

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Turnbull Comments that internal control consists of ‘the policies, processes, task, behaviors and other aspects of a company that taken together:

- a) Facilitate its effective and efficient operations by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve the company’s objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed.
- b) Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and without the organization.
- c) Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business’ (BPP, 2008-2009).

A system of effective internal controls is a critical component of company management and a foundation for safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and billion in losses. That is why the Retired Executive Vice President of American Savings Bank, Mary Locatelli in September, 2003, made it known that, the recent rash of corporate failures and accounting frauds are mostly preceded by a failure in a company’s internal control structures (Directorship Journal, 2003). A framework for internal control systems in Banking Organizations issued by the Bank of International Settlement (Basle Committee) on Banking Supervision in 1998 stated that, the heightened interest in internal controls is, in part, a result of significant losses incurred by

several organizations. It explained that, an analysis of the problems related to these losses indicates that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the organization.

This same idea is reflected in Kaplan (2007), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States (US) in the 1990s, as demonstrated by the collapse at Enron and WorldCom. These in fact were described as a high-profile collapse by the Association of Certified Chartered Accountants – ACCA, (Student Accountant, 2008).

Re-emphasizing this point, the Daily Graphic (2007) reported the embezzlement of GH¢5.5 billion of withholding tax belonging to the Ghana Revenue Authority (GRA) by two officials of the service due to ineffective internal controls and supervision over the work of the culprits. The report therefore urged managers to be more serious about effective internal controls in order to detect and prevent such acts to avoid losses to organizations.

Effective internal control systems seek to address issues such as corporate governance which in turn promotes Corporate Social Responsibility (CSR). Drawing on this, the Chairman of the Environmental Quality Council Malaysia – Datuk (2009) at ACCA forum ‘Governance and sustainability: is there a link?’ He said ‘We’re in poor shape’. On suitable standard of reporting, he added that ‘the value of reporting must contribute to the business and the betterment of mankind and the report should be verified by a third party’. He urged the government to make sustainability reporting compulsory for all Malaysian firms. At the introductory stage, Datuk mentioned that, sustainability reporting of Corporate Social

Responsibility (CSR) in Malaysia is in ‘poor shape’ and that there was hardly any sustainable reporting until Bursa Malaysia made it a requirement and thereafter, listed firms were providing the descriptions of their Corporate Social Responsibility activities.

At the second annual internal audit forum organized by the Internal Audit Agency (IAA), in Accra, under the theme: “Mitigating corporate fraud, abuse and waste: the role of the internal auditor”, the Ex President of Ghana, His Excellency, J.A. Kuffour urged all public sector Chief Executives to develop and make operational effective internal controls in a speech read on his behalf by the then Minister of Finance and Economic Planning, Mr. Kwadwo Baah-Wiredu. He added that domestically and internationally, fraud and economic crime pose a threat and has a link with terrorism, poverty and drugs (Ekow, 2007).

The immediate past president of Ghana , His Excellency, Professor John Atta Mills on April 7 2010, in one of his unannounced visits to the Minister of Finance and Economic Planning, vented his spleen on some officials of the Customs, Excise and Preventive Service (CEPS), accusing them of engaging in acts of economic sabotage. He said some investigations had indicated that some officials stationed at the country’s harbors were under-invoicing imported goods and pocketing huge sums of money, to the detriment of the national economy. Source: *Ghana News Agency (GNA) April 7, 2010*.

According to the president, credible information had also come to his attention that some officials of CEPS were aiding unscrupulous people to smuggle cocoa beans across the country’s western border. He interacted with the leadership of the Ministry of Finance and Economic Planning, the Value Added Tax (VAT) Service, the Internal Revenue Service (IRS) and CEPS during unannounced visits to the headquarters of the institutions in Accra

stating that, the CEPS constituted the largest revenue collection agency and that the valuation of the goods at the country's entry points left much to be desired.

He lamented the fact that substantial amounts of money which could have been utilized by the government in the productive sectors of the economy to provide more job opportunities were being siphoned into individual pockets through the under valuation of goods. Moreover, he encouraged those hard workers in the service to help the government to identify and flush out the bad lots within the service who had, over a longer period of time, engaged in under-collection of taxes at the borders and ports. "This is the time for introspection. The government will not tolerate personnel of the service who are working against the economy. There is pain in my heart as a result of these activities" he stated.

Finally he stated that, the revenue collection agencies constituted the bedrock of the country's economic recovery and so the government will do whatever it could to support them to meet their targets.

Yeboah, (2011) in the **Today's exposé in its Wednesday, January 12, 2011 edition**, which had the banner headline "**FRAUD AT ECG – Workers accused**", he **reiterated** that his outfit is more than poised to dismiss any worker who is found to be engaged in shady deals. He mentioned that, customers' unwillingness **to point out corrupt nuts in** the company especially for fear of getting staff dismissed from their jobs, is a contributing factor to growing corruption in the company. He emphasized that; customer education will be intensified to curb the situation.

From the above, it is therefore imperative to say that, Internal Controls play a significant role in helping managers to achieve their goals hence the need for this study to investigate the effectiveness of internal controls at Coca-Cola Bottling Company of Ghana Limited (TCCBCGL).

1.2 STATEMENT OF THE PROBLEM

There have been many incidences of fraud and embezzlement in recent times partly due to ineffective internal control systems in operation. For instance, the Daily Graphic (2010) reported the embezzlement of GH¢3.4 billion of Western Union Funds at Suame Post Office by only one officer. John Sey, the chairman of the Board of Directors, ordered the Acting Managing Director of the company to proceed on leave due to fraudulent deals in Ghana Post Company. Re-emphasizing this point, the New Crusading Guide (2010) reported a whistleblower over complaint of conflict of interest, abuse of office, financial loss and fraud in Ghana Post, directed by the Attorney-General and Minister for Justice requested BNI to probe Ghana Post. Also, the Kumasi Mail (2007), reported a GH¢35 billion fraud at the Coca Cola Bottling Company Limited which to a larger extent could be attributed to ineffective internal controls. It is against this background that his study will be conducted to determine whether management's internal controls is adequately designed at the Coca-Cola Bottling Company of Ghana Limited. To help achieve this goal, some specific objectives are needed to determine that, which is discussed in the next section.

1.3 OBJECTIVES OF THE STUDY

The main objectives of the study are:

- a) To examine the effectiveness of the risk assessment procedures in the company.
- b) To review the effectiveness of the established control environment in the company.
- c) To assess the adequacy of the established control activities which seek to prevent and detect erroneous and inappropriate actions.
- d) To examine the effectiveness of the information flow and communication on the control activities.
- e) To ascertain the effectiveness of the monitoring procedures on the internal control activities.

1.4 RESEARCH QUESTIONS

- a) Are the existing risk assessment procedures in TCCBCGL effective?
- b) Is there an established control environment in The Coca-Cola Bottling Company of Ghana Limited (TCCBCGL)?
- c) How adequate are the established control activities required to prevent and detect errors and inappropriate actions?
- d) Is the information on the control activity and control environment timely and effectively communicated?
- e) Do the monitoring procedures over the internal controls work effectively in TCCBCGL?

1.5 JUSTIFICATION OF THE STUDY

The Coca-Cola Bottling Company of Ghana Ltd contributes enormously to the development of Ghana in many diverse ways as indicated below.

Its core business is to produce soft-drinks by which means it refreshes several Ghanaians (TCCBCGL News, 2004).

Again the company employs about 1200 people directly making up of its own employee and contract staffs. Indirectly, the company employs several other people through its Mini Depot operations, Manual Distribution Centers and other retailers. Also with its ability to create jobs, the company employs several national service personnel each year in line with the National Service Scheme initiated by the government of Ghana.

Additionally, Coca-Cola generates income for the Ghana government to enable her carry on its development activities through payment of taxes in the following categories:

1. Corporation tax
2. Value Added tax (VAT)
3. Withholding tax
4. Income tax
5. Excise duties and
6. Ad Valorem Tax.

It must be said that, all these benefits to the country and the individuals involved will only continue to be realized if the company does well and continues in operation. It is also very important to note that, if a company is doing well, it is not only because it is making more sales but also because assets of the company are properly secured.

Drawing from the foregoing, if Coca-Cola Bottling Company of Ghana Ltd collapses due to ineffective internal control systems, the following issues might arise.

- a) It would result in loss of income to the Government.
- b) Workers being unemployed and losing their source of livelihood could result in untold hardships on their families with possible drop outs of children from schools. This can

further lead to social vices such as prostitution, arm robbery, drug abuse and so on as some people unfortunately result to these activities as the only means of survival.

- c) Ineffective internal controls can also bring the risk of unexpected losses to the company as well as damage to the company's image.

Aside the above issues, the study will have the following significance:

The researcher is of the view that, this study like many others will add up to the literature available on the subject-matter of internal controls in Ghana which will serve as a source of reference to future researchers on this topic and related areas.

Moreover, the researchers hope that, the findings of this will be very useful to the management of Coca-Cola.

1.6 SCOPE OF THE STUDY

The study is limited to the Coca-cola Plant in Kumasi in the Ashanti Region of Ghana. The Kumasi Plant was chosen due to accessibility of data to the researcher.

1.7 LIMITATION OF THE STUDY

The whole of Beverage Industry would have been studied to help make the study more representative. However, as it has been stated earlier, TCCBCGL will be used for the study.

The use of TCCBCGL for the study has been necessitated because of certain constraints like financial constraints and limited time available.

1.8 ORGANISATION OF THE STUDY

This work consists of five chapters. Chapter one, which is the present and the introductory chapter, is made up of the introduction, background of the study, statement of the problem, objectives of the study, justification, methodology, the scope of the study and limitations of the study.

Chapter two will focus on the literature review, which is about the concept of internal control system. Chapter three will describe the methodology to be used in the study and the profile of the TCCBCGL. Chapter four deal with the analysis of the findings.

Chapter five which is the final part will be devoted to summary, conclusions and recommendations to the findings in the fourth chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter attempts to review and discuss the literature on the area of internal controls and its effectiveness. The literature review is discussed under the following sub-headings; definition, history, importance, categories, components and effectiveness of internal controls.

2.1 DEFINITION OF INTERNAL CONTROL

The definition of internal control has evolved over recent years as different internal control models have been developed. This study presents some definitions of internal control by different people and organizations. This has become necessary because the concept of internal control is a dynamic concept and is incapable of precise lasting definition (Hughes, 2007).

In the Black Business Solutions and Services (undated) defines internal control as the actual checks and balance in existence to ensure that all of the procedures are being properly applied.

Kenneman (2004) describes internal control as those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. He explains, in simple terms that, internal control can be defined as those processes that management relies on to make sure things don't get goofed up. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework explains internal control as a process,

affected by entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a) Effectiveness and efficiency of operations
- b) Reliability of financial reporting
- c) Compliance with applicable laws and regulations. (<http://www.coso.org>).

Reference Guide from University of California (undated) identified these key points from the COSO definition:

People at every level of an organization affect internal control. Internal control is to some degree, everyone's responsibility. Within an organization, administrative employees at the department-level are primarily responsible for internal control in their departments.

Effective internal control helps an organization achieve its operations, financial reporting and compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).

Internal control can provide only reasonable assurance - not absolute assurance - regarding the achievement of an organization's objectives. Effective internal control helps an organization achieve its objectives; it does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond an organization's control.

Expanding on the COSO definition, Financial Management Journal (2005), said Internal control represents an organization's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line of defense in safeguarding assets and preventing and detecting errors, fraud, waste, abuse, and mismanagement.

2.2 BRIEF HISTORY OF INTERNAL CONTROLS

2.2.1 Early Times

In an undated work Brink contends that, internal control (audit) as a concept has existed as early as there have been substantive relationships. He adds, its origin can be documented and traced back to civilized communities that existed around 5000 B.C. The governments of these empires imposed a number of taxes on individuals and business. For the proper accounting and collection of these taxes, an elaborate system of checks and counterchecks were established. Such early internal control systems were designed primarily to minimize errors and safeguard state property from dishonest tax collectors (Cited in Gupta 1991).

He continued that, the Mesopotamian civilizations, which existed about 3000 B.C., also utilized elaborate systems of internal controls. Summaries of the transactions were prepared by scribes who did not provide the original list of receipts and payments. Documents of that

period contained ticks, dots, and check-marks indicating the existence of the auditing function during those times.

2.2.2 Modern Times

A Reference Guide for Managing University Business Practices (undated) gives a brief history of internal controls as follows:

1985: 5 Organizations sponsored the National Commission on Fraudulent Financial Reporting, A.K.A. Treadway Commission.

1987: Treadway Commission suggested committee to be formed to study internal controls.

1992: Committee of Sponsoring Organizations (COSO) issued “internal Control Integrated Framework”

Then the Real Finance Journal, (2005), concludes with the history of internal controls in the United Kingdom (UK) as follows:

1992: The **Cadbury Code**, the UK’s first corporate governance code, includes Principle 4.5 on “reporting the effectiveness of the company’s system of internal controls”.

1994: The **Rutteman Report** on Internal Control on Financial Reporting expands on Principle 4.5 specifying minimum disclosures. But it admits a system of control can provide only “reasonable and not absolute” assurance against misstatement.

1998: The first Combined Code broadens the debate from internal financial control to internal control.

1999 The Turnbull Report says boards should adopt a risk-based approach to establishing a sound system of internal control and conduct an ongoing review of its effectiveness.

2002 The Sarbanes-Oxley Act was passed in the United States (US). Section 404 requires directors to make statements on the effectiveness of internal controls. Foreign companies with US-listed debt or equity will have to be section 404-compliant from 2006.

2003 The Smith Report advises on the roles and responsibilities of audit committees. The Combined Code is revised to reflect both this and the Higgs Report.

Jan 2005 The statutory OFR covers current and prospective performance and strategy. It must include information on the principal risks and uncertainties that may affect a company's long-term value.

Oct 2005 The Turnbull Guidance is reviewed by a group led by Douglas Flint, FD of HSBC. "The overwhelming view was that the Turnbull Guidance continues to provide an appropriate framework for risk management and internal control. Its relative lack of prescription is considered to have been a major factor contributing to the successful way it has been implemented," says Flint. "Only limited changes have been made to the guidance itself, while a new preface has been added to emphasize the need [for firms] to keep [it] under review and to provide meaningful information in their annual report," says the FRC.

2.3 IMPORTANCE OF INTERNAL CONTROLS

Adu-Gyamfi (2007), points out the following as the reasons why enterprises need internal controls;

- a) Stops things such as assets, documents and records from going missing but benefiting individuals either within or outside an organization.
- b) Makes sense of how the business is doing.
- c) Prevents or at least minimizes business risks.
- d) Improves the efficiency and effectiveness of managers of the enterprise.
- e) Ensures that assets are protected and safeguarded.
- f) Ensures discipline in the transactions entered into by an enterprise.

2.4 CATEGORIES OF INTERNAL CONTROLS

Kissner (2007) has identified three distinct categories of internal controls which are briefly discussed:

- Preventive controls - designed to keep errors or irregularities from occurring.
- System edits that stop erroneous payments before disbursement.
- Detective controls - designed to detect errors or irregularities that have already occurred.
- System report that filter payments after disbursement
- Corrective Controls- designed to correct errors or irregularities that have been detected.
- Follow up action required to address errors previously detected.

2.5 INTERNAL CONTROL COMPONENTS

Rittenberg et al., (2007), stated that, five components of COSO's control framework may be viewed as both fundamental principles and an aid to planning, evaluating and updating controls. They are:

1. Risk Assessment
2. Control Environment
3. Control Activities
4. Accounting, Information, and Communication systems.
5. Monitoring.

It went on to say that effective internal control still depends on having the five components in place and operating effectively, such that a company has reasonable, not absolute assurance that will prevent or detect material misstatements in a timely manner.

This study adopts the COSO frame work of effective internal controls system which is discussed below:

2.5.1 Risk Assessment

Risk Assessment is the identification and analysis of risks relevant to achieving objectives that form a basis for determining how risks should be managed. From a risk management perspective, entity-wide objectives relating to the use of derivatives should be consistent with risk management objectives. Mechanisms should exist for the identification and assessment of business risks relevant to the entity's unique circumstances. Management should obtain an understanding of personnel, management operating systems, valuation methodologies and assumptions, and documentation as a foundation for identifying and assessing the capability to manage risk exposures associated with company activities. Management should also provide specific measurement criteria for achieving derivative activities and objectives, such as value at risk. Risk analysis processes for derivative activities should include identifying risk, estimating its significance, and assessing the likelihood of its occurrence. (COSO undated)

Following on from this, the Internal Control Comptroller's Handbook (2001) defines risk assessment as the identification, measurement, and analysis of risk, internal and external, controllable and uncontrollable, at individual business levels and for the company as a whole. It also says that, management must assess all risks facing the company because uncontrollable risk-taking can prevent the company from reaching its objectives or can jeopardize its operations. Thus effective risks assessments help determine what the risks are, what controls are needed, and how they 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.

According to the Internal Controls Guide for Directors (2001), risks can arise or change because of circumstances such as:

- A change in the company's operating environment.
- New personnel.
- New or revamped information system.
- Rapid growth.
- New technology.
- New or expanded lines of business, products, or activities.
- Mergers or other corporate restructuring.
- Changes in accounting requirements.

Various types of risks can be identified and as stated in The Annual Internal Control Handbook, these include inherent, control, combined, and/or fraud.

2.5.2 Control Environment

The Control Environment consists of the integrity, ethical values, and competence of the entity's personnel, as well as management's philosophy and operating style. An active and effective board of directors should provide oversight. Thus, management should recognize that the "tone at the top" and the attitude toward controlling risk affect the nature and extent of derivative activities. The board should review management's planned decisions regarding the appropriateness and effectiveness of derivative strategies and positions. Senior management should recognize that its philosophy and operating style have a pervasive effect on an entity. For this reason, senior managers should understand their control responsibilities,

authorize use of derivatives only after risks and expected benefits have been carefully analysed, and clearly communicate objectives and expectations for derivative activities.

Additionally, a reference guide for managing University Business Practices (University of California) said, the control environment is the control consciousness of an organization; it is the atmosphere in which people conduct their activities and carry out their control responsibilities. It continued to say that, an effective control environment is an environment where competent people understand their responsibilities, the limit to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way.

2.5.3 Control Activities

According to Miller (2007) control activities are those activities required to ensure that management objectives are met. They are basically activities that management puts in place for the outworking of the organizations objectives. Control Activities are the policies and procedures to help ensure that management directives are carried out. Policies governing derivative use should be clearly defined and communicated throughout the organization. The risk management policy should include procedures for identifying, measuring, assessing, and limiting business risks as the foundation for using derivatives for risk management purposes.

The COSO release states control activities help ensure that, necessary actions are taken to address risks to the achievement of the entity'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.

2.5.4 Information and Communication Systems

Information and Communication focuses on the nature and quality of information needed for effective control that the systems use to develop such information, and reports necessary to communicate it effectively. Communications should ensure that duties and control responsibilities relating to a company's activities are understood across the organization. Adequate systems for data capture, processing, settlement and management reporting should exist so that transactions are conducted in an orderly and efficient manner. Mechanisms should be in place to obtain and communicate relevant information covering company's activities. Directors and senior management should obtain sufficient and timely information to monitor achievement of objectives and strategies (COSO, 1992).

Information systems produce reports, containing operational, financial and compliance related information, that make it possible to run and control a business. They deal with internally generated data as well as the external activities, conditions and events necessary to informed business decision making and external reporting.

2.5.5 Monitoring

The COSO framework (undated) says that monitoring is the component that assesses the quality and effectiveness of the system's performance over time. Control systems relating to company's activities should be monitored to ensure the integrity of system-generated reports. The organizational structure should include an independent monitoring function over activities, providing senior management with an understanding of the risks of company activities, validating results, and assessing compliance with established policies.

Internal control systems need to be a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate

evaluations or a combination of the two. Ongoing monitoring occurs in the normal course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board (COSO, 1992).

In line with this, a Zambian Information and Communication Specialist by name Mr. Casius Chuma once remarked: “Monitoring and Evaluation is not there to spy on you, but to mirror your development trials” (Tetteh, 2008).

2.6 EFFECTIVENESS OF INTERNAL CONTROL

Simmons (1995), states that, all five components of the control system must be present and functioning effectively in order to conclude that internal controls over operations are effective. It continues that while internal control is a process, its effectiveness is a state or condition of the process at a fixed point in time. It concludes that determining whether a particular control system is effective is a subjective judgment resulting from an assessment of whether the five components of control are present and functioning effectively.

Along similar lines, Rittenberg et al., (2007), asserts that, effective internal control depends on having the five internal control components in place and operating effectively, such that a company has reasonable — not absolute — assurance that it will prevent or detect material misstatements in a timely manner.

This study therefore seeks to examine the effectiveness of internal controls at the Coca Cola Bottling Company of Ghana Limited using the five components of internal control presented in the COSO framework namely; risk assessment, control environment, control activity, information and communication system as well as monitoring.

CHAPTER THREE

METHODOLOGY AND PROFILE OF ORGANIZATION

3.0 INTRODUCTION

This chapter deals with the methodology used in the work and also highlights the profile of the organisation.

Methodology

Upon collecting the necessary data, it was analyzed and summarized in a more readable and easily interpretable form using Statistical Package for Social Sciences (SPSS) and Excel. The results were presented by using statistical tools as tables, graphs and pie charts.

3.1 POPULATION

A research population is generally a collection of individuals or objects that is the main focus of a scientific query. According to Mason et al. (1997), the population of a study is the collection of all possible individuals, objects or measurements of interest. The study aimed at investigating the effectiveness of internal control systems using The Coca Cola Bottling Company of Ghana Limited as a case study. The population was identified to represent the manufacturing /FMCG sector in the Ghanaian economy.

3.2 SAMPLE

Selection of sample was done by stratified random sampling which was done after identifying the various job grades in the company. Hence, efforts were made to use the various departmental heads across the various job grades. For that matter nine people were interviewed who were the departmental heads of each of the nine (9) department so as to

enable the researcher have access to the required number of responses across demographics and to be able to generalize the findings of this study to the population.

3.3 DATA COLLECTION STRATEGY

The researcher initially had a discussion with the personnel manager of The Coca Cola Bottling Company Limited and sought permission to use the plant as a case study in assessing the effectiveness of internal control systems. Three areas were of particular concern to the execution of the study: the collection of Primary data, the collection of Secondary data and data analysis techniques. These were used in arriving at the final conclusion. In collecting primary data, close-ended questionnaires were designed and sent to sampled employees for the desired data for the purpose of this research work.

3.4 INSTRUMENT

The questionnaire for the research work was adopted from a combination of instruments developed by the Institute of Chartered Accountants (Internal Control), Guidance for Directors on the combined code published in 1999 and the Internal Control Guide for Directors published in 2002. From these instruments, a five-part questionnaire with twenty five (25) items were developed and administered to assess respondents' evaluation of the effectiveness of internal control structures in TCCBCGL. The main parts of the data collection instrument are the five (5) components or constructs of internal controls which include: **Risk Assessment, Control Environment, Control Activity, Information and Communication Systems and Monitoring** with five (5) defining items each.

3.5 SCORING

Responses for the research questionnaire were made of a five-point Likert scale. This was to provide respondents with broad response categories in the following sequence and the corresponding scores:

- Strongly Agree = 5
- Agree = 4
- Not sure = 3
- Disagree = 2
- Strongly Disagree = 1

The reason for choosing a five-point Likert scale is based on the fact that most Top Management have busy schedule and will not be willing to respond to more open ended questions despite the numerous advantages.

3.6 PROFILE OF ORGANIZATION

3.6.1 Introduction

The Coca-Cola Bottling Company of Ghana Limited (TCCBCGL) was set up as a joint venture between the following partners in March 7, 1995:

- Coca-Cola Export Corporation - 25%
- Africa Growth Fund - 20%
- Government of Ghana - 55% with the Management contract

Granted to the Coca-Cola Company

Upon further re-structuring and acquisition, the current ownership structure changed initially in 2000 to:

- Equatorial Coca-Cola Bottling Company - 68%
- Government of Ghana - 32%

In year 2003, the Equatorial Coca-Cola Bottling Company of Barcelona, Spain bought over the Ghana Government shares and assumed 100% ownership.

3.6.2 Mission Statement

The mission of TCCBCGL is to “deliver high quality products and services that meet the needs of our customers and consumers. To this end, we will manufacture and market products which comply with the Coca-Cola Company’s specifications and the requirements of the consumers and endeavors to exceed”.

3.6.3 Administrative Setup

Administratively, TCCBCGL is headed by a General Manager/CEO who is assisted by ten (10) Heads of Departments namely:

- Finance
- Technical
- Human Resource
- Commercial
- Marketing
- Supply Chain (Materials & Distribution)
- Internal control/IT
- Public Affairs & Communications
- Operations
- Fleet and Maintenance

3.6.4 Product Range

The Coca Cola Bottling Company of Ghana Limited currently manufactures nine (9) brands namely as follows:

- Coca Cola
- Sprite
- Fanta
- Schweppes
- Malt
- BonAqua
- Krest
- Burn
- Minute Maid

Twenty two (21) flavors are currently bottled under the above mentioned brands, namely:

<i>Coca-Cola</i>	<i>Fanta Orange</i>	<i>Fanta Lemon</i>
<i>Fanta Fruit Cocktail</i>	<i>Sprite</i>	<i>Krest Bitter Lemon</i>
<i>Krest Ginger-Ale</i>	<i>Krest Soda Water</i>	<i>Krest Tonic Water</i>
<i>BonAqua drinking water</i>	<i>Schweppes Tonic Water</i>	<i>Fanta Pineapple</i>
<i>Schweppes Bitter Lemon</i>	<i>Schweppes Soda Water</i>	<i>Schweppes Malt</i>
<i>Coke light</i>	<i>Burn Energy drink</i>	<i>Minute Maid Apple</i>
<i>Minute Maid Multi Vita Fruit</i>	<i>Minute Maid Orange</i>	<i>Minute Maid Pineapple</i>

3.6.5 Operations

The Coca Cola Bottling Company of Ghana Limited operates two plants; Accra and Kumasi, made up of 6 production lines: five in Accra plant and one in Kumasi plant. From a sixty percent (60%) market share in 1995, the company in 2005 moved to eighty six (86%) and as present, it controls ninety eight (98%) in the Carbonated Soft Drinks (CSD) in Ghana. A market leader in its own right, TCCBCGL has established extensive marketing and distribution networks since 1995 throughout the country. To date, the company has provided 14,000 Electric Coolers to some strategic outlets to assist their operations.

3.6.6 Affiliations

The Coca Cola Bottling Company of Ghana Limited is a corporate member of Chartered Institute of Administration; Institute of Public Relations- Ghana, Association of Ghana Industries (AGI) and Ghana Employers Association (GEA).

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

4.0 INTRODUCTION

This section presents results from the data analysis, interpretations and discussion. These are mainly inferential statistics and descriptive statistics. The descriptive data is presented in the form of Pie Charts and Bar Graphs. To give a more meaningful picture of the data used, table of figures are presented in addition to the Pie Charts and Bar Graphs. These are presented and discussed in line with the objectives of this research work as stated earlier in chapter one.

4.1 DATA ANALYSIS AND INTERPRETATION

The results from the data analyses and their interpretation are presented as:

4.1.1 Analysis of Empirical Data (Risk Assessment)

The first question under risk assessment was intended to find out if the company has clear objectives about risk assessment and if these have been clearly communicated to employees as well. The response shows that, 33% of the respondents agree to this, 45% were undecided and leaving the remainder which represent 22% disagreeing to the question. The majority of the respondents who were undecided were mostly due to the fact that most of the top managers concentrate only on issues that pertain to their department.

When question two (2) was asked to find out if there are sufficient staff members with the necessary knowledge, competency and resources to perform their activities, the study showed

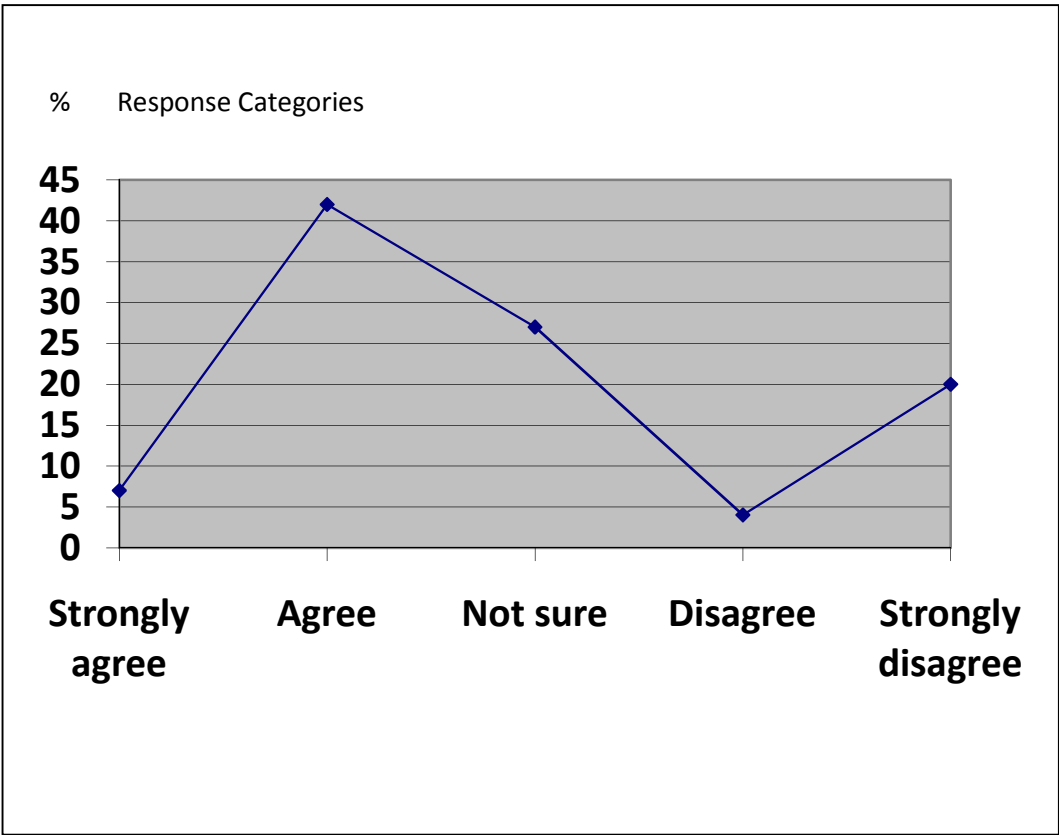
that, Six (6) representing 67% of the respondents agree to this assertion. However Two (2) - 22% were not decided with one (1) - 11% disagreeing in this regard.

To find out if audit personnel or other internal control experts are involved in control discussions when developing new products, the question three (3) was designed to achieve that purpose. It was evident from the study that, 34% of the respondents strongly agree to this, 22% agree whereas 22% were not decided with 22% disagreeing to that assertion.

In the question Four (4), respondents were asked if there is an ongoing identification and assessment of various types of risks. The empirical evidence show that, 45% of the respondents agree with this item, 33% could not decide while 22% disagree.

The last question under risk assessment was five (5) which intended to find out if members are aware of the risk levels acceptable by management. The study revealed that, 45% of the respondents agree with this item, 22% were not sure while 33% strongly disagree. Taken as a whole, the effectiveness of risk assessment as a component of effectiveness of internal control systems at TCCBCGL is depicted in the figure below:

Figure figure 4.1 Line Graph showing the level of Risk Assessment in TCCBCGL



Source: Fieldwork January 2013

Results presented in figure 1 above indicate that majority of respondents in TCCBCGL perceive the company has a high sense of risk assessment so far as effectiveness of internal control structures are concerned. Specifically, 42% of the respondents agree to the fact that the company has high risk assessment structures or procedures whilst 7% strongly agree to the same assertion. 27% of the respondents indicated that they are not sure of the effectiveness of the company’s risk assessment drive as a means of measuring the effectiveness of internal control structures in TCCBCGL. This may be due to the limited flow of effective communication. However, 20% of the respondents expressed doubt about the effectiveness of the company’s risk assessment initiatives and to the larger extent 20% of the respondents strongly disagree. The results as presented above imply that TCCBCGL as

a corporate entity has good risk assessment structures in place to execute effective internal controls.

4.1.2 Analysis of Empirical Data (Control Environment)

The first question under control environment was designed to find out if management decisions are made collectively. It was found out from the study that (5) out of the 9 respondents (56%) agree that this is true, 11% of the respondents were undecided on this question while 33% disagree.

Question number (7) was to inquire if codes or ethics policies exist in the company. The response given implies that, 33% of the total respondents strongly agree that these exist and the remaining 67% also agree.

Concerning question (8) which intended to ascertain whether policies regarding importance of internal controls and appropriate conduct are communicated to staff revealed that, 56% of the respondents agree. For the rest, 11% were not decided with 33% disagreeing to that assertion. The question number (9) was structured to find if control systems exist to periodically test for compliance with codes of conduct or policies. It was revealed from the empirical evidence that, 56% of the respondents think this is working at TCCBCGL, with 22% not being sure of that assertion while 2 Top Management (22%) out of the 9 respondents disagree.

In assessing whether senior management lead by example (question 10), it brought to light that, 22% of the respondents strongly believe that management live by example, 67% agree and one respondent was not sure on this.

Having analyzed the various questions under control environment component of effective internal control systems, it is appropriate to aggregate these and present it in a single figure for easy assessment. This is presented in the figure (5) below:

Table 4.1 Table showing the level of Control Environment in TCCBCGL

Response Categories	Strongly Agree	Agree	Not Sure	Disagree	Total
Results	5	27	5	8	45
Percentages (%)	11	60	11	18	100

Source: Fieldwork January 2013

Data presented in figure 2 above indicates that majority of the respondents perceive the control environment to be very effective and functional in TCCBCGL. This is indicative of the fact that 60% of the respondents agreed to the assertion that there is a strong control environment in TCCBCGL whilst 11% pointed out that they strongly agree that there is strong control environment within TCCBCGL. However, a few of the respondents (11%) were not clear to comment on the construct whereas 18% disagree.

4.2 ANALYSIS OF EMPIRICAL DATA (CONTROL ACTIVITY)

The first question (11) under the control activity was to help find if policies and procedures exist to ensure critical decisions are made with appropriate approvals. The response indicates that, 33% of the respondents strongly agree with this question, 56% agree while one respondent (11%) was not sure.

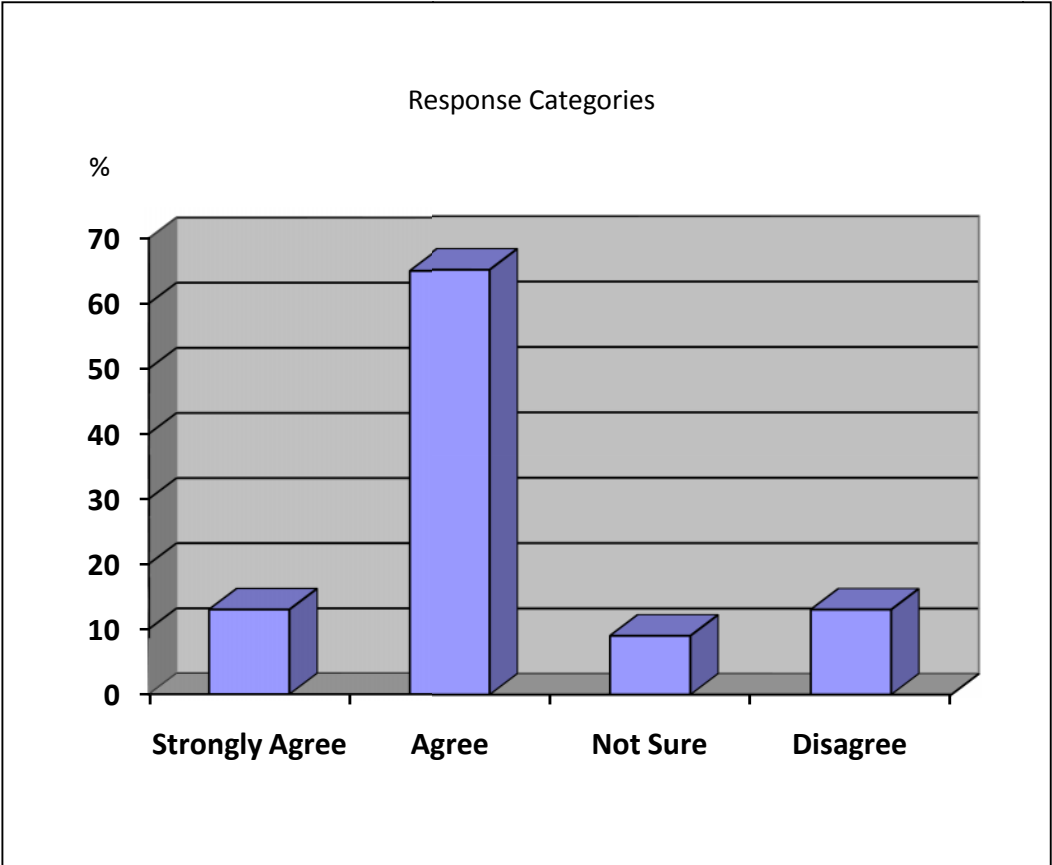
The import of item numbered (12) on the questionnaire was to find if there is independent verification of transactions. It was brought out from the study that, 33% of the respondents strongly believe this activity is operational at TCCBCGL, 56% agree whereas one respondent (11%) disagrees.

In assessing the adequacy of the control activity, question thirteen (13) asked respondents if the company has a system in place to ensure that duties are periodically rotated. The study showed that, 56% agree to this and 44% disagree. The question (14) asked the respondents if the company communicates to its staff what is expected of them and the scope of freedom to act. 67% agree to this and 22% were not sure whereas 11% disagree.

The question (15) inquired of the respondents if staffs have the knowledge, skills and tools to perform their duties so as to manage risk and achieve company objectives. This revealed that, 89% of the respondents agree while one respondent (11%) was not sure about this assertion.

The effectiveness of control activity at TCCBCGL as a construct based on the above analyzed questions is shown in the figure below.

Figure 4.2 Bar Graph showing the level of Control Activity in TCCBCGL



Source: Fieldwork January 2013

It emerged that majority of the Top Management perceive control activity as a construct of internal control structure to be very effective in TCCBCGL. This is indicated by the fact that 65% of all respondents indicated that they are in agreement with the assertion that there is effective control activity within the fabric of the company so far as effective internal control structures are concerned. In addition, a total of 13% of the respondents strongly agree to the assertion that there is effective control activity in the company. However, 13% of respondents disagree while 9% could not indicate their views on the construct being measured.

4.2.1 Analysis of Empirical Data (Information & Communication Systems)

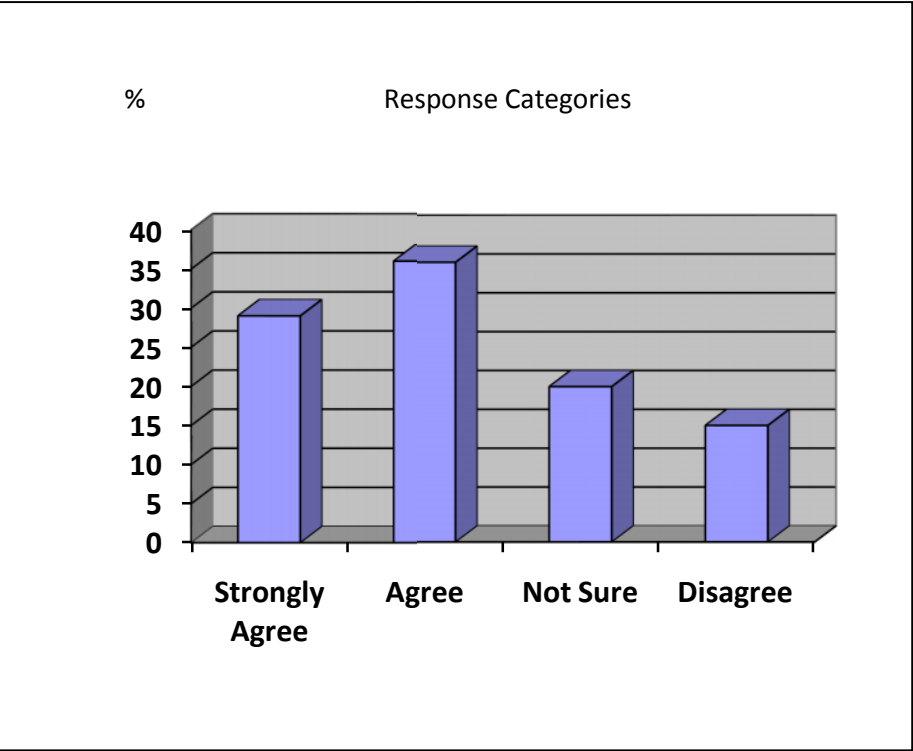
The question (16) on the questionnaire was to determine the effectiveness of reporting procedures and communication of the company's results to staff. The study showed that, 11% of the respondents strongly agree, 56% agree while 33% were not sure that assertion.

Concerning item numbered (17) on the questionnaire, it was to assess if there is established channels of communication to report suspected activities. It was evident that 33% of the respondents strongly agree to this, 11% agree whereas 45% were not sure. Upon further enquiry, it was found out that the reason why majority of the respondents were not sure was that, even though every department has its suggestion box which has been labeled 'If I were the GM' with the aim of reporting suspected activities as well as selling out innovative ideas for implementation, the responses were not published and hence other top management did not know what was prevailing in the other departments. According to Simmons (1995) under the literature review, pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Again, effective communication must flow down, up and across the organization. (This includes a clear message from top management to all personnel that control responsibilities must be taken seriously). This is not the case in the company per the finding.

Whether all staff understands their roles in the control system was the import of question (18). It came out of the study that, 11% of the respondents strongly agree to this, 45% agree, 11% were not decided, while 33% disagree.

The question (19) was intended to know if all staff understands how their activities relate to others. The empirical evidence indicates that, 11% of the respondents strongly agree on this, 45% agree, 22% were not sure whereas 22% disagree. Question (20) was to find if management gets timely information for decision-making. It came out that, 56% strongly agree to this, 33% agree whiles 11% disagree to this assertion. As a whole the effectiveness of information systems is presented pictorially below:

Figure 4:3 Bar Graph showing the effectiveness of Information & Communication flow in TCCBCGL



Source: Fieldwork January 2013

Assessing the effectiveness of information and communications systems in TCCBCGL yielded impressive results. Generally, respondents perceive that there is an effective information and communications systems in TCCBCGL. For instance, 36% agree that the company has effective information and communications system in place which is a boost to

the internal control structures of the company. A total of 29% of the respondents strongly agreed to the same construct being discussed. Although 20% of the respondents were not sure of their view about the effectiveness of information and communications systems while 15% totally disagree that the same construct operate effectively in TCCBCGL, it can be emphasized that there is effective information and communication systems in place the based on the results.

4.3 ANALYSIS OF EMPIRICAL DATA (MONITORING)

In the question (21) the idea was to find whether there is an ongoing management monitoring process over operational activities. The results showed that, 22% of the total respondents strongly agree with assertion, 56% agree while 22% were not sure. The item numbered (22) was to assess whether there is process to monitor the company's ability to re-evaluate risks and adjust controls in response to changes. The empirical evidence indicated that, 11% of the respondents strongly agree with this monitoring activity, 56% agree while 33% were not sure.

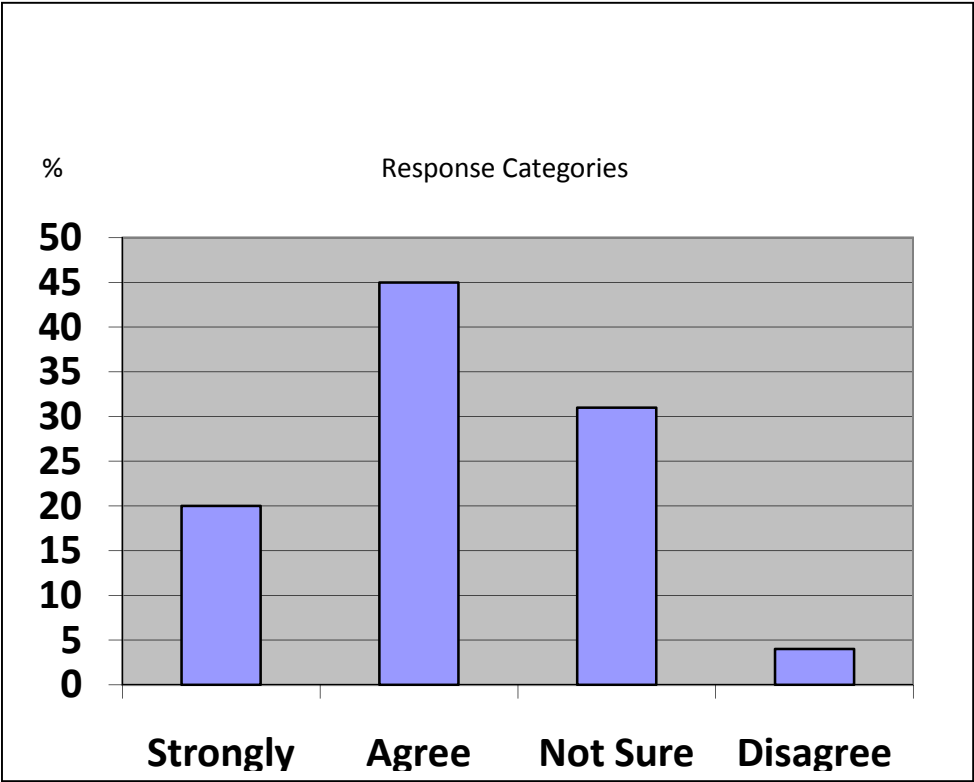
Concerning question (23), it was to determine if there are effective follow-up procedures to ensure that appropriate actions occur in response to changes in risks. It was revealed by the results obtained that 22% of the respondents strongly agree to this assertion, 33% agree whereas 44% were undecided. Again on monitoring, the question number (24) was to ascertain if there are timely reports on significant failings to management for appropriate action. It was evident that, 11% of the respondents strongly agree, 45% agree while 44% were not sure.

Probing into the cause of the substantial number of respondents who remained neutral on question 23 and 24 revealed that, there is effective follow up procedures in place but there is lack of consistent monitoring on the part of some Top Management. The same reason was

given to question 24. With reference from the literature reviewed in Chapter two, are not in line with what the COSO 1992 discussed. That is ‘Internal control systems need to be – a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the normal course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.’

The last question (25) on the Monitoring was to find if there is appropriate communication to the management on the effectiveness of the ongoing monitoring process. On this, 33% of the respondents strongly believe it is true, 34% agree, 11% were undecided, whereas 22% disagree to this assertion.

Figure 4.5 Bar Graph showing the Effectiveness of Monitoring as an Internal Control Structure in TCCBCGL

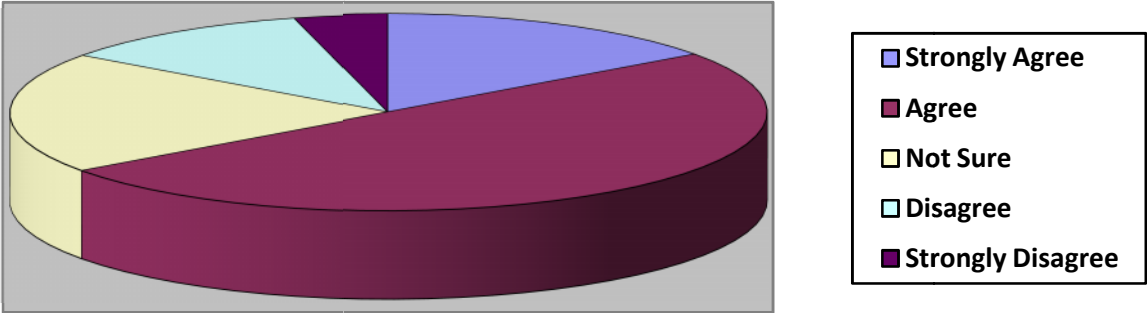


Source: Fieldwork January 2013

As indicated in figure five above, it can be stated that Top Management in TCCBCGL perceive internal control to be effective in the area of Monitoring. In this instance, 45% agree that there is a strong monitoring system in place whilst 20% strongly agree. A total of 31% were indifferent whilst 4% disagree with the effectiveness of monitoring as an internal control measure. The 31% of the respondents being indifferent happens to be the highest among the five components of assessing the effectiveness of internal control in the company. This could be attributed to the 20% and 15% of the respondents who were not sure and disagree respectively under the Information and effective Communication.

A cursory look at the entire independent variables combined into one construct as shown in figure 6 below indicate that there are effective internal control structures in TCCBCGL. Overall, 50% agree that there are effective internal controls structures in place in the company whilst 15% described the internal control structures as very effective. The other respondents strongly disagree, disagree or were indifferent to the effectiveness of internal control structures in TCCBCGL. This conclusion provides reasonable assurance regarding the achievement of the company's objectives in the areas of effectiveness and efficiency of operations; reliability of financial reporting, and compliance with applicable laws and regulations.

Figure 4.6 Pie Chart showing the Evaluation of the all independent Variables as a single construct. Source: Fieldwork January 2013



CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS & CONCLUSION

5.0 INTRODUCTION

This research work seeks to assess the effectiveness of internal control systems at TCCBCGL. This chapter presents the summary of findings, recommendations aimed at addressing weaknesses in the internal control systems as well as direction for further studies and conclusion from the findings.

5.1 SUMMARY

It was revealed from the study that, the Risk Assessment procedures at TCCBCGL are very effective as indicated by 50% of the respondents agreeing to that assertion, 27% were not sure and the remaining 23% did not agree that there is effective Risk Assessment Procedures in the Company. In reviewing Control Environment component of the internal control system at TCCBCGL, the study found that, the Control Environment is effective and this is made clear as about 71% of the respondents indicated that they perceive the Control Environment to be effective.

Empirical evidence from the study indicated that, majority (78%) of the respondents agree to the assertion that there is an effective control activity functioning at TCCBCGL.

With regard to assessing the information and communication system of internal control, it was evident from the studies that, about 65% of the respondents are satisfied with that construct and therefore perceive it to be effective. Though 20% of the respondents were not sure of their views with respect to the effectiveness of this component whilst 15% think it is ineffective.

The last element of internal control considered by the study was monitoring and this happened to be the construct that recorded the highest respondents (31%) who were not sure about the effectiveness of the monitoring procedures. This could be due to inadequate flow of information in the Company. For instance, under the Information and effective Communication as a construct, 20% and 15% of the respondents were not sure and disagree respectively. However, the Majority (65%) of the Top Management perceive the monitoring procedures to be effective in the company.

Looking at all the components in totality, this research has shown that, there are effective internal control structures at TCCBCGL.

5.1.2 Recommendation for Future Policy

In spite of the fact that, the study found the internal control structures to be effective, some weaknesses were however revealed which must be brought to the attention of management for the necessary corrective actions to be taken. These are discussed under their respective sub-headings below:

5.2 RISK ASSESSMENT

Risk Assessment as a construct of effective internal control structure is deemed to be effective at TCCBCGL with about 50% of the total respondents accepting that assertion. A close look at the individual questions however can help improve the situation especially if management implements the following recommendations. Management should put in place clear objectives and communicate them so as to provide effective direction to employees on risk assessment and control issues. This is necessary because, performance can only be measured against clear set of objectives. The results showed that, 45% of the respondents

were not sure whilst 22% (Appendix B, Question 1). Moreover, management should carry out their duties holistically rather than being narrow minded. Still on Risk Management, management should ensure that there is a clear understanding by staff within the Company of what risks are acceptable by management as 33% of the respondents (See Appendix B, Question 5) strongly disagree with this assertion. Risk has a direct influence in achieving corporate objective and hence the need to address this problem as soon as possible.

5.2.1 Control Environment

In reviewing the effectiveness of the established control environment in the company, question number (6) in the questionnaire (see **Appendix B**) was to find if Management decisions are made collectively and not controlled by one dominant individual. It turned out that, 33% disagree to the assertion. In view of this, management should make decisions collectively and avoid control of dominance by one individual as this could lead to autocratic decisions which usually turn not to motivate other top management.

Moreover, Management should communicate to all staff policies regarding the importance of internal controls and appropriate conduct as the results indicated that 33% of the respondents (Appendix B, Question 8) perceived that is not realized in the Company.

5.2.2 Control Activity

From the data analysis (chapter 4), it was revealed that the control activity as a construct of internal control structure was effective. However a critical look at the individual questions revealed a serious finding that needs consideration by management for more effective internal controls to be operational.

Question number 13 sought if there is a system in place to ensure that duties are rotated periodically especially for employees in critical positions. The results in appendix B showed that, 44% of the respondents disagree with this assertion.

This is a serious weakness and management must enforce job rotation and vacation policies in order to improve upon transparency and bring benefits to the company. This not only ensures that the company only has someone who can step into a job in the event of an emergency, but it also deters fraud when potential perpetrators know that someone else will do their job for a period of time. If fraud is occurring, another person reviewing the work is likely to expose that fraud. Most fraud requires a great deal of attention and rarely stands up to scrutiny by outsiders, particularly during a week or more of vacation. This is very essential because even in medical practices where there is no fraud, this policy helps detect ongoing errors and inefficiencies. Job rotation and enforced vacation are inexpensive yet can reveal any hidden weakness in the internal control process.

5.3 INFORMATION & COMMUNICATION

In examining the effectiveness of information and communication system, it is recommended that, management should ensure that there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. The study revealed that, 33% of the respondents were not sure that it is operational in the company. Another major issue that calls for concern is that response from the suggestion boxes should be published to enable other department to know what prevails in the organization as a whole. However, care must be taken so that it would not be a tool for victimizing employees.

Again, management must also be very serious with organizing programs for employees to sensitize them on the understanding of their roles in the control system. It was found from the study that, 33% of the respondents indicated that, not all staff do understand their roles in the control system.

5.3.1 Monitoring

Though in ascertaining the effectiveness of the monitoring procedures on the internal control activities, it came out that monitoring recorded the least response in the area of disagree to the assertions. However, 44% of the respondents were not sure as to whether there are effective follow-up procedures to ensure that appropriate actions occur in response to changes in risks and control assessment (Appendix B, Question 23). In view of this, management should be consistent with the monitoring procedures.

Similarly, 44% of the respondents were also not sure (Appendix B, Question 24) whether there is appropriate communication to the management on effectiveness of ongoing processes on risks and control matters. Management should pay attention to this because it is a proactive measure in achieving corporate objective.

Again, management should embark on programs that will encourage all staff to report actual or suspected fraud and other illegal or irregular acts or matters that can affect the company's reputation or financial position as 22% of the respondents disagree with this assertion (Appendix B, Question 25). This recommendation is not intended to victimize employees but to help sanitize the control systems.

5.3.2 Recommendation for Further Studies

To know if internal controls are really working, future researchers interested in this area could as well delve into the following areas for further research:

- a) Challenges in the implementation of effective internal control system using the same study area or similar test case.
- b) The techniques in assessing the effectiveness of internal control system in the beverage industry.
- c) Minimizing financial risk through effective implementation of internal control systems in the beverage industry.

5.4 CONCLUSION

From the empirical research carried out, it was revealed that internal controls at TCCBCGL are very effective. In fact, this is evident from all the five constructs considered in the study as each of them appeared to be effective namely, control environment, risk assessment, control activity, information and communication systems and monitoring. For further confirmation, combination of all the effective components of internal controls also proved effective.

However, with specific areas that appeared not to be effective, recommendations to management were made so as to improve the effectiveness of the internal control systems at TCCBCGL. Recommendations were also made for further studies.

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**ASSESSING THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS IN THE
BEVERAGE INDUSTRY: (A CASE STUDY AT THE COCA COLA BOTTLING
COMPANY OF GHANA LIMITED-KUMASI)**

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**A DISSERTATION SUBMITTED TO THE CHRISTIAN SERVICE UNIVERSITY
COLLEGE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF BACHELOR OF BUSINESS ADMINISTRATION
(ACCOUNTING OPTION)**

JUNE, 2013

STATEMENT OF AUTHENTICITY

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

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ABSTRACT

This study was to evaluate the effectiveness of Internal Control Systems at the Coca Cola Bottling Company Of Ghana Limited. In order to achieve the set objectives for this study, the COSO framework for effective Internal Control Systems was adopted with the following five components namely as; Control Environment, Risk Assessment, Control Activity, Information and Communication and Monitoring.

Closed ended questionnaire were developed for data collection from the staff of Coca Cola Bottling Company of Ghana Limited. Upon collecting the necessary data, it was analyzed using Statistical Package for the Social Sciences (SPSS) software. All the five components of Internal Control Systems proved to be working effectively, which was based on the analysis that was provided upon which a conclusion was also drawn.

In areas where weaknesses were found, it was recommended that management of the Coca Cola Bottling Company should lead by example and also, ensuring that there is a policy to allow workers to be periodically rotated.

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May God continue to bless us all.

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