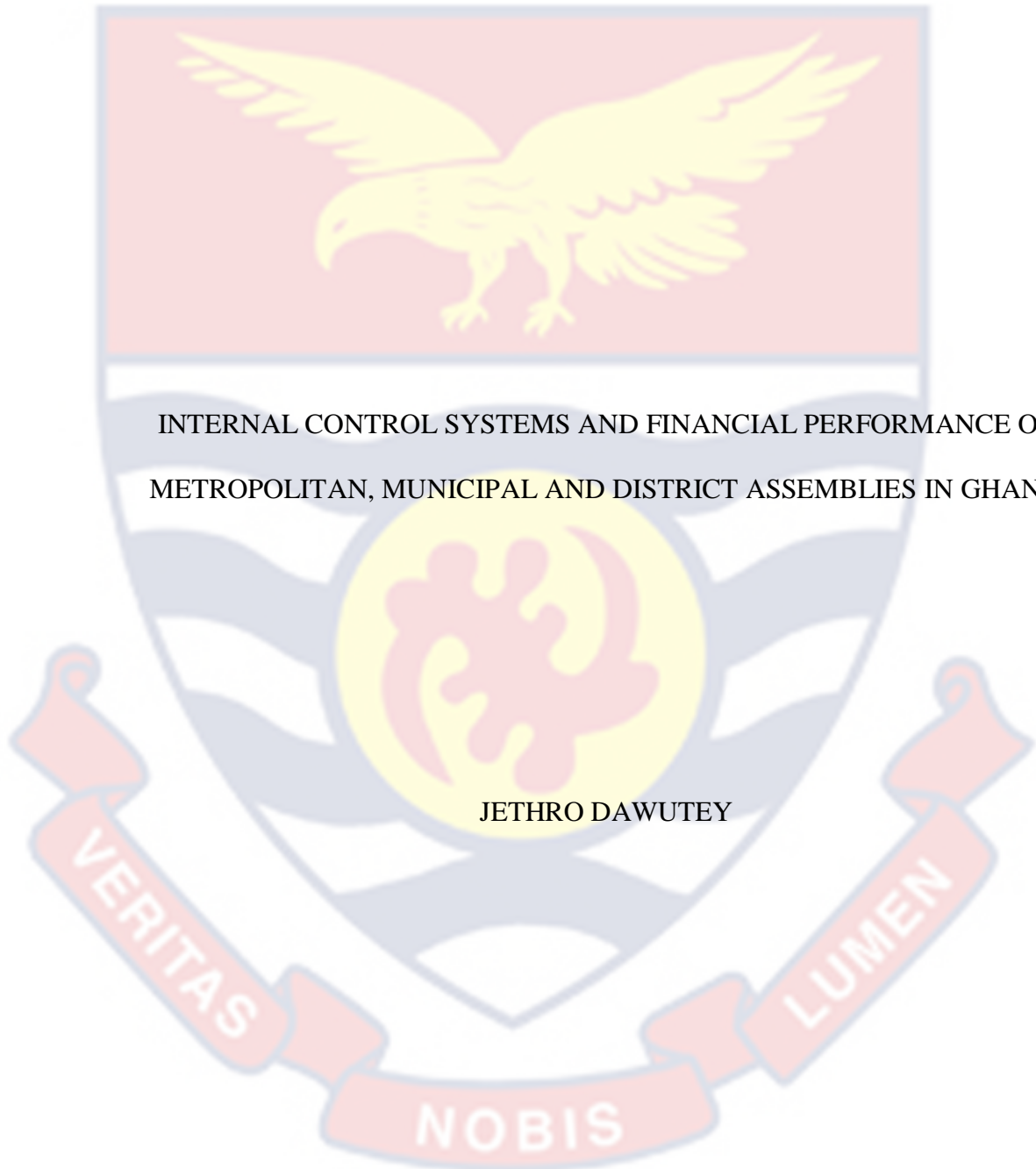


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INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF
METROPOLITAN, MUNICIPAL AND DISTRICT ASSEMBLIES IN GHANA

BY

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Dissertation submitted to the Department of Accounting, School of Business of
the College of Humanities and Legal Studies, University of Cape Coast, in partial
fulfilment of the requirements for the award of Master of Business Administration
degree in Accounting

APRIL 2023

DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: Date:

Name: Jethro Dawutey

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature: Date:

Name: Anthony Adu-Asare Idun (PhD)

ABSTRACT

The purpose of the study was to investigate the influence of internal control systems (ICSs) on financial performance of Metropolitan, Municipal, and District Assemblies (MMDAs) in Ghana using quantitative approach. The design used was descriptive survey. The study population was coordinating directors, finance officers, head of internal audit units, chief executives, and budgets officers of MMDAs in Ghana. They were 360 in number, and the census method was used to capture all of them. Questionnaire with a reliability coefficient of .789 was the instrument used. Out of the 360 questionnaire print-outs administered, the study was able to retrieve 325 of them. Frequency, percentage, mean, standard deviation, Pearson product moment correlation, and linear multiple regression analysis were used to analyse the data. The study revealed that there are ICSs at the various MMDAs in Ghana; however, the effectiveness of it could not be described as very strong but rather satisfactory. Also, it was realised that whenever staff perceive the assemblies' ICSs as effective, it will translate into a significant increase in the financial performance of the assemblies. It was recommended that management should review the assemblies' ICSs to ensure that the objectives of the MMDAs are achieved significantly, particularly risk assessment, monitoring of control, and information and communication systems practices of the company. Also, management of the assemblies should ensure that there is regular monitoring of the internal control activities at the local level in order to unearth potential lapses, abuse and wrongdoing and also ensure that those at the local level prudently manage resources under their control.

KEY WORDS

Control activity

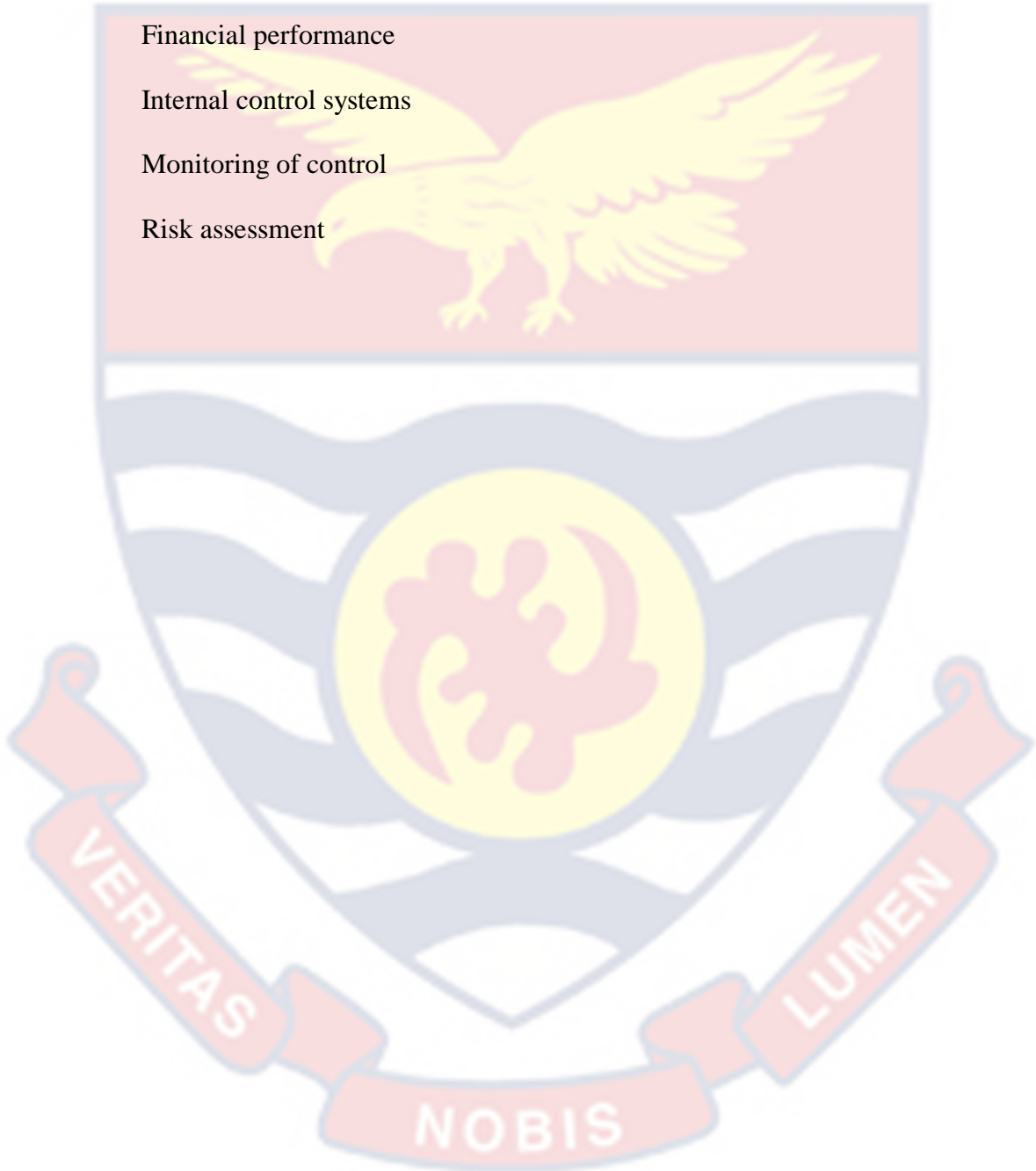
Control environment

Financial performance

Internal control systems

Monitoring of control

Risk assessment



ACKNOWLEDGEMENTS

I take this opportunity to express my gratitude to those who have been helpful to me in completing this project. My deepest appreciation goes to my supervisor, Dr. Anthony Adu-Asare Idun, for his guidance towards the completion of this dissertation. I also thank the management of the various MMDAs, for giving me the necessary assistance that I needed with regard to the data collection process. Furthermore, my heartfelt gratitude goes to my parents, Mr. and Mrs Dawutey, for their social and psychological support. Again, my heartfelt gratitude goes to Mrs. Salomey Anku, for her motherly love and financial support. Without her support, guidance, and encouragement I would not have completed this work.

I wish to acknowledge Dr. Mohammed Zangina Isshaq, Mr. Okae Asante John, and Mr. Evans Dawutey for their evaluable support in my academic and professional journey. Again, I am thankful for the support and encouragement I have received from my friends. I am also very much grateful to my respondents for their time, patience and tolerance without which this study would not have been done. However, I am entirely responsible for any errors and omissions that may be found in this dissertation. Finally, I wish to thank all those who helped in diverse ways to make the writing of this dissertation a reality.

DEDICATION

To my wife, Mrs Alice Dawutey, and children, Juanita Okae Dawutey, Jethro Dawutey Okley Junior, Janet Teykyi Siadey and Albert Tettey Sackey.



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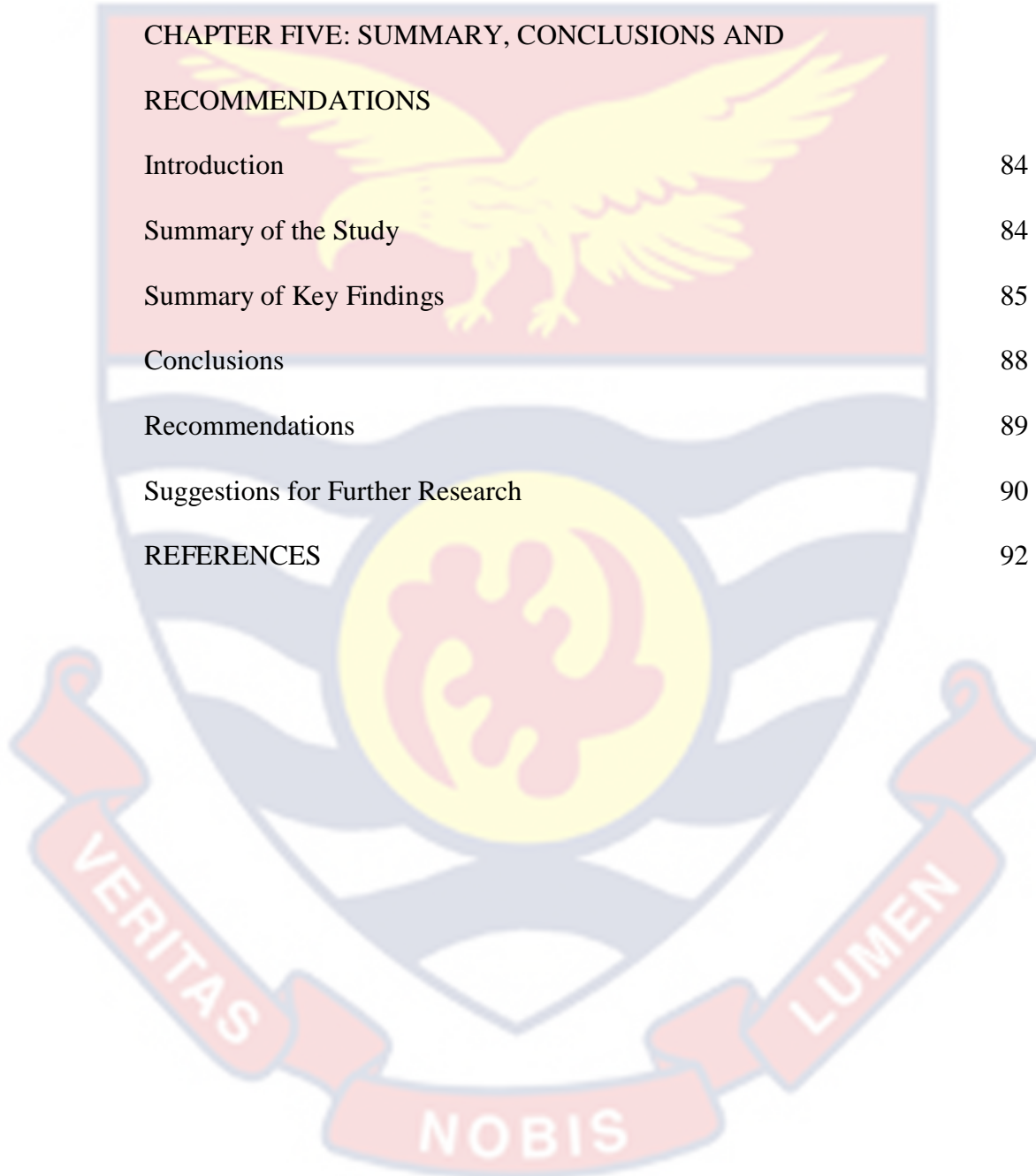
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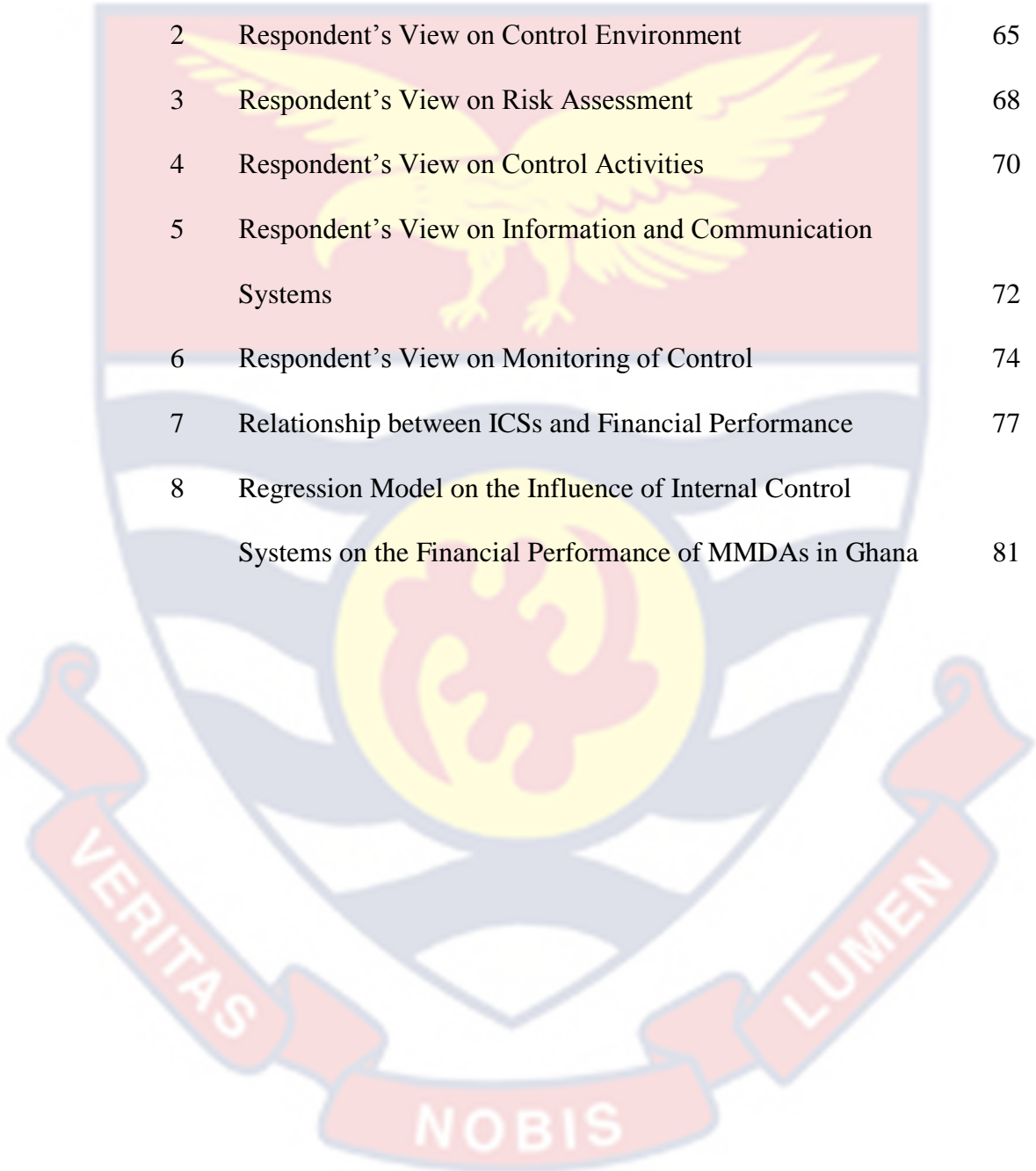
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LIST OF ACRONYMS

CICA Canadian Institute of Chartered Accountants

COSO Committee of Sponsoring Organisations

ERM Enterprise Risk Management

ERMI Enterprise Risk Management Index

ICS Internal Control System

ICSs Internal Control Systems

IFCS Internal Financial Control Systems

IIA Institute of Internal Auditors

LGS Local Government Service

MMDAs Metropolitan, Municipal and District Assemblies

NDPC National Development Planning Commission

PACPG Public Account Committee of Parliament of Ghana

PASW Predictive Analytic Software

ROA Return on Assets

ROE Return on Equity

ROI Return on Investment

CHAPTER ONE

INTRODUCTION

Generally, internal control systems (ICSs) have become topical issues as evidence mounts on the critical role they play in determining the financial well-being of organisations. They have become key issues in today's business world demanding efficiency, controls, and transparency for organisations in their pursuit of increased financial performance to meet the needs of organisations. One of the areas of ICSs which has not received significant scholarly attention is the role they play in boosting organisations' financial performance in the public sector (Ahlulbaitulaah, 2017; Dineshkumar & Kogulacumar, 2013). This lacuna forms the basis for this study. Research findings revealed that most public organisations exhibit poor internal control systems which in most cases affect their finances and total performance (Ahlulbaitulaah, 2017; Saani, 2018). Therefore, it is appropriate for practitioners and researchers in the business fraternity to give scholarly attention to the challenges indicated in order to assess the effectiveness of ICSs and financial performance of organisations.

Background to the Study

In most cases, ICSs are measures instituted by a firm in order to ensure that the firm attains its objectives, goals and missions. Researchers such as Anduuru (2015) and Dineshkumar and Kogulacumar (2013) are of the view that ICSs are processes designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an organisation's objectives with regard to reliability of the

financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. However, one must point out that, ICSs only provide meaningful and reasonable but not absolute assurance to a firm's management and board of directors that the firm's objectives will be achieved. In most cases, the likelihood of achievement is affected by limitations inherent in all systems of financial controls (Canadian Institute of Chartered Accountants [CICA], 2015).

According to CICA (2015), organisations put in ICSs to help achieve high performance and organisational goals, prevent loss of resources, enable production of reliable reports, and ensure compliance with laws and regulations. This shows that ICSs comprise the whole network of systems established in an organisation to provide meaningful and reasonable assurance that organisational objectives will be achieved to boost financial performance.

Generally, performance refers to the accomplishment of a given task measured against pre-set standards of accuracy, completeness, cost, and speed (Ondieki, 2013). Financial performance on the other hand refers to the degree to which financial objectives being or has been accomplished (Ahlulbaitulaah, 2017). The basic aim of most organisations is to manage their finances effectively, as an essential requirement for conducting business and providing basic needs for the people in order to boost their financial performance. This can be done by ensuring that ICSs of organisations are enhanced and standardised. According to Colbert and Bowen (2012), ICSs are needed for the survival of organisations. There are many benefits that an organisation may derive for

implementing effective ICSs. These may include effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Dineshkumar & Kogulacumar, 2013; Musa, 2015).

Within the Ghanaian public sector, particularly within Metropolitan, Municipal and District Assemblies (MMDAs), the practice of ICSs are usually implemented poorly, ethical standards are weak, governance practices are poor, asset mismanagement is ineffective, and in most cases ICSs are perceived negatively by staff and clients (Amonoo, 2017; Saani, 2018). These organisations are known to have more facilities and equipment, and also have large number of staff, a factor that has contributed to the urgent need for ICSs in these organisations for effective management and to ensure high financial performance.

According to National Development Planning Commission (NDPC, 2018), MMDAs are responsible for the governance system at the local level under the decentralisation agenda of the country. They are in charge of policy implementation of the government. Quite apart from creating job for the people, they are responsible for improving people's standard of living at the local level. This includes the provision of schools, hospitals, markets, sports stadiums, utilities, and sanitation (NDPC, 2018). Also, the Local Government Service (LGS, 2019) indicated that MMDAs are to plan, initiate, co-ordinate, manage and execute policies in respect of all matters affecting the people within their areas in order to promote local economic development. Furthermore, MMDAs are assigned with functional responsibility for policy formulation within the context of national sectoral policies, local level integrated development planning through

sectoral coordination, resource mobilisation and implementation of development policies and programmes (LGS, 2019; NDPC, 2018).

The operations of MMDAs cover almost all corners of the local authority areas in Ghana. They have large and complex internal governance and management structures which as a result require effective ICSs to ensure that there is accountability, good governance and appropriate financial management in the assemblies. Largely, MMDAs have been concentrating on the availability, accessibility and cost efficiency in the utilisation of their finances (LGS, 2019). Little attention has been paid to the great role played by ICSs in the performance of businesses within the assemblies, especially regarding the assemblies' financial management (Ahlulbaitulaah, 2017; Saani, 2018).

Most public organisations, particularly MMDAs in Ghana have operated in disregard of effective ICSs leading to the mass failure and poor financial performance of these organisations (Ahlulbaitulaah, 2017; LGS, 2019; NDPC, 2018; Saani, 2018). Most of the challenges MMDAs face are as a result of poor ICSs put in place which culminate to low financial performance. Therefore, it is appropriate for the financial activities of MMDAs to be properly standardised through effective implementation of ICSs by responsible body of management in order to boost financial performance of the assemblies. Even though, MMDAs in Ghana have been practicing ICSs, there are a few studies that have looked at the effects of the assemblies' ICSs on its financial performance. Therefore, this study sought to contribute to the existing literature by empirically investigating ICSs and financial performance of MMDAs in Ghana.

Statement of the Problem

The work load and financial backbone of MMDAs require appropriate and effective ICS to ensure smooth financial operation and prudent financial management. The assemblies have expressed an impressive need to grow and introduced various expansion mechanisms even with the challenges of poor ICSs and weak financial management (NDPC, 2018). It is this realisation that pushed the LGS in 2014 to adopt modern ICSs in order to improve its finances (LGS, 2019). The aim was to help improve the finances of the assemblies and to regulate and control their financial administration activities with ease. However, this intervention is still posing a challenge to most MMDAs which calls for the need to investigate in order to fill the gap (Ahlulbaitulaah, 2017). Also, with these, comes growth, setting in complexities in running of MMDAs, unless the issue of ICSs and their influence on financial performance is addressed urgently.

Furthermore, the Public Account Committee of Parliament of Ghana (PACPG, 2018) has made mention of many incidences of misappropriation of funds in recent times by MMDAs, which can be blamed on weak ICSs. The problem of weak ICSs is what is making most MMDAs in Ghana to keep recording low financial performance (PACPG, 2018). According to the Ghana Audit Service (as cited in PACPG, 2018), most of these financial misappropriation is partly due to the ineffectiveness of ICSs in MMDAs' operation. For instance, most MMDAs recorded negative figures in their financial performance for the year 2016 and 2017 respectively (LGS, 2019). These poor financial performances were largely blamed on the assemblies' poor ICSs.

According to Ahlulbaitulaah (2017), most public organisations in Ghana do not have effective ICSs. Those that have effective ICSs look down upon it due to their poor corporate culture. As a result, these organisations are not getting the benefits such as prudent financial performance that accrue from having effective ICSs. Ahlulbaitulaah (2017) added that most public organisations in Ghana do not deal effectively with uncertainty. They are characterised with mismanagement, incompetence, poor controls, and ignorance of risk management, a phenomenon that keep affecting negatively their financial performance (NDPC, 2018). Almost all managers (Chief Executives) of MMDAs are people who are politically appointed and may lack managerial skills. To ensure efficiency, transparency, effectiveness and responsibility in the assemblies' finances, there is the need for meaningful and effective ICSs.

According to PACPG (2019), there are still reported cases of embezzlement, corruptions, financial maleficence and irregularity in MMDAs after the enactment of the financial control systems in the various public organisations in Ghana, including MMDAs. Debatably, this situation is giving legitimacy to the reason why central government now prefer to give contracts at the local level to private organisations to execute instead of the assemblies. The PACPG (2019) also gives us an indication that controls in the management of government resources are poorly managed at the local level. This explains the reason why a lot of activities or transactions at the local level do not go through the necessary authorisation, approval, goals and checks. It is against this

background that, this study was conducted to better understand the influence effective ICSs have on financial performance of MMDAs in Ghana.

Purpose of the Study

The purpose of the study was to investigate ICSs and financial performance of MMDAs in Ghana. Internal control systems that were considered include control environment, risk assessment, control activities, information and communication systems, and monitoring of control.

Research Objectives

Based on the purpose of the study, the following specific objectives were formulated to guide the argument of the study. These objectives were to:

1. Examine the effectiveness of ICSs of MMDAs in Ghana.
2. Examine the relationship between ICSs and financial performance of MMDAs in Ghana.
3. Determine the effect of ICSs on the financial performance of MMDAs in Ghana.

Research Questions

Based on the specific objectives of the study, the following research questions were formulated to direct the course of the study:

1. How effective ICSs are in the various MMDAs in Ghana?
2. What is the relationship between ICSs and financial performance of MMDAs in Ghana?
3. What is the effect of ICSs on the financial performance of MMDAs in Ghana?

Significance of the Study

Government of Ghana, through the ministry of Local Government and Rural Development and other public organisations have establish policies, plans, procedures, laws and regulations which have a significant effect to the day to day running of these organisations. It is therefore, the duty of management to ensure that their respective organisations comply with the said rules and regulations to safeguard government finances, and prevent fraud and corruption at these organisations. Internal control systems are also expected to add value to the operations of these organisations and help reduce administrative cost (Ahluwalia, 2017). This study would help MMDAs and other public organisations to appreciate and know the role of ICSs and their relevance in achieving meaningful control systems in these organisations which has a direct influence on the organisations' financial performance in the long run.

This study will be significant for several reasons. First, ICSs influence the financial performance of most organisations. It is hoped that findings of the study would advance the understanding of how MMDAs can adequately use ICSs to improve their financial performance. Second, findings of the study, if implemented, are also expected to be of immense benefits to the management of MMDAs with regard to ICSs decisions and implementation that boost the performance of the assemblies.

Furthermore, the study will enrich the researcher's knowledge on ICSs and financial performance of the assemblies. The study results will be useful to management, board of governors, and all stakeholders of public organisations.

Specifically, they will use findings from the study to redesign policies aimed at improving on the levels of their respective organisations' financial performance. Finally, findings from the research would serve as a source of information and or add to the scanty literature available for other researchers who would have the interest to study ICSs and activities that affect financial performance of MMDAs.

Delimitation of the Study

The study focused on MMDAs in Ghana. Specifically, 72 MMDAs were selected from the four (4) Regions in the middle zone of Ghana. These regions were Ahafo, Ashanti, Bono and Bono East Regions. Furthermore, the study was delimited to variables such as ICSs as an independent variable and the assemblies' financial performance as the dependent variable. The measurement of the dependent variable were based on asset accumulation efficiency, improved quality service increased innovations and flexibility. The independent variable comprised of five dimensions: control environment, risk assessment, control activity, information and communication systems, and monitoring of control. In relation to subjects, the study was further delimited to coordinating directors, finance officers, head of audits units, chief executives, and budgets officers of some selected MMDAs. Therefore, the generalisation of the results of this study to other groups with similar characteristics was done with caution.

Limitations of the Study

First, the research was faced with limited access to literature on the study institutions due to unavailability of well-resourced data or library facilities at the various MMDAs. Also, the study depended on self-reported data; hence, there is

the risk of the respondents being biased. In addition, the findings and conclusions of the study may not be projected for the future since issues related to ICSs and financial performance keep changing with time. Despite these possible limitations, it is hoped that the findings of the study could be fairly superimposed to all MMDAs at large.

Organisation of the Study

The study is organised into five chapters. Chapter One covers the background of the study, statement of the problem, objectives, research questions, significance, delimitation and limitations of the study. Chapter Two focuses on review of related literature to cover the various components of the study and also locates existing studies incorporating the effect of ICSs on financial performance. It covered conceptual and empirical review of the study. Chapter Three contains discussions on the methodology, comprising the population, sampling procedure, instrument, data collection procedures, ethical considerations, and data analysis, while chapter Four comprise the results and discussion. The last chapter presents the summary of findings, conclusions and recommendations of the study. It also contains suggestions for further studies.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The chapter focused on the interaction of concept and themes as they relate to research and theory in relation to internal financial control systems and financial management. This serves as the theoretical and conceptual framework of the study. Certain concepts on ICSs were also reviewed for better understanding, and also some related empirical studies were reviewed in order to understand much better the current concept under study. The chapter concludes with the conceptual framework of the study.

Theoretical Review

The theoretical review of the study forms the structure that supported the argument of this study. This section is used to present the theory which explains why the problem under study exists. It formed the basis for conducting this study. The contingency theory was used to explain why the need for internal control systems (ICSs) in public organisations, and their role in ensuring financial performance of MMDAs in Ghana. This theoretical framework helped the researcher to better understand the argument regarding the role of ICSs on financial performance.

Contingency theory

According to Jokipii (2010), the contingency theory of leadership was proposed by the Austrian psychologist Fred Edward Fiedler in his landmark 1964 article, "*A Contingency Model of Leadership Effectiveness.*" The theory

emphasises the importance of both the leader's personality and the situation in which that leader operates. The core idea of the theory is that there is no single best way to lead an organisation or make decisions. In other words, a type of ICS might be appropriate under specific conditions, but another kind of ICS might be preferable for the same organisation under different conditions. The idea is that nothing is set in stone and that the leadership has to adapt to individual situations and circumstances (Donaldson, 2010). This calls for the need for management of MMDAs not to use one single type of ICS for every situation. Therefore, the key in every contingency theory is determining the kind of ICS suitable for every situation within the local government structure (Ayman, Chemers & Fiedler, 2015; Drazin & Van de Ven, 2015).

Basically, the objective of an ICS is to ensure that the consistency of an organisation's information, policies, finances, practices and procedures are in line with the control systems set by the organisation. Government regulations require that MMDAs undergo independent internal financial control systems, but industry standards within the public sector with regard to International Public Standards in the management of finances can mandate MMDAs in other areas such as safety and technology. Regardless of the control subject, various factors impact an organisation's final results, and the contingency theory takes these factors into account during the formulation, implementation and evaluation of ICSs.

The contingency theory of leadership and management states that there is no standard method by which organisations can be led, controlled and managed. Organisations and their functions depend on various external and internal factors.

The functions of ICSs are themselves, types of organisations that are affected by various factors in the environment. The presence of such factors is why controls can be managed by applying the contingency theory, with recognition that processes and outcomes of controls are dependent on variable and contingent factors (Ayman, Chemers & Fiedler, 2015). On a broad level, the ICSs process is straightforward. Management require access to documents, systems, policies and procedures to manage an ICS. They must remain compliant with industry standards, government regulations and internal requests.

Control teams may begin the ICSs process with meetings where they gather risk and control awareness, after which the field work begins. During the control process, management and head of units perform substantive procedures and test controls. They then draft reports that they submit to management and regulatory authorities. The control sub processes, particularly in planning and field work, include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems, and deadline (Donaldson, 2010).

Internal control system functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of an organisation under ICSs and the type of business model, so management and head of units must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to a control team's structure. Typically, control team managers receive control projects. They then create ad hoc control teams for the projects, selecting control members based on

expertise and experience in the subject areas, and on staff availability, all of which add up to contingencies for any given control project (Drazin & Van de Ven, 2015). This shows that management and head of units within the MMDAs must always prepare themselves toward any situation that may arise in their work or in the organisation. Their dynamism and responsiveness in the work largely determines their effectiveness and output.

Internal control teams within public institutions such as MMDAs use a mix of structure and contingency to get the output rolling quickly. The subject of internal controlling projects can include such diverse areas as evaluation of production processes, inspection of organisation accounts, and assessment of compliance with industry standards and procurement procedures. Selecting control staff with specialised training or those who have a particular skill set in the subject area minimises the learning curve and reduces opportunities for errors. The quality and output of ICSs remain assured when control teams use resources according to expertise and experience, and when internal control staff are flexible and can adapt to process fluctuations. For example, a control staff experienced in evaluating viability of an investment portfolio can be effective in a control exercise of the assembly, even when the investment portfolio the organisations offer do not fit the typical mould (Jokipii, 2010; Obert & Munnyunguma, 2014).

This shows that there is no one acceptable internal control systems and strategies that are used by firms; rather, it is the situation of the day that influences management and control staff as to which of the systems and strategies to use. That is, internal control systems are situational base; therefore, assemblies

must analyse their unique situation in order to adopt appropriate internal control systems that will help boost their finances. Per the argument of contingency theory, public institutions such as MMDAs in Ghana, must adopt appropriate ICSs that fit into the culture of the assembly.

Conceptual Review

The conceptual review of the study focused on ICSs. Five dimensions of ICSs: control environment, risk assessment, control activities, information and communication, and monitoring of controls were considered. Also, concepts such as common weaknesses of ICSs, internal financial control in public organisations, financial performance and government business were reviewed.

Internal control systems

Globally, management and other policy makers in the public institutions are mostly responsible for monitoring the performance of these institutions while the executives in conjunction with management take corrective action in the case of ineffective or defective policy implementation. One of the effective tools management use in ensuring that these public institutions are productive and efficient in terms of their financial viability is ICSs. According to the Institute of Internal Auditors (IIA, 2014), ICS provides a means of assurance that organisational objectives are being achieved. The IIA (2014) added that ICS is a process within an organisation designed to provide reasonable assurance regarding the following primary objectives: the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations;

the safeguarding of assets; the economic and efficient uses of resources; and the accomplishment of established objectives and goals.

The definition giving by IIA (2014), therefore, shows that ICSs are fundamental to the success and survival of organisations. They put an organisation on the survival trajectory. However, organisations sometimes go off the trajectory. This was the problem (failure of MMDAs in Ghana and other countries) that resulted in the report of the Treadway Commission on fraudulent financial reporting and the formation of the Committee of Sponsoring Organisations (COSO) of the Treadway Commission Model (2014). The COSO Model is dedicated to improving the quality of financial reporting through business ethics, effective internal financial controls, and corporate governance. According to COSO Model (2014), ICS is a process, affected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The COSO (2014) Model identified the key concept of internal financial control as (1) a process which is a means to an end and not an end itself; (2) it is affected by people and not merely policy manuals and forms, but people at every level of an organisation; (3) it can be expected to provide reasonable assurance, not absolute assurance, to an entity's management and board; and (4) it is geared to the achievement of objectives in one or more separate but overlapping categories (COSO, 2014).

From the discussion so far it is clear that the purpose of the COSO Model include the idea that weak ICSs lead to organisational losses and failure as in the case of MMDAs in Ghana. Internal control systems are the responsibility of directors, management and employees. However, they are particular responsibility of the board of directors. Lastly, ICS is a moving target. It must be monitored and adapted to fit the circumstance. According to COSO (2015), if it is neglected, it will deteriorate, lose relevance or prove ineffective.

The aims of ICS are therefore to provide a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and the effectiveness and efficiency of operation. The quality of the design of internal financial controls, more often than not, is critical to the success of an organisation. Therefore, to ensure the effectiveness of internal financial controls, managers have to pay attention to the design of internal financial controls. Generally, researchers (COSO, 2015; Nyakundi, Nyamita & Tinega, 2014; Wamae, 2015) are of the view that integrated ICSs consist of five control components: the control environment, risk assessments, control activities, information and communication, and monitoring. The control environment is regarded as the foundation of the other four components.

In the case of MMDAs in Ghana, the discussion so far may mean that ICSs are the practices performed by departments to provide management with reasonable assurance that assets are safeguarded and transactions are authorised, valid, complete and accurate. Internal financial control systems operate at different levels of effectiveness. Determining whether a particular internal

financial control system is effective is a judgment resulting from an assessment of whether the five are present and functioning. Effective controls provide reasonable assurance regarding the accomplishments of established objectives.

For the purpose of this study, the researcher limited the components of ICSs to five: control environment, risk assessment, control activities, information and communication systems, and monitoring of controls (Anduuru, 2015).

Control environment

The control environment, as established by the assemblies' management, sets the tone of the regional corporation and influences the control consciousness of the assemblies' staff and clients. The administrative structures in the assemblies are such that heads of department, units or sections establish a local control environment which is carved from the main one. This is the foundation for all other components of internal financial control systems, providing discipline and structure in the assemblies (Affum, 2011). According to LGS (2019), MMDAs' control environment factors include integrity and ethical values; the commitment to competence; leadership philosophy and operating style; the way management assigns authority and responsibility, and organises and develops its people.

It therefore mean that, in MMDAs, management attitude should be committed to ethical business practices and to following the established control procedures, since this will serve as the foundation for all other components of internal financial control , providing discipline and structure in the assemblies. In ensuring effective control environment, the assemblies have to put in place certain

mechanisms which ensure that the institution demonstrates a commitment to integrity and ethical values (Anderson, 2014). According to LGS (2019), staff of MMDAs have demonstrated some level of independence from management and exercises oversight of the development and performance of internal financial control.

Furthermore, management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. In addition, the assemblies demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives. Lastly, the assemblies hold individuals accountable for their internal financial control responsibilities in the pursuit of objectives (LGS, 2019). Such controls are very essential for the survival of every organisation since the core of any business is its people and the environment in which they operate. Therefore, management and other top administrators of MMDAs must ensure that their attitudes, values and behaviours provide the control environment for other employees.

Risk assessment

The second control component of ICSs to consider is the risk assessment. Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achieve set objectives, and forming the basis for determining how the risks should be managed (Yang & Guan, 2014). Since all societies are dynamic, and that economics, regulatory and operating

conditions in every society continue to change, mechanisms are needed to identify and deal with the special risks associated with such changes (Doyle Ge & McVay, 2017).

Risk assessment, therefore, refers to the process or procedures assemblies go through to identify and analyse the relevant risks which may affect the assemblies' ability to achieve its major objectives. Risk assessment involves using professional judgement carefully in identifying and evaluating factors which can affect the assemblies adversely and result in possible losses both financially and non-financially (Williams, 2017).

The process of identifying and analysing risk is an on-going process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage them. After risks have been identified they must be evaluated. Managing change in most service sectors such as MMDAs in Ghana requires a constant assessment of risk and the impact on internal controls (Affum, 2011; Aldridge & Colbert, 2017). Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions. Therefore, management of MMDAs in Ghana must be aware of and deal with the risks it faces. Also, they must identify the risk of error or fraud and implement corrective actions since it is the primary responsibility of management.

Control activities

In relation to MMDAs in Ghana, control activities are the policies and procedures that help ensure management directives are carried out. They help

ensure that necessary actions are taken to address risks in order to achieve organisation's objectives (Buckhoff, 2002). Control activities occur throughout organisations, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Gyasi, 2005). In the case of MMDAs in Ghana, one may argue that control activities in the assemblies usually involve two elements: a policy establishing what should be done and procedures to implement the policy. According to Anduuru (2015), organisations must ensure that all policies are implemented thoughtfully, conscientiously and consistently. This will ensure that the objectives of the organisation are achieved.

Government, through the Ministry of Local Government, in collaboration with the management of the assemblies usually selects and develops control activities that contribute to the mitigation of risks to the achievement of the assemblies' objectives to acceptable levels (Sarens & De Beelde, 2006). Also, they select and develop general control activities over technology to support the achievement of objectives. In the case of MMDAs in Ghana, they deploy control activities through policies that establish what is expected and procedures that put policies into action. According to Dineshkumar and Kogulacumar (2013), the various policies, procedures and strategies put in place by management of organisations are to ensure that the organisations have mechanisms for addressing risks to the achievement of its objectives.

Information and communication

This is one of the internal control systems that involve the procedure of identifying, capturing and exchanging information on a timely basis to enable the organisation to accomplish its stated objectives. The information system, including the accounting enables the organisation to make appropriate decisions in managing and controlling the activities (Theofanis, Drogalas & Giovanis, 2018). For ICSs to be effective and efficient there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organisation. To carry out the internal control and operational duties and responsibilities, the information should be timely and should go to those who need it and in the right form. All personnel do understand their roles in the control system, how their roles relate to others and their accountability through the information and communication systems.

According to Yang and Guan (2014), organisations must put strategies in place to ensure that pertinent information are identified, captured and communicated in a form and time frame. This will enable management and other staff to carry out their responsibilities as expected. Effective communication must occur in a broad sense, flowing down, across and up the organisation. Also, all personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others (Wolf, Singh & Suresh, 2015). They must have a means of communicating significant information upstream.

In achieving effective information and communication systems, MMDAs must generate and use relevant, quality information to support the functioning of its ICSs. In addition, the assemblies internally communicate information, including objectives and responsibilities for internal control, necessary to support the functioning of ICSs (Wills, 2015). These systems enable the management and staff of the assemblies to obtain and use information necessary to conduct, manage and control operations.

Monitoring of controls

This refers to the process of assessing the quality of a system's performance over time (COSO, 2014). It entails the activities and procedures designed to assess the effectiveness of the internal financial control systems in achieving the entity's financial reporting objectives. Monitoring activities may be on-going or may be separate evaluations and it is important given the complex and dynamic environments faced by most organisations (Gyasi, 2005). It seeks to ensure that systems are performing as intended. However, this is accomplished through on-going monitoring activities, periodic evaluations or a combination of the two (COSO, 2015). According to Gyasi (2005), these activities permeate the entire organisation, at all levels and in all functions.

In the case of MMDAs in Ghana, management and administration selects, develops, and performs on-going and/or separate evaluations to ascertain whether the components of internal financial control systems are present and functioning. They further evaluate and communicate internal financial control deficiencies in a timely manner to those parties responsible for taking corrective action, including

senior management and the board of directors, as appropriate. These activities are done annually, however, the monitoring process is done on quarterly bases.

Generally, internal financial control systems over financial reporting in most organisations include those that are designed to make sure financial data is recorded, processed, summarised and reported consistent with management's representations (assertions) in financial statements (Douglas, 2011). Management of an entity has the primary responsibility for internal financial control systems. An auditor's responsibilities include the evaluation of whether the five components are designed and operating effectively, given the nature, size and complexity of the entity (Savcuk, 2012). The discussion so far shows that the internal financial control processes of organisations are monitored and are changed by management as circumstances and conditions necessitate.

Common weaknesses of internal financial control systems

Albrecht (as cited in Buckhoff, 2002) outlines twelve most common internal financial control weaknesses, in order of frequency as; too much trust in employees, lack of proper procedure for authorisation, lack of personal financial information disclosure, lack of separation of transaction authority from custodian of assets, absence of independent checks on performance, lack of adequate attention to detail, failure to separate asset custody from accounting for assets, failure to separate accounting duties, absence of clear lines of authority, relaxed or absence of audit activities or reviews, no conflict of interest statement required and lack of adequate documents and records. Within the context of MMDAs in Ghana, some of the common and pervasive weaknesses include lack of proper

procedure for authorisation, lack of separation of transaction authority from custodian of assets, lack of adequate attention to detail, and lack of adequate documents and records (Aliyu, 2020; Owusu-Ansah, 2019).

A view held by Buckoff (2002) is that lack of segregation of duties, lack of independent reconciliation on cash received and deposited and performing incompatible roles greatly facilitates internal fraud. The conditions for fraud to occur include an incentive to commit fraud (pressure), good reason for justifying fraudulent behaviour (attitude) and an opportunity to commit fraud. According to Anderson (2014), opportunity is easy to control by establishing strong internal system unlike pressure and attitude which are human factors that are usually beyond direct influence of management.

Most researchers have argued that there is no such thing as a perfect control system (Abugri, 2015; Yao, Yusheng & Bah, 2017). Limitations which may hinder the effectiveness of an otherwise adequate system of controls include: resource constraints; inadequate skill, knowledge, or ability; degree of motivation by management and employees; faulty judgments; and unintentional errors (Kinney, 2010). Additionally, controls can be circumvented by collusion of two or more people. In most cases, management has the ability to override the internal financial control systems. These factors, combined with changing needs and personnel, make it risky to project any evaluation of internal financial control systems to future periods. Management must, therefore, evaluate on an on-going basis to keep controls effective. Management evaluation generally leads to

periodic adjustments and corrective action; which also helps assure the continuing effectiveness of the internal financial control systems.

The cost of implementing a specific control should not exceed the expected benefit of the control. Sometimes there are no out of pocket costs to establish an adequate control. A realignment of duty assignments may be all that is necessary to accomplish the objective. In analysing the pertinent costs and benefits, managers also need to consider the possible ramifications for the assemblies at large and attempt to identify and weigh the intangible as well as the tangible consequences. Internal financial controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal financial controls is not always a simple task and cannot always be accomplished through a short set of quick fixes (William, 2014).

Internal financial control in public organisations

Ministries, Departments and Agencies (MDAs) and Metropolitan, Municipal and District Assemblies (MMDAs) in Ghana seem not to have strong independent directors; and that their financial operations seem to be regulated by government of the day (Owusu-Ansah, 2019). In other words, government wide laws and regulations regulate the financial affairs of MMDAs (Aliyu, 2020). Aliyu is of the view that public sector institutions do not have full control in their finances because the release of quarterly district common funds approved by parliament of Ghana is usually determined by the government (executive) of the day. Certain assets such as buildings and other infrastructure may be outside the control of those who occupy them. Moreover, government entities rarely if ever

collapse due to internal financial control failures and do not need to report to shareholders as the case may be in the private companies (Douglas, 2011).

The question that everyone may ask is, how relevant is internal financial control in a government context? It is relevant because government is the custodian of the resources owned by the citizens and they expect effective and efficient utilisation of these resources to promote economic growth and development. The weakness or absent of internal financial control in a government institution may lead to corruption, misappropriation of funds and inefficiencies in the systems (Wernefelt, 2012; Whittington & Pany, 2014). The compounded effects of corruption, misappropriation of funds and inefficiencies includes; low standard of living, government budget deficit and inequality of redistribution of resources. One way of understanding the need for government systems of internal financial control, is to think of government entities as corporate bodies and to ask how system of control used in large private sector entities are relevant to management improvements (Whyte, 2018). It is appropriate for each public institution or organisation to develop its own internal financial control systems that will ensure transparency, public accountability, effectiveness or efficiency and responsiveness.

Financial performance

The word 'performance' refers to the act of performing; execution, accomplishment, fulfilment, etc (O'mara, 2013). In broader sense, performance refers to the accomplishment of a given task measured against pre-set standards of accuracy, completeness, cost, and speed (Ahlulbaitulaah, 2017). Performance is a

general term applied to a part or to all the conducts of activities of an organisation over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance.

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished (Musa, 2015). It is the process of measuring the results of a firm's policies and operations in monetary terms. According to Ondieki (2013), financial performance is a subjective measure of how well an organisation can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

There are many aspects of financial performance of public organisations that can be analysed. Aldridge and Colbert (2017) posit that the importance of an organisations effective financial performance can be appraised at the micro and macro levels of the economy. At the micro level, effective financial performance is the essential prerequisite of a competitive public institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful financial performance in a period of growing competition on financial markets and provision of quality service to the citizens.

Hence the basic aim of every public organisation is to manage its finances effectively, as an essential requirement for conducting business and providing basic needs for the people in order to boost their financial performance. At the macro level, an effective public organisation is better able to withstand negative shocks and contribute to the stability of the financial system in the economy. Organisations' financial performance strategies help them to boost their finances which provide an important source of equity especially if re-invested into the business (Musa, 2015). This should lead to financial stability and quality service delivery.

Prawitt, Smith and Wood (2012) mentioned accounting-based financial performance effectiveness using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI). These are widely used to assess the financial performance of profit making firms. However, in the public sector, it is usually difficult to focus on only these dimensions. Management within the public organisations may consider other facets including quality service delivery, meeting public demands, social justice and stability, providing public goods and service, and job creation (Obert & Munyunguma, 2014; Theofanis et al., 2018).

This study did not use only ROA, ROE and ROI to measure financial performance since the study focused on public institutions, that is, MMDAs in Ghana. However, these dimensions can be used to forecast trends in market structure, as inputs in statistical models to predict the assemblies' failures, and for a variety of other purposes where a measure of financial performance

effectiveness is desired. This study measured financial performance using multiple close-ended items to collect numerical data. Indicators or dimensions of financial performance considered were administrative cost reduction, effective service delivery, service quality, clients' satisfaction, effective appraisal system, ROI, ROA, assets finances, staff development, and transparency. These items were pooled together to form a unilinear coefficient for financial performance of MMDAs in Ghana. The main objective of this study was to examine if ICSs can actually enhance the financial performance of MMDAs in Ghana. The next sub-topic to consider is empirical review of selected studies on ICSs and financial performance.

Government business

Government business within the context of MMDAs refers to government organisation that has a separate entity and principal activity in their operations. The main rationale for these organisations is to provide public goods and services (Abugri, 2015; Yao et al., 2017). In engaging in government business, MMDAs are perceived to be autonomous entities that possess financial and operational authority to sell commodities to non-governmental corporations and interested individuals. Therefore, these sales enable the government to acquire revenue, thus maintaining its operations. Some companies, such as gas companies and airlines, are candidates for government business enterprises because the services offered by these companies are always needed even if the companies are experiencing losses (Owusu-Ansah, 2019).

Within the framework of government business, MMDAs are expected to possess the features of both public and private corporations. In this light, an organisation acts like a private firm when it wants to accrue more benefits and compete with other firms. On the other hand, a public organisation acts like a public corporation when carrying out non-commercial services and government policies. A government may wish to create a government business enterprise in order to take over a firm operating as a natural monopoly (Saani, 2018).

The concept of government business was first developed around 1987 when the rationale for doing so was to set boundaries for public sector within a government that were business like and might apply, in their own financial statements, different accounting principles and presentation based on local company law and business standards (Ahlulbaitulaah, 2017). The requirement for such entities to consolidate controlled entities using International Public Sector Accounting Standards (IPSASs) was introduced by IPSAS 6 Consolidated and Separate Financial Statements, issued in May 2000 (Aliyu, 2020). This explains why MMDAs in Ghana are now adapting IPSASs in their ICSs to ensure improved financial performance.

Some of the reasons for MMDAs to be considered as government business is to create room for the government to enhance the continuous provision of services since private enterprises exit the businesses when the profit drops. Thus, the government forms these organisations to fulfil the service obligation to the citizens. Also, MMDAs and other public institutions considered under government businesses help to propagate progressive provision of essential public

goods and services without interruption (Amonoo, 2017; Owusu-Ansah, 2019). Also, these organisations allow the government to create natural monopolies to enhance the continuous provision of public goods and services at lower costs than other potential competitors (Yao et al., 2017). In this light, the government enhances this provision by imposing various regulations that protect the citizens.

Considering MMDAs as government business enterprises will create room for the government to expand her sources of revenue. They will be able to operate like other private organisations, by conducting commercial activities for profit-making. This money is an ideal source of revenue for the government and is used for various government projects (Owusu-Ansah, 2019). Also, they are able to avail various infrastructural facilities, such as gas pipes, sanitation management, and water pipelines, to support daily economic activities. Public organisations who are into government business initiate these facilities to foster economic stability.

Public organisations that are into government business, including MMDAs are liable to the general public because they are created to satisfy the service obligation to the public. These organisations receive their funding from the government to enhance the progressive supply of infrastructural facilities and other public goods and services (Abugri, 2015; Ahlulbaitulaah, 2017; Saani, 2018). The infrastructure facilities form the basic systems that reinforce the economic structure. Examples of infrastructure facilities include water supplies and telecommunication networks.

Empirical Review

As it has been mentioned before, internal financial control system is a critical component of an organisation's management and a foundation for its safe and sound operations (Dineshkumar & Kogulacumar, 2013). There seem to be very little empirical literature on internal financial control systems for public institutions. However, various scholars and professionals in America and Europe have carried out studies on internal financial control systems for the larger private organisations, the findings of which can be applied to other sectors (Knechel, Naiker & Pacheco, 2017). Organisations with ICSs are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting, and subject to better management controls (Knechel et al., 2017).

Feng, Li and & McVay (2013) conducted a research on effects of internal control systems on effective financial performance in institution of higher learning in Malaysia. In their study they investigated and sought to establish the relationship between internal control systems and effective financial performance in an institution of higher learning in Malaysia. Internal controls were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of effective financial performance. The Researchers set out to establish the causes of persistent poor financial performance from the perspective of internal controls.

Furthermore, Feng et al. (2013) study established a significant relationship between internal control system and effective financial performance. The investigation recommends competence profiling in the internal audit department which should be based on what the institutions expect the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the finances of the institutions. However, the study failed to consider the dimensions of ICSs that reflect public organisations. Also, the measurement of financial performance used does not reflect the case of public organisations.

The risk and control awareness have an influence on the scope of the ICSs. When management is aware of risks and control activities, they are more likely to understand the role of the ICS in monitoring risk and control activities, thus it is more likely that they will support a relatively larger ICS (Otunga, 2014). According to Spira and Page (2013), strong performing firms are those that can stay in business for a good number of years. Spira and Page (2013) found out that, the ability of an organisation to survive in business is an indicator of good financial management. Lack of or weak ICSs are therefore an indicator of poor financial management. Spira and Page's (2013) study did not analyse the influence of ICSs on financial performance of the organisation.

COSO (2014) provided criteria against which effectiveness of internal financial controls can be assessed. Internal financial control systems can be judged effective if the entity's operations objectives are being achieved; published

financial statements are being prepared, reliable and applicable laws and regulations are being complied with. While internal financial control system is a process, its effectiveness is a state or condition of the process at a point in time.

Accordingly, the effective functioning of components of internal financial control system provides a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organisation's financial management. Thus, with effective internal financial control systems coupled with efficient and effective use of resources including personnel, accurate information for decision making and safeguarding of assets and records, organisations will be able to improve its financial management significantly (Saani, 2018).

Anecdotal reports and other research findings have indicated that there have been several cases of embezzlement of funds and misuse of resources in public institutions though such institutions have several rules and control measures to guide their operations (Abugri, 2015; Wamae, 2015). Abugri's study assessed the effectiveness of internal control systems at Tamale Polytechnic using descriptive research method. The study population was all staff at the Polytechnic in the year 2014-2015. Abugri found out that the existence of strict supervision, authorisation and segregation of duties help enhance ICSs of the institution. He further found that management of the institution does not communicate to the staff of new control policies introduced. However, the control systems at the Polytechnic are quite effective and are directed towards the detection and prevention of fraud and error. Abugri's study considered only an institution which may not allow for generalisation. Also, he employed only descriptive statistical

tools to analyse the data, a situation that will not create room for inferences of the findings.

Tseng's (2017) study investigated two research questions arising from the regulation of internal financial controls required by Sarbanes-Oxley Act of 2012 (SOX). The first research question asked whether better internal financial controls can enhance firm's financial management. To address this question, the relation between market-value and internal financial control system was estimated by a residual income model. Firms with weak internal financial controls were identified as those that disclosed material weaknesses in internal financial controls in periodic filings from August 2012 to March 2016, as required by SOX.

The empirical results of Tseng (2017) were based on a sample of 708 firms. The years with the disclosures of material weaknesses of the firms show that firms with weak internal financial control systems have lower market-value. Building on the' efforts for SOX to improve internal financial controls, more and more firms are starting to adopt Enterprise Risk Management (ERM), because sound internal financial control system rests on adequate and comprehensive analysis of enterprise-wide risks. In light of this trend triggered by SOX, the second research question in this dissertation asked whether implementation of ERM has an impact on financial performance of organisations. The basic approach to answer this question uses a contingency perspective, since all risks arise from the organisations' internal and external environment.

More specifically, the basic argument stated that the relation between ERM and firm performance is contingent on the proper match between ERM and

five key contingency variables: environment uncertainty, industry competition, firm size, firm complexity, and monitoring by the firm's board of directors. A sample of 114 firms disclosing the implementation of ERM in their 2005 10Ks and 10Qs were identified by keyword search in EDGAR database. In developing the proper match, high performing firms were defined as those with greater than two per cent one-year return to develop the proposed proper match. An ERM Index (ERMI) was constructed based on the COSO's (2015) definition of four objectives: strategy, operation, reporting, and compliance. The contingency view was supported by the empirical evidence, since the deviation from the proposed proper match is found negatively related to firm performance. The study found out that internal financial control systems contribute significantly to firm's performance.

Current business trends have made it imperative for almost all large organisations to maintain effective internal financial control systems. The Ghanaian public sector, particularly among MMDAs, have evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably yet still assemblies are facing some challenges as the world deals with one of the deepest financial crisis in the history of the planet, institutions are finding it difficult to finance their expenses. Although not heavily hit by the global financial crisis because we do not have that spare liquidity to enable us take part in those complicated instruments in credit delivery. Nonetheless, the effects of the global financial difficulties are gradually being felt by developing countries of which Ghana is not an exception.

Douglas's (2011) study made use of an interview schedule to collect primary data from the participants. However, the purposive type of sampling was used in sampling. In all, five respondents were sampled from the 30 respondents under review. The data gathered was analysed and interpreted by the help of percentages and frequency tables. The findings of the study revealed that there are measures put in place by the Ecobank Ghana to enhance compliance. The measurement put in place is management oversight responsibility for internal financial control systems whereby control policies and procedures are being adhered to. It came to light that, the internal audit unit was responsible for monitoring internal financial control policy compliance while management assesses risk but the internal audit unit is not part of branch operations, they only visit the branches on monthly bases.

Douglas (2011) recommended that the Ecobank Ghana Limited should set up internal audit units at their various branches across the country, so that there shall always be internal audit personnel to ensure compliance with the internal financial control systems that exist in the organisation. In view of this, the internal audit personnel should also be rotated at regular intervals to avoid any form of malpractices. This is so because the study revealed that appropriate internal financial control systems contribute meaningfully to organisational efficiency and effectiveness. The work of Douglas (2011) focused more on audit practices and not the general control systems in the organisations. Douglas could have considered ICSs in general and their role on organisational effectiveness.

Affum (2011) also studied the internal financial control procedures in Papso Ghana Limited, in order to assess the effectiveness of internal financial controls in Papso Ghana Limited and to assess the independence of internal financial control functions in Papso Ghana limited. Purposive sampling technique was used for the research. The same questionnaires were administered to the directors, management and other workers of the company and interviews were recorded and transcribed as part of responses and used in the analysis. Relevant literatures to the study were also considered.

The main findings of the Affum's (2011) study indicated that Papso Ghana Limited has effective internal financial control systems and the internal auditor contributes immensely to it, but he is not independent. However, the internal auditor is confronted with problems such as limited logistics, inadequate number of staff, inadequate budgetary allocation, and the traditional perception that internal auditors are witch-hunters. The study concludes that no organisation can operate effectively and efficiently without effective internal financial control systems. Moreover, the role of an internal auditor is paramount in the design and operation of effective controls. It is, therefore, recommended that organisations establish and ensure the operation of effective internal financial control system, institute an audit committee, resource their internal audit departments, recruit competent personnel as internal auditors, and educate their personnel to disabuse their minds of the traditional perception that internal auditors are witch-hunters (Affum, 2011).

Dineshkumar and Kogulacumar (2013) also tried to study the extent internal financial control systems influence on the financial management of the Sri Lanka Telecom limited. The study depends on primary data collection technique using instruments like questionnaire, interview and observation. The samples were selected from staff of the Sri Lanka Telecom limited. Thus, 60 employees of the company were selected. Percentage, Correlation and SWOT analysis were the main tools used in the analysis. The findings of the study showed there is a strong relationship between internal financial control systems and financial management of the Sri Lanka Telecom limited. And also internal financial control systems of the Sri Lanka Telecom limited will lead to high financial and organisational performance as a whole in the future.

Nyakundi et al. (2014) also investigated the effect of internal financial control systems on financial management among Small and Medium scale Enterprises in Kisumu city, Kenya. Specifically, they assessed the relationship between internal financial control systems and return on investment; and establishing the level of business knowledge of an entrepreneur in internal financial control systems and its effect on financial management. The sample was selected from the study population through stratified and simple random sampling techniques. The research was conducted using both quantitative and qualitative approaches; adapting cross-sectional survey research design. The study used both primary and secondary data. Primary data was collected using structured questionnaire and interview, while secondary data was obtained from financial

statements of the sampled enterprises. Data were analysed using descriptive statistics as well as inferential statistics.

Nyakundi et al. (2014) study specifically revealed that, a significant change in financial management is linked to internal financial controls systems. Based on the findings of the study, it is concluded that internal financial control systems as supported by the study findings significantly influence the financial management of Small and Medium scale Enterprises. The investigation recommends training on the significance of internal financial controls among proprietors of Small and Medium scale Enterprises.

Yao et al. (2017) also looked at the existence of internal control systems in four (4) government departments located in the central business district of Accra, Ghana. The internal control elements examined included control environment, communication and information, risk assessment, monitoring, control activities and the functions of the internal audit unit, as an agent of good governance, accountability and commitment to ensuring reliable financial reporting. These dimensions of ICSs considered are in line with the current study. Yao et al. concluded that indeed there are significant relationships between ICSs and effective public sector financial management. This finding support the argument that effective ICSs are able to produce improve financial performance. The dimensions used to measure ICSs and financial performance was appropriate. Similarly, the statistical tools used to analyse the data were appropriate. The findings call for more transparency and inter-departmental monitoring within the

various public organisations to ensure due diligence and reward for outstanding performance.

Owusu-Ansah (2019) also assessed the effectiveness of the internal control system in the public sector in order to find out whether public institutions are working effectively to achieve corporate objectives. It was observed that there is an existence of ICSs in the Adenta. Municipal Assembly and it is very effective in the achievement of the Assembly's objectives. The findings of Owusu-Ansah (2019) are inconsistent with that of Abugri (2015) and Yao et al. (2017) who all found that ICSs are not effective. This shows some level of inconsistency in the findings with regard to ICSs and its influence on the financial performance of public organisations.

In line with Owusu-Ansah (2019) findings, Aliyu (2020) asserts that ICSs are useful for every institution but are critical for the operating performance of the institution. According to Emasu (as cited in Aliyu, 2020), associations establish systems of internal control to help them ameliorate performance, achieve organisational pretensions, help the loss of coffers, enable the production of dependable reports and ensure compliance with laws and regulations. Aliyu (2020) found out that ICSs of the ministry is affected by the lack of accurate and timely recording of deals and events at the ministry; the ICSs of the ministry is affected by the corruption and embezzlement of the ministry's fund and the position of the ministry and the nature of liaison in the original area does not allow the ICSs to serve duly.

Prior studies conducted in Ghana with regard to public organisations' ICSs (Abugri, 2015; Yao et al., 2017) show the need for ICSs in the management of productive resources. Their findings revealed that management of public institutions cannot override ICSs and also internal controls policies are made known and communicated to employees to ensure its existence. Similarly, prior studies in Ghana (Owusu-Ansah, 2019) show the need for internal controls to ensure financial management of resources. Internal controls cannot be overridden by management of institutions as documented in prior study conducted by Aliyu (2020), which recommended that internal control mechanisms ensure the maintenance of international standards as well as concluded by Ikeja: Wiston 2006 in their prior studies.

Conceptual Framework of the Study

The conceptual framework of the study was designed based on the concepts as well as the variables derived from the theoretical and empirical reviews. The rationale was to clarify the link between ICSs and financial performance of MMDAs in Ghana. The concept of ICSs that was adopted for the study was the five components of ICSs: control environment, risk assessment, control activity, information and communication systems, and monitoring of control. These adopted components or dimensions of ICSs were in line with that of Douglas (2011) and Saani (2018). In addition, the study introduced a mediator to see their effects on the organisation's financial performance. According to Saani, most employees of public organisations in Ghana easily perceived the control systems negatively. This problem when not handled properly can thwart

the finances of organisations. Figure 1 presents the conceptual framework of the study.

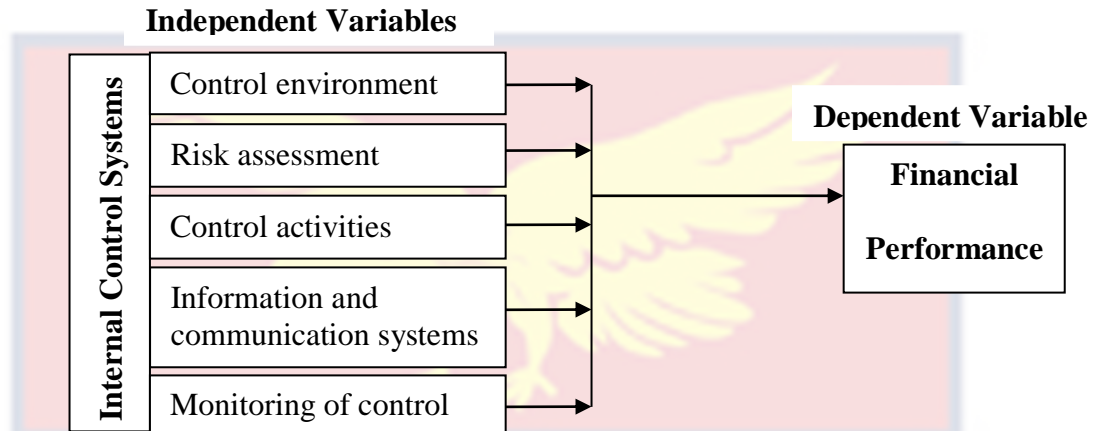


Figure 1: Influence of Internal Control Systems on Financial Performance

Source: Adapted from Douglas (2011) and Saani (2018)

Many researchers (Abugri, 2015; Yao et al., 2017; Owusu-Ansah, 2019; Aliyu, 2020) have perceived the problem at hand in different ways. The researcher inclined to think that whenever the various forms of ICSs adopted by MMDAs in Ghana get employees to perceive the control systems positively, it makes them feel sense of belonging to the assemblies' activities. When that happen and there is critical mass of employees who perceived the control systems positively, it will translate into significant increase in the financial performance of the MMDAs in the long run.

It is, therefore, necessary for MMDAs in Ghana to nurture the kind of atmosphere and also adopt ICSs that will influence employees' perception on the control systems of the assemblies. Also, they must expose them to control systems that synchronises with the environment, activities and the monitoring dimensions of the systems. These are likely to enhance employees' perception on the control

systems which will in turn boost the financial performance of the assemblies as a whole.

The model in Figure 1 forms the conceptual framework within which the study was conducted. The conceptual schema focused on the development of a modified theoretical ICSs model developed from that of Douglas (2011) and Saani (2018). This model served as a systematic way in measuring ICSs and financial performance. Assessing the relationship between ICSs and the financial performance would contribute to our knowledge of the relationship that exists between them.

Based on the extensive study of previous research, one can conclude that the various ICSs adopted by MMDAs in Ghana may improve the financial performance of the assemblies. The argument of the study is that, the five components of ICSs when adopted and implemented effectively as expected, are likely to induce employees' perception with the control systems used in the MMDAs positively. With these controls in place and perceived positively by employees, employees are likely to see themselves as accepted members of the institutions. This dynamics in the long run will develop the desire of employees to be an important part of the assemblies which will lead to an increase in the finances of the MMDAs.

Knowledge Gaps in the Literature Reviewed

The contingency theory has revealed that there is no standard method by which organisations can be led, controlled and managed. Organisations and their functions depend on various external and internal factors. The functions of

financial control measures are themselves, types of organisations that are affected by various factors in the environment. The presence of such factors is why control systems can be managed by applying the contingency theory, with recognition that processes and outcomes of control systems are dependent on variable and contingent factors. Therefore, the need for internal financial control systems vary according to an organisations' characteristic which corresponds with the contingency theory's stipulation that each organisation has to choose the most suitable control systems by taking into account contingency characteristics.

Most of the studies carried out in Indonesia, New Zealand, Malaysia, Norway, Kenya, and Ghana were on banking and private sectors. This raises issues regarding applicability of their findings to the public and non-banking sectors. Also, the researcher learnt from the empirical studies that the most frequently employed research design was the survey design using structured questionnaires. In several literatures, the main survey preceded a pre-test to ensure easy understanding and reliability of instrument using Cronbah alpha coefficient. Purposive, simple random and stratified random sampling techniques were used in selecting samples. The justification cited for purposive sampling was to select respondents with relevant information.

In all cases, a four-point or five-point Likert scale was adopted as scale of measurement and the researcher learnt that a good scale must be on the same dimension. The review also brought to light a cut-off point of 3.0 for a scale of one to five, and 2.5 for a scale of one to four. Regarding construct for measuring ICSs, several dimensions were adopted including demographic factors, control

environment, risk assessment, control activities, information and communication systems, and monitoring of control. It was also noticed that the few comprehensive studies in respect of COSO internal financial control variables yielded mixed results. This could be attributable to difference in regional and study settings since those studies were conducted in different environments.

Financial performance measurement focused mainly on absolute and relative financial performance measures namely, profitability, current ratio, quick ratio and return on asset. This brought to light a gap in the literature of ICSs on the use of multi-dimensional performance measures such as the building block model which in turn measures business performance in the service industry. Furthermore, the review pointed out that the multi-dimensional financial performance measures adopted for this study can be combined and measured using a five-point unilinear scale self-assessment questionnaire.

In most cases, data were analysed using descriptive and inferential statistical tools. Concerning descriptive means and standard deviations were used. The inferential statistics, on the other hand, relied on correlation and ordinary least square regression analysis. Result of some studies reviewed confirmed that ICSs uniquely explain the variance in financial performance of organisations. Nonetheless, a number of researchers sought to investigate the effect ICSs on financial performance and however, used only correlational tool of analyses which makes their findings inconclusive. Also, most of the studies failed to consider all five dimensions of ICSs.

Chapter Summary

The review shows that internal 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. The review of literature on internal control systems has, therefore, pointed out the various lessons and knowledge gaps including the lack of a multi-dimensional financial performance measures as well as a study on the effect of internal control systems on performance of MMDAs in Ghana. These lessons and knowledge gaps will indisputably inform the path of this study with particular attention to ICSs and financial performance of MMDAs in Ghana in question.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter describes the methods and procedures used in conducting the research. It provides the general direction for the research and a logical conclusion or solution to a research problem. The chapter focuses particularly on the research design, research approach, population of the study, sample and sampling procedure, instrumentation, ethical considerations, data collection procedure and data analysis.

Research Approach

The research approach employed in this study is quantitative. This approach employs a systematic approach to gather and analyse data from various sources and relies on computerised, statistical, and mathematical methods to arrive at conclusions (Bloomfield & Fisher, 2019). The positivist worldview serves as the foundation for the quantitative technique used in this investigation. This strategy depends on numbers and objective measurements from surveys and polls, as well as the manipulation of existing data sets using computer tools to create new information (Creswell & Creswell, 2018; Larini & Barthes, 2018).

This study used a quantitative method since it allowed the researcher to collect objective and reliable data (Zikmund, 2015). Additionally, the quantitative technique allowed the researcher to comprehensively assess ICSs of MMDAs and its influence of financial performance by quantifying these constructs for deeper insight into the research questions (Bloomfield & Fisher, 2019). It is also possible

to track changes in a phenomenon through predictive analytics using a quantitative method (Creswell & Creswell, 2018; Roni, Merga & Morris, 2020).

However, the quantitative approach has both advantages and disadvantages when it comes to doing research. The quantitative approach's failure to consider respondents' individual experiences is a major flaw (Creswell & Creswell, 2018). Using a quantitative approach can also necessitate the acquisition of additional skills in a variety of statistical analysis methodologies, which can obscure more general themes and linkages (Roni, et al., 2020). Quantitative method is preferable for this study since its benefits outweigh its drawbacks, and is appropriate for the purpose of this study. Thus, the study adopted the quantitative approach because it ensured greater objectivity and accuracy of results, helped in generalising the results for the whole population under study, and also helped in analysing data with ease (Creswell & Creswell, 2018; Hair, Bush & Ortinau, 2006; Zikmund, 2015; Yates, 2014).

Research Design

The study adopted the descriptive survey design. Research design is a strategic framework, a plan that guides research activity to ensure that sound conclusions are reached (Ary, Jacobs, Sorensen & Razavieh, 2010; Cohen, Manion & Morrison, 2018). The essence of research design is to guide the researcher on the type of data to collect, how to collect, process, and analyse them in order to answer the research questions.

The study seeks to gather and analyse information on existing ICSs of MMDAs, using the descriptive survey design. In descriptive survey design, the

researcher draws a sample from the population of interest and generalisations are made, taking into consideration their responses. Gravetter and Forzano (2018) explained that a descriptive survey typically involves measuring a variable or a set of variables as they exist naturally. Merriam (2017) also state that a descriptive survey tries to discover the answers to the questions who, what, when, where and sometimes how. In this study, an attempt was made to establish employees view on the issues with regard to ICSs and financial performance of MMDAs by having respondents fill out questionnaires.

The descriptive survey was chosen over other research designs for the study due to some peculiar characteristics that make it more appropriate for the study. First, descriptive survey instruments are used most often to gather data because of the relatively ease with which they can be distributed and completed (Best & Kahn, 2012; Kelly, 2016). Second, Creswell and Creswell (2018) posit that the descriptive survey is regarded by social scientists as the best, especially where large populations are involved. Yates (2014) added that in descriptive research, there is accurate description of activities and this goes beyond mere fact-finding. Thus, the study went beyond the 'what' questions to ask 'why' and 'how' questions in order to understand the issues. Moreover, taking into account the research questions, the rationale of the study and the population under study, it was deemed appropriate to use the descriptive survey design to help to achieve the purpose and to draw meaningful conclusions from the study.

Population

It is always important to have a target population in mind when selecting a sample. Population is any complete group of people that share some set of characteristics (McMillan, 2012; Zikmund, 2015). The target population for the study was all permanent employees of MMDAs in Ghana. However, the accessible population was coordinating directors, finance officers, head of audits units, chief executives, and budgets officers of MMDAs in four (4) regions in the middle zone of Ghana. These regions were Ahafo, Ashanti, Bono and Bono East Regions. The four regions were considered because research seems to suggest that MMDAs within these local government areas are having problems regarding their ICSs and financial performance (Yao et al., 2017; Owusu-Ansah, 2019; Aliyu, 2020). Also, the coordinating directors, finance officers, head of audits units, chief executives, and budgets officers were considered because they are more exposed to ICSs of the assemblies and they understand better the dynamics of ICSs adopted by MMDAs and the assemblies' financial performance. Therefore, the accessible population of the study was 360 as indicated in Appendix A.

Sample and Sampling Procedure

According to Malhotra and Birks (2014), the most used approach for determining the sample in a descriptive study is to specify the precision of estimation desired and then to determine the sample size necessary to insure it. Researchers usually sample from an accessible population and hope to generalise to a target population. However, due to the relatively small number of officers in the accessible population, the census method was used for the study. This method

was deemed appropriate and feasible since the number of coordinating directors, finance officers, head of audits units, chief executives, and budgets officers of the 72 MMDAs in the four Regions was relatively small. The census again was necessary since the categories of officers considered were quite different from each other regarding their expertise and working areas. According to Kelly (2016), it is appropriate to use the census method in studies where the population is small and variable. Any sample the study drawn from a population that is small and variable would not be representative of the population from which it is drawn.

Furthermore, the resulting values the study would calculate from the sample would also be incorrect as estimates of the population values. The coordinating directors, finance officers, head of audits units, chief executives, and budgets officers of the various MMDAs in the four Regions were 360; specifically, five (5) officers from each assembly. These officers were able to provide data that facilitated the assessment of the assemblies' ICSs and financial performance. The researcher believes that the respondents share adequate attributes, skills and knowledge about ICSs and financial performance of the assemblies to enrich data collection. The staff provided data that assisted the researcher in looking at the issues raised in the objectives of the study.

Data Collection Instrument

Questionnaire was the instrument used to collect the data from the respondents (See Appendix B). The questionnaire was deemed appropriate for the study because it provides a much quicker means of gathering data from a fairly large population. Again it is economical, relatively easy to construct and

questions are consistent and uniform. Questionnaire also allows anonymity of the respondents which makes it easier for the respondents to volunteer information (Gravetter & Forzano, 2014). However, in the view of Kelly (2016), questionnaire is limited to literate population and does not provide an opportunity to collect additional information. Fortunately for this study, all the respondents were able to read, write and understand the items used in constructing the questionnaire.

The questionnaire was made up of three sections: A, B, and C. Section A was used to elicit data on background characteristics of the respondents. Sections B, and C were used to collect data on the various dimensions of ICSs and the financial performance of MMDAs respectively. The questionnaire was structured based on a unilinear scale, using closed-ended items to collect data from the respondents with regard to their knowledge on the issues. Specifically, the responses in sections B and C were measured numerically such that as one gets closer to one (1) he/she strongly disagrees to the issues while as one gets closer to four (4) he/she strongest agrees to the issues. This type of scale requires a great deal of decision-making and can take a long time to synthesis the data (Bryman, 2016). On the other side of the coin, it has potential of showing the strength of the person's feelings to whatever is in the question (Kelly, 2016). They are easy to analyse, easy to collect data and quick as well.

Validity and reliability of the instrument

In order to improve the validity and reliability of the questionnaire, the researcher pre-tested the instrument. Validity is the extent to which an indicator accurately measures a concept it intends to measure (Cohen et al., 2018). In

relation to content validity, the study ensured that the items on the instrument covered the domain that the instrument purports to measure. This was determined by the expert judgment of my supervisor and other professionals in the field of finance and accounting. The questionnaire was made available to these academicians and professionals who helped in shaping them with the view of establishing content validity. The face validity of the study was granted by my peers, colleague workers, and other members of the academic community. Construct validity on the other hand was ensured by making sure that the instrument relates to the theoretical constructs that they purport to measure. For example, does the questionnaire measure the construct of ICSs and financial performance the way the study designed it.

Coordinating directors, finance officers, head of audits units, chief executives, and budgets officers in six (6) MMDAs in the Central Region of Ghana (See Appendix A) were chosen for the pre-testing of the instrument. These officers were considered because they possess similar characteristics with that of the chosen MMDAs with regard to the characteristics of staff, its activities and project objectives. The study selected 30 officers for the pre-test. Proximity of the six (6) MMDAs in the Central Region to the researcher was also taken into consideration. The questionnaire was personally delivered to the respondents by the researcher with the help of some staff of the assemblies. All the questionnaires administered were retrieved as expected. With the help of the Predictive Analytic Software (PASW) Version 21.0, the researcher used a Cronbach's alpha reliability coefficient to measure the internal consistency of the questionnaire. The reliability

coefficient obtained from the questionnaire was .789. Research has shown that scales with Cronbach's alpha co-efficient of .700 or more are considered reliable (Creswell, 2014; Pallant, 2010).

Data Collection Procedure

A period of three months was used to collect the data. The data collection process started from Monday October 03, 2022 and ended on Thursday December 29, 2022. The questionnaire was administered by the researcher personally to the respondents with the support of four (4) research assistants. These research assistants had adequate experience regarding data collection process; therefore, it was appropriate for the study to use them as field assistants since they are familiar with the selected MMDAs and the issues considered. The field assistants were given training and orientation regarding the study, which made it easier for them to administer the questionnaires. The training programme included explaining the objectives of the study to the field assistants, how to identify and approach respondents and data management.

The data collection procedures were carried out in three stages. The first stage was the collection of list of respondents from the organisation. The second stage was the distribution of the questionnaire while the third stage focused on retrieving the questionnaire administered. The researcher and the field assistants were given opportunity to administer the questionnaire conveniently at the various assemblies. The completed questionnaires were collected back within a three months period. Out of the 360 questionnaires administered, I was able to retrieved 325 completed questionnaires, representing 90.3 per cent response rate.

Data Processing and Analysis

The data were sorted and coded using a statistical analysis software tool known as the PASW Version 21.0. The Test Analysis for Surveys (TAFS) was used for analysing the data. It is one of the most sophisticated statistical software packages popular with social scientists and other professionals when analysing quantitative data (Cohen et al., 2018; Larini & Barthes, 2018; Pallant, 2010). The data were analysed using both descriptive and inferential statistical tools. The close-ended questionnaire items were analysed, taking cognisance of the fact that they were the basis for which conclusions and recommendations are drawn.

Results and discussion of the data were presented based on the specific objectives of the study. Data on the background characteristics of the respondents were first analysed using frequency and percentage distributions. Data on the first specific objective of the study were analysed using mean and standard deviation. Pearson product moment correlation and linear multiple regression analysis were used to analyse data on the second and third specific objectives of the study respectively. The rationale for using these statistical tools was that the variables were all measured discretely using close-ended items with responses that were measured using unilinear scale (Kelly, 2016; Mukherjee, Sinha & Chattopadhyay, 2018). Also, using linear multiple regression created room for the researcher to estimate the percentage contribution of ICSs on financial performance of the assemblies. Furthermore, it was appropriate to use these statistical tools since the distribution was estimated to be normal with homogeneous respondents.

Ethical Issues Considered in the Study

The issue of ethics is an important consideration in research that involves human subjects. It refers to appropriate behaviour of a researcher relative to the norms of society (Zikmund, 2015). The researcher, research subjects, and clients of the research were protected from any adverse consequences of the study by following laid down rules and procedures of ethics in research. The study considered ethical factors in a number of ways. Ethical issues that were catered for in this study included right to privacy, voluntary participation, no harm to participants, anonymity and confidentiality, deception and scientific misconduct.

To gather data from the sampled individuals, the researcher first submitted a copy of the questionnaire to management of the assemblies. This was done to confirm and ensure that the staff and the MMDAs as a whole are protected. Based on the guidelines of ethical protocol of University of Cape Coast, the researcher ensured that all ethical requirements such as academic honesty, plagiarism, and acknowledgement of copyrighted materials used were addressed. The consents of the respondents were sought individually. Respondents were informed about the purpose of the research and what objective it sought to achieve. The instructions and questions were read to them and clarifications were made where needed. The privacy and consent of respondents were also negotiated and respected in the study. All these were done to ensure and secure the consent of the respondents.

After the researcher was sure that the respondents understood the content very well, the questionnaires were administered with some assistance from four (4) research assistants who were conversant and familiar with administering of

questionnaires and issue of ICSs and financial performance of MMDAs. The respondents were thoroughly informed before commencing the research, and they were properly treated throughout the research. Respondents were encouraged to feel free and air their views as objectively as possible and that they had the liberty to choose whether to participate or not. They also had the option to withdraw their consent at any time and without any form of adverse consequence. They were assured that the information they provided will be used solely for research purpose.

Chapter Summary

This chapter presented the methodology used in the study. It examined the research design, population, sample and sampling procedure, and instrumentation. The study adopted a descriptive survey design. The chapter further looked at the statistical analyses used to test the propositions of the study. This chapter also discussed the nature of the data and data analyses tools.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The main objective of this study was to investigate ICSs and financial performance of MMDAs in Ghana. This chapter, therefore, presents and discusses the results of the study. Structured questionnaire was designed and used to gather the data for the study. The discussion includes the interpretation of the findings in reference to previous findings, concepts and theory. The first part of the chapter deals with the background characteristics of respondents while the second part is devoted to responses given by the respondents in accordance with the specific objectives of the study. Both descriptive and inferential statistics were employed in the data analysis. At the end of data collection, 325 completed questionnaires were retrieved from the respondents and used for the study.

Background Characteristics of Respondents

This section deals mainly with the distribution of the respondents by sex, age group, highest level of academic qualification and years of service in the assembly. The data on the background characteristics of the respondents were analysed using frequency and percentage distributions. The results are presented in Table 1. As presented in Table 1, majority (62.2%) of the respondents were males while 37.8 per cent were females. This means, the male population of staff in the various MMDAs with regard to the coordinating directors, finance officers, head of audits, chief executives and budget officers outweighs that of the female. This gives a cursory indication that the formal sector is more attracted by males as

compared to females. The finding is in line with the perceived social expectation in traditional Ghanaian society where males are more prone to work in the formal sector than females who prefer working in the informal sector.

Furthermore, results from Table 1 show that 32.0 per cent and 46.8 per cent of the respondents were within the age ranges of 36 – 45 years and 46 years and above respectively. The combined percentage shows that majority (78.8%) of the respondents were more than 35 years. However, 21.2 per cent of the respondents indicated that they were less than 36 years. This shows that majority of the coordinators, finance officers, head of audits, chief executives and budget officers were within their active age in service.

The local government service would be making a good investment if the service targets this group of staff when formulating policies that will help in retaining strong and active workforce (Saani, 2018). This means that the future prospects of the service, with regard to these categories of staff is bright since most of them were within their active age group. Furthermore, the results show that most of these staff have a longer time to work before their retirement age and it will be prudent if the management of the local government service implement appropriate ICSs and policies that would make this age category of staff more satisfied and committed in order to retain them.

Most researchers (Ahlulbaitulaah, 2017; Douglas, 2011; Ondieki, 2013; Tseng, 2017) are of the view that the longer an employee establishes relation with an institution, all things being equal, the better he or she expresses his or her view on the institution's ICSs and services. Similarly, the higher the academic

qualification of an employee, the quality the work output of the employee. The study therefore, further collected data on the highest academic qualification and years of service of respondents. The results are presented in Table 1.

Table 1: Distribution of Respondents' Background Characteristics

Variable	Sub-scale	Frequency (No.)	Per cent (%)
Sex	Male	202	62.2
	Female	123	37.8
Age group	18 - 25 years	36	11.0
	26 - 35 years	33	10.2
	36 - 45 years	104	32.0
	46 years and above	152	46.8
Highest level of academic qualification	Diploma or less	2	0.6
	Bachelor's degree	211	64.9
	Master's degree	92	28.3
	Doctoral degree	20	6.2
Length (years) of service in the Assembly	Less than a year	17	5.2
	1 - 3 years	26	8.0
	4 - 6 years	80	24.6
	Above 6 years	202	62.2

Source: Field Data (2022)

(N = 325)

As contained in Table 1, majority (64.9%) of the respondents were Bachelor degree holders while 28.3 per cent were master's degree holders. Only,

5.2 per cent and .6 per cent of the respondents indicated that they were having doctorate degree and diploma or less respectively as their highest academic qualification. The results show that most of the respondents have higher academic qualification. This is a good sign because the questionnaire use in eliciting data from the respondents were design and constructed with everyday English such that people with low level of education could read and understand as expected by the researcher. It, therefore, means that the respondents were able to read and understand the various items in the questionnaire as expected.

Results from Table 1 further show that majority (62.2%) of the respondents indicated that they have been working in the service for more than six years. Also, 24.6 per cent of the respondents have been working between 4 – 6 years in the service. The combined percentage shows that most (86.8%) of the respondents have been working in the service for more than three years. Only 13.2 of the respondents have been working in the service for less than four years. This may mean that most of the respondents have been working in the service for longer years. This is a good sign for the study because relatively respondents have some level of experience within the service and may have enough ideas with regard to the ICSs and financial performance of the various MMDAs. Therefore, the respondents captured for the study have enough working experience to provide relevant information for the study.

Analysis Pertaining to the Specific Objectives

This section presents the results and discussion pertaining to the specific objectives of the study. With the help of descriptive and inferential statistical tools

such as mean, standard deviation, Pearson product moment correlation and multiple regression analysis were used to analyse the data in order to deal with the specific research objectives. Multiple close-ended items were used to collect data on the issues. Responses to the items used in collecting the data on issues regarding ICSs were measured on a four-point unilinear scale ranging from one to four where one represented the strongest disagreement with the items while four represented the strongest agreement to the items.

For easy interpretation, the researcher employed the recommendation of Pallant (2010) who posits that mathematical approximation can be used to interpret mean scores when data are measured numerically using unilinear scale. Therefore, the following interpretations were used: strongly agree (3.5 – 4.0), agree (2.5 – 3.4), disagree (1.5 – 2.4), and strongly disagree (1.0 – 1.4). The skewness (-.5 to .5) and kurtosis (-3 to 3) values show that the distribution was approximately normal.

Effectiveness of Internal Control Systems (ICSs) of MMDAs in Ghana

The rationale for the first specific objective of the study was to examine the views of respondents on the effectiveness of ICSs of MMDAs in Ghana. The views of the respondents were described using mean and standard deviation. The results showing the views of the respondents regarding the first objective are presented in Tables 2 to 6. The first dimension of ICSs of MMDAs considered was control environment, as shown in Table 2.

As presented in Table 2, respondents disagreed that at the various MMDAs, management decisions are made collectively and not controlled by one

dominant individual ($M = 2.35$, $SD = 1.23$). This means, in the assemblies, management decisions are controlled by some dominant individuals or groups. Respondents agreed that codes of conduct or ethics policies exist in the assemblies ($M = 2.91$, $SD = 1.08$) and that policies regarding the importance of internal control systems and appropriate conduct are communicated to all staff ($M = 3.26$, $SD = 1.02$). Furthermore, respondents agreed that audit or other control systems exist to periodically test for compliance with codes of conduct or policies ($M = 3.21$, $SD = 1.07$) and also management periodically reviews policies and procedures to ensure that proper controls are in place in the assemblies ($M = 3.31$, $SD = 1.02$).

Table 2: Respondent's View on Control Environment (N = 325)

Statements	M	SD
In this Assembly, management decisions are made collectively and not controlled by one dominant individual	2.35	1.23
Codes of conduct or ethics policies exist in the Assembly	2.91	1.08
Policies regarding the importance of internal control systems and appropriate conduct are communicated to all staff	3.26	1.02
Audit or other control systems exist to periodically test for compliance with codes of conduct or policies	3.21	1.07
Management periodically reviews policies and procedures to ensure that proper controls are in place	3.31	1.02
Mean of means (Control environment)	3.01	.63

Source: Field Data (2022)

Where M = Mean and SD = Standard Deviation

Overall, the results show that respondents view the control environment of the assemblies in positive terms ($M = 3.01$, $SD = .63$). This means, in the various MMDAs, there are set of standards, processes, and structures that provide the basis for carrying out internal control across the assemblies. Control environment sets the tone of the assemblies and influences the control consciousness of the staff and clients. The results may mean that the administrative structures of the assemblies are such that heads of department, units or sections establish a local control environment which is carved from the main one. This is the foundation for all other components of internal financial control systems, providing discipline and structure in the corporation (Affum, 2011). According to NDPC (2018), the assemblies' control environment factors include integrity and ethical values; the commitment to competence; leadership philosophy and operating style; the way management assigns authority and responsibility, and organises and develops its people.

The findings are consistent with the assertion that management attitude of MMDAs show that they have high level of sense of belongingness regarding the ethical business practices which follows the established control procedures of the assemblies (NDPC, 2018). This is so because it will serve as the foundation for all other components of ICSs, providing discipline and structure in the organisation. According to Tseng (2017), in ensuring effective control environment, organisations must put certain mechanisms in place which ensures that the organisations demonstrate a commitment to integrity and ethical values. Also, the board of directors demonstrates independence from management and exercises

oversight of the development and performance of internal control. The findings further support the assertion that the organisations hold individuals accountable for their internal control responsibilities in the pursuit of objectives (Tseng, 2017).

Such controls are very essential for the survival of every organisation since the core of any business is its people and the environment in which they operate.

In relation to risk assessment dimension of ICSs, as indicated in Table 3, respondents perceived the risk assessment of the assemblies positively ($M = 2.87$, $.55$). Specifically, respondents agreed that the assemblies' risk assessment and control issues have been communicated to staff ($M = 3.13$, $SD = 1.06$). Also, respondents agreed that the assemblies' management appropriately evaluates risk when planning for new product or activity ($M = 3.18$, $SD = 1.05$). Furthermore, respondents agreed that there are sufficient staff members who are competent and knowledgeable to manage the assemblies' activities ($M = 2.49$, $SD = 1.23$) and also technology issues are considered and appropriately addressed in the various MMDAs ($M = 3.28$, $SD = .96$). However, respondents disagreed that both internal and external compliances are assessed on an on-going basis in the various MMDAs ($M = 2.28$, $SD = 1.20$).

The findings that emerged from Table 3 show that the identification and analysis of relevant risks to achieve the set objectives of the assemblies and also forming a basis for determining how the risks should be managed in the assemblies are perceived positively by respondents. This means, the various MMDAs in Ghana are able to identify and evaluate several aspects of the assemblies such that they are able to guide the audit procedures that will be

necessary in order to substantiate the amounts reported in the financial statements of the assemblies. That is, the procedures the assemblies go through to identify and analyse the relevant risks which may affect their ability to achieve their major objectives is perceived positively. This forms the basis for ascertaining how the challenges or risks of the assemblies should be adapted to or managed.

Table 3: Respondent's View on Risk Assessment

Statements	M	SD
The Assembly's risk assessment and control issues have been communicated to staff	3.13	1.06
In this Assembly, management appropriately evaluates risk when planning for new product or activity	3.18	1.05
There are sufficient staff members who are competent and knowledgeable to manage the Assembly's activities	2.49	1.23
In this Assembly, technology issues are considered and appropriately addressed	3.28	.96
In this Assembly, both internal and external compliances are assessed on an on-going basis	2.28	1.20
Mean of means (Risk assessment)	2.87	.55
Source: Field Data (2022)	(N = 325)	

Furthermore, the findings from Table 3 show that the process of identifying and analysing risk in the assemblies is an on-going process and is a critical component of an effective internal financial control system of MMDAs. The findings are congruent with the comments of Aldridge and Colbert (2017) who posit that managing change in most service sectors such as MMDAs require

a constant assessment of risk and the impact on internal control systems. Therefore, the assemblies need meaningful mechanisms and strategies to identify and react to changing conditions that may pose as risk. Therefore, management of the assemblies must be aware of and deal with the risks it faces. Also, they must identify the risk of error or fraud and implement corrective actions since it is the primary responsibility of management.

The study further collected data on control activities of the assemblies from the perspectives of coordinating directors, finance officers, heads of audits, chief executives and budget officers. This was the third dimension of ICSs considered in this study. The results are presented in Table 4. As indicated in the table, respondents agreed that policies and procedures exist to ensure critical decisions are made with appropriate approval ($M = 3.35$, $SD = 1.01$). Also, the respondents agreed that processes exist for independent verification of transaction in the assemblies in order to ensure integrity ($M = 2.85$, $SD = 1.21$). Nevertheless, the respondents disagreed that in these assemblies, there are systems in place to ensure that duties are rotated periodically ($M = 2.33$, $SD = 1.24$).

Furthermore, as indicated in Table 4, respondents agreed that processes are in place in the various MMDAs to ensure that policy overrides are minimal and exceptions are reported to management ($M = 2.63$, $SD = 1.25$). Also, respondents were of the view that in the various assemblies, staff have the needed resources and supports to perform their duties regarding risk management ($M = 3.35$, $SD = 1.00$). In all, respondents perceived the control activities of the assemblies in positive terms ($M = 2.90$, $SD = .60$). This shows that the policies

and procedures that help ensure management directives are carried out in the assemblies are functional.

Table 4: Respondent's View on Control Activities

Statements	M	SD
Policies and procedures exist to ensure critical decisions are made with appropriate approval	3.35	1.01
Processes exist for independent verification of transaction (to ensure integrity)	2.85	1.21
In this Assembly, there is a system in place to ensure that duties are rotated periodically	2.33	1.24
Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management	2.63	1.25
In this Assembly, staff have the needed resources and supports to perform their duties regarding risk management	3.35	1.00
Mean of means (Control activities)	2.90	.60
Source: Field Data (2022)	(N = 325)	

These policies establish what ought to be done and procedures, systems or strategies that deal with how to adapt and implement to the policies. Controls activities help ensure that necessary actions are taken to address risks in order to achieve the objectives of MMDAs. Control activities of the assemblies include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. The findings corroborate with the submission of Anduuru (2015) who posits that organisations must deploy control activities through

policies that establish what is expected and procedures that put policies into action. The various policies, procedures and strategies put in place by management of the assemblies are to ensure that the assemblies have mechanisms for addressing risks to the achievement of their objectives.

The fourth dimension of ICSs considered was information and communication systems. Again, five close-ended items were used to collect data on the issue. The results are presented in Table 5. Respondents agreed that there are effective reporting procedures in communicating a balanced and understandable account of the assemblies' position and procedures ($M = 3.03$, $SD = 1.04$). Also, the respondents agreed that there are established channels of communication for individuals to report suspected breaches of laws or regulation or other financial improprieties in the assemblies ($M = 2.89$, $SD = 1.16$).

When respondents were asked to indicate whether staff understand their role in the control system of the assemblies, they agree to that statement ($M = 3.22$, $SD = 1.05$). Furthermore, as indicated in Table 5, respondents agreed that management of the assemblies ensures that performance and progressing goals are well documented and communicated to staff ($M = 3.23$, $SD = 1.02$). Similarly, respondents agreed that at the various assemblies, there is right and timely information thus developing a feedback ($M = 3.12$, $SD = 1.11$).

Overall, the results from Table 5 show that there are relatively good information and communication systems at the various MMDAs in Ghana with regard to ICSs ($M = 3.10$, $SD = .71$). This shows that the procedure of identifying, capturing and exchanging information on a timely basis to enable the assemblies

accomplish their stated objectives is relatively good. The findings are congruent with the submission of Theofanis et al. (2018) who posit that for ICSs to be effective and efficient there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organisation. To carry out the internal control and operational duties and responsibilities, the information should be timely and should go to those who need it and in the right form. According to Yang and Guan (2014), organisations must put strategies in place to ensure that pertinent information are identified, captured and communicated in a form and time frame. This will enable management and other staff to carry out their responsibilities as expected.

Table 5: Respondent's View on Information and Communication Systems

Statements	M	SD
There are effective reporting procedures in communicating a balanced and understandable account of the Assembly's position and procedures	3.03	1.04
There are established channels of communication for individuals to report suspected breaches of regulations or improprieties	2.89	1.16
All staff understand their role in the control system	3.22	1.05
Management of the Assembly ensures that performance are well documented and communicated to staff	3.23	1.02
In this Assembly, there is right and timely information thus developing a feedback	3.12	1.11
Mean of means (Information and communication systems)	3.10	.71

Source: Field Data (2022)

(N = 325)

Furthermore, the findings support the comments of Williams (2017) who posits that effective communication must occur in a broad sense, flowing down, across and up the organisation. Also, all personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in ICSs, as well as how individual activities relate to the work of others. In achieving effective information and communication management, assemblies must obtain or generate and use relevant, quality information to support the functioning of their ICSs. The assemblies must also communicate with external parties regarding matters affecting the functioning of their ICSs (Theofanis et al., 2018). These systems enable the management and staff of the assemblies to obtain and use information necessary to conduct, manage and control operations.

The last dimension of ICSs considered was monitoring of controls. The results are presented in Table 6. Respondents agreed that there are on-going processes within the assemblies 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 ($M = 2.59$, $SD = 1.18$). Respondents further indicated that there are processes to monitor the assemblies' ability to re-evaluate risks and adjust controls in response to changes in their objectives, business, and external environment ($M = 2.51$, $SD = 1.16$). Also, respondents agreed that there are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments within the assemblies ($M = 3.17$, $SD = 1.05$).

Table 6: Respondent's View on Monitoring of Control

Statements	M	SD
There are on-going processes within the Assembly to monitor the effective application of the policies, processes and activities related to internal control and risk management	2.59	1.18
There are processes to monitor the Assembly's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment	2.51	1.16
There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments	3.17	1.05
Reports on significant failings or weaknesses are reported to management on a timely basis	3.23	.99
In this Assembly, there is effective internal monitoring system	2.85	1.20
Mean of means (Monitoring of control)	2.87	.63
Source: Field Data (2022)		(N = 325)

Similarly, as indicated in Table 6, respondents were of the view that reports on significant failings or weaknesses of the assemblies are reported to management on a timely basis ($M = 3.23$, $SD = 0.99$) and also there is effective internal monitoring system at the various MMDAs in Ghana ($M = 2.85$, $SD = 1.20$). Overall, respondents perceived the monitoring of control dimension of ICSs of the assemblies in positive terms ($M = 2.87$, $SD = .63$). This means that the activities and procedures designed to assess the effectiveness of ICSs of

MMDAs in Ghana are on course and they are helping the assemblies to achieve their financial reporting objectives.

Monitoring and evaluating the activities of MMDAs might be on-going or may be separate assessment and it is imperative given the complex and dynamic environments faced by most local government authorities and public institutions (Gyasi, 2005). It looks to guarantee that frameworks are executing as expected. Be that as it may, this is refined through on-going observing exercises, intermittent assessments or a mix of the two (COSO, 2014). As indicated by Gyasi (2005), these exercises or activities pervade the organisations, at all levels and in all capacities.

Generally, the results show that ICSs of MMDAs in Ghana are perceived to be effective by respondents (Mean of all Means = 2.95). This means that the assemblies have put in place effective strategies that provide reasonable assurance regarding the following primary objectives: the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations; the safeguarding of assets; the economic and efficient uses of resources; and the accomplishment of established objectives and goals. Therefore, the assemblies' ICSs adapted have helped in providing a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and the effectiveness and efficiency of operating in the local government sector.

The findings are in line with the assertions of Dineshkumar and Kogulacumar (2013) who aver that internal control systems are critical component of an organisation's management and a foundation for its safe and

sound operations. The findings further support that of Affum (2011) who found out that Papsco Ghana Limited has effective internal control systems and the internal auditor contribute immensely to the company's financial management. Nyakundi et al. (2014) also found out that a significant change in financial management is linked to internal control systems, and that institutions must be operated and implemented effectively on the part of the institutions since they help in boosting organisations' financial performance.

Furthermore, the findings that emerged from Tables 2 – 6 are consistent with that of Abugri (2015) and Owusu-Ansah (2019). Abugri (2015) found out that the existence of strict supervision, authorisation and segregation of duties are seen in the assemblies. However, management does not communicate to the staff of new control policies introduced. Nevertheless, the control systems at the Polytechnic are quite effective and are directed towards the detection and prevention of fraud and error. Owusu-Ansah (2019) also observed that there is an existence of internal control system in the Adenta Municipal Assembly and it is very effective in the achievement of the Assembly's objectives.

Relationship between ICSs and Financial Performance of MMDAs in Ghana

The rationale of the second specific objective of the study was to assess the relationship between ICSs and financial performance of MMDAs in Ghana. The various dimensions of ICSs were made up of many items that were pooled together to form each of the variables. That of financial performance was made up of 12 close-ended items. The items focused on indicators such as service delivery, quality service, control systems, monitoring and evaluation, ROA, ROI, assets

financing, human resource development, satisfaction of clients' needs, and preparation and publication of annual financial statements. Again, these items were pooled together using average response scores. The Pearson product moment correlation was used to analyse the data in order to tackle the second specific objective of the study. The results are presented in Table 7.

As depicted in Table 7, all the five dimensions of ICSs have positive and statistically significant relationship with the assemblies' financial performance. Specifically, information and communication systems ($r = .536$, $p < .01$) and control environment ($r = .459$, $p < .01$) components of ICSs have statistically significant positive and strong relationship with the financial performance of the assemblies. Also, risk assessment ($r = .391$, $p < .01$), control activities ($r = .386$, $p < .01$), and monitoring of control ($r = .210$, $p < .01$) were positively related to the financial performance of the assemblies moderately.

Table 7: Relationship between ICSs and Financial Performance

Variables	Financial Performance	
	Correlation co-efficient (r)	Sig.
Control environment	.459**	.000
Risk assessment	.391**	.000
Control activities	.386**	.000
Information and communication systems	.536**	.000
Monitoring of control	.210**	.000
Internal control systems (composite)	.562**	.000

Source: Field Data (2022) ** $p < .01$ (N = 325)

Overall, ICSs of the assemblies has a statistically significant and positive relationship with their financial performance ($r = .562, p < .01$). This means that, in total, ICSs have positive relationship with the financial performance of the assemblies. In other words, the stronger or effectiveness of the internal control systems adopted by the assemblies, the higher their financial performance. Therefore, to achieve high level of financial performance, the assemblies should improve and enhance their ICSs.

The findings are in line with that of Spira and Page (2013) and Nyakundi et al. (2014) who both discovered that the capacity of a firm to survive in business is an indicator of good and viable financial administration and that absence of feeble ICSs are accordingly a pointer of poor monetary or financial performance framework. Furthermore, the findings are consistent with that of Dineshkumar and Kogulacumar (2013) who found out that there is a strong relationship between internal control systems and financial management of the Sri Lanka Telecom limited. They further indicated that internal control systems of the Sri Lanka Telecom limited will lead to high financial and organisational performance as a whole in the future. Yao et al. (2017) also concluded that indeed there are significant relationships between internal control systems and effective public sector financial management.

This shows that lack of or weak ICSs are therefore an indicator of poor financial performance. Knechel et al. (2017) also asserted that companies with effective internal control systems are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more

conservative in their accounting policies, more competent in their management and accounting, and subject to better management controls. Therefore, the effective functioning of components of internal control systems provide a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organisation's financial management and performance.

Effect of Internal Control Systems on Financial Performance of MMDAs

The rationale for the last specific objective of the study was to examine the effect of internal control systems on the financial performance of MMDAs. The independent variables were the five dimensions of ICSs while the dependent variable was the perceived financial performance of the assemblies. As indicated earlier, multiple items were used to collect data on the study variables. The facets or dimensions of the independent variables have also been explained earlier. To be able to achieve the objective relating to this, the study adopted the linear multiple regression analysis procedure.

Using the linear multiple regression analysis to analyse the data, a diagnostic test was first conducted to check for multicollinearity among the independent variables. This was used to examine the possible undesirable situation where the correlations among the variables are strong. The study assessed the Variance Inflation Factor (VIF) that measures multicollinearity in the regression model since multicollinearity misleadingly inflates the standard errors thereby making some variables statistically insignificant while they should be otherwise significant.

The VIF was used to measure how much the variance of the estimated coefficients increase over the case of no correlation among the independent variables. All the VIF values for the independent variables were within the acceptable threshold. This shows that none of the values was greater than five (5), which means there was no collinearity associated with the variables. The VIF values were also inversely related to the Tolerance values ($VIF = 1/Tolerance$). According to Pallant (2010), large VIF values (a usual threshold is 10.0, which corresponds to a tolerance of 0.10) indicate a high degree of collinearity or multicollinearity among the independent variables. In all, it is clear that the contribution of the independent variables on the dependent variable was largely not as a result of the strong association among the variables. The results of the analysis are presented in Table 8.

As presented in Table 8, four dimensions of ICSs have statistically significant influence on the financial performance of the assemblies. Specifically, control environment ($\beta = .145 (.049)$, $p < .05$) contributed 14.5 per cent to the assemblies' financial performance while risk assessment ($\beta = .188 (.049)$, $p < .01$), control activities ($\beta = .134 (.047)$, $p < .05$), and information and communication systems ($\beta = .330 (.044)$, $p < .01$) contributed 18.8 per cent, 13.4 per cent and 33.0 per cent respectively to the variance in the financial performance of the assemblies. However, monitoring of control ($\beta = -.038 (.042)$, $p > .05$) was non-significant with regard to its contribution to financial performance of the assemblies. It is however significant to observe that the proportional contribution of ICSs to financial performance of MMDAs was .361.

Table 8: Regression Model on the Influence of Internal Control Systems on the Financial Performance of MMDAs in Ghana

Dimensions of ICSs	Unstandardized Coefficients		Std. Coefficients		Collinearity Statistics		
	B	Std. Error	Beta (β)	t	Sig.	Tolerance	VIF
Control environment	.122	.049	.145	2.461*	.014	.577	1.735
Risk assessment	.182	.049	.188	3.706**	.000	.778	1.286
Control activities	.119	.047	.134	2.531*	.012	.712	1.404
Information and communication systems	.248	.044	.330	5.695**	.000	.596	1.678
Monitoring of control	-.032	.042	-.038	-.769	.443	.812	1.232
Constant	1.349						
R	.601						
R Square (R^2)	.361						
Adjusted R Square (R^2)	.351						

Source: Field Data (2022)

Where Std. = Standardized

(N = 325)

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Dependent Variable: Financial Performance

The results from Table 8 may mean that ICSs of MMDAs in Ghana was able to contribute, predict or explain 36.1 per cent of the variance in the financial performance of the assemblies. It therefore means that besides the five dimensions of ICSs considered, other variables not yet in the model have a chance of contributing or predicting about 63.9 per cent to the financial performance of the assemblies. Also, the findings show that ICSs contribute significantly and positively to the financial performance of the assemblies. The results support the argument raised under the conceptual framework of the study. Douglas (2011) and Saani (2018) argued that appropriate internal control systems contribute meaningfully to organisational efficiency and effectiveness which in the long run lead to increase in financial performance of the assemblies. Specifically, Saani asserted that with effective internal control systems coupled with efficient and effective use of resources including personnel, accurate information for decision making and safeguarding of assets and records, organisations will be able to improve its financial management significantly.

Furthermore, the findings that ICSs have significant and positive influence on the financial performance of the assemblies are consistent with that of Nyakundi et al. (2014) who found out that a significant change in financial management is linked to internal control systems. Therefore, internal control systems influence organisations' financial performance significantly. This finding confirms what was revealed by Anduuru (2015) that the internal financial control systems of an organisation has significant influence on employees' perception of financial performance of the organisation within work context and this to a large

extent affects their levels of satisfaction at work. The findings further support the submission of Ahlulbaitulaah (2017) who asserts that no organisation can operate effectively and efficiently without effective internal control systems.

Chapter Summary

The chapter presents results and discussion regarding internal control systems and financial performance of MMDAs in Ghana. The results have been presented with associated explanations. With the help of tables, the study analysed and presented the data using both descriptive and inferential statistical tools. The results show that coordinating directors, finance officers, heads of audit, chief executives, and budget officers of MMDAs in Ghana have positive perception toward the assemblies' internal control systems. Additionally, it was understood that the various dimensions of ICSs embraced by MMDAs, with the exception of monitoring control, have a strong association with the financial performance of the assemblies. Results from the regression model show that staff view on the ICSs of the assemblies do have a direct influence on the financial performance of the assemblies significantly, particularly information and communication systems, risk assessment, control environment, and control activities.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of major findings and conclusions drawn from the study. Also, the conclusions and recommendations are presented. The last section provides suggestions for further research.

Summary

The purpose of the study was to investigate ICSs and financial performance of MMDAs in Ghana. Internal control systems that were considered include control environment, risk assessment, control activities, information and communication systems, and monitoring of control. The argument of the study was underpinned by contingency theory. The study adopted the quantitative approach because it ensured greater objectivity and accuracy of results, helped in generalising the results for the whole population under study, and also helped in analysing data with ease. In relation to design, descriptive survey was used.

The target population for the study was all employees of MMDAs in Ghana. However, the accessible population was coordinating directors, finance officers, head of audits units, chief executives, and budgets officers of MMDAs in four (4) regions in the middle zone of Ghana. These regions were Ahafo, Ashanti, Bono and Bono East Regions. Specifically, the accessible population of the study was 360. Due to the relatively small number of officers in the accessible population, the census method was used for the study.

Questionnaire with a reliability coefficient of .789 was the instrument used to collect the data. Out of the 360 questionnaires administered, I was able to retrieve 325 completed questionnaires, representing 90.3 per cent response rate.

Data on the background characteristics of the respondents were first analysed using frequency and percentage distributions. Data on the first specific objective of the study were analysed using mean and standard deviation. Pearson product moment correlation and linear multiple regression analysis were used to analyse data on the second and third specific objectives of the study respectively. The study considered ethical factors in a number of ways. Ethical issues that were catered for in this study included right to privacy, voluntary participation, no harm to participants, anonymity and confidentiality, deception and scientific misconduct. The key findings that emerged from the study were as follows:

Key Findings

The first specific objective of the study addressed the views of respondents on the effectiveness of internal control systems of MMDAs in Ghana. The main findings that emerged were that at the various MMDAs, management decisions are made collectively and not controlled by one dominant individual. Also, control systems exist to periodically test for compliance with codes of conduct or policies. Similarly, management periodically reviews policies and procedures to ensure that proper controls are in place and also codes of conduct policies exist in the assemblies.

Also, the assemblies have clear objectives and these have been communicated so as to provide effective direction to employees on risk

assessment and control issues, and that management appropriately evaluates risk when planning for new product or activity. Policies and procedures exist to ensure critical decisions are made with appropriate approval. Also, processes exist for independent verification of transaction in order to ensure integrity. Similarly, management have the knowledge, skill and tools to support staff in their duties in order to effectively manage risk and achieve the assemblies' objectives.

Furthermore, there are effective reporting procedures in communicating a balanced and understandable account of the assemblies' position and procedures. However, there are no established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties. Also, at the various MMDAs, there is no right and timely information thus developing a feedback. Also, there are on-going processes within the assemblies' 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.

Also, there are processes to monitor the assemblies' ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment. Similarly, there is effective internal monitoring system at the assemblies. Activities and procedures designed to assess the effectiveness of the ICSs of the assemblies in achieving their financial reporting objectives are on course.

The relationship between internal control systems and financial performance of MMDAs in Ghana was examined as the second specific objective

of the study. The key findings that emerged were that control environment has a statistically significant positive and strong relationship with the assemblies' financial performance. Also, risk assessment, control activities, and information and communication systems were positively related to the assemblies' financial performance moderately. Again, the relationship between monitoring of control and the assemblies' financial performance was statistically significant. In total, ICSs have positive relationship with the assemblies' financial performance. The stronger or effectiveness of the internal control systems adopted by MMDAs, the higher their financial performance.

The last specific objective of the study was to examine the effect of ICSs on the financial performance of MMDAs. The key findings were that control environment contributed 14.5 per cent to the variances in the financial performance of the assemblies while control activities, information and communication systems, and risk assessment contributed 13.4 per cent, 33.0 per cent, and 18.8 per cent respectively to the variance in the assemblies' financial performance. The proportional contribution of ICSs to the financial performance of the assemblies was .361 with an adjusted R^2 of .351. This means that ICSs of the assemblies was able to contribute or explain 36.1 per cent of the variance in the financial performance of the assemblies. It therefore means that besides the five dimensions of ICSs considered, other variables not yet in the model have a chance of contributing or predicting about 63.9 per cent to the financial performance of MMDAs in Ghana.

Conclusions

Generally, it can be concluded that the various MMDAs in Ghana are implementing appropriate ICSs. However, their effectiveness could not be described as very strong but rather satisfactory. Also, it was realised that the various ICSs adopted by the assemblies with regard to control environment, risk assessment, control activities, information and communication systems, and monitoring of control have significant relationship with the assemblies' financial performance. Furthermore, coordinating directors, finance officers, heads of internal audit, chief executives and budget officers view on the assemblies' ICSs do influence the financial performance of the assemblies directly. Whenever staff perceive the effectiveness of the assemblies' ICSs in positive terms, it will translate into a significant increase in the assemblies' financial performance. It is therefore necessary for the management of the assemblies to ensure that its ICSs serve as a means to an end and not an end itself. In relation to business practice, this calls for the need for management of the assemblies to consider employing robust and standard ICSs to help enhance their financial performance.

In addition, the ICSs adopted by MMDAs in Ghana must be known and practice by all staff at every level of the assemblies to fully achieve the stated objectives of control systems. Furthermore, the adopted ICSs must provide reasonable assurance, not absolute assurance, to the management of the assemblies. Lastly, ICSs adopted by MMDAs should be geared towards the achievement of objectives in one or more separate but overlapping categories. All these conditions and factors when adhere to will increase the financial

performance of the assemblies in the long run. For purposes of policy and theory, the local government services can review its ICSs to reflect the current trends, and to meet the situational needs of the assemblies. Thus, the ICSs employed by MMDAs must be flexible and dynamic to accommodate the uniqueness and situation differences within the various MMDAs in Ghana.

Recommendations

Based on the key findings and conclusions of the study, the following recommendations were made to help enhanced policy and practice. First the Ministry of Local Government and Rural Development through management of the assemblies with the help of the Auditor General of Ghana should review the ICSs of MMDAs to ensure that the objectives of ICSs within the local government sector are achieved, particularly regarding risk assessment, monitoring of control, and information and communication systems practices of the assemblies. Emphasis should be on the reliability and integrity of information; compliance with policies, plans, procedures, laws and regulations; the safeguarding of assets; the economic and efficient uses of resources; and the accomplishment of established objectives and goals. Also, the Chief Executives of the various MMDAs should organise orientation and education programmes to all staff regarding the ICSs put in place by the Audit Service, National Development Planning Commission and the Local Government Service. This will help improve the knowledge and understanding of staff regarding ICSs. This intervention in the long run will help the staff to monitor the financial performance of the assemblies, and to appreciate the benefits of ICSs within MMDAs.

Furthermore, government, through the Ministry should ensure that the various MMDAs are given the needed manpower to constantly monitor compliance of internal control policies in the assemblies. Even though, the government through the Local Government Authority is chiefly responsible for setting up ICSs, the internal audit unit of the assemblies must be involved in an advisory capacity during the implementation of the ICSs. Similarly, management of the assemblies should ensure the regular monitoring of the internal control activities at the local level in order to unearth potential lapses, abuse and wrongdoing and also ensure that those at the local level prudently manage resources under their control.

Suggestions for Further Research

The study was delimited to coordinating directors, finance officers, heads of audit, chief executives and budget officers of MMDAs in Ghana. It was also limited to variables such as ICSs (control environment, risk assessment, control activities, information and communication systems, and monitoring of control), financial performance. It is therefore suggested that this study should be replicated in public corporations such as the state enterprises.

It is further suggested that a study should be conducted on the impact of work environment and organisational culture on the financial performance of MMDAs in Ghana. Once more, the research was conducted using the questionnaire as the only research instrument so future studies should incorporate other instruments like the interview guide, and observation guide to make the study more interactive with the respondents. A study could be conducted on the

same issues but this time emphasis should be on more than five ICSs and all permanent staff of the assemblies for broader assessment of the internal control systems.



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APPENDICES

APPENDIX A
LISTS OF SELECTED DISTRICTS USED FOR THE STUDY AND
PRETESTING

Names of MMDAs Use for the Study	Number of Officers Selected
Ahafo Region (6 Districts)	30
<ol style="list-style-type: none"> 1. Asunafo North Municipal 2. Asunafo South District 3. Asutifi North District 4. Asutifi South District 5. Tano North Municipal 6. Tano South Municipal 	
Ashanti Region (43 Districts)	215
<ol style="list-style-type: none"> 1. Adansi Asokwa District 2. Adansi North District 3. Adansi South District 4. Afigya Kwabre South District 5. Afigya Kwabre North District 6. Ahafo Ano North Municipal 7. Ahafo Ano South East District 8. Ahafo Ano South West District 9. Akrofuom District 10. Amansie Central District 11. Amansie South District 12. Amansie West District 13. Asante Akim Central Municipal 14. Asante Akim North District 15. Asante Akim South Municipal 16. Asokore Mampong Municipal 17. Asokwa Municipal 18. Atwima Kwanwoma District 19. Atwima Mponua District 20. Atwima Nwabiagya Municipal 21. Atwima Nwabiagya North District 22. Bekwai Municipal 23. Bosome Freho District 24. Bosomtwe District 25. Ejisu Municipal 26. Ejura Sekyedumase Municipal 27. Juaben Municipal 28. Kumasi Metropolis 29. Kwabre East Municipal 30. Kwadaso Municipal 31. Mampong Municipal 32. Obuasi Municipal 	

33. Obuasi East District 34. Offinso Municipal 35. Offinso North District 36. Old Tafo Municipal 37. Sekyere Afram Plains District 38. Sekyere Central District 39. Sekyere East District 40. Sekyere Kumawu District 41. Sekyere South District 42. Suame Municipal 43. Oforikrom Municipal	
Bono Region (12 Districts)	60
1. Banda District 2. Berekum East Municipal 3. Berekum West District 4. Dormaa Central Municipal 5. Dormaa East District 6. Dormaa West District 7. Jaman North District 8. Jaman South Municipal 9. Sunyani Municipal 10. Sunyani West District 11. Tain District 12. Wenchi Municipal	
Bono East Region (11 Districts)	55
1. Atebubu Amantin Municipal 2. Kintampo North District 3. Kintampo South District 4. Nkoranza North District 5. Nkoranza South Municipal 6. Pru East District 7. Pru West District 8. Sene East District 9. Sene West District 10. Techiman Municipality 11. Techiman North District	
Total Number of Districts = 72	Total Number of Officers = 360

Names of MMDAs Use for the Pre-Test	Number of Officers Selected
Abura/Asebu/Kwamankese District	5
Agona East District	5
Agona West Municipal	5
Assin Nort Municipal	5
Gomoa East District	5
Komenda/Edina/Eguafo/ Abirem Municipal	5
Total Number of Districts = 6	Total Number of Officers = 30

APPENDIX B
Questionnaire for Respondents

UNIVERSITY OF CAPE COAST
COLLEGE OF HUMANITIES AND LEGAL STUDIES
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING

TOPIC: Internal Control Systems and Financial Performance of Metropolitan, Municipal and District Assemblies in Selected Regions of Ghana

Dear Respondent,

This questionnaire is designed for academic purpose only. Its aim is to solicit your assistance in gathering information on the above topic. All information provided shall be treated in strict confidence and for academic purpose only. With regard to sections B and C, indicate your level of agreement with the following statements such that as you get closer to one (1) you are strongly disagreeing to the statements while as you get closer to four (4) you are strongly agreeing to the statements. Many thanks in advance for your profound contribution towards this study.

I anticipate and appreciate your support.

Consent to participate in Research:

I understand that any information I give will remain confidential and that when the results of the research are published or discussed in conference, no information will be included to reveal my identity. By agreeing to participate in the survey and submit a response to the researcher in question, I am given consent to participate in the study.

I consent to Participate in this survey **Yes** [] **No** []

SECTION A: Background Characteristics of Respondents

1. Please indicate your sex.
 - a. Male []
 - b. Female []

2. Indicate your age group.
 1. 18 – 25 years []
 2. 26 – 35 years []
 3. 36 – 45 years []
 4. 46 years and above []

3. Kindly indicate the highest level of academic qualification that you have had.
1. Diploma or less []
 2. Bachelor's degree []
 3. Master's degree []
 4. Doctoral degree []
4. Length of service in the Assembly:
1. Less than a year []
 2. 1 – 3 years []
 3. 4 – 6 years []
 4. Above 6 years []

SECTION B: Internal Control Systems (ICSSs)

In this section the researcher seeks to establish respondents view on ICSSs of MMDAs. Please tick [✓] against the one which applies to your choice.

Statements on control environment	1	2	3	4
1. In this Assembly, management decisions are made collectively and not controlled by one dominant individual.				
2. Codes of conduct or ethics policies exist in the Assembly.				
3. Policies regarding the importance of internal control systems and appropriate conduct are communicated to all staff.				
4. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.				
5. Management periodically reviews policies and procedures to ensure that proper controls are in place.				
Statements on risk assessment	1	2	3	4
1. The Assembly's risk assessment and control issues have been communicated to staff.				
2. In this Assembly, management appropriately evaluates risk when planning for new product or activity.				
3. There are sufficient staff members who are competent and knowledgeable to manage the Assembly's activities.				
4. In this Assembly, technology issues are considered and appropriately addressed.				
5. In this Assembly, both internal and external compliances are assessed on an on-going basis.				
Statements on control activities	1	2	3	4
1. Policies and procedures exist to ensure critical decisions are made with appropriate approval.				
2. Processes exist for independent verification of transaction (to ensure integrity).				
3. In this Assembly, there is a system in place to ensure that duties are rotated periodically.				
4. Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management.				

5. In this Assembly, staff have the needed resources and supports to perform their duties regarding risk management.				
Statements on information and communication systems	1	2	3	4
1. There are effective reporting procedures in communicating a balanced and understandable account of the Assembly's position and procedures.				
2. There are established channels of communication for individuals to report suspected breaches of regulations or improprieties.				
3. All staff understand their role in the control system.				
4. Management of the Assembly ensures that performance are well documented and communicated to staff.				
5. In this Assembly, there is right and timely information thus developing a feedback.				
Statements on monitoring of control	1	2	3	4
1. There are on-going processes within the Assembly to monitor the effective application of the policies, processes and activities related to internal control and risk management				
2. There are processes to monitor the Assembly's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment.				
3. There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments.				
4. Reports on significant failings or weaknesses are reported to management on a timely basis.				
5. In this Assembly, there is effective internal monitoring system.				

SECTION C: Financial Performance

In this section the researcher seeks to establish the level of the Assemblies' financial performance. Please tick [✓] against the one which applies to your choice of response.

Statements on the Financial Performance	1	2	3	4
1. Administrative cost of the Assembly has been reducing dramatically for the past two years as a result of its adopted ICSs				
2. The Assembly is now in a better position to serve clients more efficiently and effectively as a result of its adopted ICSs				
3. The Assembly provides quality services to citizens				
4. The Assembly is able to build client satisfaction through quality service delivery				
5. There is an annual evaluation and discussion of the Assembly's financial performance by management				
6. The overall effectiveness of the Assembly is encouraging				

7. The Assembly's return on assets is significant for me				
8. The Assembly's return on investment is significant for me				
9. The Assembly has appropriate assets finances				
10. In this Assembly, there is a system in place to ensure increase in employee knowledge and skills				
11. In this Assembly, satisfaction of clients' needs is paramount.				
12. Management of the Assembly ensures that the financial statements of the Assembly is prepared and published annually				

THANK YOU

