

UNIVERSITY OF CAPE COAST

ASSESSMENT OF THE INTERNAL CONTROL SYSTEM OF AKATSI
DISTRICT ASSEMBLY

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BY

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DISSERTATION SUBMITTED TO DEPARTMENT OF ACCOUNTING
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DECLARATION

Candidate's Declaration

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

Candidate's Name: Felix-Ham Kwashie Nugor

Candidate's Signature: Date:

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 Name: Mr. Edward Marfo-Yiadom

Supervisor's Signature: Date:

ABSTRACT

This study examined effectiveness and efficiency of the internal control system and its practices at the Akatsi District Assembly (ADA). The assessment considered the extent to which control environment consistent with policies at the ADA, how risks are assessed, and the extent to which the accounting systems are consistent to required standards, the extent to control procedures are adhered to, and monitoring and control mechanisms at the Akatsi District Assembly.

Descriptive research strategy was employed by the researcher. The sample for the study was made up of thirty informants, believed to provide the needed information for the study. Informant interview was conducted.

Findings of the study revealed that the control environment of the internal control system is sound enough for effective governance and management functions, for communication and enforcement of integrity and ethical values, and for easy identification of potential risks by management and deciding upon appropriate corrective actions. The study also revealed the existence of effective information and accounting system in the Akatsi District Assembly that is good enough for good financial reporting objectives, effective performance review, information processing, physical controls and segregation of duties. It could therefore be concluded that the internal control system at the Akatsi District Assembly is considerably effective for efficient managerial function. It is, however, recommended that management, through the Human Resource Unit, should organize training for all staff and Assembly Members of the ADA for all to appreciate the need for internal control measures to ensure the ADA's finances are reported accurately.

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DEDICATION

I dedicate this work to my dear wife, Augusta Ahadzi and my children, Paula-Lillian, Eyram and Dgidula.

TABLE OF CONTENTS

	Page
DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
DEDICATION	vi
TABLE OF CONTENTS	vii
ABBREVIATIONS	x
CHAPTER	
ONE: INTRODUCTION	1
Background to the Study	1
Statement of the Problem	7
Objectives of the Study	11
Research Questions	11
Significance of the Study	12
Organization of the Study	13
TWO: REVIEW OF RELATED LITERATURE	14
Introduction	14
The Concept of Internal Control System	14
Objectives of Internal Control System	18
Uses and Importance of Assessment of Internal Control System	19
Components of Internal Control System	21
Basic Rules/Criteria of or Aids to Internal Control	36
Auditors' Consideration and Responsibilities	40

THREE: METHODOLOGY	43
Introduction	43
Research Design	43
The Study Population	44
Sampling and Sampling Techniques	45
Data Collection and the Instrument	45
Data Analyses	47
Limitation of the Study	48
FOUR: RESULTS AND DISCUSSIONS	49
Introduction	49
The Extent to which the Control Environment Consistent with Policies at the Akatsi District Assembly	50
Risk Assessment by Management at the Akatsi District Assembly	54
Consistency of Accounting System at ADA with the Required Standard	57
Adherence to Control Procedures at Akatsi District Assembly	61
Monitoring and Control Mechanisms put in place by Management at ADA	62
FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	65
Introduction	65
Summary of Findings	67
Conclusion	67
Recommendations	67

REFERENCES

69

APPENDIX

73

ABBREVIATION

AAS	Auditing and Assurance Standard
ADA	Akatsi District Assembly
AICPA	American Institute of Certified Public Accountants
APC	Auditing Practice Committee
APB	Auditing Practice Board
COSO	Committee of Sponsoring Organization
DTB	District Tender Board
SAS	Statement of Auditing Standards
IFAC	International Federation of Accountants

CHAPTER ONE

INTRODUCTION

Background to the Study

The Government of every nation is responsible for providing the needs of her people through prudent and judicious allocation of resources. However recent Auditor-General's Report for the year 2009 submitted to the Public Accounts Committee of Parliament of Republic of Ghana disclosed a number of management deficiencies in the internal control structures in public sector organizations, including district assemblies. It could be envisaged that internal control systems are not functioning according to rules and regulations that establish them; leading to theft, fraud, financial misappropriation and malfeasance.

Internal control systems within an organization are efforts meant to encourage effective and efficient use of resources in order to achieve the goals of the organization. An internal control system constitutes an integral part of an organization's efforts to achieve these objectives.

As indicated by Brata (2008), the concept of the internal control system has rolled gradually over the years, with the greatest development occurring at the beginning of 1940. In his submission, not only the complexities of modern business techniques, but also the increase size of business units, have encouraged

the adoption of methods which, while increasing the efficiency of the business, acts as safeguard against errors and frauds.

According to Gupta (2005), internal control system is an essential prerequisite for effective management of any organization. It is, therefore, a primary responsibility of every management to establish and maintain an adequate system of internal control approach to the size and nature of the business of an entity.

In a document presented in March 1999 by the Committee of Sponsoring Organization (COSO) of the Treadway Commission entitled “Internal Control: Integrated Framework”, it was stated that: “Internal control should not be viewed as something that must be superimposed on an organization’s normal operating structure. To do so only means cost that can inhibit the organization’s ability to compete.

Internal control system should be built into the infrastructure of an enterprise. When internal control systems are integrated with operational activities, and a focus on the internal control system has been instilled in all personnel, the result is better controlled with minimum incremental cost. Such integration avoids a superstructure of control procedures on top of existing activities. Whenever management considers changes to their company’s operations or activities, the concept that, it is better to ‘build-in’ rather than ‘built-

out' internal control system, and to do it right the first time, should be fundamental guiding principles”.

During the 1950's, adherence to established managerial policies and efficient operation of entities were prominent issues in dealing with internal control systems. Internal control systems were therefore built into the processes so that errors, fraud and noncompliance with established managerial policies were detected and corrected on timely basis.

Whittington and Pany (2004), submitted that in the 1970s and early 1980s, a number of fraudulent financial reporting were experienced in the corporate world. Consequently, accounting organizations including American Institute of Certified Public Accountants (AICPA), American Accounting Association, Financial Executive Institute, and Institute of Management Accountants, sponsored the National Commission on Fraudulent Financial Reporting (Treadway Commission) to study the causal factors associated with fraudulent reporting with a focus on detection, not prevention of fraud.

The commission, in its report made a number of recommendations that directly addressed internal control systems. For example, it emphasized the importance of competent and involved audit committee and an active and objective internal audit function in preventing fraudulent practices. It also called on the sponsoring organizations to work together to integrate the various internal

control concepts and definitions to develop common criteria that could be used to evaluate internal control system.

Consequently the Committee of Sponsoring Organizations (COSO) commissioned a study into developing how to integrate the various components of internal control system and its report entitled “Internal Control- Integrated Framework” was issued in 1992. The purposes of the study were to:

- a. Establish a common definition of internal control system to serve the need of different parties.
- b. Provide a standard against which business and other entities can assess their internal control system and determine how to improve them.

The study defined internal control system as “ a process, effected by the entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Effectiveness and efficiency of operation.
- b. Reliability of financial reporting.
- c. Compliance with applicable laws and regulation.”

After two years of extensive study, the Committee of Sponsoring Organization(COSO) of the commission of Fraudulent Reporting issued a four-volume document –“Internal Control: Integrated Framework”, commonly referred to as COSO report. The COSO report provides a common internal control

framework designed to satisfy the need of all stakeholders concerned with internal control systems, including directors, management, internal auditors, independence accountants, legislators and regulators. The COSO report also identifies and describes five interrelated components of internal control system that should be integrated within the management process. The components include:

1. Control environment
2. Risk assessment
3. Control activities/ procedure
4. Information and communication monitoring
5. Monitoring.

According to Auditing Practicing Board (APB) in January, 1995, the aim of Statement of Auditing Standards (SAS) was to establish standards and provide guidance on the auditor's responsibility to consider fraud and error in the audit of financial statement. For this purpose, according to SAS, fraud comprises both the use of deception to obtain an unjust or illegal financial advantage and intentional misrepresentation affecting the financial statement by one or more individuals among management, employees or third parties.

In support of submission made by APB in 1995, AICPA, in 1997, suggested that its members were subjected to a draft of educational initiatives aimed at publicizing the organization's latest standard; taking into consideration fraud in a Financial Statement Audit. The standard was intended to increase an

auditor's awareness of factors which could indicate the presence of fraud in a company.

According to Dan Guy, vice-president of the technical standard at the AICPA, the standard would describe two types of fraud:

- a. Intentional falsification of financial statement
- b. Theft of asset.

This required the auditors to assess the risk of material misstatement arising from fraud on every audit. Weaknesses in the design and operation of accounting and internal control system are contributing factors which heavily increase the risk of fraud and error. Fraud may involve:

1. Falsification or alteration of accounting records or other documents.
2. Misappropriation of asset or theft.
3. Suppression or omission of the effects of transaction from records or documents.
4. Recording of transactions without substance.
5. Intentional misapplication of accounting policies.
6. Willful misrepresentation of transactions or of the entity's state of affair.

Error, on the other hand, may involve:

1. Mathematical or clerical mistakes in the underlying record and accounting data.
2. Oversight or misinterpretation of facts.

3. Unintentional misapplication of accounting policies.

In July, 2001, the APB in the United Kingdom issued a briefing Paper on the issue of providing assurance in the effectiveness of internal control system. This was issued in light of previous consultation document by the APB and publications by International Federation of Accountants (IFAC) in 2005 about assurance service.

Internal control system is a key part of good corporate governance, and directors are responsible for maintaining an internal system of control that will safeguard the company's assets.

Statement of Problem

There have been serious concerns of the weaknesses in the accounting and effective internal control systems, as these weaknesses contribute significantly to existence of fraud and errors in an organization. There are always reports of frauds and misappropriation of fund in many public set-ups, of which Districts Assemblies are not excluded. For example, Auditor-General's Report for the year ending 2004 indicated that poor supervision of accounts and staff, ineffective internal auditing and poor filing of disbursement vouchers were the result of ineffective internal control system.

There were also misstatements of stock balance, stock shortages, missing items, and failure to route purchases through store records, non-recording of fixed assets in fixed assets register and inclusions of obsolete stock in stock balance,

payment without suppliers' invoices, unmarked assets. Other purchases like fuel and lubricants were not recorded in vehicle log books. These lapses were due to ineffective supervision of storekeepers in the receipt, safe custody and issue of store items.

According to the report, the Internal Audit Department has not been preparing and presenting its report on time. The Internal Audit function is to regularly inform management on weaknesses in the system as such delay might affect the usefulness of any report to management.

Auditor-General's Report on public accounts for the year ended 2005, revealed some weaknesses in the internal control system. Some of these are; delay in the lodgment of cash and cheque at the bank by the cashier, absence of fixed assets register, no laid down regulation regarding disbursement from petty cash book, balances in the accounts receivables and prepayment accounts were not updated during the year; leading to incorrect balances as at the balance sheet date. Also the Auditor-General's Report on the public accounts for the year ended 31st December, 2006, exposed the following: Unacquainted payment, unrepresented payment vouchers, misappropriation of revenue and other receipts. Others were contract irregularities, poor debt management and huge debt stock. The rest were procurement without entity's tender committee approval, illegal payment of salaries and bank lodgment not reflected in bank statement.

It appears that all efforts to encourage management of public set-ups to put in place adequate internal control system and adhere strictly to accounting and management policies and procedures, have not received the needed attention.

According to Internal Audit Act 2003 (658), for effective and efficient internal control system, it is required by law the establishment of Internal Control Units in all Ministries, Departments, Agencies, and Metropolitans, Municipals and District Assemblies. However, it was reported in the Daily Graphic of November 8, 2007 that, out of 200 Ministries, Departments and Agencies, only 31 had established some Internal Audit Unit.

The recent audit report for the year 2009 and queries on the operations of heads of second cycles and some tertiary institutions submitted to the Public Accountant Committee of Parliament were just unacceptable. Resources are scarce, and as such the effective and efficient use of them are of paramount concern to all stakeholders. Objectives and missions of entities can only be achieved if resources available to them are efficiently and effectively applied and utilized. Integrating internal control policies and procedure into entity's operational activities will be of tremendous help.

However, weakness in the design and operation of accounting and internal control system in most public sectors, including Districts Assemblies, contribute significantly to the increasing risk of fraud and errors in these establishments.

Some of the weaknesses include:

- a. A weak control environment within the entity.

- b. Systems that in their design, are inadequate to give reasonable assurance of preventing or detecting errors and fraud.
- c. Inadequate segregation of responsibilities in relations to functions involving the handling, recording or controlling of the entity's assets.
- d. Indication that internal financial information is unreliable.
- e. Evidence that internal control system have been overridden by management.
- f. Ineffective monitoring of the operations of the system which encourages control overrides, breakdown or weakness to continue without proper corrective action.
- g. Continuing failure to correct major weaknesses in internal control system where such corrections are practicable.

Effective internal control system of an organization will help achieve reliability of financial reporting, effective and efficient operation and compliance with applicable laws and regulations. Merely establishing an effective internal control system does not warrant its automatic operations. People; management and employees make it operate.

In view of the foregoing issues, it was the intention of the researcher to investigate the extent to which the control environment consistent with the policies at the Akatsi District Assembly (ADA). The study would try to investigate how management of the ADA assesses risks that have the tendency of inhibiting the achievement of its objectives. The study would also try to investigate the extent to which the accounting system at the ADA consistent with

the required standards, and to what extent the control procedures are adhered to. The study would also try to investigate the monitoring and control mechanisms that have been put in place by the management of ADA.

Objectives of the Study

The study assessed the effectiveness of the internal control system at the Akatsi District Assembly. Specifically the study sought to:

1. Determine whether internal control environment exists, and is operational.
2. Determine whether effective risk management procedures are put in place and are operational.
3. Determine whether information and accounting systems of reporting are in line with the required standards.
4. Determine whether the internal control procedures are adhered to.
5. Determine whether there is effective monitoring of the internal control systems.

Research Questions

In order to achieve the objectives, the study sought to answer the following questions.

1. To what extent is the control environment at the Akatsi District Assembly (ADA) consistent with the policies and procedures?

2. How has the management of the ADA assessed the risks that have the tendency to inhibit the achievement of its objective?
3. To what extent is the accounting system at the ADA consistent with the standard required and thus support reliability of financial reporting?
4. To what extent are internal control procedures adhered to at the ADA?
5. What monitoring and control mechanisms have been put in place at the ADA by the management of the ADA?

Significance of Study

Scarcity of resources cannot be overstated, and as such it bears on management of every entity to ensure optimum (effective and efficient) utilization of its resources to derive maximum results for its stakeholders, through the establishment and operations of effective internal control system.

The local government decentralization policy gives the management of the ADA the mandate and the responsibility to ensure the best is given to the people of the district. This could be achieved through the establishment and implementation of an effective internal control system.

Specifically, the study would contribute to the literature on internal control system. The result of the study would provide findings that would serve as a guide to Akatsi District Assembly and other District Assemblies in the country. The study would also provide information on the constraints associated with implementation of effective internal control system.

Organization of the Study

The study is organized into five chapters. Chapter one presents the background of the study, statement of the problem; the objective of the study; research question; significance of the study and organization of the study. Chapter two presents a review of the relevant literatures on the subject under discussion.

The research methods, research design, population, sample and sampling techniques, data collection method, and instrument are contained in chapter three. Chapter four presents the results and discussion of findings. Chapter five presents the summary, conclusion and recommendations from the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter is devoted to review of literature relating to the study. Issues discussed include the concept of internal control system, the objectives of internal control system, the uses and importance of internal control system, components of internal control system, rules or criteria of internal control system, and auditors' consideration and responsibility.

The Concept of Internal Control System

Auditing and Assurance Standards (AAS) 6 (2005), defines the system of internal control as “all the policies and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable the orderly and efficient conducts of its business including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information”.

The Statement of Auditing Practice (SAP-6) (1995) of the Institute of Chartered Accountants of India describes internal control system as the “plan of an organization and all the methods and procedures adopted by the management

of an entity to assist in achieving managements objective of ensuring as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, preventing and detection of fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information. The system of internal control extends beyond those matters which relate to the function of accounting system”.

This definition throws light on the complete areas of internal control system. The internal control system, according to this definition, implies the following:

1. Internal control system is a prescription and practice of a system by management.
2. The system encompasses plans, methods, and procedures prescribed for and practiced by the internal constituents of the entity.
3. The aim for prescription and practice of such a system is to ensure control over accounting and other administrative areas in order to bring forth efficiency and orderliness.

Ricchiute (2001), cited the SAS No. 50's definition provided by the COSO report released in 1992 as "a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operation.
2. Reliability of financial reporting.

3. Compliance with applicable laws and regulations.

In view of this definition, Guy, Alderman, Winters (1999), observed that, internal control system provides reasonable assurance of achieving each of the above listed three objectives. It is a tool of controlling the entities activities to ensure that they accomplish the desired objective.

According to Guy et al (1999), internal control system may include a wide variety of specific objectives and related policies and procedures. For example, a manufacturing company may establish certain internal control systems to ensure the quality of its products, to acquire raw materials at the lowest possible prices, to motivate its employees to participate in social development of the community it operates in, or to avoid making sales to customers who are unlikely to pay.

According to Millichamp (1992), “internal control system is the whole system of control, financial and otherwise, established by management in order to carry out the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the asset and secure as far as possible the completeness and the accuracy of its records. The individual components of the internal control system are known as ‘controls’ or ‘internal control’.”

American Institute of Certified Public Accountants (AICPA) (1997), has defined internal control system as “the plan of organization and all the co-ordinate methods, and measures adopted within a business to safeguard its assets, check the accuracy and the reliability of its accounting data, promote operational

efficiency and encourage adherence to prescribed managerial policies. A system of internal control extends beyond those matters which relate directly to the function of the accounting and financial departments.”

Power (1997) cited the Institute of Chartered Accountants of England and Wales definition of internal control system as “internal control means not only internal check or internal audit, but the whole system of control, financial and otherwise, established by management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records.”

Whittington and Pany (2004), submitted that there are diverse views in respects of the meaning and objectives of internal control systems. Some people, according to Whittington and Pany, interpret internal control system as steps taken by business to prevent misappropriation of assets and fraudulent financial reporting. Others, apart from admitting internal control system as check against fraud, also believe that it assumes control over all operations of the business.

Hevesi (2005), defines internal control system as “integration of activities, plans, attitudes, policies and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.”

This definition establishes that internal control system affects every aspects of an organization; all of its people, processes and infrastructure. There are a lot of publications that define internal control system in various ways and

submit various standards and guidelines of effective internal control system. The various definitions, however, have a common concept of internal control system using different words. The definitions are almost similar as they have all recognized internal control systems' extensive scope, its relationship to an organization's mission and its dependence on people in the organization.

In the opinion of the researcher, internal control system can be defined as strategic procedures and policies that are integrated into the operational activities of an entity, understood and adhered to by members of the entity with the view of optimizing utilization of available resources in order to achieve organizational objectives and mission.

Objectives of Internal Control System

According to American Institute of Certified Public Accountants (AICPA) (1997), the objectives of internal control system are:

1. To minimize, if not completely eliminate, wastage and inefficiencies in business operations and to safeguard the assets of the business.
2. To ensure high degree of accuracy and reliability of accounting data and promote operational efficiency.
3. To measure how far the policies of the management are being implemented.
4. To evaluate the efficiency of performance in all aspects of business activities and to highlight the weaknesses.

Cupta (2005), cited AAS6 objectives of internal control system relating to the accounting system which makes assessment important as:

1. It enables execution of transactions in accordance with management authorization.
2. It encourages prompt recording of transactions in their appropriate manner to permit the preparation of financial information and maintaining accountability for assets.
3. It also encourages the safeguarding of assets and records from unauthorized access, use or disposition.
4. It creates room for assets verification at reasonable intervals and appropriate action taken with regard to any discrepancies.

According to Tandon, Sadharasanem and Sadharabuhu(2008), as the size of operations of an entity increases and its nature of activities become complex, it becomes difficult for management to control the operations of the entity by just direct and close supervision. What management in such a situation needs to do is to develop a system which in its efficient operation provides desired control-effect.

Uses and Importance of Internal Controls System

According to Walter and Dunn (2000), internal control system helps the auditor to facilitate a proper evaluation of inherent risk. Assessment of existing internal control system helps the auditor to be more effective in developing an appropriate response to risk and in identifying constructive recommendations that

address the key concerns of management. By so doing the auditor considers the following:

- a. General matters; including the location and size of the operations, major capital and research projects, and management concerns, plans and expectations.
- b. Operations; including the nature of the products and production methods.
- c. Financial; including the financial structure, the key cash flows, investments and financing requirements.
- d. Personnel, including the remuneration structure.

Tandon et al (2008), observed that auditors are increasingly recognizing and appreciating the importance of internal control system.

As the sizes of businesses grow and become complex, their effective management become impossible unless the business have an effective system of internal control. By this, the auditor obtains an understanding of internal control system relevant to audit. This, according to AICPA, is used to identify types of misstatements, consider factors that affect the risks of the material misstatement, and design the nature, timing and extent of further audit procedures.

Cupta (2005), indicated that internal control system enables segregation of the entire entity in such a way that work performed by one employee is automatically checked by another, so that if there is any defect in the system, it can easily be detected.

According to Gupta (2005), if the internal control system is effectively operated in an organization, there is no need for the preparation of separate audit program for each and every audit engagement. This saves time.

According to Richards (2000), strong internal control system always put management on the alert against fraud, error and irregularities in its business financial statements, as well as ensuring that applicable laws and regulations are in conformity with the standard requirements.

Components of Internal Control System

Guy et al (1999), submitted that an entity may have internal control system relevant to an audit in two ways. First, they may pertain to the entity's objectives of preparing for external purposes. In this case, financial statements are fairly presented in conformity with generally acceptable accounting principles. Second, they may pertain to data the auditor uses to apply auditing procedures.

The system of internal control varies from one entity to the other depending on the size, nature, policies and objectives of the entity. However, in the submission made by Guy et al (1999), irrespective of the nature and objective of the entity, its effective internal control system, which is focused on achieving its objectives and mission, is guided by five components of internal control system.

Robertson (1996), in his submission, cited a publication in COSO Report and the proposed SAS-55 amendment, which states that internal control system consists of five interrelated components. These are:

1. The control environment.
2. Risk assessment.
3. Control activities.
4. Information processing and communication.
5. Monitoring.

Robertson (1996), pointed out that established internal control systems within these five components can have significant effects on how the auditor approaches his work in terms of planning and how to perform the audit. These five components are therefore vital for discussion of the nature of internal control system and how they are considered in an audit. In considering the effectiveness of an internal financial control, management should have regard for these five vital components.

The Control Environment

Gray and Manson (2000), pointed out that an understanding of the control environment enables auditors to assess the likely effectiveness of the control procedures. A strong control environment, for example one with strong budgetary control and an effective internal audit functions, increases the effectiveness of the control procedures.

According to them, good control environment is an essential tool in corporate governance. Corporate governance describes the manner in which companies or entities organize and govern themselves to best achieve their objective and secure the interest of the various stakeholders of the entities.

The control environment sets an organizational tone by influencing the control consciousness of its people. It reflects the control attitudes, awareness and action of the board of directors, management, employees and others concerning the importance of control and the emphasis given to it by the entity. The control environment is therefore the foundation that provides the discipline and structure for all other internal control components.

In their submission, Gray and Manson (2000), observed that the control environment is made up of and influenced by seven factors which otherwise serve as requirements for effective control environment. These factors are:

- i. Integrity and ethical values.
- ii. Commitment to competence.
- iii. The board of directors and audit committee.
- iv. Management philosophy and operating style.
- v. Organizational structure.
- vi. Assignment of authority and responsibility.
- vii. Human resources policies and practices.

Integrity and Ethical Values: According to Whittington and Pany(2004), effective control environment requires adherence to integrity and ethical values.

Integrity and ethical values have significant influence on management's value judgment, preferences and management styles. According to them, they form a set of moral and behavioral standards that management and employees adhere to as required by the ethics of the entity.

Tandon et al (2008), submitted that the integrity and ethical values of management are communicated through policy statement they make, through how they administer the entity, through how they monitor the system, and through the codes of conduct they put in place. For example, communication of ethical values and control consciousness to management and employees through written code of conduct, formal standard of discipline and performance appraisal, as required by the ethics of the entity, are effective tools for control environment.

Cupta (2005), indicated that effectiveness of the internal control structure depends directly upon the integrity and ethical values of the personnel who are responsible for creating, administering and monitoring the structure. In this direction, management is expected to establish behavioral and ethical standards that would discourage employees from engaging in acts that would be considered dishonest, unethical, or illegal. To be effective, these standards must be effectively communicated through and by appropriate means, including official policies and code of conduct.

Commitment to competence: Brata (2008), pointed out that effective control environment requires the commitment of management and employees to competence. Competence is the knowledge and skills necessary to accomplish a

task that defines an individual's job. Commitment allows competence to permeate through the organization, as all levels of staff are involved.

Commitment to competence therefore requires management to consider the competence levels necessary for a particular job and to use or engage employees with the appropriate skills and knowledge for the job.

The Board of directors and Audit committee: Whittington and Pany (1995), submitted that, the control environment of an organization is significantly influenced by effectiveness of its board of directors and the audit committee. The effectiveness of the board or audit committee depends on the extent of its independence from management, the experience and status of its members, the extent to which it raises and pursues difficult questions with management, and its interactions with the internal and external auditors.

According to Whittington and Pany (1995), the audit committee of the board of directors should be composed of outside directors, who are neither officers nor employees of the organization. This would enable the audit committee to be effective at overseeing the quality of the organization's financial reports, and also serves as a deterrent to management's override of internal control system.

Guy et al (1999), noted that the board of directors and audit committee generally guide and oversee the operations of an entity. They may be responsible for monitoring the entity's operations and progress, for authorizing certain activities, for providing advice to management, and for overseeing internal control

system and financial reporting. However, boards have different responsibilities and levels of involvement in various entities. Consequently, auditors would be interested in knowing the responsibilities of board of directors and how actively and effectively the board operates. An active and involved audit committee can significantly enhance the quality of an entity's financial reporting.

Management Philosophy and Operating Styles: According to Alleyne and Howard (2005), management philosophy and operating styles is simply management's general approach towards running the entity. According to them, one aspect of philosophy and operating styles is management's approach towards risk taking and monitoring business risks. For example, management may be conservative or aggressive in taking business risk, and it may be careful in evaluating the potential outcome of such risks and in monitoring the entity's progress after deciding on a specific action. Another aspect of philosophy and operating styles involves how much emphasis management places on meeting budgetary, profit and other financial and operating goals.

Guy et al (1999), indicated that management differs in both their philosophies towards financial reporting and their attitudes towards taking business risks. Some management teams are extremely aggressive in financial reporting and place great emphasis on meeting or exceeding earning projections. They may be willing to undertake activities of high risk with the prospect of high returns. Other management teams are extremely conservative and risks averse.

The differences in philosophy and operating styles may have an impact on the overall reliability of the financial statements.

In the submission made by Guy et al (1999), management's philosophy and operating styles is also reflected in the way the organization is managed. Internal control systems in an informal organization are often implemented by face-to face contact between employees and management. A more formal organization will establish written policies and performance reports to control its various activities.

Organizational Structures: According to Brata (2008), acceptable control environment undisputedly requires that an appropriate organizational structure of the business is established for the purposes of planning, execution, control and monitoring of business activities to achieve the goals of the business. An entity's organizational structure is the form and nature of its subunits and the management functions and reporting relationship related to these subunits. The organizational structure creates the framework within which an entity operates, and how authority and responsibility are assigned within an entity.

According to Brata (2008), in a centralized organizational structure, decision-making authority is concentrated at the upper-level subunits. In a decentralized organizational structure, this authority is dispersed among many subunits. The organizational structure divides authorities, responsibilities, and duties among members of an organization by dealing with such issues as

centralized versus decentralized decision-making and appropriate segregation of duties among the various departments.

When management decision making is centralized and dominated by one individual, that individual's moral character is extremely important to the auditors. When decentralized style is used, then procedures to monitor decision making of all managers involved become equally important.

In effect, the delegation of authority and responsibility should be clearly stated in respect of the structure. An employee should always know the precise powers delegated to him, and the extent of his authority and to whom he should report. Auditors need to understand the organizational structure of an entity in order to give adequate consideration to potential sources and causes of misstatements in the entity's financial statements.

Assignment of Authority and Responsibility: Millichamp (1992), submitted that effective control environment also requires the existence of appropriate delegation of authority with accountability. Delegation of authority involves an element of risk and persons to whom responsibilities are delegated will have managerial accountability to those delegating the authority. Thus, the entity's personnel should have a clear understanding of the entity's objectives, how their individual actions interrelate and contribute to those objectives, and how and for what they will be held accountable. A well-defined and clearly understood assignment of authority and responsibility in an entity could erase the

auditors' perception about the likelihood of material misstatement in financial statement.

Human Resource Policies and Practices: Another consideration and requirement for effective control environment and auditing is the entity's ability to engage personnel who are competent to accomplish its objectives. Gray and Manson (2000), noted that areas of concern of the human resource policies and practices are hiring, training, evaluation, promotion, compensation of employees and allocating resources necessary for the performances of tasks assigned to the employees. The policies and practices should also be concerned with appropriate remuneration, promotion and career development prospects.

Risk Assessment

Guy et al (1999), observed that "risk assessment is an entity's identification, analysis, and management of risk relevant to the preparation of financial statements that are fairly presented in conformity with generally acceptable accounting principles". According to them, risk assessment procedure considers external and internal events and circumstances that may adversely affect its ability to record, process and report financial data consistent with management's assertions in the financial statement.

Many risks if not identified and addressed in a timely manner can cause misstatement in the entity's financial statement. Therefore, risks assessment is an important component of internal control system.

Guy et al (1999), in their submission, indicated that business risk, once identified, should encourage managers to put in place sustainable internal control measures towards reducing the potential impact of such risk. Some risks may be likely, others less likely, but an assessment of likelihood will be necessary. For example, a water company may be faced with a high probability that its activities may result in river pollution; unless internal control measures to reduce the risk are in place.

According to Ricchiute (2001), management's task is to identify the risks that bear on their operations, financial reporting, and compliance objectives, and to take actions necessary to manage them. He submitted that risk management might emerge solely as a result of managing change. For example, changed operating environment could call for risk of divestiture in the telecommunication industry; engaging new senior executive could be of risk as he would not have understood the entity's culture.

Control Activities/ Procedures

Robertson (1996), noted that, "control procedures are activities that ensure complete and accurate reporting of financial statement. Completeness and accuracy of recording is prerequisite of complete and accurate reporting". In his explanation, there should be appropriate authorization limits for transaction that should reasonably limit the company's exposure to risk.

It is therefore good to put in place practices that would limit the exposure of organization to risk or failure by making clear decisions about the limits of authority for individuals. For example, the authority to purchase stationery up to GH¢50 might be given to office manager while the purchases of plant at a cost of GH¢100,000 might be a board's decision.

According to submission made by Guy et al (1999), and Millichamp (1992), control activities “are the policies and procedures management establishes to address risks that might prevent the entity from achieving its objectives. Control activities have various objectives and are applied at various organizational and functional levels within the entity”.

According to them the following categories of activities are required for effective control procedures:

1. Performance Review: This involves regular and consistent comparison of actual performance with budget and forecast to ascertain whether the entity is meeting its objective; and to put timely corrective measures of any unforeseen circumstance that might inhibit the entity from achieving target.
2. Information processing: This involves procedures aimed at ensuring the reliability of data processing and information reports that are generated for management decision. The control activities are used to check authorization, accuracy, and completeness of transactions. The control activities could be performed by computers. For instance, a computer

program may check the validity of account number entered from invoices before accepting them for processing.

They however indicated that, one of the great risks in modern data processing system is the potential for corruption and loss of data and information held in computer files. It therefore bears on management, the responsibility to put in place risk-free measure (for example, provision of back-up facilities) to rescue any of these events.

3. Physical Control: This concerns physical custody of assets and involves procedures designed to limit access to authorized personnel only. They include internal control tools that limit exposure to loss of assets, records or to fraud.

Physical control also includes simple measures such as keeping high value items under lock and key; authorization for access to computer programs and data files; and the periodic counting of assets and comparison with amount or quantities shown on control records.

- 4 Segregation of Duties: Segregation of duties is designed to reduce loss of assets by ensuring that no one person should be responsible for the recording and processing of a complete transaction, or solely responsible for holding assets or records without intervention by others. Involvement of several people reduces the risk of any person perpetrating and concealing errors and irregularities in the normal process of discharge of

his or her duties. For example, functions which for a given transaction should be separated include:

- a. Initiation (for example, the works foreman decides that the firm needs more lubricating oil)
- b. Authorization (for example, the works manager approves the purchase)
- c. Execution (for example, the purchase or procurement department orders the item, with appropriate purchase order, which are arrived at after sufficient scrutiny of a number of pro-forma invoices submitted for the supply of the item)
- d. Custody (for example, on arrival, the oil is taken by the goods-in department and passed with appropriate goods-in documentation to the store department)
- e. Recording (for example, the arrival is documented by the goods inward section and the invoice is compared with the original order and goods-in note by the accounts department, and recorded by them in the books).

Information and Communication

According to Gray and Manson (2000), information and communication “are performance indicators which allow management to monitor the key business and financial activities and risks, and progress towards financial objective and to identify development which requires intervention”.

Information and communication, as a component of internal control system, encompasses both information system used to produce financial information and the communication of that information to the appropriate person at the appropriate time.

Robertson (1996), noted that “information and communication is a necessary prerequisite for establishing, maintaining and changing control features of a company. Information and communication is an integral part of monitoring and control of activities of companies”.

In his submission, Robertson (1996), explained that information encompasses communication of relevant information to the right people at the right frequency and time to allow prompt response. It is important that people are not overburdened with information, but receive it when needed and only if they need it. Thus internal reporting system should be carefully planned.

Communication on the other hand, according to Robertson (1996), involves providing information generated by the financial reporting information system to the appropriate parties in the entity on a timely basis. Communication also embraces the broader goals of providing a clear understanding of individual roles and responsibilities pertaining to internal control system over financial reporting.

One major information need by management is accounting information. According to Appiah-Pippim (1967), the purpose for which management uses accounting information can be grouped into two categories:

1. Planning.
2. Control.

In his submission, planning is the process of deciding what action should be taken in future. The planning process consists of considering several alternative courses of action and deciding which of these is the best.

According to Appiah-Pippim (1967), accounting information is useful in the internal control process in the following ways.

1. As a means of communication: Accounting reports can assist in informing the entity about management's plans and policies and, in general, the type of action that management wishes to take.
2. As a means of motivation: An obvious and fundamental fact about entities is that they are made up of human beings. The control process essentially consists of inducing the people in an organization to do certain things and to refrain from doing others.
3. As a means of checking up: Periodically, management needs to evaluate how well the employees are doing their jobs. Such an appraisal of performance may result in salary increase, promotion, re-assignment, corrective action of various kinds, or in extreme cases, dismissal. Accounting information can assist in this appraisal process, although an adequate basis for judging an employee performance cannot be obtained solely from information revealed by accounting records.

Also, Lokko (1978), submitted that, one of the principal objectives of internal control system is to provide a means of communication between the superiors and their subordinates with respect to the financial activities of the subordinates and the financial expectation of the superiors.

Monitoring of Controls

Guy et al (1999), defines monitoring “as the process of assessing the quality of internal performance over time”. In their submission, as entities expand or contract their operations, new personnel may join the entity, or the effectiveness of training and supervision may vary. It therefore bears on management the responsibility to determine whether internal control system continues to be effective. This is done through monitoring.

Monitoring therefore provides reasonable assurance to the board that there are appropriate internal control procedures in place for all the company’s financial business activities and that these procedures are being followed.

Basic Rules/Criteria of or Aids to Internal Control

According to Gray and Manson (2000), in the auditing guideline on internal control system issued by the Auditing Practices Committee (APC), are some basic rules on internal control system that are of value in evaluating internal control system. These rules are segregation of duties, organizational control (including clear statement of responsibilities), physical control, authorization and

approval, arithmetic and accounting controls, personnel controls, supervision controls, and management control.

Segregation of duties: As indicated by Millichamp (1992), a fundamental concept of internal control system is that, no one department or person should handle all aspects of a transaction from the beginning to the end. In a similar manner, no one individual should perform more than one of the functions of authorizing transactions, recording transactions, and maintaining custody over assets. Also as much as possible, individual executing the specific transaction should be segregated from these functions.

Thus, where internal control system is dependent on segregation of duties within a particular function, management should allocate duties appropriately. An example is where a chief accountant keeps a debtor's control account independent of the person keeping the sales ledger. The primary objective of segregation of duties is to reduce the opportunities for any one person to be in position to both perpetrate and conceal errors or irregularities in the normal course of his or her duties.

Organizational Control, including clear statement of responsibilities: Gray and Manson (2000), noted that segregation of duties would be hardly possible without a clear statement of responsibilities. An organization's chart is usually the starting point for allocating responsibilities and therefore a good approach to an organizational control. When this is backed up by job descriptions, it gives

individuals in the company an understanding of their duties and to whom they are responsible.

Basu (2008), submitted that the delegation of authority and responsibility should be clearly specified. An employee should always know the precise powers delegated to him, the extent of his authority and to whom he should report.

Physical Controls: Again Gray and Manson (2000), pointed out that these are control activities that include the physical security over both records and other assets. Safeguarding of records may include maintaining control over unissued and prenumbered documents, as well as other journals and ledgers, and restricting access to computer programs and data files. The internal control system should involve procedures designed to limit access to authorized persons only. Only individuals who are authorized should be allowed access to the entity's assets.

According to them, direct physical access to assets may be controlled through the use of safes, locks, fences and guards. Improper and indirect access to assets which are generally accomplished by falsifying financial records must be prevented by safeguarding the financial records.

Periodic comparison should be made between accounting records and the physical assets at hand. Investigation as to the cause of discrepancies will unearth weaknesses either in procedures for safeguarding assets or in maintaining the related accounting records. Without these comparisons, waste, loss, or theft of related assets may go undetected.

Authorization and Approval: According to Batra (2008), all transactions should receive authorization or approval by an appropriate person; and the limit to these authorizations should be specified clearly. According to him, it is pointless for stock to be kept in a locked area, if anyone can obtain, as much as he or she asks for, without authorization.

Arithmetical and Accounting Controls: Gupta (2005), submitted that these are controls in the recording function which check that the transactions have been authorized by the appropriate personnel, that they are executed, and that they are correctly recorded and accurately processed. These are internal control systems that use figures, relationships between figures, accounts and reconciliation. For example, bank reconciliation is to control the use of bank accounts.

Personnel Controls: Gray and Manson (2000), noted that people should be carrying out duties in accordance with their capabilities and experience. The efficiency of an internal control system is highly dependent upon the competence and integrity of people operating the system. Measures to personnel controls include appropriate remuneration, promotion and career development prospects, selection of people with appropriate personal characteristics, training, assignment of tasks to the right level, and adherence to company policy.

Supervision Controls: According to Guy et al (1999), in internal control system, there should be supervision by responsible officials of day-to-day transactions of the entity. That is all actions at all levels of staff should be

supervised. The responsibility of supervision should be clearly laid down and communicated to persons being supervised.

Management Controls: Walter and Dunn (2000), submitted that this involves the overall supervision of the control environment and includes planning at all levels; strategic, tactical, operational, management accounting, budgeting and internal audit.

Supervision controls are direct controls by responsible officials, whereas management controls are indirect. Management, in consultation with the board of directors provides the framework in which direct controls are exercised.

Auditors Consideration and Responsibility

Basu (2000), has noticed the observation made by the Institution of Chartered Accountants of India in its Statement of Standard Auditing Practices (AAS-6) as follows:

“The duty of safeguarding assets of a company is primarily that of the management, and the auditor is entitled to rely upon the safeguards and internal controls instituted by management, although he will of course take into account any deficiency he may find therein, while drafting his program”.

According to him, so far as the auditor is concerned, the examination and the evaluation of internal control system is an indispensable part of the overall audit program. The auditor needs reasonable assurance that the accounting system

is adequate and that all the accounting information which should be recorded, has in fact been recorded.

The auditor should gain an understanding of the accounting system and its related internal control system and should study and evaluate the operations of these internal control systems in order to determine the nature, timing and the extent of the audit procedure.

Guy et al (1999), in their presentation indicated that an auditor needs sufficient understanding of the five components of internal control system to plan an audit. In a broader sense, an auditor's understanding must be sufficient to enable him or her to accomplish the following planning objectives.

1. Identify the types of potential materials misstatement that could occur in the financial statement.
2. Consider factors that affect the risk that such misstatement will occur.
3. Design substantive tests.

To accomplish the three planning objectives, the auditor must have sufficient understanding of internal control system. Such understanding according to Guy et al (1999), is influenced mainly by the knowledge requirement established by SAS No. 55 (AU319) for each of the five elements of internal control system.

According to Ricchiute (2001), an understanding of internal control system allows an auditor to identify the type of material misstatement that could occur in the financial statement, to consider factors that affect risk of material

misstatement, and to design substantive tests of account balances and classes of transactions that are processed by internal control system.

CHAPTER THREE

METHODOLOGY

Introduction

The components of the methodology will include the research design, instrument used for data collection, population, sampling and sampling techniques, and the procedure for data analysis.

Research Design

The study employed descriptive strategy of research design. Gravetter and Forzano (2006), pointed out that descriptive research typically involves measuring a variables or set of variables as they exist. By presenting people with a few carefully constructed questions, it is possible to obtain self-reported answers about attitude, opinions, personal characteristics and behaviors. Ary, Jacob and Revarieh (2002), also submitted that descriptive research is designed to gather information is respect of the status quo.

According to Osuala (1991), descriptive survey is practical to the researcher and it identifies the present or existing conditions at the time of the research. Descriptive method of research helps to determine the actual conclusion of a situation at a particular point in time.

Trochim (2000), submitted that, descriptive research is concerned with existing conditions and relations. These include practices, attitudes and opinions

of people, thus there is always objective description of activities. According to him, descriptive research answers the question who, what, where, when and how.

Consequently, and in respect of assessment of internal control system of the Akatsi District Assembly, descriptive research strategy was chosen by the researcher as it characteristically has the potentials of gathering the needed response from the respondents for an objective result.

The researcher has chosen the descriptive design because of its potential of producing good responses from respondents. It gives a clear meaning of events and seeks to explain people's perception in respect of a situation being examined. Also, with descriptive design, in depth and follow up questions can be asked and items that are unclear can be explained. Again, the descriptive design is suitable for collecting information through questionnaire, interview or observation. According to Fraenkel and Wallen (1990), with descriptive design, it is convenient to use sample from the population of the study to make generalization for the study

The Study Population

Polit and Hungler (1996), submitted that study population is the entire aggregation of cases that meet the designate set of criteria. It comprises the entire aggregation of elements in which the researcher is interested in getting information and drawing an informed conclusion.

According to Amedahe (2002), a target population is the aggregate of cases about which the researcher would like to make generalization. All assembly members, all staff members and other stakeholders of the ADA formed the target population of this study.

Sampling and Sampling Techniques

The heads of various units and conveners of sub-committees numbering thirty constituted the sample for the study. The chosen respondents were believed to be those in control of affairs and thus have in-depth understanding of the responsibilities of their units. In other words purposive sampling technique was employed.

The primary consideration in purposive sampling is the judgment of the researcher as to who can provide the best information to achieve the objective of the study. In this case, the researcher only got in touch with those informants who in his opinion are likely to have the required information and be willing to share it. Targeting only the informants as the sample for this study helps in lowering cost, providing a more accurate result, and increasing speed of data collection and analysis.

Data Collection and Instrument Used

Data collection was consistent with the assessment of internal control system of ADA. The researcher introduced himself to the management of the

ADA for the exercise. The data for the study was collected through face-to-face interview of thirty respondents. Respondents were interviewed to give their opinion about the situation at the Akatsi District Assembly in respect of the internal control system.

Informant interview was conducted personally by the researcher for the collection of the required information necessary for assessment of internal control system. Structured interview was employed by the researcher. It was made up of open-ended questions grouped into five components; I, II, III, IV, V; each of which addressed each of the research questions. According to Kumar (2005), in structured interview, the researcher asks predetermined set of questions, using the same wording and order of questions as specified in the interview schedule. An interview schedule is a written list of questions, open-ended or closed-ended, prepare for use by an interviewer in a person-to-person interaction. One of the main advantages of structured interview is that it provides uniform information, which assures the comparability of data.

According to Gravetter and Forzano (2006), informant interviews are reserved for a very small group of specially selected individuals, often called key informants. Typically, these are people who have unique perspectives on the issues or unique access of information. Gravetter and Forzano (2006), submitted that informant interview are useful in situations where the researcher is willing to accept the limitations of a small group of respondents in exchange for the in-depth information that can come from detailed interview.

Taylor and Bogdan (1998), noted that informant interview is repeated face-to-face encounter between the researcher and the informant directed towards understanding informant's perspectives on their lives, experiences, or situations as expressed in their own words. According to Kumar (2005), informant interview is more appropriate for complex and sensitive situations, as the researcher has the opportunity to prepare the respondent before asking sensitive questions. According to him, informant interview is useful for collecting in-depth information by probing.

In view of the merits of informant interview, the researcher has chosen it as the instrument because information requirement for this study can sufficiently be provided by only the management of ADA.

Data Analyses

The responses obtained from the key informants were analyzed qualitatively to determine the status of the internal control system at the ADA. Content analysis of responses was used to determine the situation as it existed at the ADA. Gravetter and Forzano (2006), submitted that content analysis involves using the techniques of behavioral observation to measure the occurrence of specific events in literature, movies, television programmes, or similar media that present replicas of behaviors.

Limitation of the Study

The target population for the study was the employees and the assembly members of the ADA. But a sample of only thirty consisting of the heads of the units and conveners of sub-committees was used. A large sample would have provided adequate information that would have been more representative of the population than the sample used but the researcher is constrained by time and funding.

Also this study is limited in scope because it was limited to only Akatsi District Assembly. Subsequent studies in this area should consider using more District Assemblies so that differences in internal control systems can be determined.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The need for efficient internal control management in the life of Metropolitan, Municipal and District Assemblies (MMDAs) cannot be overstated. The quest for good governance is so high in the present democratic era that, many Governments are gradually spreading power to the grassroots. Ghana's current programme of ensuring effective internal control system was initiated prior to the democratic transition in the early 1990s through a legislative instrument on Local Government (PNDC Law 207).

The 1992 Constitution and the Local Government Act of 1993 directs MMDAs among other functions to effectively mobilize resources for the development of the districts through employing effective internal control system.

This chapter is concerned with the content analysis and discussion of the information provided by the informants of the ADA in respect of the Assessment of Internal Control System at the Akatsi District Assembly (ADA) in the Volta Region. By virtue of the fact that the work is not quantitatively biased, the descriptive approach has been adopted for the analysis of the data gathered.

The chapter presents the discussion under five sub headings. These are examination of control environment, risk assessment, accounting systems for financial reporting, control procedures and monitoring control activities.

The Extent to which the Control Environment Consistent with Policies at the Akatsi District Assembly

The control environment sets the tone of an organization and it influences the control and consciousness of employees. It refers to the competence and the philosophy of administration of the entire staff as well as the ways in which duties are carried out. That is, it encompasses the management style, corporate culture and values shared by all employees.

In examining the control environment, content analysis of responses with respect to the number of times general assembly meetings are held annually was made. It came out clearly that, it is a statutory requirement that such meetings are held at least twice a year. Normally, according to the report, general assembly meetings are held in the second and last quarters of the year. Records available confirmed that assembly meetings are held at least twice a year. According to the content, records or minutes of proceedings at the general assembly meetings are always taken.

Analysis of the content disclosed that inputs and contributions from stakeholders are vital to good governance and as such good decision making, and therefore are considered into the operational activities of the ADA. According to the content analysis, relevant inputs and contributions are gathered from general assembly meetings, meetings with donors, NGOs, opinion leaders, heads of decentralized departments, chiefs, women groups and other organized groups. Monthly and quarterly reports from various departments also contribute to

informed decision making. About the executive committee's position on contributions and inputs from the floor of the general assembly meetings, the analysis established that the executive committee could not ignore concerns from the floor of general assembly meetings as these concerns contribute to the operations at the ADA. According to the responses, the stakeholders participate in needs assessment and prioritization of projects and others activities undertaken by the ADA. It was, however, revealed that only inputs of relevance in respect of policy directions of Ministry of Local Government and Rural Development, donors/financiers, NGOs and others collaborators are dealt with at the executive committee meetings. Minutes of general assembly meetings and corresponding executive committee meetings were compared, and it was observed that inputs of relevance from the floor of the general assembly meetings were sufficiently given the needed consideration at the executive committee meetings. Records available showed that reports from executive committee meetings are always sent to and read out at the general assembly meetings.

The next item examined whether there are schedules for sub – committee meetings. It was generally indicated that there are schedules for sub-committee meetings. It was revealed that sub-committee meetings are necessary as decisions from such meetings always serve as inputs for the overall executive committee report.

Attendance to assembly meetings and other meetings are monitored by provision of attendance registers. It was also mentioned that attendance register is

always made available for all employees of the ADA. This was confirmed by attendance registers available.

The researcher also sought to find out whether hardworking employees of the ADA are motivated to encourage them to perform better. In responding to the question “are there incentive packages for hardworking employees”?, majority of the respondents indicated that there are no incentive packages for hardworking employees of the ADA. It was disclosed that there has not been budget allocation for such packages, and also criteria for identifying hardworking employee could not be determined. It was also revealed that any attempt to introduce and implement such a policy could create unhealthy competition, conflict, gossiping, nonperformance and generally unfriendly work environment

The responsibilities and reporting lines of employees at the ADA was also examined. The respondents were asked to respond to the question “are employees conversant with their responsibilities and reporting lines”? Examining the content of responses, it was clear that most employees are conversant with their responsibilities and reporting lines. It was however established that some of the employees are not conversant with their responsibilities and reporting lines. This could mean that these employees do not have specific schedules that they perform at the ADA or that their job descriptions are not well spelt out in their appointment letters. The Human Resource unit should thus reorient these staff members to make them active and efficient at the ADA.

The chain of command at the ADA was also examined. Interestingly, it was disclosed that, in the local government system, it is always difficult for the next-in-command at the ADA to act in the absence of the substantive head of a unit in very sensitive and highly volatile circumstances. This, according to the informants, was as a result of lack of trust and confidence that substantive heads have in their immediate subordinates. Most at times, files containing vital documents are locked up or could not be traced in the absence of substantive schedule officers.

The participation of junior and middle level staff at the ADA was also examined. From the content analysis, it was clear that senior or management staff at the ADA listens to the views of all class of employees at the ADA in decision making. This shows that leadership is participatory.

Given the level of involvement and participation of all staff at the ADA in achieving the objectives of the ADA, responses indicated that, assembly members, management and employees are committed to achieving the objectives of the Assembly

The next question examined the caliber, vis-a vis the competence of employees in handling the demands of their job descriptions. Responses revealed that employees have the required skills and competences to deliver on their jobs.

How are staff members recruited into the Akatsi District Assembly? From the responses to this question, most of the recruitments are centralized and made at the Ministry of Local Government and Rural Development, Head of Civil

Service and Accountant and Controller General Department. Recruitment of some few ones like drivers, security personnel and cleaners are initiated by, and upon recommendation of, the District Coordinating Director and the Principal Executive Officer.

Finally, management style towards the operations of the ADA was also examined. In responding to the question “is management style towards the overall operation/administration of the ADA very good”?, it came out clearly that management style towards operations or administration of the ADA is very good.

On the whole, and to a larger extent, from the content analysis of responses with respect to the status of the control environment, it could be concluded that the control environment at the ADA is sound enough for effective governance and management functions, as well as communication and enforcement of integrity and ethical values.

Risk Assessment by Management at the Akatsi District Assembly

In assessing the risk factors at the Akatsi District Assembly (ADA), a number of questions were posed to respondents at the ADA. The responses were to serve as a screening tool that facilitates rapid identification of potential problems for corrective action to be taken. The section also examines the vulnerability or weaknesses of components of the administrative areas to waste,

fraud, abuse or mismanagement. The following are the specific analysis of the responses from the respondents.

Formation of District Tender Board (DTB) at the ADA, as required by law, provides the basis of managing risks that could inhibit achieving the objectives of the ADA. According to the content analysis, the DTB is responsible for evaluating tenders or bids and recommending to management as to which bid to accept. It was indicated that the award of contract for supply and services has been streamlined upon establishment of District Tender Board. As to whether the recommendations from the DTB's evaluation of bids are always accepted by the management of the ADA, responses disclosed that the recommendations from the District Tender Board are most at times taken.

As per the Procurement Act of Ghana, tender or quotations are to be invited from more than one supplier before a choice is made as to who intend to provide the best services with lowest cost. Respondents were asked to respond to this requirement. Analysis of responses disclosed that tenders are always invited from more than one contractor, and that the procurement act requirements are strictly followed. Also, the researcher sought to know whether the ADA regularly receives office supplies for the running of the ADA. Examination of the responses showed that the Assembly regularly receives office supplies for efficient running of its offices.

The researcher also sought to find out whether accounting system of reporting is often influenced by management at the ADA. The responses, emphatically, pointed to the fact that the accounting system of reporting in the ADA is strictly adhered to. It was revealed that management does not change the accounting reporting system, and that management does not have any influence on the reporting procedure.

The consistency of accounting policies of the ADA with the generally acceptable accounting policies was also examined. It was reported that financial statements are prepared using accounting policies, principles and procedures consistent with generally acceptable accounting policies, and that generally acceptable accounting policies are being followed in reporting the finances of the ADA.

Record keeping at the ADA was also examined in the study. The researcher sought to find out whether up-to-date records are kept and reconciled periodically with the financial records kept by the ADA. Content analysis of responses indicated that proper records are being kept and reconciled periodically by the finance department of the ADA. Per the financial regulation of the Metropolitans, Municipals and District Assemblies (MMDAs), financial statements are to be prepared monthly and made available to the finance committee of the Akatsi District Assembly. Responses indicated that financial statements on all transactions at ADA are prepared on monthly basis. This was confirmed by records of monthly financial statements available at the Treasury.

Another question that seeks to look at how management assesses risks at the ADA borders on payment for work done. Responses revealed that the accuracy of payment vouchers is checked for arithmetic accuracy before payments are made. Interestingly, it was discovered that the ADA has designed measures to attain the objective of this control (that is checking arithmetic accuracy), which among other things are aimed at promoting the accuracy of every entry by subjecting such entries to scrutiny by at least one person apart from the one who initiated it.

The researcher also examined the store of the ADA. The analysis showed that there is always correct statement of stock balance, stock shortages and missing items. Further analysis of the responses reveals that purchases are always routed through the store, and also, for easy identification, all properties of the ADA are properly labeled in the name of the ADA.

Generally, scrutiny of the content of responses in respect of how management of ADA assesses risks at the ADA, it could be concluded that the ADA has put in place risk averse measures that make internal control system at the ADA effective enough to make it possible for management of the ADA to identify risks and decide upon appropriate actions to manage them.

Consistency of Accounting System at ADA with the Required Standard

This section examines the accounting system at the Akatsi District Assembly. The accounting system forms an integral part of the overall information system and it provides management with information needed to make

timely and effective decision for planning, directing and controlling activities regarding an organization/establishment.

The accounting system consists of the accounting records (ledgers, journals, etc) and the supporting documents (invoices, supply orders, cheques, etc). Accounting system is created and maintained to identify, assemble, analyze, classify, record and report an entity's transactions and maintain accountability for its assets and liabilities.

In the first place, the researcher sought to find out whether the cashiers of the ADA are responsible for cash receipts and payment at the accounts office. Content analysis of responses indicated that the cashiers of the ADA are responsible for cash receipts and payments at the accounts office. The analysis further revealed that the Treasury is charged with the responsibility of supervising and enforcing the punctual collection of revenue and ensuring that the revenue collected and other receipts are promptly brought into account. This control measure, according to the responses, is extended to revenue collectors. All revenue collectors are required to make daily payments of all cash sent to the bank and the pay-in-slips as well as the cash books are occasionally verified by the internal auditor.

Next, the respondents were asked to respond to the question "is the bookkeeper responsible for recording transactions in the cash register / book"? The analysis of the responses provided the evidence that bookkeepers at the

Assembly are responsible for recording transactions in the cash register or cash books at the Assembly.

The functions of the procurement / tender board were also examined in the study. The researcher sought to find out whether the board is responsible for evaluation of bid and procurement activities at the ADA. The analysis of responses revealed that procurement committee is responsible for evaluating bids and procurement activities. This is in fact in line with the Procurement Act of Ghana thereby ensuring effective internal control system. It was however reported that, there is no substantive purchases or procurement officer; instead, the budget officer acts in that capacity. It is believed that the budget officer is conversant with the supply and procurement functions. Upon the purchase of store, they are checked against the Local Purchase Order (L.P.O) to ensure that the items delivered comply with specifications. Discrepancies detected in the process are reported immediately to the Treasury for appropriate action.

The processes and procedures of making payments were also examined. The researcher sought to find out whether payments are supported with appropriate supporting documents, the signatories to documents and ADA's cheque are authentic and who initiates the process of making payments for services rendered to the ADA. Responses showed that payments are supported with relevant documents, and the necessary accounting principles are being followed by the ADA. Regarding signatories for cheque transactions, reactions from respondents indicated that the ADA's bank transactions, especially

withdrawals are signed by at least two persons. This is an indication that there is transparency in the financial transactions at the ADA.

Further, respondents mentioned that, in order to guide the financial management of the ADA, all financial transactions are initiated by departmental heads of the ADA. This means that head of departments are always involved in financial transactions of the ADA. Further analysis of the responses disclosed that the authorizing officer seeks to ensure the following:

- a. The expenditure he is approving is in respect and within provisions for the service included in the approved budget.
- b. The services specified have been duly performed.
- c. The prices quoted are in agreement with contract prices fixed or are fair and reasonable according to current local prices.
- d. The persons named in the vouchers are those entitled to payment.

In view of the above, as earlier indicated, the accounting system of reporting is consistent with the required standards. On the whole, from the content analysis of responses with respect to determining effectiveness and consistency of accounting system, it was revealed to a large extent that, the information and accounting systems are effective for financial reporting objectives, as well as, for the procedures and records that initiate, record, process and report transactions and maintain accountability for assets, liabilities and equity of the ADA.

Adherence of Control Procedures at Akatsi District Assembly

This section examines the control procedures at the Assembly. The control procedures are policies and procedures that are instituted to provide additional assurance that the objectives of the entity are achieved. The control procedures provide the assurance through proper authorization of transaction, adequate segregation of duties, design and use of adequate documents and records, and independent checks on performance.

In examining the extent of control procedures of the ADA, the researcher sought to find out how transactions are carried out. Responses revealed that transactions are not carried out by one individual, several people are involved. This means that there is always transparency and accountability in the ADA's transactions.

Authorization of payments of financial transactions was also examined. The researcher sought to find out whether all transactions are authenticated by the top management staff. Responses disclosed that authorization of transaction rest solely in the hands of top management staff. The responses further revealed that, management of the ADA ensures that prices of items, quality of products and the timing and the conditions as stipulated in the supply contract are strictly adhered to before payment is made. In addition to ensuring that contract details and specifications are strictly adhered to before making payments, adequate safeguards are provided to protect the ADA's assets from theft and fire. The responses to the question, "are there adequate safeguards to protect assets from

theft, fire as well as restriction of the assets to authorized personnel only”?, disclosed that adequate safeguards, in terms of authorized accessibility to assets, are provided at the ADA to protect its assets. It was however disclosed that there was lack of proper storage space, and this control defect has made it very difficult to keep the congested store clean and well ventilated. There are also no fire-fighting appliances in the store. Further analysis revealed that asset register of vehicles as well as log books are properly kept, monitored and verified periodically.

Overall content analysis of responses in connection with determining the extent of adherence to control procedures at the ADA disclosed that the control activities, to a very large extent, are effective enough to ensure that policies and procedures are adhered to as directed by management of the ADA. This indicates that the control activities are good for effective performance reviews, information processing, physical controls and segregation of duties.

Monitoring and Control Mechanisms put in place by Management at ADA

This is the process of assessing the quality of internal performance over time. Monitoring provides assurance that there are appropriate control procedures in place for all the entity’s transactions and that these procedures are being followed. This section considers internal audit control practices at the Assembly. The items sought to find out whether auditing or control practices are being done as per the Accounting / Financial Regulations of the Local Government system.

In the first place, the research sought to find out whether Management of the ADA takes actions immediately audit reports are received. The responses to the question; “does management / administration review internal audit report immediately it is received”?, indicated that a review of audit report is done immediately it is received. This reveals that the management of the ADA is concerned with maintaining sound financial control by ensuring that comments from auditors are promptly dealt with.

Interestingly the ADA has been able to accomplish the requirement of PNDCL 207, section 90 which demands the establishment of an internal audit department. In order to ensure his independence, the internal auditor reports directly to the Presiding Member of the ADA, and not to the Treasury. Accordingly his recommendations are seen to be implemented. The auditor performs pre-audit functions and any payment voucher he rejects or queries is not processed for payment. He conducts on-the-post cash check, store verification, and occasional investigations into financial irregularities or other malpractices brought to his notice.

Further analysis indicated that a review of the ADA auditing reports is done at least once a year. And that the internal auditor of the ADA makes follow – up to ensure that weaknesses reported in the audit report are being addressed. Analysis of responses indicated that regular internal audit is done on all transactions at the ADA. These transactions include receipts for income/revenue collected, payment for supplies, investments and purchases among others.

Overall content analysis of responses, in connection with monitoring and control mechanisms that have been put in place by the ADA, disclosed that ADA has indeed put in place effective monitoring and control mechanisms that guarantees effective internal control system for monitoring of controls at the ADA such that it facilitates the appropriate design and operation of controls over time, as well as regular monitoring activity by management.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

The chapter presents a summary of the findings from the study. It presents conclusion and recommendations for consideration by the ADA and other public institutions.

Summary of Findings

In the first place, assessment of the control environment at the ADA revealed that there is a good working climate in the ADA. The study found out that, staff members of the ADA report to duty regularly and sign the attendance registers. The study also found that ADA members are major stakeholders of the ADA and that their inputs are considered in deliberations at executive level. Next the study found that the ADA holds regular General Assembly meetings and the executive arm of the ADA reports to the general Assembly regularly.

Further, the study found that there is a well-defined line of authority at the ADA such that employees know who to report to in line of duty. It was also discovered that the management style of the executive is very good.

In the assessment of risk at the ADA, the activities of the DTB and accounting systems were examined. The revelations showed in the first place that the DTB is responsible for evaluation of bids and all supplies to the ADA.

Respondents revealed that the DTB evaluates bids and makes recommendations to management. The study also revealed that the DTB in most cases presents objective evaluation of bids to management which cause management, most of the time, to accept their recommendations. The Procurement Act is also strictly followed by the Assembly.

The study found out that the ADA does not indulged in sole sourcing. Multiple bids are accepted for all supplies that were to be made for the Assembly. The study discovered that financial accounting reporting policies are consistent with the general reporting procedures of Accounting.

Regarding control procedures at the ADA, the study discovered a number of findings. In the first place, the study discovered that, there is transparency and accountability in all transactions at the ADA. Responses revealed that transactions are not carried out by only one person. Several people are involved. Next, the study discovered that payment for all transactions rest in the hands of the executive of the ADA. This ensures that the proper checks are done before payments are made.

Finally, it was discovered that management of the ADA pays particular attention to audit reports presented to it. Management review internal audit reports immediately it is received and that internal auditors make follow-up to address weaknesses reported in their reports.

Conclusion

In conclusion, the control environment of the internal control system, to a large extent, is sound enough for effective governance and management functions, for communication and enforcement of integrity and ethical values, and for easy identification of potential risks by management and deciding upon appropriate corrective actions.

Also, effective information and accounting system exists at the Akatsi District Assembly, which is good enough for good financial reporting objectives. Control activities of the internal control system are good for effective performance review, information processing, physical controls and segregation of duties.

Finally, assessment of the work environment and monitoring reveals that the ADA is on top of its internal control systems as it keeps to normal practices.

Recommendations

Based on the finding of this study, the following recommendations are proposed to further strengthen the financial and internal control system of the Akatsi District Assembly:

1. It is recommended that the Tender Board Committee of the ADA should be well-resourced so that they can continue to discharge their responsibilities independent of external influences.

2. Management through the Human Resource Unit should organize training for all staff and Assembly Members of the ADA for all to appreciate the need for internal control measures to ensure the ADA's finances are reported accurately.
3. Further, in-service training should periodically be organized for the Accounting Department staff to keep them abreast with the current accounting policies under the Financial Management Act of Ghana.
4. Also, it is recommended that individual Assembly Members who are appointed to serve on various financial and other committees of the ADA should have some appreciable level of accounting background so that they can effectively examine the Assembly's books with the right lenses.
5. Larger and well ventilated store space with fire-extinguishers should be provided.
6. Provision for incentive packages should be included in subsequent budgets, and staff members are well educated on the importance of incentive packages vis-à-vis their commitment to work.

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APPENDIX

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

**STRUCTURED INTERVIEW QUESTIONS ON ASSESSMENT OF INTERNAL
CONTROL SYSTEM AT AKATSI DISTRICT ASSEMBLY**

Dear Respondent,

This interview has been designed to solicit for information on a study of the internal control system of the Akatsi District Assembly as part of requirements for the award of a Master of Business Administration degree from the University of Cape Coast.

It is therefore purely academic exercise and as such any information given would be treated as confidential.

Thank you for your co-operation

COMPONENT I: CONTROL ENVIRONMENT

The control environment sets the tone of an organization and it influences the control consciousness of employees. It refers to the competence and the philosophy of administration and the entire staff as well as the ways in which duties are carried out. That is it encompasses the management style, and corporate culture and values shared by all employees.

Please respond as much as you can to the questions in respect of determining the extent to which the control environment consistent with policies and procedures.

1. What are policies on establishing and monitoring control environment in the areas of:
 - a. The number of times general assembly meetings should be held a year?
 - b. Recording of proceedings at the general assembly meetings?
 - c. Inputs/contributions from stakeholders of the ADA?
 - d. The executive committee's position on contributions/inputs from the floor of the assembly?
 - e. Executive committee's report to the general assembly?
 - f. Monitoring attendance at general assembly meetings?
 - g. Schedules for sub-committees' meeting?
 - h. Monitoring attendance to work by all employees?
 - i. Motivating hardworking employees?
 - j. Delegating responsibilities, channels of communication and chain of command?
 - k. Decision making in respect of involving the staff?
 - l. Commitment by all towards achieving the objectives of the ADA?
 - m. The caliber of employees required on the jobs?
 - n. Recruitment of staff?
 - o. Management style to be employed in the administration of the ADA?
2. How do you ensure that these policies are strictly adhered to?

COMPONENT II: RISK ASSESSMENT

This is a screening tool that facilitates rapid identification of potential problems that may require corrective action. It involves evaluation of vulnerability/weakness of components of an administrative area to waste, fraud, abuse or mismanagement.

Please respond as much as you can to the questions in respect of determining how management assesses risks that have the potential of inhibiting the objectives of the ADA.

3. What risk assessment policies have been put in place to mitigate against failure of the objectives of the ADA, in the areas of:
 - a. Evaluation of tenders and bids?
 - b. Invitation of tenders from contractors?
 - c. Provision of supplies?
 - d. Accounting system of reporting?
 - e. Preparation of financial statement?
 - f. Record keeping?
 - g. Payments for work done and services rendered?
 - h. Stock taking, purchases, and identification of properties of the ADA?
4. How do you implement these policies?

COMPONENT III: ACCOUNTING SYSTEM RELEVANT TO FINANCIAL REPORTING

The accounting system forms an integral part of the overall information system and it provides management with information needed to make timely and effective decision for planning, directing and controlling activities regarding an organization/establishment.

The accounting system consists of the accounting records (ledgers, journals etc) and the supporting documents (invoices, supply orders, chequesetc). Accounting system is created and maintained to identify, assemble, analyze, classify, record and report an entity's transactions and maintain accountability for its assets and liabilities.

Please respond as much as you can to the questions in respect of determining the extent to which accounting system at ADA consistent with the required standards.

5. What accounting systems are operated at the ADA in respect of
 - a. Cash receipts and payments?
 - b. Recording of transactions?
 - c. Evaluating of bids and procurement activities?
 - d. Payments and signatories for cheque transactions?
 - e. Initiation of transactions?

COMPONENT IV: CONTROL PROCEDURES

These are policies and procedures that are instituted to provide additional assurance that the objectives of the entity are achieved. The control procedures provide the assurance

through proper authorization of transaction, adequate segregation of duties, design and use of adequate documents and records, and independent checks on performance.

Please respond as much as you can to the questions in respect of determining the extent to which internal control procedures are adhered to at the ADA.

6. What are the control procedures in the areas of
 - a. Carrying out transaction and authorization of payment?
 - b. Payments for items procured?
 - c. Safeguarding and protection of assets?
 - d. Movement of vehicles?
 - e. Verification of assets?
7. How do ensure that these procedures are followed?

COMPONENT V: MONITORING CONTROL ACTIVITIES

This is the process of assessing the quality of internal performance over time. Monitoring provides assurance that there are appropriate control procedures in place for all the entity's transactions and that these procedures are being followed.

Please respond as much as you can to the questions in respect of determining the monitoring and control mechanisms put in place by management of the ADA.

8. What monitoring and control mechanisms that have been put in place in the areas of
 - a. Receiving audit report?
 - b. Holding departmental meetings?

c. Control weaknesses and auditing of transactions?

THANK YOU