THE APPRAISAL OF INTERNAL CONTROL SYSTEMS: A CASE STUDY OF

AKUAFO ADAMFO MARKETING COMPANY LIMITED

BY

ERIC AGYARKO FRIMPONG

ISAAC DOMENA BOADI

EDDIE BLAY

RITA FRIMPONG

BERNICE ESINAM AKLIGO

BERTHA KORYO ANGMOR

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Name	Signature	Date
Eric Agyarko Frimpong	……………………………	………………………..
Isaac Domena Boadi	……………………………	………………………..
Eddie Blay	…………………………….	………………………….
Rita Frimpong	……………………………	………………………….
Bernice Esinam Akligo	……………………………	………………………….
Bertha Koryo Angmor	....	....

Supervisor's Declaration

I Hereby Declare hat 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. Stephen B. Alewaba   ……………………………   …..…………………..

Head of Department's Name

 Kwaku Ahenkorah (Dr.)   ………………………….   …..………………..

ABSTRACT

This project work which is a causal or explanatory survey was designed to assess the effectiveness and importance of internal controls.

The main purpose of this project work is to assess how effective internal controls help to prevent, detect and deter frauds and also safe guarding of company assets.

The population used for the study was made up of management, staff and customers of Akuafo Adamfo Cocoa buying Company Ltd, Kumasi. In research, it is often impossible to study the entire population, so out of the population, a sample was chosen using a simple random sampling method.

The people who made up the samplewere the respondent for the researcher(s) to come out with the findings. The data collection methods used was questionnaire and interview.

Findings revealed that, the control environment, risk assessment component,control activity, information and communication system and monitoring system were found to be functioning effectively

Recommendations were made which included: Management should evaluate, and discuss and appropriately consider control issues when planning for new products or activities since these are sometimes risky.

Finally, management should embark on prompt effective follow-up procedures to ensure that, appropriate change or action occurs in response to changes in risk.

ACKNOWLEDGEMENT

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<div align="center">**INTRODUCTION**</div>

1.1 BACKGROUND OF THE STUDY

Any entity of whichever form or size should put in place its own system of controls in order to achieve its objectives (Kaplan, 2008). A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organisations. However, ineffective internal controls result in ineffective programmes and eventually leading to losses (Campbell, 2008).

That is why the Retired Executive Vice President of American Savings Bank, Mary Locatelli in September, 2003, made it known that, the recent incidence of corporate failures and accounting frauds are mostly preceded by failure in companies internal control structures. (Directorship Journal, 2003)

A framework for internal control systems in Banking Organisations issued by the Bank of International Settlement (Basel Committee) on Banking Supervision in 1998 stated that, the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organisations. It explained that, an analysis of the problems related to these losses indicated that they could probably have been avoided had the organisations 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 organisation.

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 of Enron and WorldCom. These in fact

were described as a high-profile collapse by the Association of Certified Charted Accountants – ACCA, (Student Accountant, 2008).

Re-emphasising this point, the Daily Graphic (2007) reported the embezzlement of ¢5.5bn of withholding tax belonging to the Internal Revenue Service (IRS) 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 organisations.

Drawing on the above, Mr.Alhasan Andani, the Managing Director (MD) of Stanbic Bank Ghana Limited, in a recent television programme (Metro, 2008) asserted that, there is an increasing fraud in the Ghanaian business circles, therefore vigilance is needed to prevent it through good internal controls. He expanded on the point saying, 10% of employees will steal, and 10% will not steal, 80% have not decided but when given the opportunity, they will steal hence lack of effective controls is the cause of fraud in Ghanaian business circles and the world at large.

Due to the important role that effective internal control systems play in the achievement of corporate objectives, the Director General of Ghana Broadcasting Corporation (GBC), Mr. William Ampem Darko, on Thursday April 24, 2008 said that "plans are under way to upgrade the Internal Control (Audit) unit to help achieve the objectives of the ''GBC" (GBC, 2008) .

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 AkuafoAdamfo.

1.2 STATEMENT OF 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 reported cases of the collapse of Enron and WorldCom could be typical examples of ineffective internal controls. Also, the Kumasi Mail (2007), reported a ¢35 billion fraud at the Coca-Cola Ghana company limited which to a larger extent could be attributed to ineffective internal controls. Also at AkuafoAdamfo,there have been several cases of stealing the company's money and other property by district officers, managers and purchasing officers and this can also be attributed to ineffective internal controls.   It is against this background that, this study was conducted to determine the effectiveness of the internal controls of the AkuafoAdanfo.

1.3 OBJECTIVES OF THE STUDY

To achieve the objective of the study, the following specific objectives worth noting;

1. To review the control environment of the company.
2. To examine the effectiveness of the risk assessment procedures and also assess the adequacy of the established control activities.
3. To review the information and communication systems.

1.4 RESEARCH QUESTIONS

1. What is the state of the control environment ofAkuafoAdamfo?

2. Are the risk assessment procedures and control activities effective?

3. What is the state of the information and communication systems?

4. Are there effective monitoring procedures?

1.5 SIGNIFICANCE OF THE STUDY

Akuafo Adamfocontributes enormously to the development of Ghana in many diverse ways as indicated below.Its core business is to purchase cocoa from farmers and through this many farmers earn reasonable income and also many other people are employed. In fact the Company employs about 1000 people directly making up of its own employee and contract staffs. Also, with its ability to create jobs, the company take up national service personnel each year in line with the National Service Scheme initiated by the government of Ghana.Additionally, AkuafoAdamfogenerates income for the Ghana governmentthrough Corporation tax, Value Added tax (VAT), Withholding tax, and Income tax to enable the government carry on its development activities.

1.6 SCOPE OF THE STUDY

The study is limited to the AkuafoAdamfo, Kumasi. People from whom data was collected included employees of the Company (consisting of managers, senior staffs, as well as junior staffs) and farmers who happen to be the company's clients.

1.7 LIMITATION OF THE STUDY

Time and financial constraint limited the number of respondents contacted. The ideal situation would have been to cover many respondents, but since there is time allocation and financial resource limitation on the part of the researcher, it limited the number of respondents contacted.

In spite of this, the study is as good and reliable as information that was obtained from respondents for good representation. The degree of reliability of responses due to memory lapses could affect the precision of the outcome. Additionally, biases introduced by some respondents could also not be estimated.

1.8 ORGANIZATION 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 focused on the literature review, which is about the concept of internal control system.

Chapter three discussed the methodology used in the study and the profile of AkuafoAdamfo.

Chapter four dealt with analysis of the data collected.

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

<div align="center">**CHAPTER TWO**</div>

<div align="center">**LITERATURE REVIEW**</div>

2.0 INTRODUCTION

This chapter attempts to review literature in the area of internal control systems in AkuafoAdamfo. The literature review is discussed under various sub headings

2.1 INTERNAL CONTROLS IN PERSPECTIVE

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 organisations. This has become necessary because the concept of internal control is a dynamic concept and is incapable of precise lasting definition (Hughes, 2007).

Internal control is the process by which an organisation governs its activities to effectively and efficiently accomplish its mission (INTOSAI, 2001)

Alan G. Hesive (2005) defined internal control as the integration of the activities, plans attitudes, policies and efforts of people of an organisation working together to provide reasonable assurance that the organisation will achieve its objectives and mission.

Kenneman P. (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.

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 area of: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulation (The Committee of Sponsoring Organisations of the Treadeway Commission (COSO)).

Expanding on the COSO definition, Financial Management Journal (2005), said Internal control represents an organisation's plans, methods, and procedures used to meet its missions, goals, and objectives and serves as the first line of defence 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

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration with one set of bureaucrats charged with collecting taxes and another with supervising them. VanCreveld, Martin. *The rise and Decline of States*, (Cambridge University Press)

In an undated work Brink contends that, internal control as a concept has existed as early as there have been substantive relationships. He added, 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 was established. Such early internal control systems were designed primarily to minimise 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. Treadeway Commission.

1987: Treadeway Commission suggested committee 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". It talks about how internal controls can work effectively but the weaknesses of the internal control were not given.

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.

The Rutteman's report only looks at the financial aspect of internal control. But internal control is both financial and non-financial activities of management and the entire workforce to observe in order for the organisation to achieve its purpose and business resources are safeguarded and used for the benefit of the organisation.

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 on-going review of its effectiveness. Turnbull did not show what risk-based approach is and also internal control is not the sole responsibility of the management or Board but everyone.

2002: The Sarbanes-Oxley Act is 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. Smith talks about audit committee. Establishment of Audit Committee is one aspect of Internal Control and therefore Smith could not tell us a lot about the Internal Controls.

Jan 2005: The statutory Office of Financial Research (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 Financial Reporting Council (FRC.)

2.3 CATEGORIES OF INTERNAL CONTROLS

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

1. Preventive controls: designed to keep errors or irregularities from occurring.

    ● System edits that stop erroneous payments before disbursement.

2. Detective controls: design to detect errors or irregularities that have already occurred.

    ● System reports that filters payments after disbursement.

3. Corrective Controls: designed to correct errors or irregularities that have been detected.

    ● Follow-up action required to address errors previously detected

2.4 INTERNAL CONTROL COMPONENTS

Larry E. 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. Control Environment.

2. Risk Assessment.

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 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 adopts the COSO frame work of effective internal controls system which is discussed below.

2.4.1 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. It 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. For example, the board should probe for explanations of past results to determine that derivative activities are effective in accomplishing objectives for which they were used. (COSO, undated)

The audit committee should work with internal and external auditors to oversee implementation of risk management policies, procedures, and limits.

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. Senior managers should make a conscious decision about the extent of authority over derivatives delegated to management. Management should have the competence needed to understand derivative activities. Employees involved in such activities should possess the necessary skills and experience. The training process should develop and improve specific skills relating to responsibilities and expectations about derivative activities. (COSO undated) Millichamp (2002) describes control environment as the overall attitude, awareness and actions of directors and management regarding internal controls and their importance in the entity. The control environment encompasses the management style, and corporate culture and values shared by all employees. The factors reflected in this idea include the following:

- the philosophy and operating style of the directors and management

- the entity's organizational structure and methods of assigning authority and responsibility (including segregation of duties and supervisory controls)

- the directors' methods of imposing control, including the internal audit function, the functions of the board of directors and personnel policies and procedures.

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. They are committed to following an organisation's policies and procedures and its ethical and behavioural standards. The control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control.

A governing board and management enhance an organisation's control environment when they establish effectively communicated written policies and procedures, a code of ethics, and standards of conduct. Moreover, a governing board and management enhance the control environment when they behave in an ethical manner-creating a positive "tone at the top" – and when they require that same standard of conduct from everyone in the organization.

Trainor (2007), declared, setting an example regarding ethical behaviour is another strategy the board can implement. Policies outlining expected ethical conduct of the board, administrators, and staff send a clear message especially when specific examples are included. The policies should clearly communicate the severe consequences of unethical or criminal behaviour. This process he said is called, setting the "tone at the top".

According to the Ghana Auditing Standards (2001), the control environment in which internal control operates has an impact on the effectiveness of the specific control procedures. It adds that a strong control environment can significantly complement specific control procedures.

The students Manual of Auditing (2000) say that understanding of the control environment helps to assess the likely effectiveness of internal controls. Effective control environment therefore is a very important ingredient in any effective internal control system.

2.4.2 Risk Assessment

Risk Assessmentis 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. Use of derivatives should be based on a careful assessment of such business risks. (COSO, 1992).

Management should clearly link benefits of and support for derivative use with entity-wide objectives. Management also 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 provide specific measurement criteria for achieving derivative activities 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.

In addition to this, the Kansas State University's Internal Audit Manual (2005) said a precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent and the objectives must be established before administrators can take necessary steps to manage risk. The process of identifying and analysing risk is an on-going process and is a critical component of an effective internal control system.

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 ControlHandbook, these include inherent, control, combined, and/or fraud.

2.4.3 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 organisations 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. Aspects of the risk management policy for derivatives should include controls relating to managerial oversight and responsibilities; the nature and extent of derivative activities, including limitations on their use; and reporting processes and operational controls. The policy should provide for monitoring exposures against limits, and for the timely and accurate transmission of positions to the risk measurement systems. It also should provide for evaluation of controls within management information systems, including the evaluation of resources provided to maintain the integrity of the risk measurement system. (COSO, 1992).

The COSO release continued that 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.

Additionally, the United States General Accounting Office (GAO) Exposure Draft, (1999), expanded on the above by giving the following examples of control activities:

- Top level reviews of actual performance.

- Reviews by management at the functional or activity level.

- Management of human capital.

- Controls over information processing.

- Physical controls over vulnerable assets.

- Establishment and review of performance measures and indicators.

- Segregation of duties to reduce a person's opportunity to commit and conceal fraud or error.

- Proper execution of transactions and events.

- Accurate and timely recording of transactions and events.

- Access restrictions to and accountability for resources and records, and

- Appropriate documentation of transactions and the internal control structure.

2.4.4 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).

The Manual of Policies and Procedures by Queensland University of Technology (2005) indicates that, the effective and timely communication of management information to key staff of the company in a timely manner is essential for proper decision-making. The dissemination of strategic goals, financial and non-financial data, policies and procedures, management initiatives and responses to external changes ensures effective performance. Therefore relevant internal and external information should be identified, captured, and communicated in a timely manner and in appropriate forms.

In addition to this, the Internal Controls Guide for Directors (2001) stated that, accounting, information and communication systems identify, capture, and exchange information in a form and time frame that enable company staff to carry out their responsibilities. Accounting systems include methods and records that identify, assemble, analyse, classify, record and report a company's transactions. Information systems produce reports on operations, finance, risk management, and compliance that enable management to manage the company. Communication systems impart information throughout the company and to external parties such as regulators, customers, suppliers and shareholders.

Simmons (1995) also added his voice, when he said the following about sound information and communications system.

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 inform business decision making and external reporting.

The organisation's people must be able to capture and exchange the information needed to conduct, manage and control operations. Again, pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. 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.

All personnel must understand their own role in the internal control system, as well as how their individual activities relate to the work of others. All personnel must have a means of communicating significant information upstream. There must also be an effective communication with external parties.

2.4.5 Monitoring

The COSO framework (undated) says that monitoring is the component that assesses thequality 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 on-going monitoring activities, separate evaluations or a combination of the two. On-going 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 on-going monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board. (COSO, 1992)

COSO Release Discussion Document on Monitoring Internal Control indicated that, monitoring helps ensure that internal control continues to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the organization's objectives. To the extent that an activity or process is designed to lead the timely identification and correction of the root cause of control weakness, it is a monitoring activity. To the extent that an activity or process leads only to the timely detection and correction of errors, it is a control activity.

(Wells, 2006)

It added that, these concepts are summarised in two fundamental principles from COCO's (2006) Guidance as follows:

Principle 19: On-going monitoring and/or separate evaluations enable management to determine whether the other components of internal control over financial reporting continue to function over time.

Principle 20: Internal weaknesses are identified and communicated in a timely manner tothose parties responsible for taking corrective action, and to management and the board as appropriate.

Management implements effective monitoring by:

1. Establishing an effective control environment for monitoring, including:

    a. a tone at the top that stresses the importance of monitoring, and

    b. an effective organizational chart.

2. Prioritising monitoring procedures based on the importance of controls in managing or mitigating risk.

3. Establishing a communication structure.

It concluded that, the level of effort in monitoring should be proportionate to the importance of the underlying controls.

2.5 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, Larry 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.

Alluding to this, the United States General Accounting Office GAO (1999) reports that, these standards (components) define the minimum level of quality acceptable for internal control in organizations and provide the basis against which internal control is to be evaluated.

2.6 INTERNAL CONTROL OBJECTIVES

Internal control objectives are the desired goals for a specific event cycle which if achieved minimises the potential that waste, loss unauthorised use or misappropriation will occur. The internal control objectives include authorisation, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

1. **Authorisation**- This objective ensures that all transactions are approved by responsible personnel in accordance with specific authority.

2. **Completeness**- This objective is to ensure that no valid transaction has been omitted from records.

3. **Accuracy**-All valid transactions are accurate, consistent with the originating transaction

4. **Physical safeguards and security**-This is to ensure that access to physical assets and information are controlled and restricted to authorised personnel.

5. **Error handling**-This is to ensure that errors detected at any stage of processing a transaction should be given prompt corrective attention.

6. **Segregation of duties**-This is to ensure that duties are assigned to individuals in a manner that will ensure that no one individual can perform two overlapping functions.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

The purpose of this chapter is to present the philosophical assumptions underpinning this research, as well as to introduce the research strategy and the empirical techniques applied. The study appraises the internal controls system of AkuafoAdanfo. However, the validity and reliability of every research is dependent to a large extent on the methodology adopted for the study. The methodology for a research must therefore be scientific. That is, the process must be systematic, rigorous and unbiased. In order to guard against potential statistical errors, relevant and appropriate data collection instruments and models was applied to arrive at accurate results. This chapter therefore presents a detailed and systematic process that the researcher adopted in order to achieve the objectives of the study. The main discussions in this chapter included; the study design, the study population, the sampling technique and sample size, case studies data methodology, data handling, data analysis and presentation, data and variables used in the study.

3.1RESEARCH DESIGN

Research design is a protocol that determines and influences the condition with ground rules for collection and analysis of data.Research design provides the glue that holds the research project together. A design is used to structure the research, to show how all of the major parts of the research project -- the samples or groups, measures, treatments or programs, and methods of assignment work together to try to address the central research questions.

The researchers in this study adopted the causal/explanatory research design since the study is a case study.

3.2 POPULATION

According to Mason et al. (1997), the population of a study is the collection of all possible individuals, objects or measurements of interest. For this study, the population consisted of staff and farmers of Akuafo Adanfo.

3.3 SAMPLE AND SAMPLING TECHNIQUE

In research, it is often impossible to study the entire population. However, some researchers do overcome this difficulty in situations where the study population itself is small and also not very scattered. To address the challenge of access to the complete population, representative samples are thus prescribed and accepted in any scientific study. A sample is a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985). When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey.

A sample can refer to a set of people or objects chosen from a larger population in order to represent that population to a greater extent (Mason et al, 1997). Therefore, the size of the study sample and the way in which it is chosen will certainly have implications for the confidence in the results and the extent to which generalizations can be made. For this research, the sample included management (5) and staff (55) of AkuafoAdanfo, selected District Officers (5), Purchasing Clerks (15) and some farmers (20). In all a sample size of one hundred (100) was used for the study.

In selecting the respondents, both purposive and convenience sampling techniques were used to select from the different categories of personnel. In the case of the purposive sampling, the researchers sampled with a *purpose* in mind.

Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non-probability sampling which involves the sample being drawn from that part of the population which is close to hand. The researchers used convenience sampling because itis not everybody who is associated with AkuafoAdanfo was capable of providing the needed data.

3.4 SOURCE OF DATA

The data collection format will depend on the kind of data to be collected. However, in this particular study both primary and secondary data were used.

3.4.1Primary Data

The researchers used various tools in collecting the primary data. Some of them were questionnaire and structured interview. The survey was basically conducted using questionnaire. The questionnaire contained both open and closed ended questions to collect data on the subject matter for the study. Interview was also conducted in collecting some of the data

3.4.2 Secondary Data

The sources of the secondary data were from the records of Akuafo Adamfo, internet reports relevant to the research, textbooks and articles. Due acknowledgement has been made to the sources where information were collected at the reference section.

3.5 DATA COLLECTION INSTRUMENT

In collecting primary data, close-ended questionnaires were designed and sent to the sampled workers at AkuafoAdanfo. The questionnaire for the present study was adapted 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 questionnaires, a forty-six (46) item questionnaire was developed and administered to assess respondents' evaluation of the effectiveness of internal control structures in AkuafoAdanfo. The questionnaire had a section for the biographical data and five (5) other sections for the effectiveness of internal controls.

The biographical data had four (4) items on the following: respondents' sex, age, department or section they belong and staff category

The five (5) components defining the effectiveness of internal controls include: **Control Environment** with nine (9) items; **Risk Assessment** with eight (8) items; **Control Activity** with ten (10) defining items; **Information and Communication Systems** with six (6) defining items and **Monitoring** with nine (9) defining items as the last construct.

3.5.1 Questionnaire

Questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations.

Questionnaires are frequently used in social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the survey valueless, as it may not accurately reflect the views

and opinions of the participants. A useful method for checking a questionnaire and making sure it is accurately capturing the intended information is to pre-test among a smaller subset of target respondents. So therefore the researchers pre-tested the questionnaire at Trans Royal Buying Company Ltd.

In fact, the questionnaires were self-administered to individuals involved. The questionnaire contained both closed-ended and open-ended questions. The open-ended questions sought to encourage respondents to share as much information as possible in an unconstrained manner. The closed-ended questions, on the other hand, involved "questions" that were answered by simply checking a box or circling the proper response from a set of options that was provided. While the closed-ended questions allow for easier analysis of the data due to standardized questions, their main limitation is that they allow the researchers to determine only what the respondents are doing and not how or why they are doing it.

3.5.2 Interviews

An interview is a conversation in which the interviewer questions the interviewee in order to gain information. Interviews can be formal or informal, structured or unstructured. They can be conducted one-to-one or in groups, face to face or by telephone.

Interviews are a very common research tool in the social sciences, and as such, attract a great deal of commentary and discussion.

Interviews were held with the famers instead of administering questionnaires to them since most of them could not read and right. Interview guide was used as a tool to collect the data.

3.6 DATA ANALYSIS

Data obtained from respondents was analyzed using the Statistical Package for the Social Sciences (SPSS) software programme. The result was presented using statistical tools such as charts. Descriptive statistics were used to analyse the data.

3.7 SCORING

Responses for the research questionnaire were made on a five-point Likert scale as follows:

- Strongly Agree = 5

- Agree = 4

- Not sure = 3

- Disagree = 2

- Strongly Disagree = 1

With the *Control Environment* sub-scale, the highest possible score was 45 whilst the least was 9. The *Risk Assessment* construct had 40 as the highest score whilst 8 was the lowest. *Control Activity* as a construct had 50 scores as the highest score with 10 being the lowest. *Information and Communication Systems* had 30 as the highest score with 6 as the lowest score. The last construct – *Monitoring* with 9 items had 45 as the highest score and 9 as the lowest. In all the constructs, high scores imply that the variables being measured are effective. However, ineffective internal control systems and structures would be characterized by low scores

3.8 ETHICAL CONSIDERATIONS

The principal researcher formally sought the consent of all respondents and observed all the necessary protocol. A formal letter was sent to AkuafoAdamfo by the researchers from the Christian Service University College, CSUC to inform the authorities of the company about

the researchers' interest to conduct a study in their institution. The researchers ensured that information received from respondents was treated with a high level of care and confidentiality. The identities of key informants were not disclosed in the report since the research is to appraise what pertains in the company and not to use personal opinions of individuals.

3.9 COMPANY PROFILE

Akuafo Adamfo Marketing Co. Ltd was established some eleven years ago. It is a privately owned company purposely set up to engage in marketing and advertising of products and services and also a licenced cocoa buying company headquartered in Kumasi. The company's main type of business are; Agriculture, Fishing and Mining producers and farm produce, Cash crops, Cocoa, Manufacturing and Wholesale and drinks, fruits and vegetables. Akuafo Adamfo is the second largest cocoa buying company in Ghana.

CHAPTER FOUR

ANALYSIS AND RESULTS

4.0. INTRODUCTION

This section presents results from the data analysis and their interpretations. These are mainly inferential statistics and descriptive statistics.

Descriptive data was presented in the form of Bar Graphs. To give a more meaningful picture of the data used in the study, tables of figures used are presented in addition to the Pie Charts and Bar Graphs. The data were analyzed using the Spread Sheet and the Statistical Package for the Social Sciences (SPSS).

Figure 4. 1 Bar Graph showing the level of Control Environment in AkuafoAdamfo
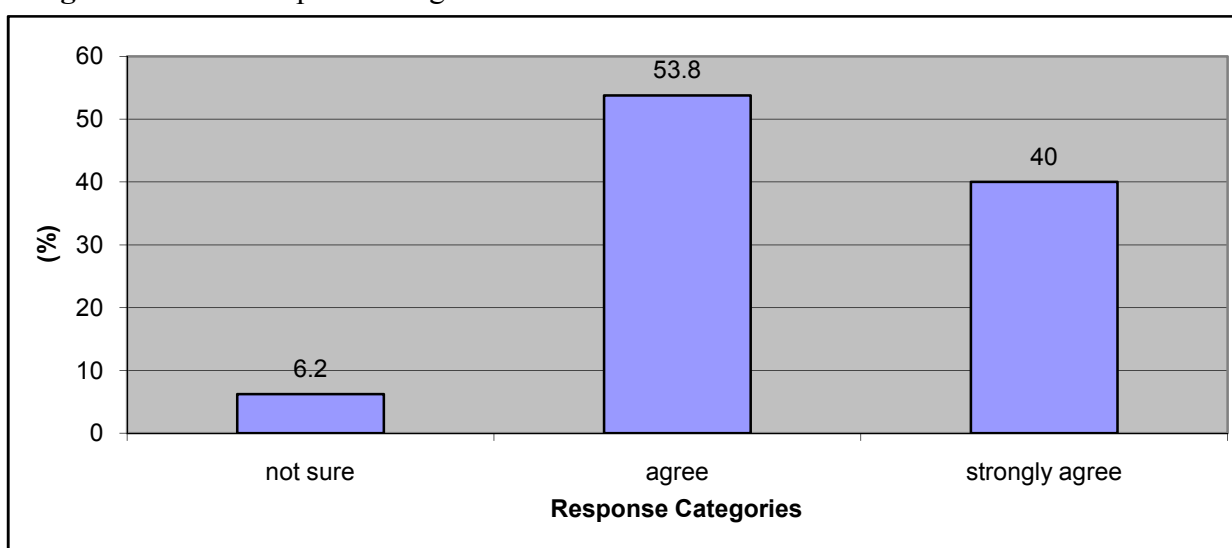
Source: Field data May, 2012

Data presented in figure 1 above indicates that majority of the respondents perceive the control environment to be very effective and functional in AkuafoAdamfo. This is indicative of the fact that 53.8% of the respondents agreed to the assertion that there is a strong control environment in AkuafoAdamfo whilst 40% pointed out that they strongly agree that there is strong control environment within AkuafoAdamfo. However, a few of the respondents (6.2%) were not sure.
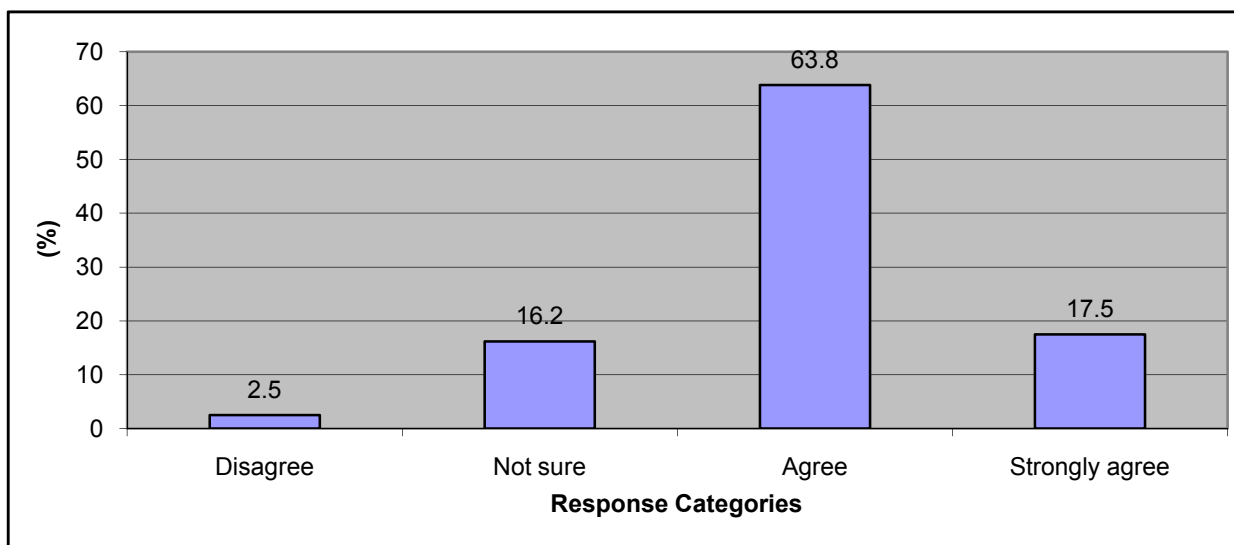
Figure 4. 2 Bar Graph showing the level of Risk Assessment in AkuafoAdamfo

Source: Field data May, 2012

Results presented in figure 2 above indicate that majority of respondents in AkuafoAdamfo perceive the company has a high sense of risk assessment so far as effectiveness of internal control structures are concerned. Specifically, 63.8% of the respondents agree to the fact that the company has high risk assessment structures or procedures whilst 17.5% strongly agree to the same assertion. About 16.2% 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 AkuafoAdamfo whilst 2.5% expressed doubt about the effectiveness of the company's risk assessment initiatives.

Figure 4.3 Bar Graph showing the level of Control Activity in AkuafoAdamfo
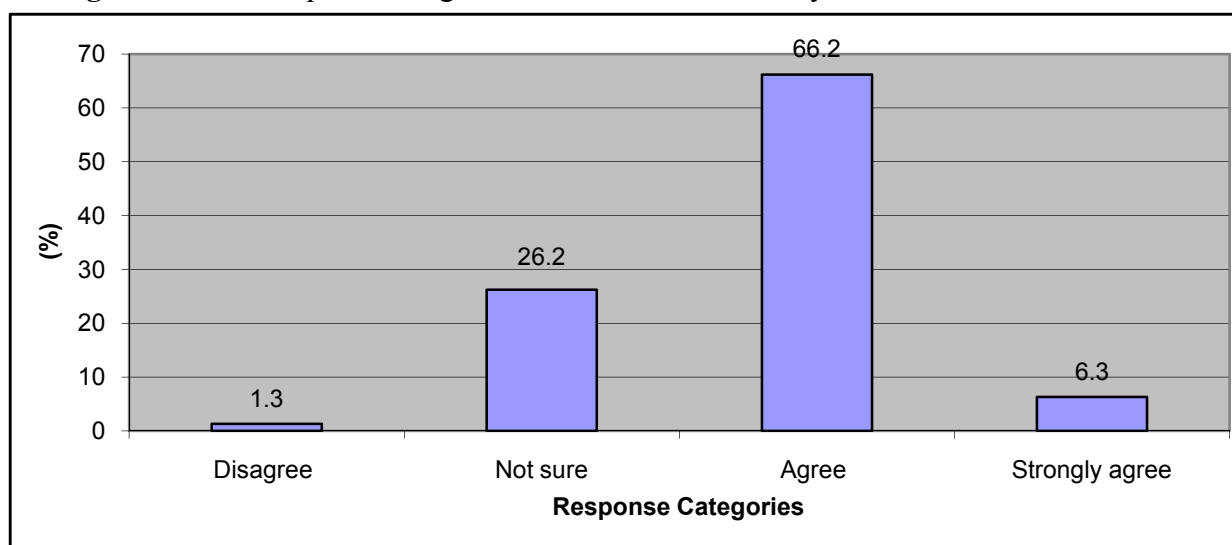
Source: Field data May, 2012

It emerged that majority of the respondents perceive control activity as a construct of internal structure to be very effective in AkuafoAdamfo. This is indicated by the fact that 66.2% of all respondents indicated that they are in agreement with the assertion that there is effective control activity in the company so far as effective internal control structures are concerned. A total of 6.3% of the respondents strongly agreed to the assertion that there is effective control activity in the company. However, an appreciable number of respondents (26.2%) could not indicate their views on the construct being measured. Only 1.3% of the respondents could not agree to the assertion that there is effective control activity within the operations of AkuafoAdamfo.

Figure 4. 4 Bar Graph showing effectiveness of Information and Communications Systems in AkuafoAdamfo
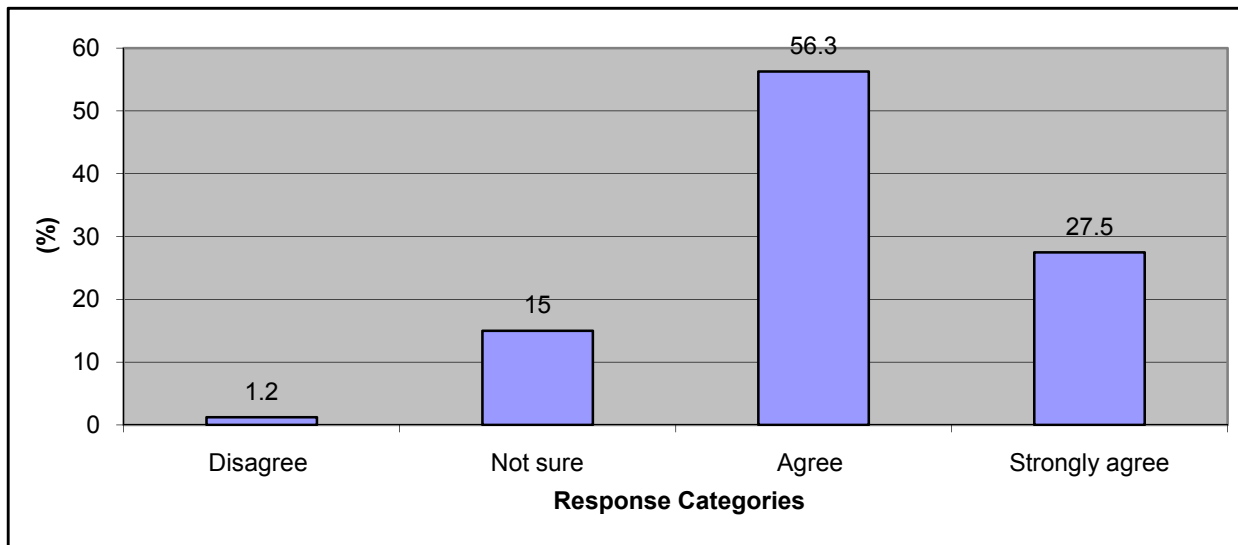
Source: Field data May, 2012

Assessing the effectiveness of information and communications systems in AkuafoAdamfo yielded impressive results. Generally, respondents perceive that there is an effective information and communications systems in AkuafoAdamfo. For instance, 56.3% 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 27.5% of the respondents strongly agreed to the same construct being discussed. Although 15% of the respondents were not sure of their view about the effectiveness of information and communications systems in the company, 1.2% totally disagrees that the same construct operate effectively in AkuafoAdamfo.

Figure 4. 5 Bar Graph showing effectiveness of monitoring as an Internal Control Structure in AkuafoAdamfo
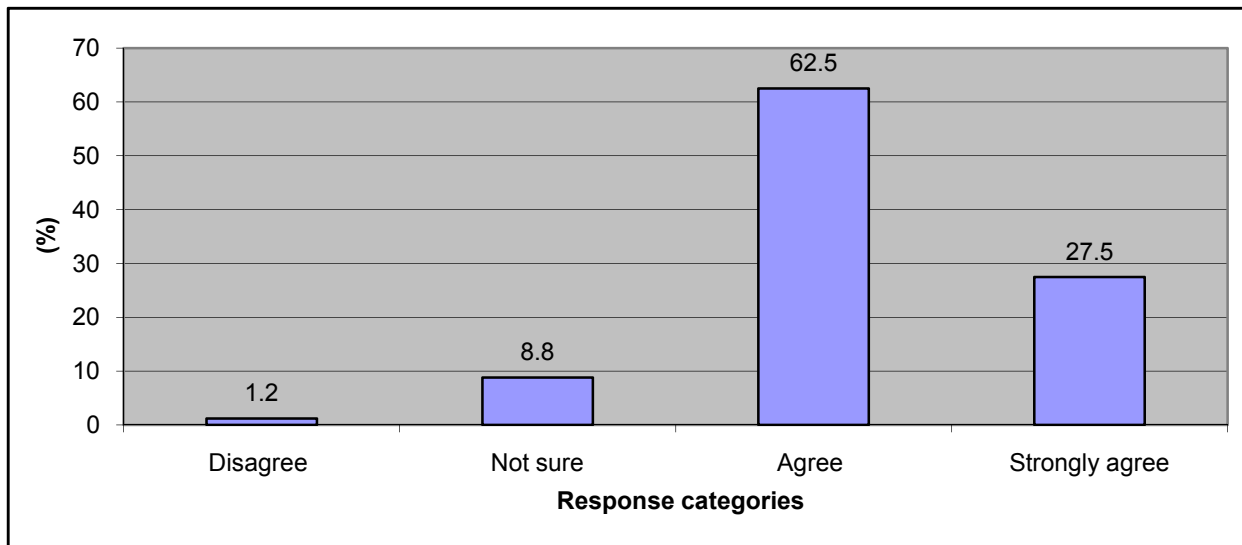
Majority of the respondents (62.5%) indicated that they agree that there is effective monitoring in AkuafoAdamfo whilst 27.5% strongly agree. A total of 8.8% were indifferent whilst 1.2% disagrees with the effectiveness of monitoring as an internal control measure.

Figure 4. 6 Evaluation of the all independent variables as a single construct
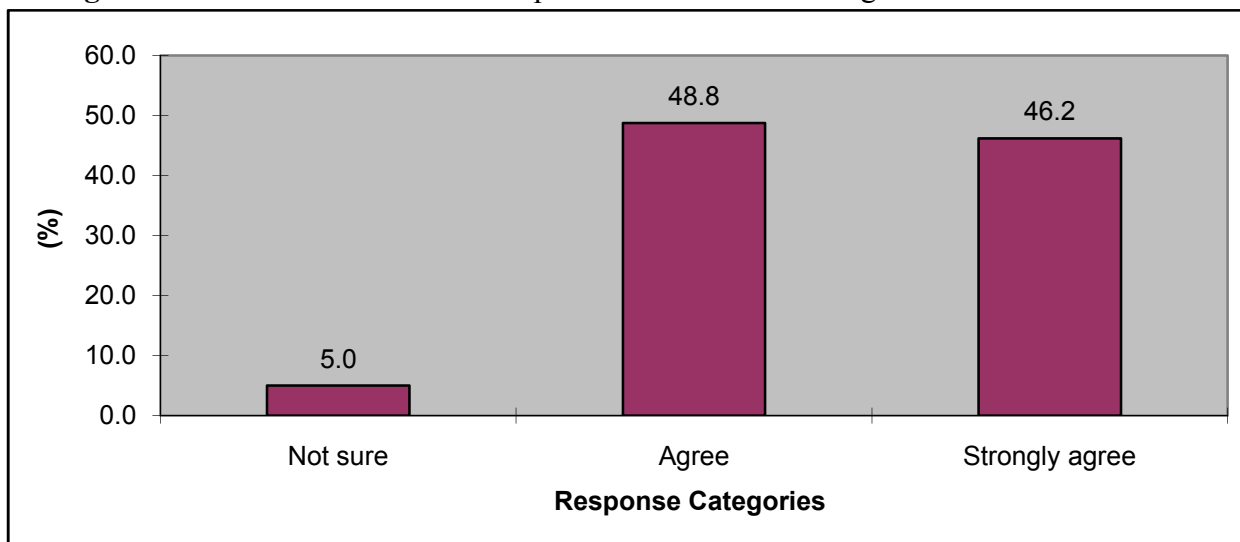
Shown in figure 6 above is an evaluation of the effectiveness of all the independent variables. It is evident that there are effective internal control structures in AkuafoAdamfo. Overall, 48.8% agreed that there are effective internal controls structures in place in the company whilst 46.2% described the internal control structures as very effective. The other respondents either disagreed or were indifferent to the effectiveness of internal control structures in AkuafoAdamfo.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 INTRODUCTION

This project work seeks to assess the effectiveness of internal control systems at AkuafoAdamfo. 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 OF FINDINGS

It was revealed from the study that, the control environment at AkuafoAdanfo is very effective as majority of the respondents (93%) agree to that assertion with a very few not being sure of the effectiveness of Control environment.

In reviewing the risk assessment component of the internal control system inAkuafoAdamfo, the study found that, the risk assessment is also effective. (80%)of the respondents assert to that fact.

Again, the empirical evidence from the study indicated that, majority (72%) of the respondents agree to the assertion that there is an effective control activity functioning inAkuafoAdamfo.

With regard to assessing the information and communication system of internal control, it was evident from the studies that, about 83% of the respondents are satisfied with that construct and therefore perceive it to be effective.

The last element of internal control considered by the study was monitoring and this happened to be the most effective (90%) in the company with nearly all respondents showing that, they perceive monitoring to be effective.

5.2 CONCLUSION

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

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, Larry 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.

So therefore looking at all the components of internal controls in AkuafoAdamfo in totality, the research has shown that, there are effective internal control structures at AkuafoAdamfo.

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 inAkuafoAdamfo. Recommendations were also made for further studies

5.3 RECOMMENDATIONS FOR MANAGEMENT

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.

5.3.1 Control Environment

A closer look at the individual questions however can help improve the situation especially if management implements the following recommendations.

It was found out from the study that the company's culture, code of conduct, human resource policies and performance reward systems are not very effective. Management therefore must ensure that there are clear rewards (incentives) for doing the right things and consequences (disincentives) for doing the wrong things. In that respect if a serious problem occurs because of a breakdown in internal control and it is found that management did not play its part to establish a proper internal control environment, or did not act expeditiously to fix a

known problem, then those responsible need to be held accountable and face the consequences.

It is also recommended that management must not only do what is right in the company but also must be perceived to be doing what is right so that their good examples might motivate others also to imitate them since they set the tone at the top.

Also to ensure that, the right thing is done, management should establish an anonymous fraud tip hotline and enact a whistle-blowers' protection policy (where a suspicion of fraud and waste is reported)

5.3.2 Risk Assessment

Management should evaluate, discuss and appropriately consider control issues when planning for new products or activities since these are sometimes risky. This discussion must include audit personnel and other internal control experts. It is also recommended that management considers and appropriately addresses technology issues.

Still on risk assessment, management must communicate acceptable risks levels to all staff in their duties as well as train them to get the needed knowledge and skills coupled with adequate resources to enable them carry on work effectively and efficiently.

5.3.3 Control Activity

In ensuring effective control activity, 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 on going errors and inefficiencies. Job rotation and enforced vacation are inexpensive yet can reveal any hidden weakness in the internal control process.

5.3.4 Information and Communication Systems

Concerning information and communication system, it is recommended that, management should see to it that, there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. Again, management must also be very serious with organizing programs for employees to sensitise them on the understanding of their roles in the control system.

5.3.5 Monitoring

Though monitoring appears to be the most effective construct with about 90% of the respondents agreeing there is an effective monitoring, there are some few things which must be brought to the attention of management.

Firstly, management must encourage all staff to report significant failings and weakness promptly in order to ensure internal controls are working effectively.

Secondly, management should embark on prompt effective follow-up procedures to ensure that, appropriate change or action occurs in response to changes in risk and control assessment.

5.4 DIRECTION FOR FUTURE RESEARCH.

Future researchers should explore other factors that influence the motivation of staff at AkuafoAdamfo. The current evidence is that most of the employees of the company are not motivated and for that matter they engage in corrupt practices.

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APPENDIX

APPRAISAL OF INTERNAL CONTROL SYSTEMS IN AKUAFO ADAMFO

MARKETING COMPANY LTD

This study is purely academic and respondents are assured that whatever information is provided will be highly confidential.

Instructions: Please kindly tick the box that clearly expresses your view about a question.

A. PERSONAL DATA

1. Sex: Male [   ] Female [   ]

2. Age: 19 or less [   ] 20─29 [   ] 30─39 [   ] 40─49 [   ] 50 or more [   ]

3. Which Department do you belong?

   Sales and Marketing [   ] Finance and Administration [   ] Technical [   ] Internal Control [   ] Supply Chain [   ]

4. Which staff category do you belong?

   Junior staff [   ] senior staff [   ] Management [   ]

B. CONTROL ENVIRONMENT

5. Management decisions are made collectively and not controlled by one dominant individual.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

6. Codes of conduct or ethics policies exist in the company

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

7. Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

8. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

9. Management periodically reviews policies and procedures to ensure that proper controls are in place.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

10. There is system in place to monitor compliance with policies and procedures and report to management instances of non-compliance.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

11. When instances of non-compliance are reported management takes appropriate follow-up actions and ensure effective action through testing.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

12. The company's culture, code of conduct, human resource policies and performance reward systems support the business objectives and internal control systems.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

13. Senior management demonstrates through its actions as well as its policies, the necessary commitment to competence, integrity and fostering a climate of trust within the company.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

C. RISK ASSESSMENT

14. The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

15. Management appropriately evaluates risk when planning for new product or activity.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

16. Management discusses and appropriately considers control issues when planning for new product and activity

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

17. There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

18. Technology issues are considered and appropriately addressed.

 Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

19. Audit personnel or other internal control experts are involved in control discussions when the company is developing new products and activities.

 Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

20. Significant internal and external operational, financial, compliance and other risks are identified and assessed on an on-going basis.

 Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

21. There is a clear understanding by staff within the company of what risks are accepted by management.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

D. CONTROL ACTIVITY

22. Policies and procedures exist to ensure critical decisions are made with appropriate approval.

 Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

23. Processes exist for independent verification of transaction (to ensure integrity)

 Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

24. There is a system in place to ensure that duties are rotated periodically.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

25. There is a policy for key employees to be absent for at least a consecutive two-week period

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

26. Independent reconciliations of assets and liabilities balances go on.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

27. Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

28. The company communicates to its staff what is expected of them and scope of their freedom to act.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

29. People in the Company have the knowledge, skill and tools to support them in their duties in order to effectively manage risk and achieve company objectives.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

30. The company has employed security guards.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

31. The company uses Close Circuit Television (CCTV) systems to protect physical assets.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

E. INFORMATION AND COMMUNICATION SYSTEMS

32. There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

33. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

34. All staff understand their role in the control system.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

35. All staff understand how their activities relate to others.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

36. All staff understand that, they are accountable for activities they conduct.

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

37. Management receives timely, relevant, and reliable reports for decision-making

   Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

F. **MONITORING**

38. There are on-going processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

39. There are processes to monitor the company's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

40. There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

41. Reports on significant failings or weaknesses are reported to management on a timely basis.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

42. There is appropriate communication to the management on the effectiveness of the on-going monitoring processes on risks and control matters.

    Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

43. There is specific monitoring arrangement in place to report actual or suspected fraud and other illegal or irregular acts or matters that can affect the company's reputation or financial position.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

44. Management approves the overall-scope of review activities.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

45. Management or approved personnel reviews results of audit

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]

46. Periodically, management reviews audit or internal control systems.

Strongly agree [   ] Agree [   ] Not Sure [   ] Disagree [   ] Strongly Disagree [   ]