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The Role of Internal Audit in Internal Controls of a Public University in Ghana

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Abstract:

Internal control is an important audit function used to examine the effectiveness and efficiency of control systems designed to ensure an orderly working environment. Currently, many academic institutions are facing several financial challenges and therefore internal controls are necessary, more than before, to help streamline operations and ensure proper use of resources. This paper presents a study conducted in the University of Mines and Technology (UMaT) to access the role of the Internal Audit in internal control. Questionnaire administration, interviews and policy documents and procedures were the main tools utilized in the study. It was found that policies and procedures such as Statutes, Financial Administration Act 2003 (Act 654), Financial and Stores Regulations, and Public Procurement Act 2003 (Act 663) exist in the University as regulatory frameworks to permit and maintain accountability for assets and to ensure that decisions are made with appropriate approvals. Documentation was a key control measure and supporting documents include Goods Receipt Voucher, Pro-forma invoice, Local Purchase Order, Pay-in Slips, Receipts, honour certificate and covering letters. Over 90% respondents agreed that transactions in the institution are supported by documents, accuracy of figures is ascertained, and policies and procedures are complied with. Above 80% also indicated that the Internal Audit Unit draws attention to internal controls, recommendations made by Audit Unit are accepted and implemented, payment vouchers are pre-audited, duties are segregated and revenues collected are checked. Thus, UMaT has put in place proper internal control measures which ensure an efficient, economic and effective use of its resources. It is recommended that control policies and manuals on policies and procedures be communicated to all the staff of the University as 70% of respondents indicated that these internal control policies are not communicated to all the staff.

Keywords: Internal audit, control, practice, public

1. Introduction

Internal control has become a major issue to most organizations and the world at large. Internal control is used to examine the effectiveness and efficiency of controls system designed to ensure an orderly working environment. Many authors have come out with different definitions due to its compounded issues in organizations and also it affects the various stakeholders of an entity or companies at different levels of aggregation.

The Committee of Sponsoring Organisations (COSO) of Tread Way Commission, in 1992/1994 developed internal control system as an integrated framework, which is widely used in United States and in many other countries. Internal control is broadly defined by COSO 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:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting; and
- Compliance with laws and regulations (coso, 1992)

The first objective addresses issues in the business world which include performance and profitability goals, and safeguarding of resources. The second objective relates to the preparation of reliable published financial statements. The third deals with complying with those laws and regulations to which the institution or organization rely upon for effective and efficient work.

Albrecht and Albrecht (2004) noted in accounting and auditing that, internal control is defined as a 'process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives'. The authors further point out that it is a means by which organization's resources are directed, monitored, and measured and tailored to its specific goals. These play an important role in preventing and detecting fraud and protecting the organization's resources, both tangible such as its Property Plant and Equipment (PPE) and intangible namely reputation, intellectual property, goodwill, trade mark. Therefore, second definition of internal control is similar to the one given by COSOS. That is, both definitions agree that internal controls are there to ensure achieving organizational objectives and as policies and procedures adopted by management of an entity to assist in achieving their objective as far as practicable. This would also ensure an orderly and efficient conduct of the businesses, including adherence to internal 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.

According to the Institute of Internal Auditors (2003), the components of internal control are; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring (Whittington and Pany, 2006; Radcliffe, et al., 2009; Ratcliffe, et al., 2009).

Although internal controls are important, they have their own limitations. According to Price (2005), 'no internal control system however elaborate can by itself guarantee efficient administration and the completeness and accuracy of the records; nor can it be proof against fraudulent collusion, especially on the part of those holding positions of authority or trust' Internal controls depending on segregation of duties can be avoided by collusion and authorization control can be abused by the person in whom the authority is vested. The effectiveness of any accounting and internal control system is subject to certain inherent limitations as pointed out also by Messier, W. F. (2005), These include management overriding of accounting records, the internal control procedures and errors or mistakes.

Despite these limitations, timely interventions and reviews are necessary in identifying and preventing wastage in organisations. The Government of the Republic of Ghana, by the Internal Audit Act, 2003 (Act 658) enacted the Internal Audit Agency as an apex oversight body to coordinate, facilitate and provide quality assurance for Internal Audit activities within the public sector. In light of this, this research is undertaken to find out more about the internal control systems in the Internal Auditing System of a Tertiary Institution. Currently, many academic institutions are facing several financial challenges and internal controls are necessary, more than before, to help streamline operations and ensure proper use of resources.

The University of Mines and Technology at Tarkwa, Ghana, is a publicly funded institution which concentrates on engineering and technology related programmes. Having existed for over 15 years, a review of the internal controls and internal auditing systems is imperative. This paper presents a study of conducted to evaluate the role of internal audit in the university. The highlights are on the role of the internal auditor in internal control at UMaT and also on how internal auditors should effectively play their roles in internal control systems.

2. Research Methodology

The internal control systems of an institution is measured by several indicators including the existence of policies and procedures, final control and supporting documents, segregation the duties, internal audit reporting and management response. Thus, this study considered primary data and secondary data as the main sources. Questionnaire was administered to personnel in the field of account/finance, internal audit, administration and human resource. Open ended discussions were also held with Principal Officers, Heads of Department, Internal Auditor, Faculty and Basic school Accountants to explore the internal control systems at UMaT, how the Internal Audit Unit evaluates and improves the effectiveness of these internal controls and governance practices at the university. Secondary data sources included the University Status, Code of Ethics, Management letters, audit reports and other documents relevant for the purpose of this study.

A sample of 40 people was taken purposefully out of 112 persons comprising the Finance officer, Accountants, Bursars, all Head of Departments, some lecturers, Assistant Registrars, Administrators and Internal Audit of UMaT who frequently interact with internal auditors and whose duties internal audit function is indispensable. The data obtained was processed using the Statistical Package for Social Scientists (SPSS), and other qualitative data were analyzed descriptively.

3. Results and Discussion

3.1. Existence of Policies and Procedures and Communication

Some of these factors that make internal control system more effective as expressed by Whittington and Pany (1995) are; operating styles and management philosophy, policies and practices on human resources, integrity and ethical values, and assignment of responsibility and authority. Based on the data gathered from questionnaire administration, 90% of respondents indicated that UMaT had documented policies and procedures which means that management of UMaT is in agreement with Whittington and Pany (1995) regarding to policies and procedures. However, only 30% indicated that the policies and procedures were communicated.

Majority of the respondents (70%) indicated that these policies and procedures are not communicated to all staff of the University which makes it difficult for the staff to comply with them at all times. It was found that sanctions such as warning letter, suspension, termination of appointment and dismissal are meted out to defaulting staff depending on the breach. It is proving from the above analysis that UMaT do not have proper internal policies communicated well in the organisation which is not in agreement of Arens and Loebecke (2003) which stated that communication involves providing of training and understanding of individual responsibilities pertaining to its internal control over financial reporting.

3.2. General Control Procedures

The study revealed that approval and control of documents are part of control procedures put in place by management against risks that threaten the University. The basic requirement is the approval of transactions by responsible persons, that is, authorities that need to approve payments and other issues that necessitate their consents. For example, all payments are approved by the Vice Chancellor of the University. Any payment up to five thousand Ghana Cedis (GH¢5,000.00) for supplies and service, and ten thousand Ghana Cedis (GH¢10,000.00) for works must be approved by the Vice Chancellor upon the recommendation by Procurement Authority Board before payments are made. Any other

payments above five thousand Ghana Cedis (GH¢5000.00) for supplies and services and ten thousand Ghana Cedis (GH¢10,000.00) for works must be approved by the Vice Chancellor upon the recommendation by the Entity Tender Committee.

Checking the arithmetical accuracy of records is another control procedure identified. Here, emphasis is laid to ensure that transactions are recorded with the correct amounts. Postings from the University Receipts Books to the Cash Book for example, must be done with the correct amounts involved. This control was explained by the Finance Officer of the University, is to prevent material misstatements of items and its subsequent consequences such as irregularities.

It was also revealed that maintaining and receiving controls accounts and trial balances is another control procedure that exists in the University. This involves the bringing together of transactions in individual ledgers and trial balances for the organization as a whole. It is required of departments of the University to draw trial balances yearly to provide data in the preparation of financial statements.

The Accountants at various Departments, Sections and Units are required to do reconciliation accounts periodically. Reconciliation was also discovered as a control procedure and it is done monthly by Accountants at various departments of the University. Reconciliation involves comparison of a specific balance in the accounting records with what another source says concerning the same balance. Here, Cash Books are normally compared with the bank statements in order to identify any differences that may arise as a result of direct transfers, timing difference in processing data, bank charges, just to mention a few. Differences arising during reconciliations are investigated and corrected. Segregation of duties is yet another internal control procedure practiced by the University. Segregation of duties ensures that one person does not perform an activity from the beginning to the end. From the data collected, it was observed that different duties such as payment vouchers processing, authorization of payments by authorities, recording and preparation of accounts, collecting and banking of revenues, cheques writing and payment are performed by different people. Basically, segregation of duties is centered on persons who perform signatory role for various transactions and persons involved in receiving revenue and those making payments.

It means that management of UMaT is at par with Colleen (2002) and Vander Meer et al (2000) which states in order to have effective and efficient internal control in risk management, the role of the Internal Auditor should include; approval and control of documents, checking the arithmetical accuracy of records, reconciliation, maintaining and receiving control accounts and segregation of duties.

3.3. Financial Control Documents

The available documents that guide financial control include: Statutes of the University, Financial Administration Act 2003, (Act 654), Stores and Financial Regulations, and Public Procurement Act 2003, (Act 663). The Statutes of the University regulates important activities, appointments and duties of boards, committees and officers. Compositions of various committees of the University, as well as their functions are stated in the statutes. Offences and their sanctions within the University are also found in this document.

Stores and Financial Regulations is a document relating to the control and disposition of all University property, funds and investments. It contains provisions concerning finances, stores and purchases and guides spending officers in the University about spending and expenditure control. The document also guides revenue collectors in their duties such as banking all cash and cheque receipt within 24 hours and accounting for all revenue collected on proper receipts and in Cash Books and other records. This ensures proper documentation of revenue as well as checking skimming fraud which is the removal of cash.

Financial Administration Act 2003, Act 654 is meant to regulate the financial management of the public sector; prescribe the responsibilities of persons entrusted with financial management in the government; ensure the effective and efficient management of state revenue, expenditure, assets, and liabilities, resources of the government, the Consolidated Fund, and other public funds and provide for other matters related to these.

Public Procurement Act 2003, Act 663 provides for public procurement, establish the Public Procurement Board; make administrative and institutional arrangements for procurement; stipulate tendering procedures and provide for purposes connected with these. It was discovered in the study that, the University has a Procurement Board; comprising Chairman who is a Senior Member, Secretary, Finance Officer's representative, Internal Auditor's representative and Procurement Officer which sits to enforce the provisions of the Act. Before an item within the limit of Procurement Board is procured, the user department will request with a written letter to the Vice Chancellor for approval. The Vice Chancellor will refer the requisition letter to the stores department to look for at least three proforma invoices and then goes to Procurement Board for approval before it goes back to Vice Chancellor for final approval.

3.4. Affirmation of Internal Control Functions

Some functions were probed by questionnaire that required a 'Yes' or 'No' answer. These include the use of supporting documents accompanying accounting transactions, segregation of duties including receipts and payments, timely reports to management, checking of revenues collected and drawing staff attention to overlooked internal controls. The results are presented in Figure 1.

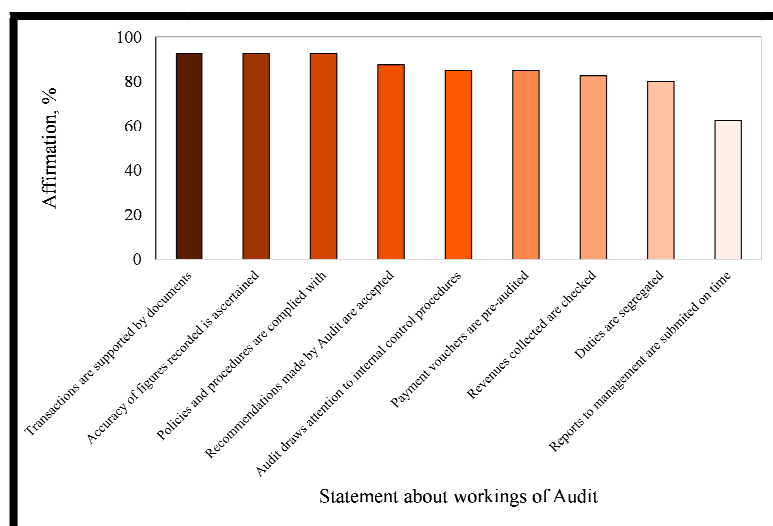


Figure 1: Affirmation of Statements about the Workings of Internal Audit

Regarding documentation to accounting transaction the results revealed a positive relation, 37 out of 40 respondents, agreed to this assertion representing 92.5%. This shows that most transactions are normally supported by the required documents such as Goods Receipt Voucher, Pro-forma invoice, Local purchase order, Pay in Slips, Receipts, honour certificate among others were evident as some supporting documents.

From the interviews conducted, it was revealed that before any payment or purchase is made, there must be a covering letter requesting such payment or purchase from the user department and approved by the Vice Chancellor of the University. It was also revealed that all purchases must be made from Value Added Tax (VAT) registered suppliers and therefore VAT receipts are required as supporting documents with exception of those that can only be supported by the University's honour certificate to avoid fraud.

The Internal Control procedure of the University revealed that there is segregation of duties with regard to receipts and payments. This was explained that one person does not perform an activity from the beginning to the end. From Figure 1, 80% indicated that the segregation of duties of the University with regard to receipts and payments are; authorization, recording and custody. In addition, processes such as payment voucher, authorisation of payments by authorities, recording and preparation of accounts, collecting and banking of revenues, cheques writing and payment are performed by separate staff. This was supported by Millichamp (2002), that proper internal control procedures are required in order to prevent and detect correct irregularities or fraud should consist of authorization, recording of transaction, custodian of resources or assets of the organisation.

Information gathered revealed that Internal Audit monitors evaluate and reviews the effectiveness of internal controls system and risk management and report to management with some of the control weaknesses found during auditing. From Figure 1, 62.5% of respondents agreed that Internal Audit reports are timely enough to enable Management to take appropriate action on time. As part of management reports, the Internal Audits draws the attention of management and the university community to control procedures that are overlooked and 85% of respondents agreed that Internal Audit plays this function by interpreting the control procedures to staff who probably do not understand them clearly during monitoring of performance and auditing. In addition, 85% indicated that recommendations made by Internal Audit are normally taken into consideration.

About 82.5% agreed that Internal Audit always checks all revenues collected. The study revealed that Internal Audit inspect books such as cash book, receipt book, pay in slips rather than then check the physical revenue collected to ensure that revenues have been recorded with the corresponding right amounts. The arithmetical accuracy of figures is also checked and this is supported by 92.5% of respondents while 85% also indicated that payment vouchers are pre-audited. As studied earlier by UNOPS (2008), checking of arithmetical accuracy, helps to prevent fraud and misappropriation of funds by officers involved.

Over 92% attested to the fact that Internal Audit ensures that procedures are complied with and that Internal Audit evaluates and improves the effectiveness of Internal Controls of the University. The interview conducted revealed that all goods purchased by the University must be certified by the Internal Audit before payments are effected. This is to ensure that specified quality, quantity and the amount on the Local Purchase Order and other contract letters are correctly supplied. Compliance with policies and procedures in the University is one of the three components of systems-based audit; thus evaluation, verification and compliance.

4. Conclusions

This study considered the internal controls and internal audit functions in internal control in a public university using the University of Mines and Technology as a case study. It was found that policies and procedures exist in the University as regulatory frameworks to permit and maintain accountability for assets and to ensure that decisions are made with appropriate approvals. The documents include Statutes of the University, Financial Administration Act 2003 (Act 654), Financial and Stores Regulations, and Public Procurement Act 2003 (Act 663). However, about 70% of

respondents indicated that these internal control policies are not communicated to all the staff of the University and therefore staffs do not, all the time, comply with these policies.

Some of the general controls of the University are approval and control of documents, checking the arithmetical accuracy of records, maintaining and receiving control accounts and trial balance, reconciliation and segregation of duties. Documentation was also seen as a key control measure and supporting documents include Goods Receipt Voucher, Pro-forma invoice, Local Purchase Order, Pay-in Slips, Receipts, honour certificate and covering letters. Some 92.5% of respondents agreed that transactions in the institution are supported by documents, accuracy of figures is ascertained, and policies and procedures are complied with. At least 85% indicated that the Internal Audit Unit draws attention to internal controls, recommendations made by Audit Unit are accepted and implemented and payment vouchers are pre-audited. Affirmation that duties are segregated attracted 80% and 82.5% indicated that revenues collected are checked.

In the nutshell, UMaT being one of the major public tertiary institutions in the country has put in place proper internal control measures which ensures an efficient, economic and effective use of its resources by complying with the necessary policies and procedures in the tertiary programme outlined which has gone a long way to contribute to the achievement of the University's objectives. It is recommended that control policies and manuals on policies and procedures be communicated to all the staff of the University.

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