Asset that Is Most Vulnerable to Inappropriate Diversion and Use

| | *f* | % |
|---|---|---|
| Strongly agree | 70 | 78 |
| Agree | 20 | 12 |
| **Total** | 90 | 100 |

Source: Field data, January, 2017

Table 11 above indicates that 70 (78%) strongly agreed while 20 (22%) agreed with the statement, bringing to a total of 100% who generally agreed that cash is one asset that is most vulnerable to inappropriate diversion and use.

*Table 12*. To Protect Cash and to Guarantee the Accuracy of Accounting Records for Cash, Efficient Internal Control Is Crucial

| | *f* | % |
|---|---|---|
| Strongly agree | 80 | 89 |
| Agree | 10 | 11 |
| Total | 90 | 100 |

Source: Field data, January, 2017

The findings presented in Table 12 shows that 80 (89%) strongly agreed, while 10 (11%) agreed. A total of 100% generally agreed with the statement. This implies that to protect cash and to guarantee the accuracy of accounting records for cash, efficient internal control is crucial.

*Table 13*. The Success of the Scheme Depends on an Effective Structure of Internal Control

| | *f* | % |
|---|---|---|
| Strongly agree | 90 | 100 |
| **Total** | **90** | **100** |

Source: Field data, January, 2017

The respondents were asked to indicate their level of agreement or otherwise on the statement that, the success of the scheme depends on an effective structure of internal control. The table above indicates that 90 (100%) strongly agreed with this statement. This implies that to have a successful scheme an effective structure of internal control is crucial.

*Table 14*. Payment for All Transactions Is Done by Cheque Except Cash for Minor Transactions

| | *f* | % |
|---|---|---|
| Strongly agree | 40 | 44 |
| Agree | 20 | 22 |
| Somewhat agree | 25 | 28 |
| Somewhat disagree | 5 | 6 |
| **Total** | **90** | **100** |

Source: Field data, January, 2017

This study sought to establish if the respondents agree or disagree with the statement that payment for all transactions are done by cheque except cash for minor transactions. The table above indicates that 40 (44%) strongly agreed, 20 (22%) agreed, 25 (28%) somewhat agreed, while 5 (6%) somewhat disagreed with the statement. This indicates that 60 (66%) generally agreed with the statement that payments for all transactions in the Hospital are done by cheque except cash for minor transactions which is good for internal controls.

*Table 15*. All Monies Received are Recorded and Banked

| | *f* | % |
|---|---|---|
| Strongly agree | 75 | 83 |
| Agree | 15 | 17 |
| **Total** | 90 | 100 |

Source: Field data, January, 2017

The respondents were asked to indicate if for efficient internal controls, all monies received are recorded and banked. The findings presented in table 4.8 shows that 75 (83%) strongly agreed, while 15 (17%) agreed. A total of 100% generally agreed with the statement. This implies that to protect cash and for efficient internal controls as the respondents indicated all monies received are recorded and banked.

## CHAPTER FIVE

## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the summary, conclusion, recommendations and possible suggestion for further research.

### Summary

The study employed descriptive-survey research design. There were three main objectives. The first objective was to examine the internal control policies in Kwadaso SDA Hospital. With respect to this objective the study sought answers to the questions; does the board provide an oversight responsibility to management and staff regarding integrity and ethical values? Has the board adopted formal code of conduct for the organization? Are policies and procedures approved by the board reviewed annually and revised as needed? Are there formal procurement processes and written procedures? Do the written procurement procedures meet national requirements? The findings depicted that the Board of directors have an oversight responsibility on management and staff with regards to integrity and ethical values. This has translated into management recruiting highly skilled labor as was revealed in the survey.

Moreover, the board of directors and management has in place code of conducts which guides employees in the conduct of their business operations. This is a clear indication that proper internal controls exist in the Hospital. Policies and procedures are revised and reviewed as needed and that the Hospital is not static but rather dynamic which moves with the changing time and needs of the Hospital. There are strict rules on procurement processes that are followed by all workers and that the procurement processes meet national requirements. This is an indication that proper internal control policies exist in the Hospital as the first objective sought to achieve.

The second objective of the study was to examine the control policies in detecting and preventing fraud. This objective sought answers to the questions; do the policies and procedures address the safeguarding of assets? Does management solicit input from employees? Are policies and procedures made available to employees? Who authorizes payment for expenditure? Who reconcile the Hospital account, and how often do they reconcile the accounts? The findings of the study revealed that the Hospital's policies are able to address the safeguarding of assets and that it prevents fraud and intentional errors. Management operates in a friendly environment and respects employee's views by accepting inputs from employees in their decision-making processes.

The study also revealed that there are regular meetings of the board and the management to deliberate on the policies and procedures which promote organizational efficiency. The study indicated that at the hospital, all payments and reimbursements require three approvals from Hospital Administrator, Medical Superintendent and Hospital Accountant; which is an indication of effective internal control policy in detecting and preventing fraud. Official document that was taking from the accounts office also confirmed that reconciliation was done by the accountant on quarterly basis for internal controls.

The last objective, investigated whether management and other policy makers are committed to ensuring that internal controls work effectively. The study revealed that employees caught stealing any asset of the hospital is not spared but dismissed outright and that the effective implementation of the code of conduct of the Hospital has brought about some amount of sanity and self-control. The presence of an internal auditor in the Hospital is also an indication that the management and other policy makers are committed to ensure that internal controls work effectively in the Hospital.

## Conclusion

Based on the findings of the study, the following conclusions were drawn. Internal control policies exist in the Hospital because the Board of Directors have an oversight responsibility on management and staff with regards to integrity and ethical values.

The board of directors and management has in place code of conducts which guides employees in the conduct of their business operations. Policies and procedures are revised and reviewed as needed. There are strict rules on procurement processes that are followed by all workers.

Moreover, the Hospital's policies are able to address the safeguarding of assets and that it prevents fraud and intentional errors. The presence of an internal auditor in the Hospital is also an indication that the management and other policy makers are committed to ensure that internal controls work effectively in the Hospital.

## Recommendations

The study makes the following recommendations with respect to assessing the effectiveness of internal control systems of Kwadaso SDA Hospital.

From the study, it was revealed that reconciliations are done on quarterly basis by the accountant himself. This may lead to internal control deficiencies that may not be detected. The study thus recommends that, for effective internal controls, periodic reconciliations should be done by the accounts clerk and should be reviewed by the accountant.

The study also recommends that the hospital should desist from giving the Accountant the mandate to sign cheques which is below one hundred Ghana cedis (GHC100.00) which can lead to fraud. Irrespective of the amount, the authorized signatories should sign to prevent internal control deficiencies.

## Suggestions for Further Research

The following areas are suggested for further study:

1. This study was conducted at Kwadaso SDA Hospital in Kumasi of the Ashanti region but the study can be replicated in different geographical contexts to find out its effectiveness in that particular area.
2. These findings may reflect what pertains in a particular organization in terms of the internal control systems which may be different from another organization. Further study needs to be done to confirm the outcome of the study.

# APPENDIX

## APPENDIX A

## QUESTIONNAIRE

Dear Respondent,

This questionnaire is intended for the collection of data that will help the researcher to "Assessing the Effectiveness of the Internal Control System of Kwadaso Seventh-day Adventist Hospital" which is chosen as the case study.

The exercise is for academic purpose only. Any information obtained will be kept confidential and your identity will not be revealed in the study. Please provide honest, objective and candid answers to the questions. Your name is not required in the questionnaire.

Thank you for your participation

Emmanuel Owusu Afriyie,
Adventist University of Africa Student

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**Instructions:**

Please read the instructions given and answer the questions as appropriate as possible

Make an attempt to answer every question correctly and appropriately based on your workplace experience.

Where options are provided, please tick (√) the option that best describes your experience.

**SECTION A: General Information**

1. Gender: a. Male ( ) b. Female ( )
2. Department: a. Accounts ( ) b. Management( ) c. Pharmacy ( )
   d. Doctor/Nurse ( )
3. Your educational level: a. Basic ( ) b. Secondary ( ) c. Tertiary ( )
4. How long have you worked with the organization?

   a. Less than 5 years ( ) b. 5 – 10 years ( ) c. Over 10 years ( )

**SECTION B: Internal Control Policies in the Hospital**

5. Does the board provide an oversight responsibility to management and staff regarding integrity and ethical values? a. Yes ( ) b. No ( )
6. Has the board adopted formal codes of conduct for the organization?

   a. Yes ( ) b. No ( )
7. Are the accounting staff given training to ensure that they have an understanding of the accounting and reporting processes? a. Yes ( ) b. No ( )
8. Are policies and procedures approved by the board, reviewed annually, and revised as needed? a. Yes ( ) b. No ( )
9. Are there formal job descriptions for each position? a. Yes ( ) b. No ( )
10. Are there formal procurement processes and written procedures?

    a. Yes ( ) b. No ( )
11. Do the written procurement procedures meet national requirements?

    a. Yes ( ) b. No ( )
12. Does management have procedures to identify/monitor goals and objectives and determine if they are met? a. Yes ( ) b. No ( )
13. Is there a process in place for communicating changes in accounting methods, regulations, and rules to staff? a. Yes ( ) b. No ( )
14. Are there established internal and external communication channels?

    a. Yes ( ) b. No ( )

**SECTION C: Detecting and Preventing Fraud**

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

    a. Yes ( ) b. No ( )

16. Does Management solicit input from employees? a. Yes ( ) b. No ( )
17. Are the policies and procedures made available to staff? a. Yes ( ) b. No ( )
18. How do you assess the internal control function of your scheme?

    ( ) Very effective ( ) Effective ( ) somewhat effective ( ) Undecided ( ) somewhat less effective ( ) Less effective ( ) Ineffective

19. Who authorizes payment for expenditures?

    ( ) scheme Manager ( ) Claim officer ( ) Accountant ( ) Account clerk ( ) other, please specify______________

20. Reconciliation is done by:

    ( ) Cashier ( ) Account clerk ( ) Accountant ( ) Administrator

21. How often do you reconcile cash book balances with bank statement; and collection agents' receipt records?
    ( ) monthly ( ) Quarterly ( ) Yearly ( ) Do not know

**SECTION D: Management Commitment to Internal Control Policies**

22. Does the hospital have disciplinary action for violation of the formal code of conduct? a. Yes ( ) b. ( )
23. Do you have an internal auditor? a. Yes ( ) b. No ( )
24. If no, who is in charge of the internal control function?

    ( ) Scheme Manager ( ) Claim officer ( ) Accountant

    ( ) Other, please specify ___________

25. Who is in charge of receiving cash for the scheme?

    ( ) Cashier ( ) Claim officer ( ) Accountant ( ) Account clerk

    ( ) other, please specify______________

26. Cash depositing is done by:

( ) Cashier ( ) Claim officer ( ) Accountant ( ) Account clerk

( ) Other, please specify______________

27. Payment for expenditures is done by:

( ) Cashier ( ) Claim officer ( ) Accountant ( ) Account clerk

( ) Other, please specify______________

***On the scale of 1-7, where: 7= Strongly Agree, 6= Agree, 5=Somewhat Agree,***

***4=Undecided 3=Somewhat disagree 2=Disagree 1=Strongly disagree***

Please rate your response to the following assertions about cash control functions.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 28. Cash is the one asset/resource that is most vulnerable to inappropriate diversion and use. | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| 29. To protect cash and to guarantee the accuracy of accounting records for cash, efficient internal control is crucial | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| 30. The success of the scheme depends on an effective structure of internal control | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| 31. Payments for all transactions are done by cheque except cash for minor transactions | 7 | 6 | 5 | 4 | 3 | 2 | 1 |
| 32. All monies received are recorded and banked | 7 | 6 | 5 | 4 | 3 | 2 | 1 |

APPENDIX B

INTERVIEW GUIDE

**1.** What is the composition of the board of directors of the hospital?

**2.** Do all employees have a copy of the code of conduct on the assumption of duty?

**3.** Does management organize staff training for the employees and for what purpose?

**4.** What method does management use to evaluate employees of the hospital?

**5.** The procurement process of the hospital involves what?

**6.** Does management have target for the reduction in infant mortality?

**7.** Does management have monitoring team for the assessment of the effectiveness of their programs?

**8.** How does the management monitor the movable assets of the hospital?

**9.** What punishment does management have for workers who are caught stealing the hospital's assets?

**10.** How often does management meet the staff to discuss issues of the hospital?

**11.** Who approves payments and reimbursements of the hospital?

**12.** How does management monitor the work of the cashier at the hospital?

**Thank you for your response**

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