

**ASSESSING THE IMPACT OF INTERNAL CONTROL SYSTEMS ON GHANA
POST**

KUMASI (CASE STUDY OF GHANA POST, ADUM-KUMASI)

BY

CHARLES FRIMPONG

JOHN BOADU

PATIENCE O. ASHITEY

ASIEDU KOFI ABRAHAM

OBENG KWADWO

ASAFO-ADJEI DOUGLAS

PROJECT REPORT SUBMITTED TO BUSINESS OF ADMINISTRATION
DEPARTMENT OF CHRISTIAN SERVICE UNIVERSITY COLLEGE IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION

JULY, 2011

STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

NAME	SIGNATURE	DATE
CHARLES FRIMPONG
JOHN BOADU
PATIENCE O. ASHITEY
ASIEDU ABRAHAM KOFI
OBENG KWADWO
ASAFO – ADJEI DOUGLAS

Supervisor's Declaration

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

Supervisor's Name

MR. ERIC ATTA APPIADJEI
-------------------------	-------	-------

Head of Department's Name

MR. STEPHEN BANAHE
--------------------	-------	-------

ABSTRACT

The study delved into evaluating the existing internal control systems of Ghana Post Company Limited Ashanti Regional head office.

Qualitative data was gathered through the administration of questionnaire to staff of Ghana Post Kumasi Office.

Structured interviews were conducted to solicit information from busy but very influential officers such as, the Regional Accountant, Regional Postmaster, Regional Internal Audit officer, Estate Officer and others.

The research team reviewed some of the traditional internal controls systems in areas such as internal auditing, monitoring, segregation of duties, physical controls, accounting, information processing and communication and many others.

The research revealed that the traditional internal control policies and procedures put in place by management of the organization, takes effect prior to the occurrence of transactions and therefore in many situations it created some form of indifference in decision-making, particularly when approval processes tends to be bureaucratic.

The research team explored the feasibility of introducing contemporary internal control policies and procedures which focus on monitoring activities in real time rather than concentrating on events prior to transactions.

ACKNOWLEDGEMENT

We acknowledge the eminence of the Almighty God for his kind support, guidance and blessing upon us throughout the execution of this academic exercise. We also wish to acknowledge the contribution of our supervisor, Mr. Eric Atta Appiadjei, whose active supervision has undoubtedly to the successful production of this work. We are particular grateful for his scholarly advice and direction as well as the benevolent assistance he offered us in accessing relevant materials to engage in this exercise.

We further acknowledge our parents, for their financial support and prayers throughout this course.

DEDICATION

This work is warm heartedly dedicated to our parents, without them we wouldn't have come this far, and to our respective benefactors.

TABLE OF CONTENT

	PAGE
Statement of Authenticity	ii
Abstract	iii
Acknowledgement	iv
Dedication	v

CHAPTER

ONE INTRODUCTION

1.0	BACKGROUND OF THE STUDY	1
1.2	STATEMENT OF THE PROBLEM	3
1.3	RESEARCH OBJECTIVES	4
1.4	RESEARCH QUESTIONS	4
1.5	SIGNIFICANCE OF THE STUDY	4
1.6	RESEARCH METHODOLOGY	5
1.7	SCOPE OF THE STUDY	5
1.8	ORGANIZATION OF THE STUDY	5
1.9	LIMITATIONS OF THE STUDY	6
1.10	ORGANIZATIONAL PROFILE	6
1.10.1	VISION STATEMENT OF GHANA POST COMPANY LIMITED	7
1.10.2	MISSION STATEMENT OF GHANA POST COMPANY LIMITED	7
1.10.3	OBJECTIVES OF GHANA POST COMPANY LIMITED	8
1.10.4	CORPORATE STRATEGY	9
1.10.5	COUNTER SERVICES	10
1.10.6	MARKET SHARE	10
1.10.7	BUSINESS MAIL SERVICES	10
1.10.8	INVESTMENT PROJECT	11

TWO:	LITERATURE REVIEW	
2.0	INTRODUCTION	12
2.1	DEFINITION OF INTERNAL CONTROLS	12
2.2	PARTIES RESPONSIBLE FOR AND AFFECTED BY INTERNAL CONTROL	14
2.3	TYPES OF CONTROLS	16
2.3.1	PREVENTIVE CONTROLS	16
2.3.2	DETECTIVE	17
2.4	ELEMENTS OF INTERNAL CONTROL	19
2.4.1	CONTROL ENVIRONMENT	20
2.4.2	RISK ASSESSMENT	22
2.4.3	CONTROL ACTIVITIES	23
2.4.4	ACCOUNTING, INFORMATION AND COMMUNICATION	24
2.4.5	MONITORING	25
2.5	COMPONENTS OF THE CONTROL ACTIVITY	26
2.6	INTERNAL CONTROL OBJECTIVES	28
2.7	LIMITATIONS OF INTERNAL CONTROL	29
2.8	OBJECTIVES OF FINANCIAL STATEMENTS	30
2.9	QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS	31
2.10	ACCOUNTING TREATMENT ELEMENTS OF FINANCIAL STATEMENTS	32
2.11	INITIAL RECOGNITION OF ELEMENTS	33
2.12	SUBSEQUENT MEASUREMENT OF ELEMENTS	33
2.13	PURPOSE OF INTERNAL CONTROLS	33
2.14	QUALITIES OF AN INTERNAL AUDITOR AS PER INTERNAL AUDIT AGENCY ACT, 2003 ACT 658 SECTION 19 AND 20	34
THREE	METHODOLOGY	
3.0	INTRODUCTION	36
3.1	POPULATION AND SAMPLING	36
3.2	TYPES OF RESEARCH	37

3.3	DATA COLLECTION PROCEDURE AND TECHNIQUES	37
3.4	DATA ANALYSIS	38
FOUR	PRESENTATION OF RESULTS AND DATA ANALYSIS	
4.0	INTRODUCTION	39
4.1	OPERATIONAL MANUAL	39
4.2	MONITORING	41
4.3	SEGREGATION OF DUTIES	43
4.4	INTERNAL AUDITING	46
4.5	INFORMATION PROCESSING AND COMMUNICATION	47
4.6	RISK ASSESSMENT	49
4.7	PHYSICAL CONTROLS	51
4.8	ACCOUNTS, RECORDS KEEPING AND OTHERS	53
4.9	DATA ANALYSIS	54
FIVE	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	
5.0	INTRODUCTION	55
5.1	SUMMARY OF FINDINGS	55
5.1.1	OPERATIONAL MANUAL	55
5.1.2	MONITORING	55
5.1.3	SEGREGATION OF DUTIES	56
5.1.4	INTERNAL AUDIT	56
5.1.5	INFORMATION PROCESSING AND COMMUNICATION	57
5.1.6	RISK ASSESSMENT	57
5.1.7	PHYSICAL CONTROLS	57
5.1.8	ACCOUNTS, RECORDS KEEPING AND OTHERS	58
5.2	DATA ANALYSIS	58
5.3	CONCLUSIONS	59
5.4	RECOMMENDATIONS	59
5.5	SUGGESTIONS FOR FURTHER STUDIES	60
	BIBLIOGRAPHY	61
	APPENDIX A: QUESTIONNAIRES FOR INTERNAL CONTROL	62-63

LIST OF TABLES

Table 4.1 Are there written operational manual?	39
Table 4.2 Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties such as cash handling?	43
Table 4.3 Do internal auditors audit your department monthly?	46
Table 4.4 Has Ghana Post computerized its data processing?	47
Table 4.5: Do Mail Van Drivers dispatch mails alone?	49
Table 4. 6: Are other staffs allowed access to the stock at the counter?	51

LIST OF FIGURES

Figure 4.1 Are there written operational?	40
Figure 4.2 Doan authorized supervisor check attendance records daily for accuracy?	41
Figure 4.3 Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties such as cash handling?	44
Figure 4.4 Do internal auditors audit your department monthly?	46
Figure 4.5 Has Ghana Post computerized its data processing?	48
Figure 4.6 Do Mail Van Drivers dispatch mails alone?	50
Figure 4.7 Are other staffs allowed access to the stock at the counter?	52

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Over the last few years increasing attention has been given by both researchers and practitioners to how effective internal controls can impact on an organizations success. It is believed that the quality of financial reports may deteriorate as client managers develop long-lasting relationships with their auditor. This fact is one of the reasons why increasing attention is been given to effective internal control systems. Gray and Manson (2000) advocate that “a good control environment is an essential tool in corporate governance”.

Internal control is 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 applicable laws and regulations.

Effective internal control system is the foundation of safe and sound business.

A properly designed and consistently enforced system of operational and financial internal control helps a business’s board of directors and management safeguard the business’s resources, produce reliable financial reports, and comply with laws and regulations. Effective internal control also reduces the possibility of significant errors and irregularities and assists in their timely detection when they do occur.

Internal controls is captured under section 315 of the International Standards on Auditing (ISA). Internal Control, no matter how well designed and operated, can provide an entity only with reasonable assurance about achieving the entity's (financial reporting) objectives. The likelihood of achievement is affected by limitations inherent to internal control.

Weak or ineffective internal controls, such as inadequate record keeping and external audit has caused operational losses in many banks and businesses and has contributed to the failure of others. In many instances some of these cases were fraudulent practices that could have been prevented or discovered through effective internal control mechanism.

The Ghana Post Company Limited started in the Gold Coast, now Ghana in 1843. The first post office was opened in the Gold Coast capital, Cape Coast in 1854 but postal services were restricted to expatriates. In June 1999 the Ghana Postal Services Corporation was converted into a limited liability company, Ghana Post Company Limited, still with Ghana government as the sole shareholder. The company maintains an internal audit unit as part of its measures to safeguard its assets. As to whether or not the internal audit unit is living up to expectation through effective internal controls is what this study sought to find out.

Although internal control and internal audit are closely related, they are distinct from each other. Internal control is the systems, policies, procedures, and processes effected by the board of directors, management, and other personnel to safeguard business assets, limit or control risks, and achieve a business's objectives. Internal audit on the other hand provides an objective, independent review or appraisal of business activities, internal controls, and management

information systems to help the board and management monitor and evaluate internal control adequacy and effectiveness.

According to KMPG Peat Marwick Survey of 3000 large and mid-sized U.S companies, “Combating Fraud: Know the facts,” a well kept internal control systems has 52% chance of detecting fraud while external auditors surveys can detect fraud at 5%. Journal of Accounting, September 1995, as cited by Lemon *and Co.* (2006).

Consequently, this paper focuses on appraising the effectiveness of internal control systems of Ghana Post Company Ltd, Kumasi.

1.2 STATEMENT OF THE PROBLEM

Corporate bodies are set up to achieve some set targets. Managers are appointed to control and oversee the operational activities to enhance that the set target are achieved.

What often happens, is that programs and policies are not complied or adhered to towards the achievement of set targets.

Ghana Post has been experiencing downward trends in terms of its Profit.

One problem that has been reported is inadequate levels of internal controls. This study seeks to assess the impact of internal control systems of Ghana Post, Adum Kumasi.

1.3 RESEARCH OBJECTIVES

This study sought to accomplish the following objectives

1. To examine the existing internal control systems of Ghana Post Company Limited, Ashanti.
2. To assess the level of compliance and attention given to internal controls by both staff and managers of Ghana Post Company Ltd, Ashanti Region.
3. To examine how has the internal control impacted on Ghana Post Performance.

1.4 RESEARCH QUESTIONS

1. What types of controls are in existence at Ghana Post?
2. Are the controls complied with?
3. How has the control system impacted on Ghana post?

1.5 SIGNIFICANCE OF THE STUDY

1. To the researcher it marks the beginning of your contribution to academic world.
2. To Ghana Post policy Stakeholders, it will assist them discover what the internal control system has contributed the performance of Ghana Post.
3. To the government of Ghana to assess whether the company is making profit or loss.
4. To fulfil the requirement for the awards of a Bachelor of Business Administration.
5. To Ghana Post management, to enable them take effective decisions.

1.6 RESEARCH METHODOLOGY

The research will employ the case study approach by adopting the Ashanti regional branch of Ghana Postal Service. Data collection will be collected from both primary and secondary sources. Primary source of information would be collected with the use of data collection instruments such as questionnaires. The questionnaire will be personally administered to interviewers (staff) to ensure a high response rate. Personal interview will be employed to gather additional data.

Secondary data will also be collected from sources as articles, financial reports, journals, the internet, books and research papers. Data will be analyzed with the help of Microsoft Office excel.

1.7 SCOPE OF THE STUDY

The research shall be restricted to activities in the regional headquarters Adum – Kumasi, Ashanti region. The region was chosen because of convenience to the researchers in obtaining the necessary responses for the study. The study covers a period of three years (2008-2010). The research would appraise the internal control systems and draw relevant conclusions from its findings.

1.8 ORGANIZATION OF THE STUDY

The entire work is presented in five chapters, grouped under the following details:

Chapter 1, this chapter introduces the study and provides the background to the study as well the statement of the problem and others.

Chapter 2, this chapter also presents the literature review; this is where other studies carried into the subject area are critically reviewed.

Chapter 3, this chapter basically describes the process of the data collection, the sources and methods of data collection as well as the organizational profile of Ghana Post company ltd.

Chapter 4, this chapter presents major findings and gives a further discussion of the findings.

Chapter 5, this chapter gives an overview of the study as well as recommendation for the company, policy makers and makes plausible suggestions for further studies.

1.9 LIMITATIONS OF THE STUDY

The major constraint in the course of this study was time. In some cases a lot of time was spent waiting for the right person to give the right information while at other times it was just not possible to see such people because of their busy schedules. Some appointments were cancelled without prior notice.

Financially the research would have been much better if the needed financial resources were there when needed. Even though the research team budgeted to spend certain amounts of money on this study, our estimates were far below the actual.

1.10 ORGANIZATIONAL PROFILE

Ghana Post Company Limited is an integral part of the service industry in Ghana. This industry is one of the most important sectors of the economy which in the year 2003 contributed 29.0% of the Gross Domestic Product (GDP). The State of the Ghanaian Economic (ISSER) Institute of Statistical Studies and Economic Research of University of Ghana (2001).

Historical development of the Ghana Post Company Limited receiving and dispatching of mails started in the Gold Coast, now Ghana in 1843. The first post office was opened in the Gold Coast capital, Cape Coast in 1854 but postal services were restricted to expatriates and their African associated with Rowland Cole as the first postmaster. In 1884, the post office was moved from Cape Coast to Accra. In 1897 the Gold Coast became a member of the Universal Postal Union, an umbrella organization of all postal organizations with its headquarters at Berne, Switzerland. (Ghana Post Corporate Plan – 2001)

Finally in June 1999 the Ghana Postal Services Corporation was converted into a limited liability company, Ghana Post Company Limited, still with Ghana government as the sole shareholder. Strategically the company has introduced more services to the public, namely, western union and Swift post. Notwithstanding, these however, the company is bedeviled with obstacles especially with the advent of internet and other technological advancement.

1.10.1 Vision Statement of Ghana Post Company Limited

To be one of the best postal organizations in Africa by the year 2012, relying on well motivated workforce, and using appropriate technology with the view to providing maximum satisfaction to its staff and customers.

1.10.2 Mission Statement of Ghana Post Company Limited

The mission of Ghana Post is to provide its domestic and foreign customers in the communication and financial market with prompt, efficient, reliable and secure service. This

service is undertaken through the conveyance of all types of mail items, agency and other services at reasonable but competitive rates.

1.10.3 Objectives of Ghana Post Company Limited

The objectives of Ghana Post Company Limited are to provide postal services by operating a postal system in Ghana in accordance with the laws and international obligations of Ghana. Specifically, the Company is authorized to carry out and transact the following businesses:

- (a) Acquire and take over as going concern the assets and liabilities of the business carried on by the Ghana Postal Services Corporation at present established under Ghana Postal Services Corporation Act 505, 1995
- (b) Provide the business of operating a postal system in Ghana in accordance with the laws and international obligations of Ghana.
- (c) Provide courier services.
- (d) Convey letters from one place to another and to perform all the incidental services of accepting, receiving, collecting and delivering letters.
- (e) Provide services for which money may be remitted by means of money Order, Postal Order or otherwise.
- (f) Provide or undertake Agency Services on behalf of the Government or any other corporate body.
- (g) Provide information and communication Technology services.

- (h) Provide in the part of Post Offices that are open to the public (Whether for the transaction of postal business or otherwise) space or such other services as may conveniently be provided there.
- (i) Appoint Agents and Commissioned Agents to undertake some aspects of postal services.
- (j) Provide Parcel Delivery Services.
- (k) Develop and operate a Regional Mail Distribution Centre for West Africa by itself or in partnership with other corporate bodies.
- (l) Operate a Non Banking Financial Service.

1.10.4 Corporate Strategy

Ghana post has adopted growth strategy, specifically diversifying its activities by taking advantage of its infrastructure and network. Postal and communication related and non related services have accordingly been provided.

Controls have been enforced to seal revenue leakages.

Areas of revenue leakages where stringent controls have been enforced include the following:

- Underpayment of postage
- Fake Franking impressions
- Embezzlement

The EMS has adopted Differentiation and Cost Leadership strategy to enable it meet intense rivalry and completion within the industry as well as take advantage of Ghana Post's wide network and infrastructure. Services have being differentiated from those of competitors such as DHL, Fed Ex, etc by investing in research to:

- Improve quality and
- Improve customer service

Expedited Mail Service (EMS) Cost leadership strategy has been facilitated by its lower cost of operations as compared to its competitors. This among others is due to economies of scale enjoyed by Ghana Post as a result of its network and infrastructure. It, therefore currently has 75% of local courier market share which is to be improved to 80% during the plan period.

1.10.5 Counter services

Ghana Post emphasizes prompt counter service, prompt delivery, and competitive rates by ensuring minimum operational cost, and mail security. It is believed that this will contribute to making the Ghana Post the best postal organization in Africa. Indeed, Ghana Post is becoming the distribution center for mail to the sub-region. As of January 2003, the company has 318 Post Offices and 370 Postal Agencies.

1.10.6 Market Share

Market Share: 85% of domestic courier services as at year 2008, Ghana Post seek to diversify its activities by taking advantage of its infrastructure and network.

1.10.7 Business Mail Services

Business mail services, postal logistics and the development of the network (e.g. the Kumasi Post Office) are prioritized in Ghana Post's total operations.

1.10.8 Investment Project

Investment Projects: The Ghana Post seeks to electronically connect its mail delivery network.

Plans are currently underway for Fidelity Bank Ghana Ltd to invest in the company to allow the company raise enough money to finance electronic delivery project.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter examines existing work on the topic internal controls with particular emphasis on; definitions, internal control components, limitation of internal control and many others. The literature review is an effort to justify the topic and the problems identified as well as select a suitable method of analysis.

2.1 DEFINITION OF INTERNAL CONTROLS

The Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) is a voluntary private-sector organization, established in the United States, dedicated to providing guidance to executive management and governance entities on critical aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting. COSO has established a common internal control model against which companies and organizations may assess their control systems. In the United States many organizations have adopted the internal control concepts presented in the report of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).Published in 2002. The Committee of Sponsoring Organizations report defines internal controls 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 applicable laws and regulations.

The Canadian Institute of Chartered Accountants also issued a definition of internal controls in 2004. The report, *Guidance on Control*, presents a control model referred to as Criteria of Control. The Criteria of Control model, which builds on COSO, is thought to be more concrete and user-friendly. Criteria of Control describe internal control as actions that foster the best result for an organization. These actions, which contribute to the achievement of the organization's objectives:

- Effectiveness and efficiency of operations
- Reliability of internal and external reporting
- Compliance with applicable laws and regulations and internal policies.

Internal controls consist of policies and procedures established by management to assist in achieving its objectives of ensuring, as far as practical, the orderly and efficient conduct of the entity's business" Lemon & Co. 2006

Internal control is also defined as a system which consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives. Arens & Co. (2006)

2.2 PARTIES RESPONSIBLE FOR AND AFFECTED BY INTERNAL CONTROL

Internal controls affect every single individual within a business organization, while all of an organization's people are an integral part of internal control, certain parties merit special mention. These include management, the board of directors (including the audit committee), internal auditors, and external auditors.

The primary responsibility for the development and maintenance of internal control rests with an organization's management. Although the Board of directors delegates responsibility for internal control to management, it is charged with providing regular independent assessment of management- established internal control system. Arens & Co (2006). The Board of Directors and its audit committee have responsibility for making sure the internal control system within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated.

With increased significance placed on the control environment, the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. Emphasis on these intangible aspects highlights the importance of top management's involvement in the internal control system. If internal control is not a priority for management, then it will not be one for people within the organization either.

As an indication of management's responsibility, top management at a publicly owned organization will include in the organization's annual financial report to the shareholders a statement indicating that management has established a system of internal control that management believes is effective. The statement may also provide specific details about the organization's internal control system.

Two parties involved in the evaluation of internal control are the organization's internal auditors and their external auditors. Internal auditors often are involved in policing the effectiveness of internal controls, Hermanson & Co. 2002

Internal auditor's responsibilities typically include ensuring the adequacy of the system of internal control, the reliability of data, and the efficient use of the organization's resources. Internal auditors identify control problems and develop solutions for improving and strengthening internal controls. Internal auditors are concerned with the entire range of an organization's internal controls, including operational, financial, and compliance controls.

Internal control will also be evaluated by the external auditors. External auditors assess the effectiveness of internal control within an organization to plan the financial statement audit. In contrast to internal auditors, external auditors focus primarily on controls that affect financial reporting.

External auditors have a responsibility to report internal control weaknesses (as well as reportable conditions about internal control) to the audit committee of the board of directors. “Because it is sufficiently important to the audit process, knowledge about the clients internal control merits a separate generally accepted auditing standard” Arens Internal control is also defined as a system which consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives. Arens & Co, (2006)

Despite all the key personalities mentioned above, Gray and Manson (2002) points out that “the efficacy of the control systems is highly dependent upon the competence of the people operating it.

2.3 TYPES OF CONTROLS

Internal controls basically fall into two broad categories; all controls can be either **preventive or detective**. The intent of these controls is different.

2.3.1 Preventive controls attempt to deter or prevent undesirable events from occurring.

They are proactive controls that help to prevent a loss. Examples of preventive are listed below:

- *Controls are separation of duties,*
- *Proper authorization,*
- *Adequate documentation, and*
- *Physical*
- *Control over assets.*

2.3.2 Detective controls, on the other hand, attempt to detect undesirable acts. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliations, physical inventories, and audits. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role providing evidence that the preventive controls are functioning and preventing losses.

According to Rittenberg and Schmegeer (2002) control activities include approvals, authorizations, verifications, reconciliations, reviews of performance, security of assets, segregation of duties, and controls over information systems.

Approvals, Authorizations, and Verifications (Preventive). Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

Reconciliations (Detective): An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary. The common type of reconciliation is bank reconciliation and stock requisition reconciliation.

Performance Review (Detective): Man compares information about current performance to budgets, forecasts, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

Segregation of Duties (Preventive): Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.

Controls over Information Systems (Preventive and Detective): Controls over information systems are grouped into two broad categories-general controls and application controls. General controls commonly include controls over data center operations, system software acquisition and maintenance, access security, and application system development and maintenance.

Application controls such as computer matching and edit checks are programmed steps within application software; they are designed to help ensure the completeness and accuracy of transaction processing, authorization, and validity. General controls are needed to support the functioning of application controls; both are needed to ensure complete and accurate information processing since information is knowledge and understanding usable to recipient by Lucey (2002)

2.4 ELEMENTS OF INTERNAL CONTROL

Internal control systems operate at different levels of effectiveness. “ It is necessary that a system have certain elements or characteristics to increase the likelihood that accounting records will be reliable and that safeguarding of assets will be dependable” (Arens & Co. 2006).

The way in which internal controls are designed and implemented varies with the Entity's size and complexity. Specifically, smaller entities may use less formal means and simpler processes and procedures to achieve their objectives. For example, smaller entities with active management involvement may not have extensive descriptions of accounting procedures or detailed written policies. For some entities, in particular very small ones, management or managers may perform functions which in a larger entity would be regarded as belonging to several components of internal control. Thus, the components of internal control may not be clearly distinguished within smaller entities, but their underlying purposes are equally valid.

According to Arens & Co (2006); The COSO report and the International Standards on Auditing 315 stipulates the following as the five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The elements are elaborated in detail below:

2.4.1 Control Environment

The control environment, serves as an umbrella for the other four components, Arens & Co. (2006). The control environment established by the organization's administration sets the tone of an institution and influences the control consciousness of its people. Leaders of each department, area or activity establish a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors assess the effectiveness of the control environment. The following are to be considered on assessment of a proper control environment:

1. Effectiveness of the Control environment should embody the following:

- The integrity, ethics, and competence of personnel.
- The organizational structure of the institution.
- Management's philosophy and operating style.
- External influences affecting operations and practices.
- Personnel policies and practices.

The attention and direction provided by the board of directors and its committees, especially the audit or risk management committees.

2. Determine whether the board periodically reviews policies and procedures to ensure that proper risk assessment and control processes have been instituted.
3. Determine whether there is an audit or other control system in place to periodically test and monitor compliance with internal control policies and or procedures and to report to the board instances of non-compliance.

- Does the board review the qualifications and independence of internal and external auditors?
 - Do auditors report their findings directly to the board or its audit committee?
 - Does the board take appropriate follow-up action when instances of non-compliance are reported?
4. Determine whether management provides the board and its representative's complete access to the organizations records.
 5. Determine whether board decisions are made collectively or whether dominant individuals control those decisions.
 6. Determine whether management information systems provide the board information they need to make informed and timely decisions.
 7. Determine whether the board receives adequate information about the bank's internal risk assessment process.
 8. Determine whether the board or management communicates policies regarding the importance of internal control and appropriate conduct to all employees.
 9. Determine whether codes of conduct or ethics policies of the organization exist.
 10. Does audit or other control systems exist to periodically test for compliance with codes of conduct or ethics policies?
 11. Do audits or other control system personnel routinely review policies and training regarding ethics or codes of conduct?

2.4.2 Risk Assessment

Risk according to Nickels & Co. (2005) is the chance of loss and the amount of possible loss. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent.

Korath, 2004; in his book *Auditing concepts and applications* reiterate that risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

Objectives must be established before administrators can identify and take necessary steps to manage risks. Operations objectives relate to effectiveness and efficiency of the operations, including performance and financial goals and safeguarding resources against loss. Financial reporting objectives pertain to the preparation of reliable published financial statements, including prevention of fraudulent financial reporting. Compliance objectives pertain to laws and regulations which establish minimum standards of behavior.

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated. Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

2.4.3 Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the business organization's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Control activities usually involve two elements: a policy establishing what should be done and procedures to effect the policy. Generally, control activities may be categorized as policies and procedures relating to the following:

- **Authorization:** this covers who signs what, what is the person authoring the transactions limit. And if it goes beyond that limit what happens.
- **Performance reviews** including reviews and analyses of actual performance versus budgets; relating different sets of data – operating and financial – to one another, together with analyses of relationships and investigative and corrective actions; review of functional or activity performance.
- **Information processing:** Rittenberg and Schmeiger (2002) in their book *auditing concepts for a changing environment* say that a variety of controls are performed to check accuracy, completeness and authorisation of transactions. The two broad groupings of information systems control activities are application controls and general IT-controls.
- **Physical controls:** These activities encompass the physical security of assets, including adequate safeguards such as secured facilities over access to assets and records; authorisation for access to computer programs and data file; and periodic counting and

comparison with amounts shown on control records (for example comparing the results of cash, security and inventory counts with accounting records).

- **Segregation of duties.** Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. This is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties. Examples of segregation of duties include reporting, reviewing and approving reconciliations, and approval and control of documents.

2.4.4 Accounting, Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Information systems produce reports on operations, finance, and compliance that enable management and the board to run the organization. Communication systems impart information throughout the organization and to external parties such as regulators, shareholders, and customers. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. Accounting systems are the methods and records that identify, assemble, analyze, classify, record, and report the organization's transactions.

An information system encompasses the following elements:

- Classes of transactions in the entity's activities that are relevant for financial reporting (e.g. purchase of assets, payroll transactions, cash disbursements, expenditure types and related procedures);
- Procedures (within both IT and manual systems), by which those transactions are initiated, recorded, processed and reported in the financial reports;
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial reports, in respect of initiating, recording, processing and reporting transactions;
- How the information system captures events and conditions, other than the classes of transactions, that are significant to the financial report;
- The financial reporting process used to prepare the entity's Financial Report or equivalents (e.g. income and expenditure statement), including accounting estimates and disclosures.

2.4.5 Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. An important management responsibility is to establish and maintain internal control on an ongoing basis. Management's monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions. Monitoring of controls may include activities such as management's review of

whether bank reconciliations are prepared on a timely basis or review of the application of compensation policies.

Hermanson & Co. (2002) reiterates that the Board of Directors are charged with providing regular independent assessment of internal controls systems established by management.

Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions for changes in conditions. Monitoring is done to ensure that controls continue to operate effectively. For example, if the timeliness and accuracy of bank reconciliations are not monitored, personnel are likely to stop preparing them.

Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities. Much of the information used in monitoring may be produced by the entity's information system. The Auditor examines the type and sources of information for monitoring and how these are used by management.

2.5 COMPONENTS OF THE CONTROL ACTIVITY

Internal controls rely on the principle of checks and balances in the workplace. The following components focus on the control activity:

Personnel need to be competent and trustworthy, with clearly established lines of authority and responsibility documented in written job descriptions and procedures manuals. Organizational charts provide a visual presentation of lines of authority and

periodic updates of job descriptions ensures that employees are aware of the duties they are expected to perform.

Authorization Procedures need to include a thorough review of supporting information to verify the propriety and validity of transactions. Approval authority is to be commensurate with the nature and significance of the transactions and in compliance with the company's policy.

Segregation of Duties reduce the likelihood of errors and irregularities. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties. This helps detect errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications.

Physical Restrictions are the most important type of protective measures for safeguarding the company's assets, processes and data.

Documentation and Record Retention is to provide reasonable assurance that all information and transactions of value are accurately recorded and retained.

Records are to be maintained and controlled in accordance with the established retention period and properly disposed of in accordance with established procedures.

Monitoring Operations is essential to verify that controls are operating properly. Reconciliations, confirmations, and exception reports can provide this type of information.

2.6 INTERNAL CONTROL OBJECTIVES

Effective internal control provides organizations with reasonable assurance that:

- Operations are efficient and effective.
- Recorded transactions are accurate.
- Financial reporting is reliable.
- Risk management systems are effective.
- The organization complies with laws and regulations, internal policies, and internal procedures.

Control systems can help organizations managers measure performance, make decisions, evaluate processes, and limit risks. Good internal control can help an organization achieve its objectives and avoid surprises. Effective control systems may detect mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions in addition to fraud or deliberate noncompliance with policies.

Effective and well-designed control systems are still subject to execution risk. In other words, human beings still must execute most control systems and even well trained personnel with the best of intentions can become distracted, careless, tired, or confused.

Internal control must be consistently applied and well understood by organization's staff if board and management policies are to be effectively implemented.

Controls are aimed at achieving the following objectives among other things:

- Limit authorities
- Safeguard access to and use of records and organization assets
- Separate and rotate duties, and
- Ensure both regular and unscheduled reviews, including testing.

2.7 LIMITATIONS OF INTERNAL CONTROL

There is no such thing as a perfect control system, since internal controls provide reasonable assurance and not absolute assurance.

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

A limitation inherent in any system is the element of human error, misunderstandings, fatigue and stress. Internal control cannot ensure success, or even survival.

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

Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. Employees are to be encouraged to take earned vacation time in order to improve operations through cross training while enabling employees to overcome or avoid stress and fatigue.

The cost of implementing a specific control should not exceed the expected benefit of the control. This sometimes prevents the introduction of a good policy because of there is no money for it.

A realignment of duty assignments may be all that is necessary to accomplish the objective.

Internal controls should reduce the risks associated with undetected errors or irregularities, but designing and establishing effective internal controls is not always a simple task and cannot always be accomplished through a short set of quick fixes.

It is therefore imperative that companies such as Ghana Post recognize that Internal Controls does not provide absolute assurance but only reasonable assurance.

2.8 OBJECTIVES OF FINANCIAL STATEMENTS

The objective of financial statements according to Greuning (2006) is to provide information about the financial position (balance sheet), performance (income statement), and changes in financial position (cash flow statement) of an entity; this information should be useful to a wide range of users for the purpose of making economic decisions, focusing on users who cannot dictate the information they should be getting.

Fair Presentation is achieved through the provision of useful information (full disclosure) in the financial statements, whereby transparency is secured. If one assumes that fair presentation is equivalent to transparency, a secondary objective of financial statements can be defined: to secure transparency through full disclosure and provide a fair presentation of useful information for decision making purposes.

2.9 QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users:

Relevance. “Relevant information influences the economic decisions of users, helping them to evaluate past, present, and future events or to confirm or correct their past evaluations” Greuning (2006). The relevance of information is affected by its nature and materiality.

Reliability. Reliable information is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. The following factors contribute to reliability: faithful representation substance over form neutrality prudence completeness

Comparability Information should be presented in a consistent manner over time and in a consistent manner between entities to enable users to make significant comparisons.

Understandability Information should be readily understandable by users who have a basic knowledge of business, the item been treated, the economic activities, and accounting. According to Whittington and Pany (2004) accounting information should also be understood by those who have a willingness to study the information with reasonable diligence.

The following are the underlying assumptions of financial statements

- **Accrual basis.** Effects of transactions and other events are recognized when they occur (not when the cash flows). These effects are recorded and reported in the financial statements of the periods to which they relate.
- **Going concern.** It is assumed that the entity will continue to operate for the foreseeable future. The following are constraints on providing relevant and reliable information:

- **Timeliness.** Undue delay in reporting could result in loss of relevance but improve reliability.
- **Benefit versus cost.** Benefits derived from information should exceed the cost of providing it.

2.10 ACCOUNTING TREATMENT ELEMENTS OF FINANCIAL STATEMENTS

Whittington and Pany (2004) in their book *Principles of auditing and other assurance services*, 14th edition, p.253 the following elements of financial statements are directly related to the measurement of the financial position:

- **Assets.** Resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- **Liabilities.** Present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of economic benefits.
- **Equity.** Assets less liabilities (commonly known as shareholders' funds)

The following elements of financial statements are directly related to the measurement of performance:

- **Income.** Increases in economic benefits in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in equity (other than increases resulting from contributions by owners). Income embraces revenue and gains.
- **Expenses.** Decreases in economic benefits in the form of outflows or depletion of assets, or incurrence's of liabilities that result in decreases in equity (other than decreases because of distributions to owners).

2.11 INITIAL RECOGNITION OF ELEMENTS

A financial statement element (assets, liabilities, equity, income and expenses) should be recognized in the financial statements if:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

2.12 SUBSEQUENT MEASUREMENT OF ELEMENTS

According to Greuning (2006) the following bases are used to different degrees and in varying combinations to measure elements of financial statements:

- Historical cost.
- Current cost.
- Realizable (settlement) value.
- Present value (fair market value).

Fair value has to be used in the measurement of financial instruments, but is available as a choice for property, plant and equipment, intangible assets, and agricultural products.

2.13 PURPOSE OF INTERNAL CONTROLS

“Internal controls are designed to minimize the risks that the company is exposed to and which, if those risks arose, could prevent the company from meeting its strategic objectives” Rittenberg and Schmegeer, For example, in a shop where cash sales take place, controls will be put in place

to ensure that money is received prior to the sale being made, and that the risk of cash being misappropriated is minimized.

The three main purposes of internal controls according to Whittington and Pany (2004) are the following:

- Understand the extent to which the entity's operations objectives are being achieved.
- Published financial statements are being prepared reliably with relevant standards.
- Applicable laws and regulations are being complied with.

ISA 315, Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement deals with the whole area of controls, and requires that staffs to obtain an understanding of the entity's internal control environment.

2.14 QUALITIES OF AN INTERNAL AUDITOR AS PER INTERNAL AUDIT AGENCY ACT, 2003 ACT 658 SECTION 19 AND 20

The internal auditor to whom the Act applies shall:

- Perform their work with honesty and diligence

Not knowingly be party to any illegal activities or engage in acts that discredit the work of the internal auditing

- The internal auditors shall respect the value and ownership of information they receive and shall not disclose information without authority unless there is a legal or professional obligation to do so.
- Not accept anything or any favor that may impair or might be taken to affect their professional judgment.

- Disclose all material facts known to them, the non disclosure of which may distort any reporting activity
- Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties
- The internal auditors shall not use information for any personal gain or in any manner that would be contrary to this Act or detriment to the legitimate and ethical objectives of the Agency.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter deals with various methodologies used in collecting data for the study, the population under study, the sample size among other things are explained in this chapter.

3.1 POPULATION AND SAMPLING

Population can be defined as a group of individuals or items that share one or more characteristics from which data can be gathered and analyzed.

This study is an evaluation of the internal control systems of Ghana Post Company Ltd, Kumasi, Ashanti region. The regional head office which is situated at Adum, Harper road is our selected study area. The research populations are staffs of Ghana post. Adum branch.

Sampling can be defined as the act, process, or technique of selecting a representative part of a population for the purpose of determining the characteristics of the whole population.

To elicit the views of larger groups, some form of sampling is usually necessary to attempt to gather opinions that are likely to be representative of the whole group. The study targets 110 out of the total number of 145 workers which represents 76% of the total work force. This is so because we believe with our limited resources it will be impossible to administer questionnaire and interview all the 145 workers. Ghana post has a total number of 145 workers which represents 76% of the total work force. The sample size of 110 was chosen because we believe 76% of the workforce is enough to make relevant conclusions.

3.2 TYPES OF RESEARCH

There are various approaches to conducting a research. Some of them are as follows.

Exploratory research is undertaken when few or no previous studies exist. The aim is to look for patterns, hypotheses or ideas that can be tested and will form the basis for further research.

Descriptive research can be used to identify and classify the elements or characteristics of the subject, e.g. number of days lost because of industrial action.

Analytical research often extends the Descriptive approach to suggest or explain why or how something is happening, e.g. underlying causes of industrial action.

The aim of Predictive research is to speculate intelligently on future possibilities, based on close analysis of available evidence of cause and effect, e.g. predicting when and where future industrial action might take place. (*Collis & Hussey, 2003*)

This research is using descriptive approach to assess the impact of internal control systems on Ghana Post. Adum Kumasi.

3.3 DATA COLLECTION PROCEDURE AND TECHNIQUES

Data can be defined as information in raw or unorganized form (such as alphabets, numbers or symbols) that refers to, or represent, conditions, ideas, or objects. Data is limitless and present everywhere in the universe. Data can be categorized into two main groups. These are Primary and Secondary (Delbridge and Kirk Patrick 1994). This study employed both primary and secondary data. The techniques employed for gathering primary data for this case study were structured interviews, personal conversations and questionnaires secondary data were obtained from reports, minutes, interviews etc. These techniques were used because it is believed to be quicker and yield a high response rate. This instrument also affords an opportunity to explain

research questions and ask open-ended questions, which in most cases received a better response from respondents than in the cases that questionnaires are used.

3.4 DATA ANALYSIS

A software package called Microsoft Office Excel, Graphs, Frequency table; Pie Chart will be used to analyzed the data.

CHAPTER FOUR

PRESENTATION OF RESULTS AND ANALYSIS

4.0 INTRODUCTION

This chapter brings to light all the major findings relating to this study, areas covered are operational manual, segregation of duties, computerization and a lot more.

4.1 OPERATIONAL MANUAL

Table 1: Are there written operational manual					
RESPONSES		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	30	37.0	37.0	37.0
	NO	51	63.0	63.0	100.0
	Total	81	100.0	100.0	

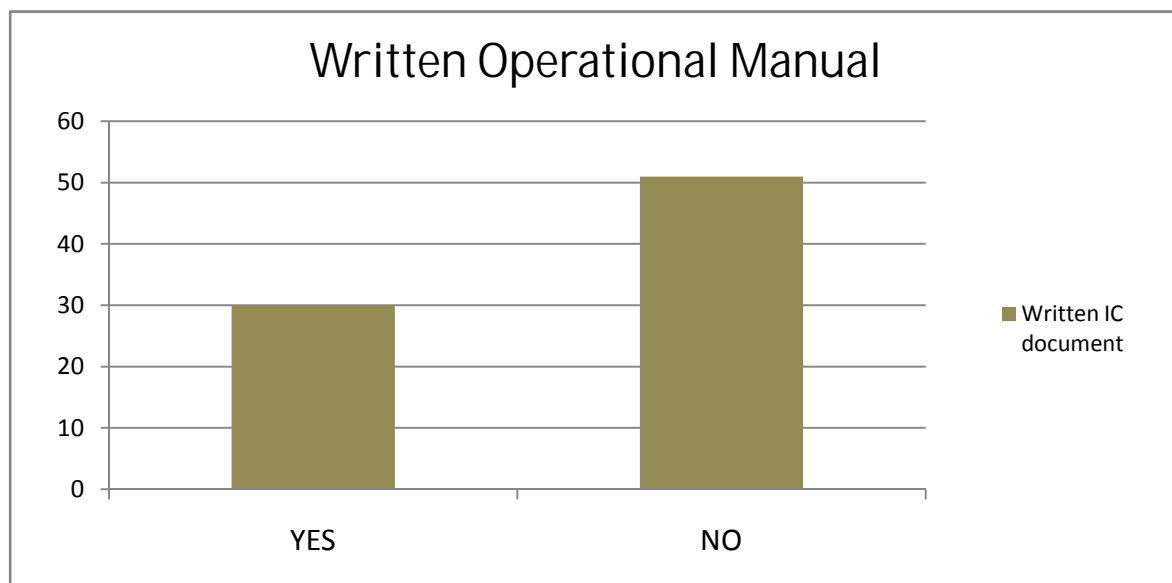


Figure 1.

Out of the 81 respondents who were interviewed and administered the questionnaire, 30 of them responded positively to operational manual representing 37%. It can be conclude based on the study of results graphically shown above about the operational manual that Ghana Post does not have a proper operational manual. But it was discovered that the audit manual is equivalent to an operational manual but not many employees of Ghana post are aware of its existance. Even those who know of its existence do not know if it can be borrowed and have not borderd to findout what is in it. Hence, Ghana Post management must endeavour to have the audit manual.

The company uses operational manual which guides internal audit staff about how to audit each department of the organization. The manual specify penalties which are to be meted out to specific person's who fail to comply with certain internal control measures. However this manual has not been codified into written internal controls manual to allow all staffs get a copy so as to know what do to prevent such penalties.

The internal audit department has only one copy of the manual which can be borrowed for a brief moment by any staff upon request. The book is confined in a cabinet and reshelf after usage. Responses gathered to this question are displayed in the table and graph above.

4.2 MONITORING

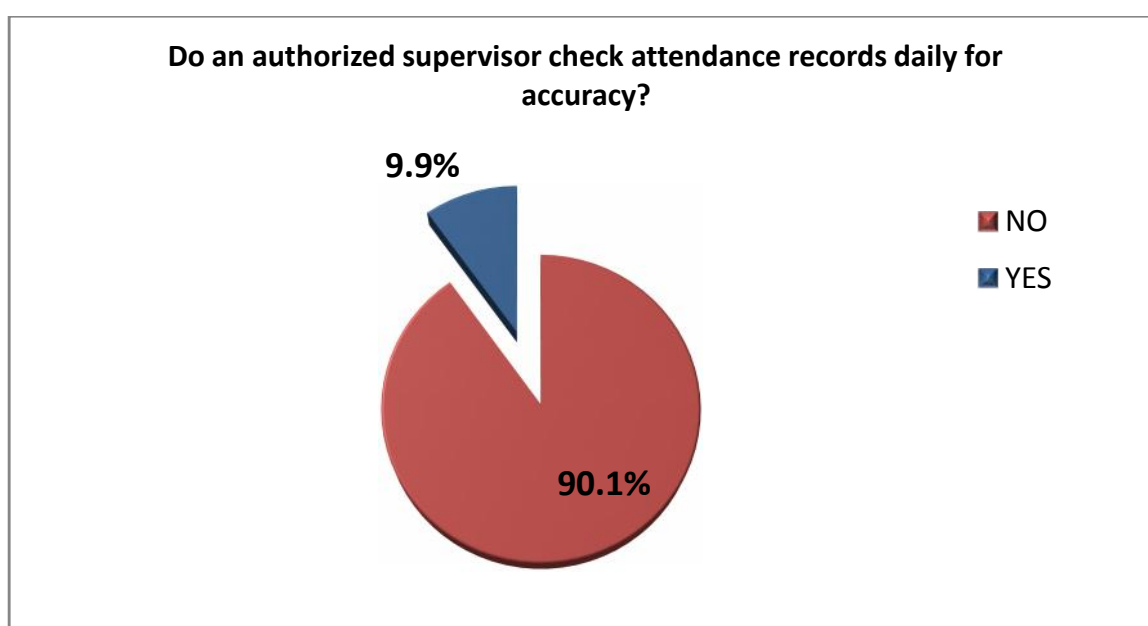


Figure 2 above is graphical representation of responses on the question stated above.

The responses gathered from the question indicate that 9.9% yes answers and 90.1% no. It indicates that attendance sheet is not monitored for accuracy and efficiency purposes.

Monitoring Operations is essential to verify that controls are operating properly.

Reconciliations, confirmations, and exception reports can provide the information.

At Ghana Post, monitoring is done in various ways, at the departments, counter etc. At the counter, General Counterfoil receipt is issued for all cash received and it has a duplicate, triplicate and quadruplicate. The counterfoil receipts are serially numbered and each book contains fifty (50) receipts. The original copy is given out to the customer upon cash payment, the duplicate is added to returns which is sent back to head office in Accra. The triplicate is used by internal auditors for routine audit which is conducted monthly. The quadruplicate is used by the immediate counter supervisor for reconciling cash received for the day against the receipts issued.

However, there is also the counter balance book use at the counter to cross check cash paid to the counter supervisor and stock left in the safe (closing balance). It has been designed in a ledger format, with debit and credit sides. At the parcels office, clear treatment procedures have been instituted which are monitored through supervision and auditing. The treatment for parcels to be returned to the country of origin reads as follows:

- a) Cancel the addressees address with red ink, or red ball pointed pen
- b) Indicate the reason on the parcel why it was not delivered.
- c) Show an arrow pointing to the senders address,
- d) Delivery parcels offices should comply with the above instructions before forwarding to Accra for further action.

Does an authorized supervisor check attendance records daily for accuracy? Responses gathered on this issue leads us to conclude that Ghana Post keeps attendance book as a formality

and normally signed by staff when they wish to do so, and those who sign it sign once a week entering any time they want in the book. The book is not kept by any supervisor and its records are not what are used to prepare payroll.

Further questions on monitoring include *Are payrolls approved by a responsible official prior to payment?* Most of the staff at Ghana Post Kumasi office is paid from head office so not much was said in this area during our study.

It was also observed that security cameras (CCTV) installed some years ago are not currently functioning. It is believed that if they were functioning it would have kept many employees on the alert that they are been observed, and therefore work harder. It will also prevent mails been tempered with, which has given Ghana Post a very bad corporate image.

4.3 SEGREGATION OF DUTIES

Table 2: Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties such as cash handling?					
RESPONSES		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	64	79.0	79.0	79.0
	NO	17	21.0	21.0	100.0
	Total	81	100.0	100.0	

Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties such as cash handling?

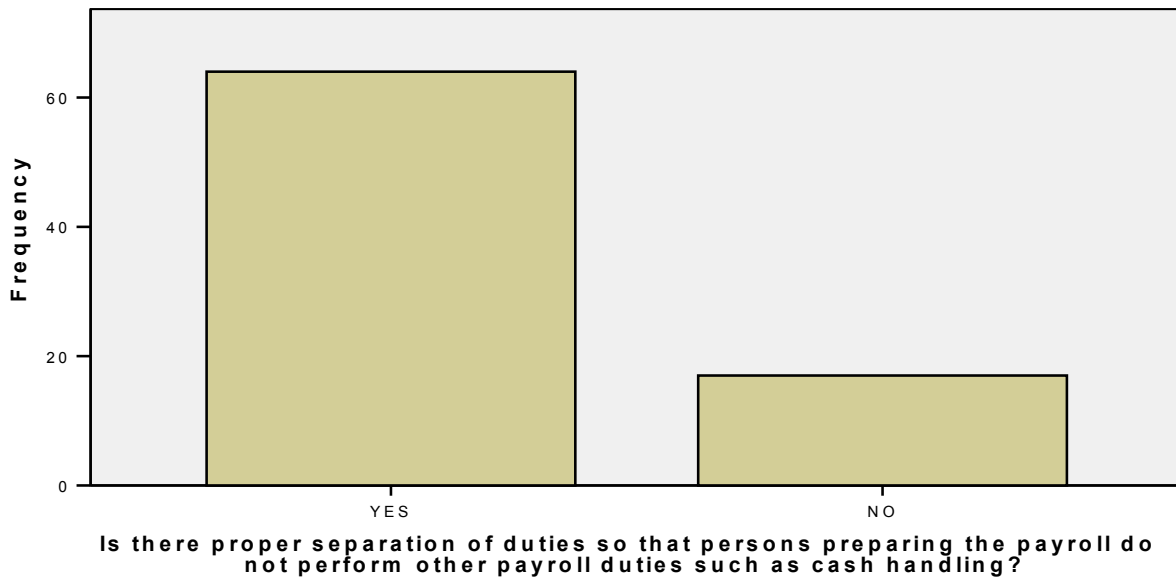


Figure 3 above is graphical representation of responses on the question is there proper separation of duties in payroll preparation and cash handling.

The responses gathered from the respondents are displayed in the frequency distribution table as represented above. The total number of responses was 81 of which 64 answered Yes that there is segregation of duties so that persons preparing the payroll do not handle cash. The purpose of segregating duties is to allow proper checks and balances so that one person does not start a transaction and completes it without anyone checking it.

However when we inquired into whether bank reconciliation performed by two different people, the response was in the negative, bank reconciliation within Ghana Post is done by only one person, on completion a copy is sent to Accra the Head office with original copies of the cash book. The duplicate copies of the cash book are kept for future purposes.

Efficient system of internal controls must properly segregate duties. Segregation of duties is assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets and execution of specific task. Various questions were asked to ascertain if Ghana Post is really segregating duties; questions include *Is the "Receiving" function independent from the procurement functions? Is there proper separation of duties so that persons preparing the payroll do not perform other payroll duties such as cash handling? Etc.* At Ghana Post segregation of duties is practiced in areas such as the following:

- *Authorization:* the company cheque is serially numbered, and is kept by an accounts officer who prepares it when the need arises. There are three different signatories to the accounts: the Regional Head, Regional Accountant and Regional Administrator. In the absence of any of these signatories the cheque cannot be cashed.
- *Inventory Requisition:* this activity is mostly handled by two different officers; the stores officer and Vault manager. The vault manager is in charge of general counter foil receipt books, stamps and any other item sold for cash. The stores manager is in charge of all non cash items such as stationery. There is also segregation of duties in other areas such as payroll preparation and petty cash handling. The responses gathered from our questionnaire is illustrated in the table above:

4.4 INTERNAL AUDITING

Table 3: Do internal auditors audit your department monthly?					
RESPONSES		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	63	77.8	77.8	77.8
	NO	18	22.2	22.2	100.0
	Total	81	100.0	100.0	

The table above is the frequency distribution of the responses gathered from our questionnaire, out of the total valid responses of 81. 63 answered yes to the question posed, and 18 answered No. This is further illustrated graphically below

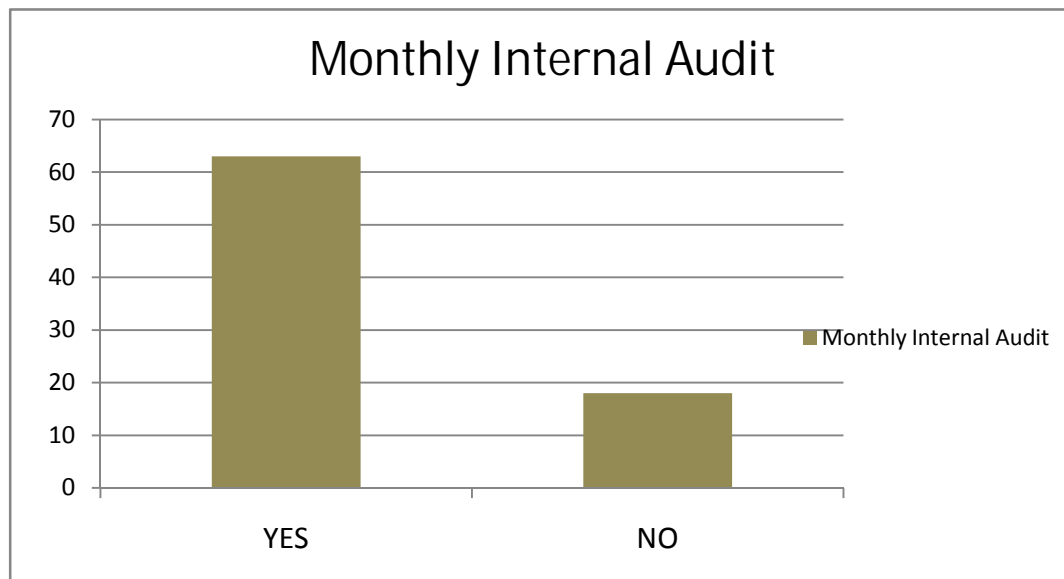


Figure 4 above is graphical representation of responses on the question stated above.

From the above graph it can be concluded that the internal audit unit audits every department monthly, this is in consonance with best practices and efficient internal control systems.

Just as the Internal Audit Act, 658, 2003 advocate for the establishment of an internal audit unit, Ghana Post has already established its internal audit department. The Ghana Postal services Corporation Act, 505 under sec 13 (1, 2, 3,) established the internal Audit Unit.

The department is tasked to ensure that auditing policies and procedures are uniformed throughout the Company. The internal Auditor is obliged to submit quarterly reports through the Director General to the Board.

Our questionnaire inquired into how frequent the internal audit unit audits various departments in Ghana Post Company ltd, Kumasi and the responses are illustrated in the table above;

4.5 INFORMATION PROCESSING AND COMMUNICATION

Table 4: Has Ghana Post computerized its data processing?			
RESPONSES	Frequency	Percent	Valid Percent
YES	25	30.9	30.9
NO	56	69.1	69.1
Total	81	100.0	100.0

The question posed to our respondents was whether Ghana Post has computerized its data processing. From the frequency table above; out of valid eighty one (81) responses 56 answered NO and 25 answered Yes. Our findings point to the fact that the pilot project which was captured in the Company's Newsletter has begun in some selected offices.

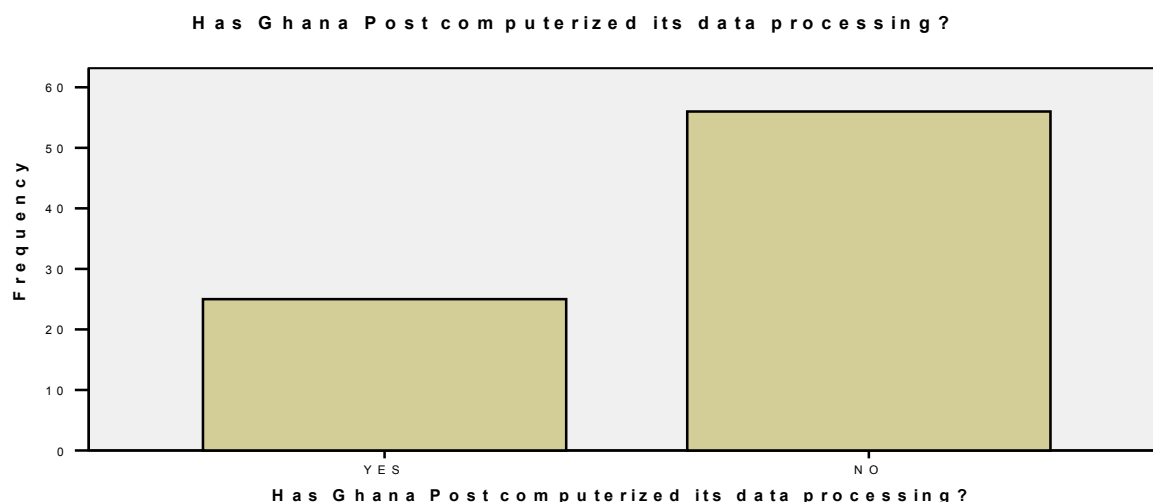


Fig 5 above illustrates the responses gathered from the question *Has Ghana Post*

Computerized its data processing. From the graph it can be concluded that Ghana Post has not computerized its data processing. As to whether Ghana Post has connected to the internet the answers given us was that Ghana Post has not yet connected to benefit from internet. However there are few offices such as the internal audit unit which have two computers which has been connected to an unstable internet service.

Processing data by the use of computer is not only quicker but also neat, efficient, reliable and prudent. In years past all businesses was undertaken face to face, but gradually orders started to be placed by other means- letter, telegram, telex, fax, telephone, etc. Wood and Sangster (2007). Whiles major competitors like Fedex, DHL and others has fully computerized, Ghana Post still process data manually and it is yet to computerized its operation.

According to Ghana Post Newsletter, December 2008 the computerization is all set and has begun computerizing processes in the Company on pilot basis in selected Post Offices. The program is aimed at providing one stop service to render solutions to most of the problems that

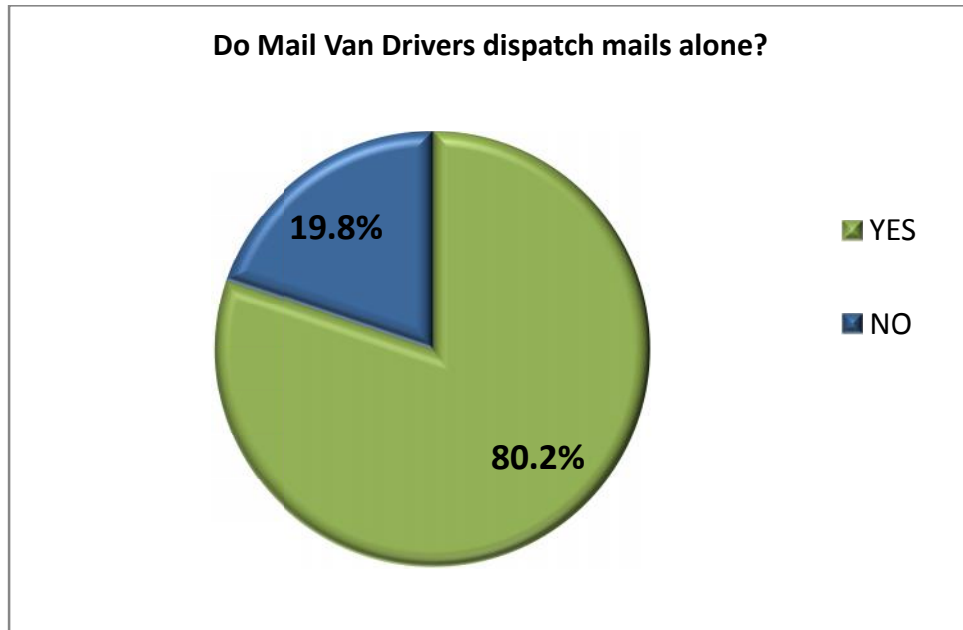
have bedeviled Expedite Mail Service (EMS) and other services. Responses gathered to this question are displayed in the table and graph above.

4.6 RISK ASSESSMENT

Table 5: Do Mail Van Drivers dispatch mails alone?				
RESPONSES	Frequency	Percent	Valid Percent	Cumulative Percent
Valid YES	65	80.2	80.2	80.2
NO	16	19.8	19.8	100.0
Total	81	100.0	100.0	

From the table above 65 people answered Yes while 16 answered No, generating a total of 81.

On the other questions stated above such as *Are staff performance evaluated annually? Are internal control policies and procedures reviewed annually?* Responses were negative especially with performance evaluation and updating internal controls. It was observed that performance is rarely evaluated and internal control policies as at 1999 are yet to be updated. However with punishment for non compliance with controls the answers were very positive. Out of 81 people 72 answered Yes that punishment are there for non compliance and this ranges from queries, interdiction and dismissal from duty in extreme situations.



The graph in Figure 6 indicate that Mail van drivers usually dispatch mails alone, this may result in some mails been tempered with, delayed and even stolen by the driver. This is risky for an organization that wants increase its market share to 80 by providing prompt, reliable and secure courier services.

The Committee of Sponsoring Organisation Framework consists of five interrelated components which include Assessment of Risk. Organizations with Risk Assessment Procedures less conducive to fraud. It is imperative to establish clear agency-wide objectives that are consistent with the organization's mission, Vision statement and Corporate strategy

Various questions were asked to asses the risk inherent in the existing system that could inhibit the achievement of Ghana Post's objectives outlined in Chapter three of this work.

- Do mail van drivers dispatch mails alone?
- Is there punishment for non compliance with internal controls?

- Are staff performance evaluated annually?
- Are internal control policies and procedures reviewed annually?

These questions were asked because if any of these is not properly instituted Ghana Post's objective of providing prompt, efficient, reliable and secure communications and financial services to both domestic and foreign customers cannot be achieved.

However the responses gathered from these questions were not encouraging; for example on the question of whether mail van drivers dispatch mails alone 65 out of 81 respondents answered Yes. This is illustrated in the table below;

4.7 PHYSICAL CONTROLS

Table 6: Are other staffs allowed access to the stock at the counter?				
RESPONSES	Frequency	Percent	Valid Percent	Cumulative Percent
Valid YES	9	11.1	11.1	11.1
NO	72	88.9	88.9	100.0
Total	81	100.0	100.0	

The table six (6) above represents responses gathered from the question: Are other staff allowed access to stock at the counter?

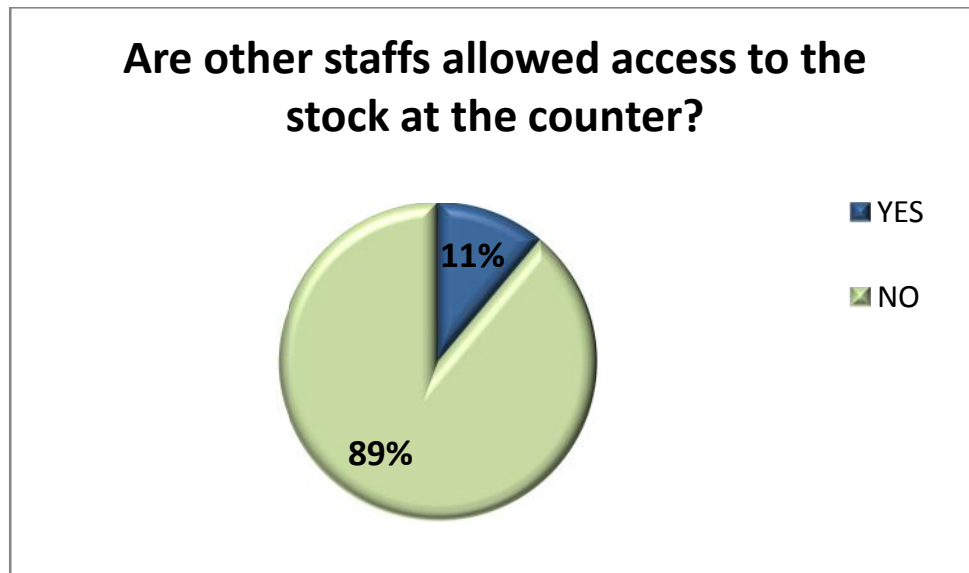


Figure 7 above is graphical representation of reponses on the question stated above.

Other questions on physical restrictions include Are counter stock put in a safe at the close of the days business? And this also generated 75 Yes answers and 6 No answers. This represents 93% for Yes against 7% for No. It was observed that there is a safe at all offices at Ghana Post.

Mail bags are supposed to be packed in front of supervisors; however when we inquired into that the response was that it has become routine that mail bags are now packed with or without supervisors. The questionnaire gave us 48 Yes answers and 33 No answers.

Physical controls in itself is a preventive control measure to safeguard assets, however when it extends to capture things like access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

Then physical controls become both detective and preventive control policy, at Ghana Post stock taking is done half yearly to ascertain the correct stock level against what is recorded.

Are other staffs allowed access to the stock at the counter? Is one of the questions asked to check physical controls? The response to this question generated 72 No answers and 9 Yes

answers out of a total of 81 responses. The No answers represents 89% which leads us to conclude that other staff is not allowed access to the counter. This means that stocks at the counter is properly safeguarded against theft.

4.8 ACCOUNTS, RECORDS KEEPING AND OTHERS

Ghana Post maintains books such as cash book, operational accounts, revenue accounts and many others. A daily registered balance book is maintained for all registered items received and dispatched. For cheques received at the counters they must be immediately recorded in the cheque record book with its details such as cheque number, record date and the nature of the transaction. When we solicited answers as to whether Ghana Post is under staffed or over staffed 63 of our respondents answered Yes that Ghana Post is understaffed against 18 No answers. 65 also answered that Ghana Post is not understaffed. Ghana Post training school manual also buttress this point and I quote “The rather poor quality and high number of staff in relation to mail volumes retards its efficiency”.

Our questionnaire also inquired into whether Ghana Post balances its accounting books monthly, and if they prepare financial statements according to international standards. The responses to the above questions were positive to the two questions. Meaning that Ghana Post balances its books monthly and its financial statements conform to international standards.

4.9 DATA ANALYSIS

	STRENGTH	WEAKNESS	TOTAL
Operational manual	37	63	100
Monitoring	9.9	90.1	100
Segregation of Duties	79	21	100
Internal Auditing	77.8	22.2	100
Information Processing & Communication	30.9	69.1	100
Risk Management	19.8	80.2	100
Physical Controls	<u>88.9</u>	<u>11.1</u>	100
	<u>343.30</u>	<u>356.70</u>	
	7	7	
	<u>49%</u>	<u>51%</u>	

From the above analysis 49% shows the strength in the internal control of Ghana Post. While 51% shows weakness in the internal control of Ghana Post.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter gives a brief summary of findings of this study, and draws relevant conclusions upon which recommendations are made for further studies etc.

5.1 SUMMARY OF FINDINGS

Our study resulted in various findings which are categorized into the headings below:

5.1.1 INTERNAL OPERATIONAL MANUAL

It was discovered that Ghana Post has not codified its policies and procedures on internal controls into a book, which could be given out to all employees. However the organization maintains an internal operational manual which is kept in a cabinet at the internal audit unit.

5.1.2 MONITORING

Ghana Post maintains a general counter foil receipt which is used at the counter to record cash receipts from customers. This is serially numbered which is very good and has duplicate, triplicate and quadruplicate. It was also discovered that counter personnel account for stocks daily and the immediate supervisor receives all cash received at the counter and is charged with the responsibility of banking it into Ghana Post accounts. Stamps and other items sold for cash at the counters is put into a secured safe at the close of the day's business. Shortages are paid for by counter staff daily to the counter supervisor for it to be banked.

However bank reconciliation is not closely monitored as it should be since it was discovered that it is done by only one person. Attendance is also not monitored as it should be; this is so because the attendance book is not properly supervised. Cheques which are kept by an accounts clerk is not properly monitored. Void cheques are not supervised and the cheque itself is kept in a drawer instead of a secured safe.

5.1.3 SEGREGATION OF DUTIES

It was observed that duties of cheque signing and preparation is properly segregated, it was also observed that all employees are paid from head office therefore Payment voucher preparation is separated from cash handling. Inventory requisition is handled by the vault manager and the stores manager who handles noncash items. The counter supervisors also prepare requisition forms for stamps, money orders and others traded for cash and it's sent to the Vault Manager who supplies it. Payroll is also prepared from head office and sent to the regional head offices who approve them for payments. Reimbursement is also made to travelers upon the traveler completing payment voucher for reimbursement, which is submitted to the regional head who approves it and forwards it to the accountant for payment from the operational accounts.

5.1.4 INTERNAL AUDIT

It was observed that the internal audit unit audits various departments monthly and writes a report to the internal auditor who forwards quarterly report to the regional head and the Director in charge of Auditing.

5.1.5 INFORMATION PROCESSING AND COMMUNICATION

Ghana Post has partially computerized its information processing and it's yet to connect its computers to the internet.

However plans are underway to fully computerized in the course of the year in some selected post offices.

5.1.6 RISK ASSESSMENT

It was discovered that if Ghana Post is to achieve its mission and vision then the risk of allowing mail van drivers and motor riders to drive alone should be eliminated.

On the issue of punishment for non compliance with control policies, it was discovered that various punishments are there for non compliance. These punishments include queries, interdiction and dismissal from the organization. Performance evaluation and update of internal control policies and procedures are very poor and this adversely affecting staff performance.

5.1.7 PHYSICAL CONTROLS

It is observed that counter staff are not supposed to allow unauthorized persons into the counters but now a days they allow some visitors to sit at the counter whiles they work. Mail Office and parcel office is also restricted from unauthorized persons including staff. However this has been neglected to the extent that some workers allow visitors to enter the mail office.

Also mail bags are supposed to be packed in front of supervisors but it is hardly ever done these days.

5.1.8 ACCOUNTS, RECORDS KEEPING AND OTHERS

Record keeping is good at Ghana Post especially with those at the counters due to the serially numbered counterfoil receipt which has duplicate and even quadruplicate. However if computerized accounting is adopted work will be efficient and economical.

Also it was observed that Ghana Post is over staffed and this has resulted in problems with cutting down cost and operational inefficiencies.

5.2 DATA ANALYSIS

	STRENGTH	WEAKNESS	TOTAL
Operational manual	37	63	100
Monitoring	9.9	90.1	100
Segregation of Duties	79	21	100
Internal Auditing	77.8	22.2	100
Information Processing & Communication	30.9	69.1	100
Risk Management	19.8	80.2	100
Physical Controls	<u>88.9</u>	<u>11.1</u>	100
	<u>343.30</u>	<u>356.70</u>	
	7	7	
	<u>49%</u>	<u>51%</u>	

From the above analysis 49% shows the strength in the internal control of Ghana Post. While 51% shows weakness in the internal control of Ghana Post.

Findings from the study points for that Ghana Post do have an internal control system in place. On the surface, realised that there is not much difference in the strength and the weakness of the internal control but there is the need for management to strengthen internal controls. Upon critical study on issues like Physical Control, Attendance Register, information processing and communication and Monitoring show a lot of weakness in this specific area.

5.3 CONCLUSIONS

It can be conclude from the study based on the following findings:

- Ghana Post does have operational manual but not adequate.
- Inadequate Monitoring at Ghana Post
- Segregation of duties is effective
- Internal auditing is also effective

5.4 RECOMENDATIONS

1. A copy of the operational manual should be made for staffs especially the internal audit staff.
2. There should be strict attendance register to monitor the attendance of staff and signed by a supervisor at a giving time e.g. 8.30 am
3. The information Processing and Communication should be improved to help facilitate the daily activities of Ghana Post.

4. The Physical Control of assets requires urgent attention as greater part of the company's finances is in the stock.
5. Security cameras should be reinstalled to monitor staff performance and to prevent theft and thereby creating a better corporate image.
6. Mail van should not be driven alone since it can lead to delays in delivery and mails been tempered with.
7. It is recommended that authorized supervisors should approve and supervise time sheets and time sheets must be used in payroll preparation.

5.5 SUGGESTIONS FOR FURTHER STUDIES

1. This study concentrated on appraising internal controls generally with respect to Ghana Post Kumasi, it is therefore suggested that it should be extended to cover the entire Ghana Post and not only its Kumasi office.
2. It is also recommended that further studies in relation to internal controls at Ghana Post Kumasi should be compared with internal controls at similar service providers like FedEx or DHL.

BIBLIOGRAHY

1. Arens, A.A, Elder, J.R and Basley, S.M (2006), Auditing and Assurance Services an integrated approach 11th edition, New Jersey: Prentice Hall
2. Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2002
3. Gray, and Manson, S.S (2002), The audit process principles, practice and cases 2nd Edition, London:Thomson
4. Ghana Post Corporate Plan – 2001
5. Korath, F. L .; Auditing Concepts and Applications- risk analysis approach, 3rded west Publishing Co(2004)
6. Lucey, T , Business Administration Hampshire: DP Publications Ltd(2007)
7. Lemon, W. M , Auditing an integrated Approach, Canada: Prentice Hall(2006)
8. Messiers F. W. J (2002),; auditing and assurance services – a systematic approach; 2nd ed.
9. Millichamp, A. H. (2002), auditing 8th ed. Continuum, ESLT
10. Nickels, W.G, McHugh, J.M and McHugh, S.M Understanding Business 3rded U.S.A: Irwin
11. Rittenberg, E.L and Schmeger, J.B , Auditing concepts for a changing environment(2002)

APPENDIX

**THIS QUESTIONNAIRE IS DESIGNED TO HELP ASSESS THE IMPACT OF
INTERNAL CONTROL SYSTEMS IN GHANA POST COMPANY, ADUM KUMASI**

INTERNAL CONTROL QUESTIONNAIRE

PLEASE ANSWER BY TICKING (✓) YES /NO

GENERAL QUESTIONS

Gender Male () Female ()

How long have you worked at Ghana Post?

2. Do counter staff account for stocks daily? Yes () No ()
3. Are there written policies and procedures on internal controls? Yes () No ()
4. Are over-the-counter receipts serially numbered? Yes () No ()
5. Is bank reconciliation performed by two different people? Yes () No ()
6. Is the “Receiving “function independent from the procurement functions? Yes () No ()
8. Are suppliers monthly statements compared with recorded liabilities? Yes () No ()
9. Are attendance records maintained? Yes () No ()
10. Do an authorized supervisor check attendance records daily for accuracy? Yes () No ()
11. Is there proper segregation of duties so that persons preparing the payroll do not perform
other payroll duties such as cash handling? Yes () No ()
12. At what intervals are stock taken done within a *year*? Monthly () Quarterly () Annually ()
13. Are payrolls approved by a responsible official prior to payment? Yes () No ()
14. Does Ghana Post have an organizational chart that defines lines of authority?
Yes () No ()
15. Is the payroll account reconciled by an officer who does not prepare PV? Yes () No ()
16. Are internal control policies and procedures reviewed annually? Yes () No ()

17. Are there security cameras at areas where mail is handled? Yes () No ()
18. Are staff performance evaluated annually? Yes () No ()
19. Are there punishment for non compliance with internal controls? Yes () No ()
20. Do internal auditors audit your department monthly? Yes () No ()
21. Do mail van drivers dispatch mails alone? Yes () No ()
22. Does the board request internal control report annually? Yes () No ()
23. Does the company have yearly internal audit report? Yes () No ()
24. Does the company have yearly external audit report? Yes () No ()
25. Has Ghana Post computerized its data processing? Yes () No ()
26. What do you think should be done to make internal controls systems work more effectively?

.....

.....

.....

27. Are there written operational manual on internal Controls at Ghana Post? Yes () No
28. Are the Policies been complied with? Very well () Fairly well () No ()
29. Are the Internal Control policies reviewed from time to time? Yes () No ()

If yes how often are the policies reviewed? Weekly () Monthly () Quarterly ()

Yearly () No idea ()

30. Are other staffs allow access to stock at the counter? Yes () No ()

